


## Digitization of Taxation System: Content Analysis of Strategic and Experts Perspective

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### ABSTRACT

The recent wave of modernization and digitization of Federal Board of Revenue and tax evasion culture is in conflict. At one hand, tax payers avoid being fair in tax settlements, and on the other hand, FBR is striving to develop more transparent tax system in Pakistan. In this research, we have explored the strategic and experts' opinion for later i.e. with respect to digitization of taxation system in Pakistan. For which, panel discussions of industry experts, senior economist, and strategic persons have been utilized. This study may assist tax bodies to understand the causes of avoiding income tax e-filing, which enable them to overcome those causes of tax evasion and will help to formulate new implementable policies in order to minimize the size of undocumented economy. As Tax collection authorities are trying their maximum to increase the revenue collection; hence, the need of documentation of economy is inevitable.

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## INTRODUCTION

In the era of Globalization, the development of any country massively depends on the effective utilization of resources, but in the case of less developed countries, inadequate public infrastructure and corruption of government official are always hindering effective utilization of the resources, thus slowing down economic growth (Dang & Pheng, 2015). Also, it has been noticed that government of less developed economies are unable to provide reasonable public services due to many factors (Akpan-Obong et al., 2022). Out of many, one of the prominent is lack of tax collection (Awdeh & Hamadi, 2019)

Tax collection in an economy serves as life blood for the government. The ratio of gross domestic product (GDP) and average revenue, in the developed countries, was almost 35% in mid 2000s (Belcaid, 2022). In under-developed countries, this ratio was almost less than half (15%), whereas, in third world countries the same being observed i.e.12% of GDP (Gallus et al., 2006).

The crisis for the recent elected governments of Pakistan has always been embedded with the performance of public sector organization. Since late 1980s, the public sector organization has been in mess. Though, on and off, different programs and packages have been introduced by the different governments, but it has been an issue in most of the developing countries that either strategic planning is not being implemented fully, or grass root level corruptions or incompetency effect packages.

However, recent modernization of FBR has been considered as the most implemented, as for tax year (2019), FBR claimed that they have achieved the milestone in terms of having 2.8 million income tax filers FBR (2019). However, question remains about the authenticity of income tax filing. It has been claimed that these 2.8 million income tax filers may not be submitting their actual income and wealth status due to either tax avoiding culture or complicated e-filing forms available on IRIS portal of FBR, where sometimes even business graduates failed to submit their own income tax returns. Here, we must consider the fact that avoiding income tax e-filing does not mean that people are not paying taxes, people are paying taxes, but they tend to avoid complete disclosure of their income and assets to the relevant government authorities.

## RESEARCH OBJECTIVES

One of the main objectives of this research is to explore strategic perspective of the top critics and players in relation to recent advancement. In addition to exploring strategic perspective of top critics, the challenges and issues of digitization of taxation system, has also been explored. Pakistan's economy

being undocumented, the challenge to bring maximum people under tax net is always been a matter of policy concerns.

This research also analyzes the behavioral perspective of the general public in relation to tax avoidance. Ultimately, this study will provide base for future research for exploring different possible factors or causes/reasons of avoiding income tax e-filing in Pakistan.

## SIGNIFICANCE OF STUDY

This study will assist relevant tax bodies to understand the causes / reasons of avoiding income tax e-filing and evasion, in order to make new policies that may be implemented to minimize the size of undocumented economy by removing current and potential causes or reasons of avoiding income e-filing.

## LITERATURE REVIEW

[Lefebvre et al. \(2011\)](#) in France, Belgium and Netherlands (Flanders and Wallonia) did a research to investigate the behavior of the people. He made comparisons on how people behave, when it comes to tax evasion and welfare benefits. The findings showed that the people behave less dishonestly when receiving the welfare benefits than paying taxes, and people cheat the system more frequently in France and the Netherlands. The link between personal income tax evasion and cultural elements even as devoutness, faith in the authority, and lawful enforcement is the subject of a work being done in Nigeria ([Uadiale et al., 2010](#)). This study discovered a beneficial effect of government and legal enforcement trust on personal income tax. However, there was no connection between tax avoidance and religious factors in Nigeria.

[Boylan and Sprinkle \(2001\)](#) have done a research, in which they seek to inspect the factors of tax avoidance. They employed an experimental approach to accomplish their objectives, including figuring out what drives tax compliance and what distinguishes non-compliant taxpayers. [Pommerehne et al. \(1994\)](#) carried out research to point out the causes of tax evasion; in their work, they analyzed the absolute existence of grievance. Results showed that the tax evasion went up and the degree of tax morale dropped, as the sentiments of grievance increased in absolute terms.

To interrogate the behavioral causes of tax evasion, [Fisher et al. \(1989\)](#) looked into the actions of the taxpayers. To achieve his goals, such as identifying the variables of tax compliance and the traits of non-compliant taxpayers, he employed a random survey strategy. [Skinner and Slemrod \(1985\)](#) carried out survey to look at the causes of tax evasion. Only stringent economic components

suggested by the influential samples were used in this investigation. According to the study, a sizable portion of productive tax compliance is impossible to describe by these single factors. While investigating the factors that contribute to tax evasion, [Srinivasan \(1973\)](#) also presented pioneering abstract models and performed research.

[Allingham and Sandmo \(1972\)](#) carried out research to analyse the behavioral factors that lead to tax evasion by presenting a fundamental theoretical framework. Inside the work, they outlined how tax evasion behavior was based on risk aversion, the severity of the fine, and the likelihood of an audit. Additionally, the study discovered a murky connection between tax evasion and the marginal tax rate or income. According to [Cobham \(2005\)](#), the chief cause of tax evasion is high level of inter-district mobility, and it was claim that the strength of wage earners, paid individuals, and self-employed individuals, with constant and known location, plays a significant part in tax evasion, because they always go place to place to obtain lawful paper money. Additionally, he discovered partial evasion's causes, such as dealers' poor record-keeping and resentment of the illiterate who only declare their salaries and wages as non-taxable income.

[Awdeh and Hamadi \(2019\)](#) studied MENA region and identifies, corruption as one of the factor hindering gross domestic product, he concluded tax evasion hinders growth of economic activities in MENA Region.

### Pakistan based Literature

Pakistan is not an exception to the fact that tax avoidance is a worldwide practice. According to the literature, some of the reasons for the nation's low tax collection include corruption, shortage of commercial openness, a low-per capita income, and shortfall of political firmness ([Amin et al., 2014](#)). Many contend that Pakistan has low-tax base for its reliance on the industries exempted from paying taxes (such as the agricultural sector), ignorance of the tax code, and reliance on the foreign aid are the primary factors of the country's low-tax collection ([Chaudhry & Munir, 2010](#)). Some academics believe that the political class are the primary driver of the widespread practice of tax evasion. [Bukhari and Haq \(2014\)](#) assert that the tax authorities lack the power to enforce rules authority on the wealthy and powerful people of the nation who vindicate themselves using their own political and economic clout. Additionally, this wealthy class feels entitled to the conveniences and benefits paid for by the public. According to the survey, conducted on the national legislators, only 2% of them possessed NTN's (National Tax Numbers) and only 10% paid taxes ([CPDI & CIRP, 2011](#)). Numerous academic studies have emphasized that the root

cause of tax evasion in Pakistan are improper and excessive tax tariff, under-developed tax system, bad management, misconduct, and shortage of faith in the authority (Awan & Hannan, 2014; Khan & Ahmed, 2014). People engage in illegal activity because of high tax rates and prohibitive consent expenses, depriving the government of revenue-generating opportunities (Feltenstein & Cyan, 2013). The government then pursues ineffective tax strategies to increase income, which further encourages tax evasion, perpetuating the negative series of events (Best et al., 2015). Contributing factors to Pakistan's anti-tax culture, were the complexity of the tax system, wasteful spending, fraud in the tax management, and waste of tax funds (Awan & Hannan, 2014).

The computation of tax evasion in Pakistan has assessed secondary data and macroeconomic variables. There are studies that have considered some microeconomic parameters and respondents' behavioral reactions to the surveys, including the one conducted by Awan and Hannan (2014). But, these researches have only focused on the political viewpoints and have completely disregarded the connection between certain personal traits and many behavioral reactions of tax payers and patterns of tax evasion (Mughal, 2012).

More researches have been done on tax evasion and compliance, few have been written in the writings focused endlessly how affairs of state affects people's compliance behavior. However, writing on public choice has discussed the problem of how the ruling class and politicians shape and govern the wealth (Ben-Porath, 1975; Grand & Tufte, 1979; Hodgman et al., 1978). According to Macrae (1977), ministers can influence public opinion by manipulating the economy during election days in order to get political favors. The political business cycle hypothesis includes a model known as the election cycle model. Moore (2015) asserts that the administration primarily targets the taxpayer groups that it sees as having a higher potential for tax revenue. The country's ruling elite uses many methods to influence the economy, including, influencing the tax management and design (Kim, 2008). Therefore, the influence of politics in engineering society's tax evasion habit cannot be discounted.

## METHODOLOGY

### Research Paradigm

This research is based on interpretive paradigm which is concerned with understanding of the world as it is from subjective experiences of the individuals. For this purpose, different sources of content related to the ongoing modernization of FBR have been utilized.

## Content Data Sampling

To achieve first objective of research “exploring strategic perspective of top critic and players regarding recent waves of modernization”, two sources of content have been utilized. Both sources were panel discussion held by Jang forum around time of budget announcement of 2019 and 2022. The Jang forum of 2019 chosen due to the fact that two years’ period has been passed after mandatory e-filing of income tax in 2017. The Jang forum of 2022 has been chosen to see how expert opinions have been changed after 5 years of mandatory e-filing of income tax. It is an obvious assumption that continuous improvement of implementation of e-filing income tax has been in progress.

First, one of the Jang’s session titled “Tax Targets: Steps, Problems and Its Effect” held on 4<sup>th</sup> September 2019 at IQRA University, Karachi was utilized. In this forum, some of the major key players related to the Pakistan taxation structure and industrialist were invited and their discussion has been used. Some of the key persons invited in that session were: Mr. Khalid Tawab, former Senior Vice President, FPCCI (Federation of Pakistan Chamber of Commerce and Industry), for industry perspective; Mr. Abdul Qadir Memon, President, Pakistan Tax Bar Association, for tax practitioners’ perspective; and Dr. Ayub Mehar, Professor, IQRA University and Economist at Asian Development Bank Institute, for independent economics perspective, they had interaction with the audience on direct or indirect interest in tax related policies of govt. of Pakistan.

Second, another session of Jang forum titled “Pre-Budget Talk – What are the Difficulties” held on 2<sup>nd</sup> June, 2022 at IQRA University, Karachi, has been utilized. In this Seminar, again some of the major key players related to Pakistan taxation structure, economists and industrialists were invited and their discussion has been used. Some of the key persons invited in this session were: Mr. Zubair Motiwala, former President, KCCI (Karachi Chamber of Commerce and Industry) for Industry perspective; Mr. Abdul Qadir Memon, former President, Pakistan Tax Bar Association, for tax practitioners’ perspective; Dr. Kaiser Bangali, Economic Advisor, Govt. of Sindh; and Dr. Ayub Mehar, Professor, IQRA University and Economist at Asian Development Bank Institute, for independent economics perspective, they discussed tax-related policies of the government.

For content analysis, all the said persons, who are quoted, will be referred with their initials: research scholar (MM), Mr. Khalid Tawab (KT), Mr. Abdul Qadir Memon (AQM), Dr. Ayub Mehar (AM), Zubair Motiwala (ZM), Dr. Kaiser Bangali (KB), salaried individuals as (SI), and business individual as (BI).

## RESULT AND ANALYSIS

The way of doing business in Pakistan has always been cash-based. People are not habitual recorder of their transactions. As a result, they tend to estimate their income and assets rather than calculate. This results in shadow economy or undocumented economy, and if no proper records is being made, they always underestimate their income, whenever it comes to sharing part of their income with government.

*"Since the volume of our undocumented economy is higher than the volume of the documentary economy, when the government tried to document the economy, it resulted in resistance"*

*AQM, JF Discussion*

The problem with public sector infrastructure has always been hindrance for smooth transition from shadow economy to documented economy. Although advancement of technology has been utilized for the process but the people involved in the process from government side are always making general public fearful about bribery and corruption. This has been prominent among the most of the content sources.

*"the effects of fear and uncertainty are visible, which is alarming."*

*AM, JF Discussion*

*"due to NAB's performance, no one is willing to compromise at this time"*

*AQM, JF Discussion*

Apart from issues lies within public sector administration, general public, too, do not want to pay tax and go to the extent that they are not differentiating between tax avoidance and tax evasion. They are willing to pay consultant more fee just to evade tax.

*"if the number of tax filers has reached 28 lakhs, then it is not necessary that they all want to pay their share of tax"*

*AQM, JF Discussion*

*"People themselves ask their tax consultant for the means to subdue their income so that they have to pay less tax, and some of the tax consultant, to retain the clients or capture other's clients, do this."*

*MM, JF Discussion*

*“Nowhere in the world is a person willing to pay tax willingly”*

*AQM, JF Discussion*

The tax evasion factor is prominent, because there is no or very little accountability or punishment for tax evasion.

*“The second action of the government is that if a person is caught by the government for tax evasion, then punishment is mandatory, so this is deterrence”*

*AQM, JF Discussion*

*“When clients got notice due to non-compliance of income tax return, their tax consultant make them more fearful and show them mean to bribe government officials so that actual status of income may remain unknown. Although a practice of past, things are changing now”*

*MM, JF Discussion*

One of the theme related with need of automatic submission of income tax return during content analysis was found, which was more of a suggestion.

*“We need to move towards automation without fear of accountability. That’s what is happening around the world right now”*

*AQM, JF Discussion*

*“To create willingness of paying tax first deterrents are created, the first deterrent is automation. That automation should be so good that the data comes to you, you will be happy to hear that in many countries of the world, in Sweden, Switzerland, etc., tax returns are made by themselves, people only have to verify it, and If they do not confirm by the given date, the tax return made by them is considered final, the reason for this is the system created by them”*

*AQM, JF Discussion*

*“When the first tax reforms were launched, the World Bank gave 67% of the money only for automation. Because it is understood in the world that you can do everything better when you have a data bank”*

*AQM, JF Discussion*



Another theme which identified was tax slabs structure in Pakistan. Multiple tax slabs and different income tax rates.

*“At present, Pakistan has eleven tax slabs, while the world has gone to six slabs. Turkey has 5 slabs, Vietnam has 7, China has 7 and Egypt has 7 slabs. Until we take direct taxes, we will continue to kill the poor with these direct taxes. In this economy, 63% of direct tax has been done”*

*AQM, JF Discussion*

*“Let’s take the example of withholding tax on income, we have 1.5% and 3% WHT on purchase of immovable property, whereas 2.5 and 5% on sale of immovable property, on some items 4.5% and 9% on purchase of inventory, whereas, it is 0% on some item and 0.5% and 1% on some other items, this is where imparity is going to distort the economic situation. Avoiding the cannon of simplicity in tax collection is creating another deterrence. Tax reforms should include this also”*

*AQM, JF Discussion*

## CONCLUSION

Tax collection has always been a matter of concerns for the developing economies. In Pakistan where, most of the informal sector is based on undocumented economy, tax collection authorities are trying their maximum to increase the collection of public revenue. To bring informal sector into formal sector, the need of documented economy is inevitable. Hence, at strategic level, efforts are being made for the tax reforms. The main evidence of this is mandatory e-filing of income tax in the last five years, for which IMF and World bank have supported each and every step. At policy-making level a lot of work has been done but at operational level, the nitty and gritty of policy-making is in continuous improvement which is evident in the post Covid environment of IRIS portal, where all the application, notices and return filings can be done electronically.

Therefore, continuation of existing policy reforms via government stability is essential requirement for larger tax collection in Pakistan. Moreover, government should pay special attention to all the economics activities which may raise tax revenue and should follow expansionary economic policies to increase larger tax to gross domestic product ratio. Public should also avoid tax evasion and discourage such practices in their day-to-day transactions. It has been recommended by the government to always take a receipt (cash

memo) from the local vendors, this will keep a record of shop-keeper earnings, and they won't be able to manipulate the declaration of actual earnings. Law abiding citizens create economically and socially secure environment and ensure economic perseverance which is fundamental in the success of any nation.

## CONFLICT OF INTEREST STATEMENT

The authors declare no conflict of interests.

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