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Pakistan: Fiscal Crisis Management 2019-24 – The Revenue Perspective

Muhammad Ashfaq Ahmed* **and Inayat Ullah Mangla****

Abstract

The paper is a political economy perspective on Pakistan's fiscal crisis management during 2019-24 period. It is empirically brought out that though revenues have moved up significantly under all major taxes over the past five years, yet the fiscal deficit poses serious challenges to the economic managers. The fiscal conundrum is confounded by the fact that the robustness of revenue numbers was mustered through excessive use of policy handles rather than through capacitation of the tax system on solid foundations. Theoretically speaking, it is argued that this paradox is the product of elitist capture of the revenue system. The paper inventively plugs in the theory of political settlements to contend that Pakistan's fiscal woes are cast in the structural formation of the polity, and that the structural fault-lines necessarily stem from insufficient political settlementization i.e. fragmentation of the base between the federation and the federating units, insufficiency of the fiscal base on account of absence of wealth tax, inheritance tax, capital gains tax, and gift tax from the statute book, brute secrecy in the economic domain, and erosion of the state's fiscal base through reckless vanity agreementization with the outside world. The paper develops the argument that the on-going exemptization with an annual tax-tag in the vicinity of Rs. 550 billion – almost 20 percent of the total national tax take – would continue to operate as headwind on the revenue effort of the government. Likewise, the tax amnestization initiative of 2018 which generously proffered to whiten even the future earnings would have tax implications closer to Rs. 275 billion per annum over the next two years. Similarly, the simmering offshore problem and the continuing money whitening ploys in-built into the law would continue to exert pressure on the fisc. In summation, the wanton ways with which the exchequer has been managed over the past few decades is no more sustainable, and that in order for the tax system to generate both healthy and sufficient revenues, substantial investments are required to be made into the system as necessary inputs before expected outputs can be derived, which would require a gestation period of a couple years, at the least, and that too after sufficient political settlement has been arrived at a broader level in key areas of the extractive function.

* Federal Bureau of Revenue, Government of Pakistan.
** Lahore School of Economics, Pakistan.

Introduction

Pakistan's tax system, historically but more significantly since 2001 onwards, paints a paradoxical picture. While revenue numbers have shown upward trends pushing the tax/GDP ratio up by a couple of notches, the system itself continues to be reckoned a pariah amongst the state institutions inflicted by a set of malaises – iniquitous, inefficient, perverse, and detached from the macroeconomic framework. The tax system also lacks in terms of public image, number of tax filers, and an ability to go after delinquents particularly those wielding political or agitational power. The paper premises that this paradoxical situation emanates from a disproportionate use of tax policy and tax enforcement handles by the state, in that while tax policy options were excessively exploited to harvest easy money into the exchequer, the enforcement arm was left to incapacitate into a state termed "too lazy to prey." This paper is an attempt to analyze the ostensible journey of the states' revenue function from relative functionality to visibly perceptible dysfunctionality.

The paper consists of 5 sections. Section 1 provides basic facts about the tax system which under-grid the ensuing debate. Section 2 develops a theoretical framework which is then operationalized to analyze the revenue system's insufficiency in totality. Section 3 explores the sub-surface fissures which operate on the tax administration as pull-back factors. Section 4 takes stock of the tax system's simmering wounds – the issues that are well-diagnosed but the polity has consistently shied away from resolving them. Section 5 seminally identifies and explains the tax system's new maladies. The paper concludes with a candid appraisal of the tax system and its ability to meet the revenue needs of the state during the period 2019-24.

1. Federal Tax Architecture

1.1. Federal tax system

The primary responsibility for collecting tax revenues at the federal level is vested in the Federal Board of Revenue (FBR).[1] Administratively, the federal tax structure can be categorized into (a) inland taxes, and (b) border duties and taxes – both being managed by two specialized services – Pakistan Inland Revenue Service (IRS) and Pakistan Customs Service (PCS), respectively. The IRS administers all inland taxes e.g. (i) Income Tax; (ii) Sales Tax; (iii) Federal Excise Duty; and (iv) Capital Value Tax.[2] The PCS manages border taxes i.e. Customs Duty. Each tax essentially differs from the other in base, rate, incidence, point and time of collection, and filing requirements. Income tax, for instance, is charged on

[1] The Federal Board of Revenue was created under the Federal Board of Revenue Act, 2007. Earlier it carried the nomenclature of the Central Board of Revenue, which, in turn, was established under the Central Board of Revenue Act, 1922.

[2] Pakistan IRS also administers Workers' Welfare Fund and Workers' Profit Partiicipation Fund.

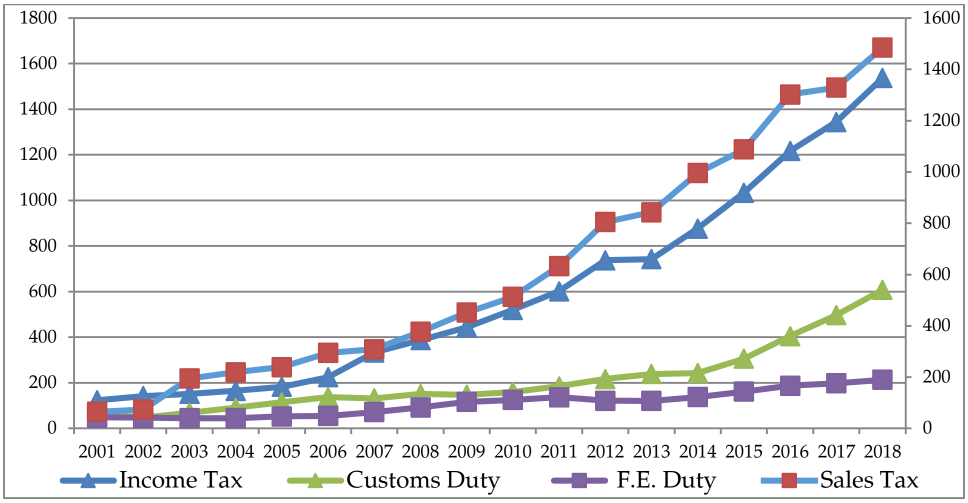
individuals, corporates and associations of persons (AOPs) in respect of all incomes, profits, and gains derived from various sources. By law, a large number of taxpayers have also been obligated to collect withholding tax at source and deposit it into the national exchequer. Sales tax is charged on all supplies of goods and services on prescribed tax rates except those specifically excluded. Federal excise duty is levied on the import and manufacturing of specific commodities and services. Customs duty is charged on all dutiable imports as per specified rates at the port of entry or the port of clearance. In order to execute these taxes a 23,000-strong standing workforce has been deployed, of which the officers' corps is only about 2000. The professional support tiers i.e. inspectors, auditors, and superintendents constitute about 1/4th of the total workforce, and the residual 3/4th falls in the support staff category. It is generally observed that a large population of support staff category operates on the organization as a drag and inflicts it with a standard set of malaises generally associated with the public sector in Pakistan. Pakistan's current cost of collection is about 0.6%, which, on the one hand, may mean that FBR is a highly efficient organization, but on the other, that adequate investments have not been made in the revenue system by the state.

1.2. Tax Collection Trajectories

Over the past two decades, federal taxes have been exhibiting different but upward collection trajectories. Figure 1 depicts relative tax collection figures in respect of the major federal taxes.

Figure 1: Federal Taxes – Comparative Trajectories

(Rupees in Billion)



Source: FBR-DRS, 2018.

What Figure 1 shows is that income tax, which is generally the biggest source of revenue in advanced, well-governed and healthy economies, in Pakistan's context is second to sales tax. No doubt revenue collection on account of income tax has doubled since 2012, but this is mainly because of over-deployment of policy tools – extensive withholding taxes being one of them.[3] In overall terms, the income tax system continues to be iniquitous, inefficient, and insufficient as also reflected in the composition of revenue collected – 67% of total income tax collection is collected through withholding taxes.[4] Sales tax collection is the most significant source of revenue in the federal tax mix. Total sales tax collection which in 2010 was Rs. 513 billion, has touched the figure of Rs. 1,485 billion showing a remarkable increase of 200% in 10 years. Historically, the major sources of sales tax collection have been POL products, electrical energy, cement, cigarettes, natural gas, and iron and steel. Since under the Constitution, sales tax on services is to be charged by the provinces, the blurring line between goods and services and input adjustments are lingering issues between the federation and the federating units. The major problems of the system include non-filing, under-filing, registration of economic sectors and inability of the tax administration to pursue delinquents, which, in turn, are reinforced by a deficit of political will and investment in the tax system.

Customs duty is another stable source of federal revenues. It is noticed that collection on account of customs duty that was well-below Rs. 250 billion in 2014, has registered a remarkable surge touching the figure of Rs. 608 billion in 2018. This is despite FTAs covered imports and significant under-invoicing. The steep increase in customs duty, at a certain level, is indicative of commercialization of the economy at the expense of industrialization and mass-scale under-valuation. This is particularly applicable to the imports from China. The leading five customs duty contributors remain vehicles, POL products, iron & steel, mechanical machinery and edible oil. The federal excise duty (FED) is currently contributing a little over Rs. 200 billion to the national exchequer. In the early 2000s, this levy was dubbed as a dying tax. However, the fact that a significant portion of the economy is undocumented, un-organized and not automated, has actually reinforced the continuation of this levy. Given its very nature, FED is charged on a select number of commodities. Currently, about 90% of total FED collection is contributed by five sectors i.e. cigarettes, services, beverages, cement, and natural gas. Federal excise on services continues to be a lingering issue between the federation and the provinces.

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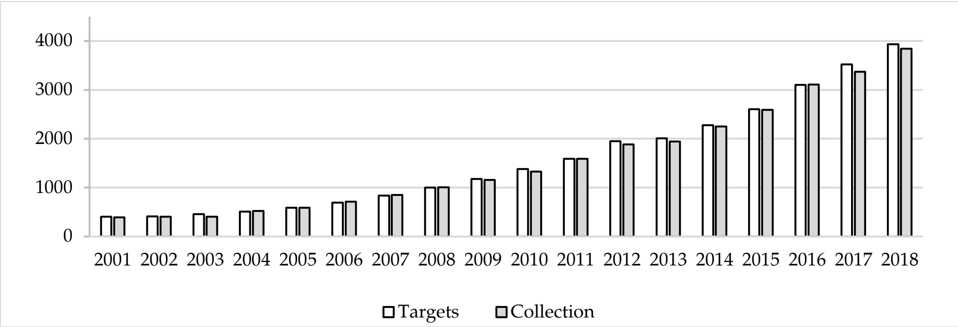
[3] See, for a detailed analysis, Muhammad Ashfaq Ahmed, "Pakistan: Withholdingization of the Economic System: A Source of Revenue, Civil Strife or Dutch Disease+?," (2018).
[4] Ibid.

1.3. Fixation and Achievement of Targets

The fixation of revenue targets by the government and their achievement by the revenue administration is an annual national event in Pakistan. It is widely debated and brought up in Parliament, the media, and public discourse. It was remarked that "the reversions on the part of the tax administration … started to take place under the hammer of steep revenue targets, which not only went steeper by the year but also that their periodicity turned evermore frequent — from annual to quarterly, from quarterly to monthly, from monthly to weekly, and of late, from weekly to daily."[5] Figure 2 plots the data of annual targets assigned to and achieved by the tax administration since 2001.

Figure 2: Revenue Target Fixed and Achieved

(Rupees in Billion)



Source: FBR-DRS, 2018

It can be seen that tax administration has historically fallen short on its assigned revenue targets, particularly since 2009 and onwards. It may be because of the inefficiency of revenue administration, but on the flipside, it may also be because the revenue targets set were steep, irrational and divorced from economic realities. The key question, however, remains that even if the tax administration were able to meet its given targets, would that be good enough revenue for the state to perform its avowed functions? Probably, not.

1.4. Fiscal deficit

Pakistan's tax-GDP ratio that remained fixed around 10% over the past decade and a half, has gone up slightly beyond 13% in 2018 This when coupled with non-tax revenues, gives a figure of 17% in the revenue-GDP ratio leaving the fiscal deficit hovering above 4% of GDP as plotted in Table 1.

[5] ———, "Pakistan: Wither Tax Reforms - The Case of Large Taxpayers' Unit, Islamabad," *Journal of Tax Reform* 4, no. 3 (2018).

Table 1: Revenue, Expenditure, Fiscal Deficit

(%age of GDP)

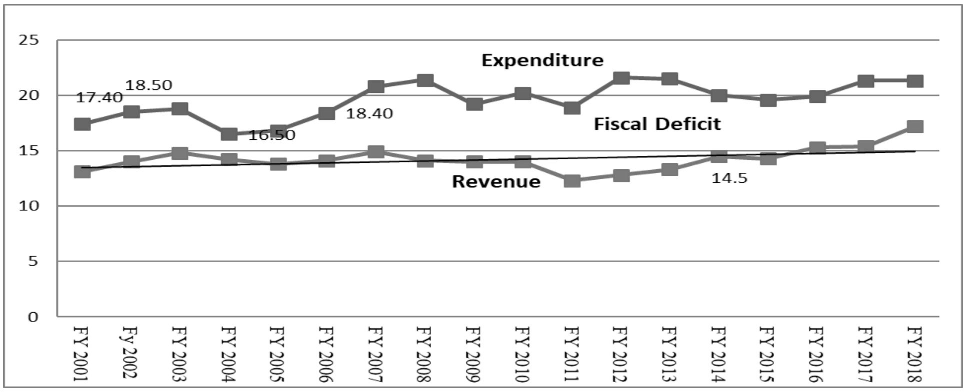
Year	Revenue			Expenditure			Fiscal Deficit
	Tax	Non-Tax	Total	Current	Development	Total	
2001	10.5	2.6	13.1	15.3	2.1	17.4	**4.3**
2002	10.7	3.3	14	15.7	2.8	18.5	**4.3**
2003	11.4	3.4	14.8	16.2	2.6	18.8	**3.7**
2004	11	3.2	14.2	13.7	2.8	16.5	**2.3**
2005	10.1	3.7	13.8	13.3	3.5	16.8	**3.3**
2006	10.5	3.6	14.1	13.6	4.8	18.4	**4.3**
2007	10.2	4.7	14.9	15.8	5	20.8	**4.3**
2008	9.9	4.2	14.1	17.4	4	21.4	**7.3**
2009	9.1	4.9	14	15.5	3.5	19.2	**5.2**
2010	9.9	4.1	14	16	4.4	20.2	**6.2**
2011	9.3	3	12.3	15.9	2.8	18.9	**6.5**
2012	10.2	2.6	12.8	17.3	3.9	21.6	**8.8**
2013	9.8	3.5	13.3	16.4	5.1	21.5	**8.2**
2014	10.2	4.3	14.5	15.9	4.9	20	**5.5**
2015	11	3.3	14.3	16.1	4.2	19.6	**5.3**
2016	12.6	2.7	15.3	16.1	4.5	19.9	**4.6**
2017	12.4	3	15.4	16.3	5.3	21.3	**5.8**
2018	13.7	3.5	17.2	15	6.3	21.3	**4.1**

Source: Pakistan Economic Survey 2017-18.

It is evident that Pakistan's expenditure-GDP ratio that soars above 20% roughly by a quarter is financed through domestic borrowing and international financing arrangements. The relative trajectories of expenditure, revenue, and fiscal deficit are plotted in Figure 3.

Figure 3: Fiscal Deficit

(%age of GDP)



Source: Pakistan Economic Survey 2017-18.

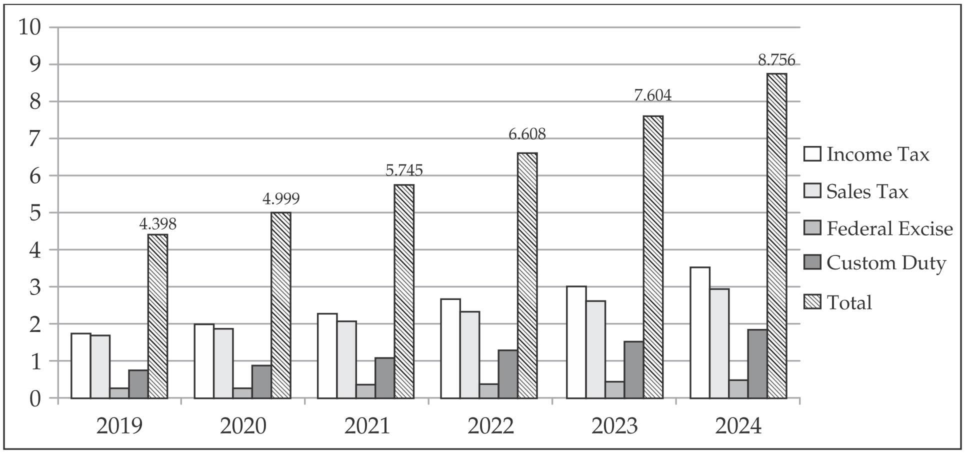
It is evident that Pakistan's revenue system has historically under-extracted. It was argued that Pakistan fundamentally is a minimalist subsistence state in that it collects less and it spends less – resulting in a sustained twin regulatory and developmental deficit. This phenomenon, in turn, if continued for longer lengths of time, has had implications for the process of state-building.[6] It is also apparent that the tax system has not been generating sufficient revenues for the state to perform its avowed and other developmental functions,[7] and that whatever little revenue the tax administration generates is, in fact, unhealthy revenue which does more harm than good to the economy in holistic terms.[8] The moot question remains if Pakistan can weather the fiscal crises confronting it and can generate adequate revenues to realize the developmental potential of its people over the shorter to medium term?

1.5. Revenue projections F/Y 2019-24

The Government continually undertakes revenue projections for future years for better financial planning. The FBR's revenue projections for F/Ys 2019-24 that have been undertaken in close collaboration with Ministry of Finance are plotted in Figure 4.

Figure 4: Revenue Projections – F/Y 2019 – 24

(Rupees in Billion)



Source: FBR-SPS & R Wing.

[6] See, in particular Section V of ———, "Pakistan: Extraction, Elites and State Autonomy: A Theoretical Configuration," *Pakistan Development Review* 56, no. II (2017).
[7] See, in particular Section V of ibid.
[8] ———, "Pakistan: Withholdingization of the Economic System: A Source of Revenue, Civil Strife or Dutch Disease+?."

These revenue projections on account of each revenue stream as well as in totality are based on the expected GDP growth rate and inflation rate approximated by the Ministry of Finance in consultation with the State Bank of Pakistan. Given the revenue collection trends for the current fiscal year, the FBR is likely to report a shortfall of Rs. 486 billion towards the close of the year – a historically record revenue deficit .[9] Keeping in view the current revenue trajectory and the level of investment being made in the tax administration, and other structural and embedded issues, it appears to be difficult that these targets will be met. This leaves the economy with a specter of serious challenges.

2. Theoretical Framework

The paper posits that taxation in Pakistan has mostly, if not always, been an elitist affair. Although, the elitist framework has long been applied to analyze Pakistan's power and politico-economic structures,[10] yet Ahmed developed the more convenient conceptual vehicle of Elites Ltd, crystallized the elitist model, and expanded its framework to systematically analyze the monopolization of Pakistan's extractive function. He disaggregated it to comprehend various mutually reinforcing undercurrents and cross-cutting mechanics at work by way of an explanation of its historically embedded low performance.[11] The state's political crust, it is argued therein, is essentially underpinned by Elites Ltd which, in turn, is composed of six effective elite groups i.e. industrial elite, business elite, religious elite, feudal elite, military elite, and sundry (judicial, media, non-profits, and professional) elite; that while elites enter into zero-sum transactions on the political chessboard, they resort to non-zero-sum transactions in the economic realm; that elites face a rational actor dilemma in that they need a state to govern but they also need (want) to maintain it at least cost to themselves; that in order to get out of this dilemma, the elitist state attempts to extract from international sources optimally; and that since an infinite international extraction is not possible, it descends to undertake internal extraction through seven unwholesome modes in order to make do the domestic resource-match, namely, withholdingization, deficit fiscalization, indirectization of the tax system, maximization on non-tax revenues, extortionization, mendicantization, and amnestization.[12]

Ahmed further reckons extraction as a critical variable of state-building, and in Pakistan's context, lays bare the level of importance which various societal agents accord to it. He enquires into how elites, after effectively monopolizing the

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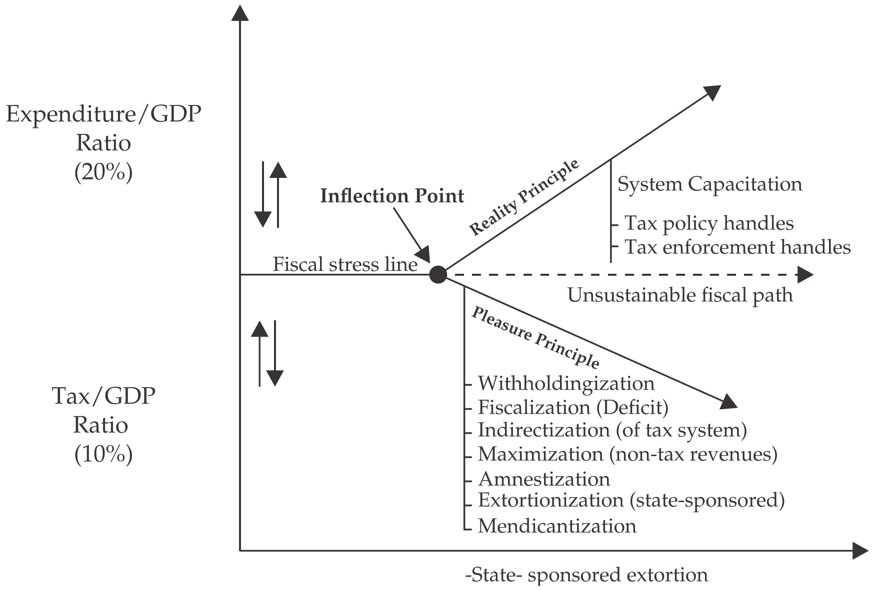
[9] Mehtab Haider, "FBR Facing Record Shortfall of Rs. 485.9 Billion," *The News*, March 18, 2019.
[10] See, for instance, Asaf Hussain, "Elites and Political Development in Pakistan," *The Developing Economies* 14, no. 3 (1976); Hamza Alavi, "The State in Post-Colonial Societies: Pakistan and Bangladesh " *New Left Review* 1, no. 74 (1972); Saeed Shafqat, *Political system of Pakistan and public policy : essays in interpretation* (Lahore: Progressive Publishers, 1989); Ishrat Husain, *Pakistan : the economy of an elitist state* (Karachi; New York: Oxford University Press, 1999).
[11] Ahmed, "Pakistan: Extraction, Elites and State Autonomy: A Theoretical Configuration."
[12] See, in particular, section IV of ibid.

infrastructure i.e. means of production,[13] take to exploit the *superstructure* to numb and opiate the citizenry so that they conveniently rig the extractive policy formulation process and weaken the state's extractive arm.[14] This position is based on the premise that only a weak extractive system can help elites underwrite full control over their riches that they amass over time through monopolization and manipulation of the state infrastructure, and the maintenance of the economic status quo. He further posits that in order to achieve their spurious agenda of maintaining and enhancing the economic status quo at the strategic level, Elites Ltd forms an alliance with the generalist juggernaut – generalist cadres of Pakistan civil services thereby producing an elites-generalist duopoly of sorts.[15] The theoretical framework explicated above is pictorially presented in Figure 5.

Figure 5: Theoretical Argument – Portrayal



What the Figure 5 portrays is that at any given point in time, Pakistan is found operating under a significant amount of fiscal stress, that is, its expenditure far exceeds its revenues. This means that the Pakistani state every now and then finds itself at the inflection point – the crossroads at which it has two choices. One, to pursue the reality principle thereby capacitating the extractive system, and undertake par taxation like all functional states. This is also good enough to meet

[13] See Husain, *Pakistan : the economy of an elitist state*: 133. for a detailed analysis.
[14] Muhammad Ashfaq Ahmed, "Pakistan: State-Building, Extraction, and (Misplaced) Societal Preferences," *Journal of International Stability Studies* 2, no. 1 (2016).
[15]———, "Pakistan's Governance Goliath: The Case of Non-Professional Chairman, F.B.R," *Pakistan Development Review* 55, no. 4 (2016).

its expenditure needs. Two, to pursue the pleasure principle such as it has always done and resort to easier yet perverse extraction through the aforementioned seven domestic resource-match modes.

The paper builds on the theoretical framework developed above and argues that in Pakistan's context the tax system's output is a function of political settlementization underlying the state's institutional frameworks. Political settlement can have three different strands with some overlapping features, that is "(i) a negotiated settlement to end interstate or intrastate armed conflict; (ii) a new and transformed political order born of crisis and achieved through elite cooperation; and (iii) the interdependent arrangement of political power and institutions on which a regime is based."[16] It has further been posited that "Political settlements are the expression of a common understanding, usually forged between elites, about how power is organized and exercised," which not only "include formal institutions for managing political and economic relations, such as electoral processes, peace agreements, parliaments, constitutions and market regulations," but also "informal, often unarticulated agreements that underpin a political system, such as deals between elites on the division of spoils."[17]

The concept of political settlement can be operationally defined to imply the broad consensus amongst ruling elites underlying the institutional configuration forming the state's crust and rendering it functional. The underlying consensus is of key import as it can help explain the performance of various institutions by moderating the costs of enforcement and resistance.[18] Further, the overlying political settlement amongst elites can help breed the wider underlying social acceptability in key areas of governance. The paper attempts to innovate on the theory of political settlements and to expand its scope, coverage, and application to a given state's extractive function. This would, shorn of all additives, imply that a state's extractive outputs, in the final analysis, depend upon the broad underlying consensus amongst societal elites as regards the breadth of the fiscal base, rate, timing, filing requirements, and size and strength of the extractive arm, and the ultimate question as to who bears what burden of maintaining the state – simply put the ultimate question of the incidence of taxes. Accordingly, the theory of political settlements is applied to interpret Pakistan's extractive function with all its antics, by arguing that it suffers from a protracted insufficient political settlementization.

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[16] Sue Ingram, "Political Settlements: The History of an Idea in Policy and Theory," *Australian National University* SSGM, no. Discussion Paper (2015).
[17] Ibid.
[18] M. Khan, "Political Settlements and Governance of the Growth-Enhancing Institutions - Working Paper," ed. School of Asian and African Studies (London: School of Oriental and African Studies, 2010), 5.

3. Tax System's Structural Fault lines

Having observed in section 1 that the tax system's output is neither adequate nor healthy to keep the state going in a wholesome fashion, undertake development and reduce poverty in a sustainable manner, the theoretical framework developed in section 2 is now operationalized to explore the causes of the embedded sub-optimal extractive performance. It is posited that Pakistan's system may be the "most reformed" tax system but nevertheless it continues to undertake sub-standard and sub-optimal extraction. The tax system of Pakistan's sustained under-performance can be analyzed under three heads – structurally embedded fissures, the well-known problems, and the new maladies. There is no denying the fact that "Pakistan's severe fiscal challenges are, in good measure, the result of structural shortcomings of the tax system."[19] These structural problems are embedded and anchored in the history of the polity. The problems not only determine the output of the system but also breed rigidity and resistance to change. Some of the glaring structural issues are delineated here.

(i) Fragmentation of the fiscal base

The state's fiscal base, in Pakistan, has historically remained fragmented on account of taxing rights being distributed amongst various tiers of government, particularly between the national and the subnational governments.[20] In fact, the fragmentation of the state's fiscal base emerges as one of the critically important sub-surface fault-lines that operate as a pull-back factor on the tax administration's revenue effort. There is a plethora of literature defining fiscal base but the crispest conceptualization of fiscal base comes from Canada's Carter Commission, 1960. The Carter Commission averred that "in order to allocate taxes in accordance with the equity principles we espouse, we must specify a tax base that would estimate consistently the economic power of each individual and family relative to others",[21] and then went on to typologize the economic gain that constitutes the tax base, namely: -

(a) The market value of goods and services consumed by the tax unit during the year to satisfy its own wants;
(b) The market value of goods and services given to other tax units during the year; and
(c) The change over the year in that market value of the total net assets held by the tax unit.

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[19] Jorge Martinez-Vazquez and Kaspar Richter, "Pakistan's Short and Medium Term Reform Options," in *The Role of Taxation in Pakistan's Revival*, ed. Jorge Martinez-Vazquez and Musharraf Rasool Cyan (Karachi: Oxford University Press, 2015), 553.

[20] "Fragmentation" refers to vertical allocation of fiscal base along various teirs of government e.g. federal, provincial, and district governments.

[21] K.L. Carter, "Canadian Royal Commission on Taxation Report," (1962).

This fragmentation takes place both at the base and sub-base levels. While the Constitution reserves certain tax bases for the federal government allowing other residual bases to be claimed by provincial governments. The Constitution allows the federation to assert its taxing rights in the case of 'taxes on the sales and purchases of goods imported, exported, produced, manufactured, or consumed.' This opens up vistas for provincial governments to impose a sales tax on services, whereby all provincial governments now levy a tax on services.[22] Similarly, Entry 50 of the Constitution entitled "Taxes on the capital value of the assets, not including taxes on immovable property," allocates the taxation of rights on real estate to provinces creating a miniscule space for the federation to levy tax on capital gains on real estate. The fragmentation of the fiscal base between the federation and the federating units syncopates the entire extractive effort of the state. In view of this, the most functional states piggyback sub-national levies on the national bases without fragmenting the bases themselves. This is important not only from the point of view of generating sufficient and wholesome revenues for the polity but also for giving the citizenry a better deal when it comes to taxation.

In this connection, the Taxation Enquiry Commission 1957-60 (TEC) after categorically stating that "for the successful operation of fiscal policy it is essential that jurisdiction to tax all types of income should vest in single agency"[23] unequivocally proposed that "the Central Government should assume power to tax all incomes, whether agricultural or non-agricultural,"[24] and that "total income of a person should be computed as including both agricultural or non-agricultural income and should be taxed under the Central Income-tax."[25] This, the TEC argued, is because in "the advanced tax systems, it is the Central Government which is given the responsibility of equalizing the overall tax burden and securing the various objectives that direct taxation is designed to attain,"[26] and that "Income taxation is a powerful means of furthering the economic and social objectives and can help greatly in rectifying the anomalies in the distribution of the tax burden."[27] It was further contented that for "purposes of taxation, all forms of property, whether agricultural or non-agricultural, should be included in the interest of equity."[28]

Although a dedicated specialized study would be required to fully analyze the fiscal conundrum within which the state has landed as a result of the Eighteenth Amendment to the Constitution, yet what can be speculated on the basis of the available scholarship, is that the state's fiscal base stands torn apart almost

[22] Roy Bahl, Musharraf Cyan, and Sally Wallace, "The Potential of Provincial Taxation," in *The Role of Taxation in Pakistan's Revival*, ed. Jorge Martinez-Vazquez and Musharraf Rasool Cyan (Karachi: Oxford University Press, 2015).
[23] GOP, "The Taxation Enquiry Committee Report (Volume 1)," (Karachi: Ministry of Finance, 1960).
[24] Ibid., 111.
[25] Ibid.
[26] Ibid.
[27] Ibid.
[28] Ibid., 207.

completely whereby various governance tiers are neither able to formulate a compatible tax policy nor implement it with full authority.

(ii) Elitist compartmentalization of the information state

It is maintained that economic secrecy may be the most inimical headwind not only for the tax system but also the entire institutional framework in Pakistan. The debilitating effect of economic secrecy on state functioning is reinforced by a specter wherein most institutions of the state, working on its behalf or connected to it, jealously guard and block information held by them from flowing to and sharing with other par institutions. The centrality of informational inputs into extractive and coercive functions is theoretically proven. It has been authoritatively argued with reference to the extractive function that governments need to observe transactions in the economy in order to be efficiently extractive.[29] It has also been posited that understanding information inflows is central to effective revenue operations. When governments imperfectly observe transactions, important differences emerge between forms of extraction that are equivalent in standard models of taxation but differ in the outcomes that they generate.[30] Likewise, third-party reporting, verifiable paper trails and whistle-blowers are thought to play an important role in facilitating enforcement.[31]

The challenge of enforcing taxation is particularly severe in developing countries, where many transactions in the economy are not readily observable by the government, and it has been argued that these limited sources of information can explain some of the key differences in tax systems between developed and developing countries.[32] The proposition that formal political theory is now going through the same 'informational revolution' as economic theory during the 1970s and 1980s,[33] has merit to it. In a nutshell, bits of actionable information are the raw material of a state's extractive and coercive systems. Of late, economic information aggregation has started to take place internationally – with Pakistan trailing far behind. In fact, in Pakistan every law that was legislated to create an institution or govern an aspect of economic life has an inbuilt powerful secrecy provision which debars the sharing of information about the activities of economic agents operating in the economy which results in sub-optimal regulation, governance and extraction. Thus, the non-availability of aggregated information about the economic activities of taxpayers is a critically important operational bane of the tax system.

[29]Dina Pomeranz, "No Taxation Without Representation: Deterrence and Self-Enforcement in the Value Added Tax," ed. Harvard Business School (Boston2012).Working Paper 13-057

[30]Joel Slemrod, "Does it Matter Who Writes the Check to the Government? The Economics of Tax Remittance," *National Tax Journal*, no. 61:2 (2008).

[31]———, "Putting Firms into Optimal Tax Theory," *The American Economic Review: Papers and Proceedings* 2, no. 96 (2006).

[32]Roger H. Gordon and Wei Li, "Tax Structure in Developing Countries: Many Puzzles and a Possible Explanation," *Journal of Public Economics* 93, no. 7-8 (2009).

[33]Thomas Picketty, "The Information-Aggregation Approach to Political Institutions," *European Economic Reveiw*, no. 43 (1999).

(iii) Insufficient fiscal base

An equally important problem associated with the fragmentation of the fiscal base is that of insufficiency of the fiscal base, which mainly arises on account of lack of the tax administration's ability to collect wealth tax, inheritance tax, capital gains tax, and gift tax. Most developed countries attempt to adopt comprehensive direct tax systems which comprise income tax, wealth tax, gift tax, inheritance tax (estate duty), and capital gains tax. It is seen that Pakistan's direct tax is chronically lagging behind on this count as the income as the sole criterion of ability to pay taxes has been questioned for a long time.

(a) Wealth tax

Apart from its revenue potential, a tax on wealth has been viewed as a vital complement and necessary adjunct of other taxes and as an integral part of an effective direct tax system. Under the system of income taxation, based as it is on the principle that the liability to tax is determined in relation to the taxpayer's income, since his assets do not yield any income, are not subject to taxation. It was argued that it was "an indisputable fact that a man who owns property, irrespective of whether it yields any income, has a larger command over resources than another individual who does not," and "that such an individual possesses a capacity to pay taxes which the tax system in the country has yet to recognize and exploit."[34]Further, this argument is further augmented when it is realized that the ownership of property bestows a greater measure of economic security than normally attached to professional or salaried incomes. The TEC categorically recommended that "tax may be levied on the net worth of a person i.e., his assets minus liabilities and should include agricultural estates and property of every kind."[35] It was against this backdrop that the Wealth Tax Act, 1963, was legislated and enforced on July 1, 1963, imposing a flat tax rate of 1% on the net worth of a person as on June 30th each year. Appeasing the landed elite, the military-led ruling coalition removed agricultural land and a wide range of other assets from the charge of the levy.[36] The wealth tax continued to be levied until 2000 when it was abolished citing administrative reasons and ignoring egalitarian, fiscal, and economic reasons.

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[34] GOP, "The Taxation Enquiry Committee Report (Volume 1) " (Karachi: Ministry of Finance, 1960).

[35] ———, "The Taxation Enquiry Committee Report (Volume 1)," 326.

[36] The polity took a decade to correct the wrong. In 1969-70, agricultural land was included in the definition of "taxable assets" for computation of charge under The Wealth Tax Act, 1963, but simultaneoulsy a generous special exemption of one lakh rupees in PIU value was extended. Again the method of valuation of agricultural land was based on Produce Index Units (PIU), which resulted in only a fraction of an asset's value being charged as compared to its actaul value in the open market. Thus, extension of The Wealth Tax Act, 1963 to agricultural land was indirectly but effectively neutralized by applying the PIU method for valuation purposes coupled with a special exemption of one lakh rupees. This was, of course, in addition to Section 5A thereof which ordained coverage of the tax only to the persons who were income tax assessees. Thus, the landed elite who had no income other than agricultural income irrespective of its quantum, were not liable to Wealth Tax.

(b) Inheritance tax

Theoretically speaking, it is assumed that an economic agent has the right to create, accumulate and consume wealth in his life time, and anything being left unconsumed and passed on to the next generation falls within the state's right to tax it. It is in this context of the matter that most states levy some kind of tax – inheritance tax or estate duty – on the total wealth being bequeathed to the next generation. In Pakistan, the Estate Duty Act was passed in 1950 providing for the taxation of estates passing or deemed to pass on the death of a person on or after 1st April, 1950. The exemptions allowed included gifts to government, proceeds of life insurance up to Rs. 20,000, properties dedicated to endowments for religious purposes, and immovable and movable property situated outside Pakistan.[37] This made the base of the tax inherently porous. In April, 1953, a further exemption was granted for property invested in twenty specified industries, which, however, was withdrawn with effect from 1st April, 1958.[38] The TEC, strongly hitting out at the exclusion of agricultural estates from the purview of the Estate Duty Act, 1950, categorically took the position that "while the duty should be levied and collected by the Centre, the provinces should receive a share from receipts from agricultural land according to some basis mutually agreed upon between the Centre and the provinces."[39] Despite the TEC's vociferous call against the fragmentation of the state's fiscal base, no measures were taken to reverse the situation. The Estate Duty Act, 1950 was repealed in 1979, during the early years of General Zia-ul-Haq's military rule at the behest of the feudal, industrial and religious elites.

(c) Capital gains tax

The gain on capital forms an important tool within the context of the concept of the fiscal base as delineated above. In Pakistan taxation of gain on movable and immovable capital assets has historically posed challenges to the polity. The capital owning elites have usually been able to muster enough political muscle to induce the exemption on this count in their favor. Gain arising from the disposal of moveable assets have enjoyed exemption under the law whereas the gain on immovable capital under the constitution has not. As regards the taxation of gain on immovable assets the Finance Act 2012, ended up amending section 37(5) of the Income Tax Ordinance, 2001, imposing the capital gains tax on immovable property for the first time. The Punjab followed suit and levied a similar tax in the Finance

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[37] GOP, "The Taxation Enquiry Committee Report (Volume 1) ".

[38] The agricultural land constituted the base for the purpose of levy of Estate Duty. The abrogated Constitution transferred succession tax on agriculatural lands to the provincial list. The Constitution also stipulated that all laws in force on the Constitution Day shall continue to be in force unless repealed by a competent legislature. The West Pakistan legislature used this power and passed an Act on May 5, 1958, albolishing estate duty on agricultural land with retrospective effect from March 23, 1956. Contrarily, East Pakistan did not withdraw the jurisdiction of the Centre, and agricultural land situated in East Pakistan continued to be taxed by the federal government till 1971.

[39] GOP, "The Taxation Enquiry Committee Report (Volume 1)," 157.

Act 2013 but never pushed it to the implementation stage or seriously questioned the federation's authority to levy such a tax by invoking Article 184(1) of the Constitution.[40] Apparently, tax on capital gains arising from immovable properties "cannot be levied simultaneously by the center and provinces.[41] In a nutshell, the state's extractive right on an important base i.e. appreciation in the value of capital, continues to under-contribute to the national exchequer, which militates against equity principles and reinforces economic disparity.

(d) Gift tax

The gift tax is, in fact, a protective levy which is kept on the state's fiscal statute book to thwart against evasion ploys under income tax, wealth tax, inheritance tax, and capital gains tax. The gift tax kicks in when the real owner transfers economic resources to other related persons to eliminate or reduce the impending tax liability. In Pakistan, the gift tax was imposed through the Finance Act, 1963, against categorical TEC recommendations.[42] The gift tax was abolished in 1985, citing low yield as a reason, which not only mismatched but also negated its very raison d'être which was advanced to support its legislation.

Thus the non-levy of wealth tax, inheritance tax, capital gains tax, and gift tax creates a void in the tax base of the state but also creates major distortions in the resource distribution of the economy.

(iv) Vanity agreementization

In a rapidly globalizing economic system, countries put in place legal infrastructures which incentivize foreign investment in-flows of capital and facilitate movement of technological expertise across borders. To address the fiscal dimension of international business and investment, countries sign and enforce the avoidance of double taxation agreements (DTAs). Pakistan has so far signed 66 DTAs, which are broadly based on the well-honed principles developed by the United Nations (UN) and Organization of Economic Cooperation and Development (OECD). Martinez-Vazquez and Richter have, in this context, averred: -

> While these concepts have been adopted over the years, they have become increasingly flawed with economic globalization, deregulation, and technological advances. With the help of new technologies, multinational operating taxpayers are increasingly able

[40] Prior to the Eighteenth Constitutional Amendment Act, 2010, Entry 50 entitled "Taxes on the capital value of the assets, not including taxes on immovable property," read "Taxes on the capital value of the assets, not including taxes on capital gains on immovable property." However, after the omission of the words "capital gains" from Entry 50, FBR sought the views of the Ministry of Law about its scope. The Ministry of Law purportedly endorsed FBR's views that in the new constitutional scenario the tax on the gain of immovable capital had become a federal subject; hence, within the domain of the Parliament.
[41] Ikramul Haq, "Taxing Capital Gains," *Buiness Recorder*, June 30, 2017.
[42] GOP, "The Taxation Enquiry Committee Report (Volume 1) ".

> to arbitrarily decide whether they want to establish residence or source income in a certain jurisdiction. Moreover, international tax rules have relied heavily on the arm's length principle for profit allocation. Yet this method establishes a heavy burden on both the tax administration and taxpayers as the arm's length or uncontrolled price is often difficult to establish. This is especially the case when there are economic reasons for performing certain activities internally within a multinational company rather than through outsourcing.[43]

It is in this context that Pakistan's battery of DTAs has started to impact its fiscal base significantly and adversely. Further, Pakistan may not have negotiated many of its DTAs and provisions within DTAs very well or those might not reflect the economic imperatives of the country. This may also be true of Pakistan's international agreements pertaining to investment and trade i.e. bilateral investment treaties (BITs) and free trade agreements (FTAs) – a process which the paper refers to as vanity agreementization of the state – almost involuntarily signing certain agreements just because other states have signed them. Although a dedicated study on this count would be needed to actually assess the real loss to revenue, the broad conjecture, however, is that it is substantial. The loss to the exchequer only on account of Article 8 (International Traffic) in the Pakistan-China DTA, it has been argued, would become unaffordable to Pakistan as traffic on Gwadar Port picks up.[44] Likewise, only Article 11 of the Pakistan-Netherlands DTA is causing an annual loss to the exchequer equal to 0.3% of the GDP of the country.[45]

It is evident that the embedment of most of these issues is due to and cast in insufficient political settlementization. Various elite groups, being rational actors, have evolved a perverse status quo of disagreements resulting in fragmented, insufficient or inoperable extractive functions of the state. The point emphasized is that the structural issues of the tax system – insufficient political settlementization, vanity agreementization, elitist compartmentalization of the information state, and fragmentation of the state's fiscal base be it through simple legislation or a constitutional arrangement – operate as parameters of the revenue function.

4. The tax System's Simmering Wounds

In addition to the aforementioned embedded structural issues that are the direct result of non-optimal political settlementization vis-à-vis how the polity is to be financed, at what level, and who should pick up what incidence of the tax burden, there are some simmering problems that have repeatedly been identified, and

[43] Jorge Martinez-Vazquez and Richter, "Pakistan's Short and Medium Term Reform Options," 638.
[44] Muhammad Ashfaq Ahmed, Na Li, and Peter Mellor, "China-Pakistan Double Taxation Agreement and China-Pakistan Economic Corridor," *Bulletin for International Taxation* 72, no. 8 (2018).
[45] Katrin McGuaran, "Should the Netherlands Sign Tax Treaties with Developing Countries?," (Amsterdam Centre for Research on Multinational Corporations (SOMO), 2013).

deliberated upon in the public domain. Yet the polity has not been able to muster the critical ability to resolve them. It has consistently been conveyed that the state's revenue function's problems emanate from its expenditure function as it is perennially under financed. Likewise, while extraction is primarily a federal subject, the internal coercive power is held by the provinces – hence, the weakness of the former is cast in its primeval formation.

Similarly, elsewhere a tax system is highly ring-fenced – completely insulated from the tinkering of other state institutions. But not so in Pakistan. Almost every other case of some substance gets caught up in a high court under Article 199 of the Constitution. Administrative fissures within the overall bureaucracy and revenue bureaucracy have not been resolved, and this also creates frictions and problems for the revenue outcomes.[46] As already indicated, since investments were not made in the revenue system, policy handles were relentlessly used to boost revenues over the years, which now have reached exhaustion point. The whitening schemes inbuilt in the tax system continue to cause hemorrhage and leak of much needed revenues. Since the ruling coalitions – mostly motley groups nurturing diverse economic, regional, religious, and political leanings – continue to be weak governing structures. As a result, the extractive system continues to be a bastion of the ruling elites without any efforts being made to autonomize and professionalize it. The injection of information technology (IT) into the tax system has always been considered an alternative and a replacement to deploying quality human resources. Sustained retrofitting of easy-money, yielding policy tools, has rendered the tax laws practically inoperable in any conventional sense. Since set channels of interest group articulation have not been put in place, the tax system continues to respond to those groups which can attract its attention. Wide-going exemptization is another serious issue confronting the tax system. Table 2 depicts the data of tax expenditure on account of federal taxes for the F/Y 2018.

Table 2: Tax Expenditure of Federal Taxes – T/Y 2018

(Rupees in Billion)

#	Type of Tax	F/Y 2018
1	Income Tax	61.78
2	Sales Tax	281.05
3	Customs Duty	198.15
	Total	**540.98**

Source: Pakistan Economic Survey, 2017-18

Pakistan's total tax expenditure for the last year was Rs. 540.98 billion. It is likely to go up during the current year because of the reliefs given by the PML-N government in its dying days as well as the present government through various

[46] Ahmed, "Pakistan's Governance Goliath: The Case of Non-Professional Chairman, F.B.R."

justifications. With expenditure needs increasing due to security imperatives, and the revenue collection decreasing, the fiscal gap is likely to increase in F/Y 2019.

5. The tax System's New Maladies

Against the backdrop of revenue projection as given earlier, this section deals with some of the immediate leakage points. It is argued that relentless amnestization being resorted to as a policy prescription, the latent fall-outs of TAS, 2018, and ever-growing offshore problems would continue to exert added pressure on the fiscal deficit – not factored into the projections.

(i) Amnestization

Towards the close of the PML-N's term in power, which officially ended on May 31, 2018, the economic edifice that had been erected by artificially maintaining the exchange rate at above par levels, foreign exchange reserves, fiscal deficit, current account deficit, tax collection, and GDP growth rate had started to plummet. The artificial management on the part of the PML-N government though, kept the economy from being completely rudderless during F/Ys 2013-18. Yet understandably its performance in most areas was not only abysmal in a general sense,[47] but also in the sense of what it had committed to its electorate in its manifesto.[48] There is no denying the fact that the government was constantly bullied on corruption charges and constrained in its decision-making, policy formulation and policy implementation by a super-aggressive opposition – contextually, Pakistan Tehreek-e-Insaf (PTI) led by Imran Khan. The surfacing of the Panama Leaks scandal in April 2016 and the politico-judicial turmoil that it triggered pulverized the PML-N during the remainder of its term. The stand-in Prime Minister Shahid Khaqan Abbasi, and his Finance Minister, Miftah Ismail, had started to give indications of launching yet another tax amnesty scheme. The matter was widely debated in Parliament, the media and the Supreme Court both for and against, which implied a clear lack of consensus in the society as regards launching of yet another tax amnestization initiative. Finally, through separate acts of Parliament, two separate tax amnestization initiatives were launched – one for the domestic undisclosed assets and incomes, and the other for foreign undisclosed assets.

(a) Domestic Amnesty Scheme, 2018

Under the Voluntary Declaration of Domestic Amnesty Assets Act, 2018 – referred to as domestic amnesty scheme (DAS, 2018), any person could declare and whiten his previously undisclosed incomes and assets by paying a tax of 5 and 2% between

[47] Shahbaz Rana, "Economic Performance in 4-Year Report card, Failing Grade for PML-N," *The Express Tribune*, December 4 2017.

[48] See, for a detailed analysis, Asim Bashir Khan, "The PML-N Made Bold Claims in its 2013 Manifesto. How Many of those Promises Did It Keep?," *Dawn*, June 6 2018.

April 10, 2018 and July 31, 2018.[49] The declarations under DAS, 2018 were to enjoy complete confidentiality and were protected against their use as evidence in a court of law. The assets and incomes owned by public office holders and the ones created with the proceeds of crime were excluded from the purview of the amnesty. The DAS, 2018, classified undisclosed assets broadly into 18 categories. Table 3 presents the asset heads, the total number of cases filed, the value of assets whitened, the tax rate applicable, and the tax paid.

Table 3: DAS, 2018 – Assets Whitened & Tax Paid

(Rupees in Thousand)

#	Domestic Income & Assets	Cases	Value of Asset	Rate	Tax Paid
1	Undisclosed income	10,769	127,296,143	5%	6,364,807
2	Open plots & land	15,812	157,295,145	5%	7,864,757
3	Superstructure	6,764	30,831,163	5%	1,541,558
4	Apartments & flats	5,422	32,316,486	5%	1,615,824
5	Imported motor vehicle	721	2,201,086	5%	110,054
6	Motor vehicles purchased from a manufacturer, assembler or dealer in Pakistan	2,508	5,572,271	5%	278,614
7	Used motor vehicles purchased locally	2,284	4,197,697	5%	209,885
8	Securities & shares traded on stock exchange	567	5,853,352	5%	292,668
9	Securities & shares not traded on stock exchange	307	4,487,926	5%	224,396
10	National saving schemes, postal certificates, bonds, & other instruments not traded on stock exchange	1,289	14,889,529	5%	744,476
11	Gold	1,298	6,611,582	5%	330,579
12	Other precious stones and metals	129	1,185,564	5%	59,278
13	Stock in trade	574	5,160,863	5%	258,043
14	Plant & machinery	543	3,987,840	5%	199,392
15	Accounts receivable	514	17,647,989	5%	882,399
16	Other assets	6,822	80,829,636	5%	4,041,482
17	Cash, prize bonds, bank accounts & FCAs	69,559	1,002,955,265	5%	50,147,763
18	FCA encashed in Rupee/investment in US$ bonds	1,020	2,490,551	2%	49,811
Total		**76,952**	**1,505,747,699**		**75,212,669**

Source: Pakistan Revenue Automation Ltd.

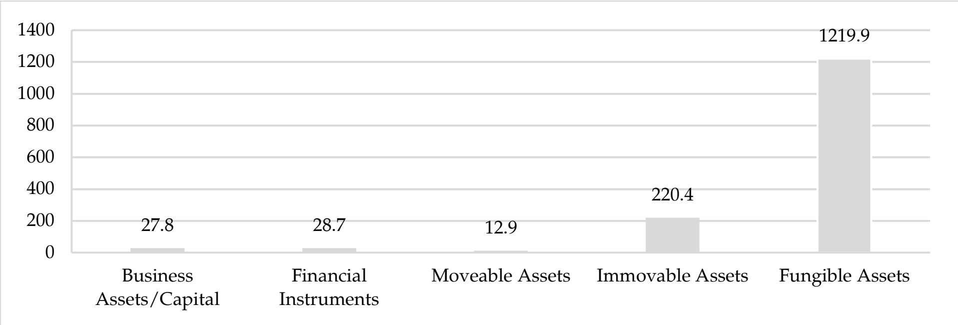
It is noted that a total of 76,952 DAS declarations were filed whitening a total of Rs. 1,505 billion worth of assets which yielded a corresponding revenue of Rs. 75 billion. Given the nominal tax rate of 5percent and 2percent, a complete confidentiality cover, and minimal information reporting requirements vis-à-vis the assets being whitened, the outcomes are definitely on the lower side.

[49] Muhammad Ashfaq Ahmed, "Pakistan: Economy Under Elites - Tax Amnesty Scheme, 2018," *Asian Journal of Law and Economics* 10, no. 2 (2019).

When the assets whitened are classified into thematic clusters such as business capital, financial instruments, movable assets, immovable assets, fungible assets as plotted in Figure 6, the empirical inferences drawn tend to validate the general perception of the structurally defective composition of Pakistan's economy.[50]

Figure 6: DAS, 2018 – Category-Wise Value of Assets Whitened

(Rupees in Billion)



Source: Pakistan Revenue Automation Ltd.

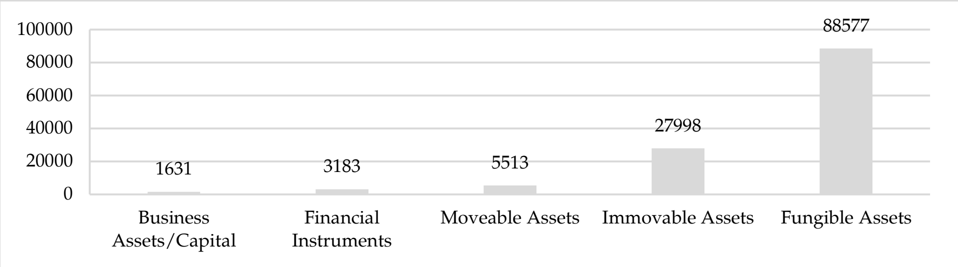
It can be seen that the maximum tally of assets whitened is under fungible assets. This may imply the whitening of past earnings. But in reality it reflects the whitening of future earnings. It is plausible that entrepreneurs have whitened future stocks of incomes at a meagre tax rate of 5 and 2%. Since the evidence of the "holding" of all fungible assets in any concrete or substantive form was not a precondition under DAS, 2018, it essentially is a fictitious number. They would be realizing their future earnings in hard assets by diluting the figure of "cash" in their books of account and tax declarations. The impact of this particular generous facilitation will be massive in view of the fact that incorporated entities were also entitled to avail the amnesty. Out of the total assets whitened under DAS, 2018 at Rs. 1,505,747,699 million, a sum of Rs. 1,218,878,190 million is in fungible assets. Now assuming that 15% of total fungible whitened assets constitute past earnings, the future revenue implications for the exchequer on account of the conversion of liquid assets to hard real assets for the next three years works out as under: -

[50] The classification of assets whitened consists of (i) Immovable assets: Open plots & land; Superstructue; Apartments & flats; (ii) Movable assets: Imported motor vehicles; Motor vehicles purchased from a manufacturer, assembler or dealer in Pakistan; Used motor vehicles purchased locally; (iii) Financial instruments: Securities & shares not traded on the stock exchange; Securities & shares not traded on the stock exchange; National saving schemes, postal certificates, bonds & other instruments not traded on the stock exchange; FCA encashed in Rupee investment in US$ bonds; (iv) Business assets/capital: Stock in trade; Plant & machinery; Accounts receivable; and (v) Fungible assets: Undisclosed income; Gold; Precious stones & metals; Other assets; Cash, prize bonds, bank accounts & FCAs.

• Total assets whitened under DAS, 2018	=	Rs. 1,505,747,699
• Total fungible assets whitened	=	Rs. 1,218,878,190
• (-) 15% ascribable to past earnings	=	Rs. 182,831,728
• Balance ascribable to future earnings	=	Rs. 1,036,046,416
• Applicable tax rate	=	25%
• Approximate future tax implication	=	Rs. 259,011,604
• Expected annual price-tag for 2 years[51]	=	Rs. 172,674,402

Thus, in the process of harvesting quick money to the tune of Rs. 121,477,588 million into the exchequer, the state squandered an approximate amount of Rs. 259,011,604 million in future revenues. The implications of this would be borne by the tax administration in eroded revenue capacity and the fiscal managers in reduced fiscal space, over the next couple of years.

Figure 7: DAS, 2018 – Asset Category-Wise Number of Assets Whitened



(*Source:* Pakistan Revenue Automation Ltd.)

When column 3 of Table 3 is further analyzed, it is found that of a total of 76,952 DAS, 2018 filers, 69,559 whitened cash or some other fungible asset, which means more than 90% of the DAS, 2018 filers whitened cash. Likewise, the people who whitened business related assets i.e. stock in trade, plant and machinery and accounts receivable is meagre at 574, 543, and 514 respectively. This is indicative of the fact that untaxed resources hardly get fed back into business, and that the whitened resources are not likely to get invested in the business again. The same is true of the financial instruments kept in the documented economy. The total declarations filed under these heads are 567, 307, 1,289, and 1,020, which is a negligible number in view of the fact that a total of 76,952 persons filed DAS, 2018 declarations. The analysis of the declarants also corroborates the fact that the economy is given to real estate hedging as out of 76,952 declarants 27,998 whitened real estate assets. The same is true of moveable assets as a meagre number of declarations have been filed. The data of declarations reinforced the nexus between

[51] Given an abnormaly high frequency of offer of tax amnesties in Pakistan, being rational actors, the taxpayers who have accumulated futuristic tax credit, would like to incorporate all of it as soon as possible - maximum two years - so as to be able to optimally benefit from any future tax amensties.

cash, underground economy and the real estate in Pakistan. The policy handles are not being put in place to address the root cause of the problem.

(b) Foreign Amnesty Scheme, 2018

The Foreign Assets (Declaration and Repatriation) Act, 2018 – referred to as the foreign amnesty scheme (FAS, 2018) allowed any person to disclose and whiten previously undisclosed and untaxed foreign assets. The trigger behind FAS, 2018 was the expected exchange of information of Pakistan tax-resident persons maintaining bank and financial accounts in foreign jurisdictions under the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MC) Common Reporting Standard (CRS) for the automatic exchange of information (AEOI).[52] This was an inflection point and the polity once again appeared to go by the pleasure principle, in the process appeasing the feudal, industrial and business elite who had amassed wealth in Pakistan but had taken it out through illegal means.[53] The tax rates prescribed were 5% for liquid assets not repatriated, 3% for immovable assets held abroad, 2% liquid assets repatriated and invested in government securities, and 2% for liquid assets repatriated. Other provisions pertaining to secrecy and non-admissibility of amnesty declarations in a court of law applied to declarations filed under FAS, 2018.

Table 4: FAS, 2018 – Assets Whitened and Tax Paid

(Thousands)

#	Particular	Cases	Value of Asset	Rate	Tax Paid
1	Liquid assets not repatriated (Rs.)	5,089	727,851,288	5%	36,392,564
2	Immovable assets (Rs.)	3,988	322,563,113	3%	9,676,893
3	Liquid assets repatriated & invested in securities (Rs.)	143	3,344,217	2%	66,884
4	Liquid assets repatriated (Rs.)	322	6,428,833	2%	128,577
	Total (Rs.)	**6,195**	**1,060,187,452**		**46,264,919**
	Total Tax in US Dollars	**3,829**			**285,959**

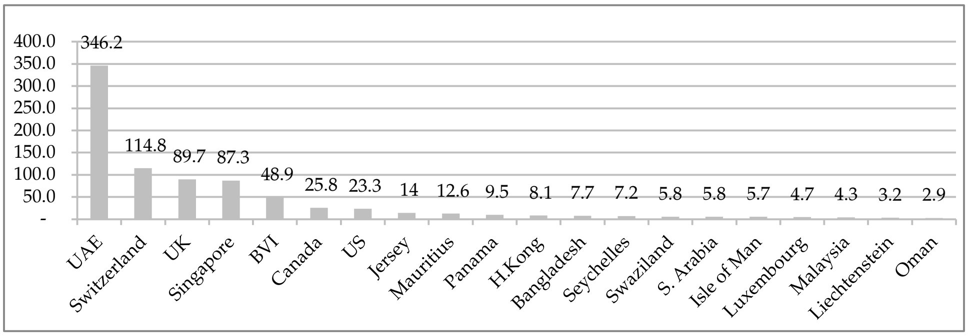
Source: Pakistan Revenue Automation Ltd.

Table 4 reports total liquid assets that were not repatriated valued at Rs. 727 billion, immovable assets at Rs. 322 billion, liquid assets invested in government securities at Rs. 3.3 billion and liquid assets that were repatriated valued at Rs. 6.4 billion. Total tax collection in US dollars comes to 285.9 million. Diametrically opposite to what had been the projected amount of US $ 4 billion by the promoters of FAS, 2018, the outcomes were highly disappointing – particularly keeping in view the negligible tax rate.

[52] Ahmed, "Pakistan: Economy Under Elites - Tax Amnesty Scheme, 2018."
[53] Ibid.

Figure 8: FAS, 2018 – Assets Whitened – Top 20 Jurisdictions

(Rupees in Billion)



Source: Pakistan Revenue Automation Ltd.

Figure 8 presents the leading 20 most popular jurisdictions with Pakistanis. It is astonishing to note that the UAE with a tally of Rs. 342 billion, is the most favorite destination with Pakistanis as concerns the creation of offshore assets. Next is Switzerland at 115 million, UK 90 billion, Singapore 87 billion, British Virgin Islands 49 billion, Canada 29 billion, US 23 billion, Jersey 14 billion and Panama 9.5 billion. These were the leading 10 jurisdictions where Pakistanis maintain their undisclosed bank accounts and hold their undisclosed assets.

(ii) Offshore Problem

With regard to Pakistan, the problem of siphoning funds from Pakistan through dubious means has always existed, particularly since the legislation of the Protection of Economic Reforms Act, 1992. This Act liberalized the foreign exchange regime in Pakistan without due diligence. The problem, however, has always been ignored for obvious reasons, either through repeated tax amnestization initiatives or through muffled whitening schemes built into the law – section 111(4) of the Income Tax Ordinance, 2001. The issue attained significance in early 2016 as a result of the Panama Leaks. Evidence to the fact that it is a significant pull back factor in the context of Pakistan, is indicated from the data received under OECD-MC and FIAS, 2018.

(a) OECD – Multilateral Convention

Pakistan became signatory to the Multilateral Convention for Mutual Administrative Assistance in Tax Matters (MC) in 2017. The MC makes available multiple means through which tax administrations can cooperate primarily to curb tax evasion. The most important mechanism of cooperation within the context of MC is the exchange of bank and financial account information kept in offshore jurisdictions on an automatic basis. Pakistan undertook first such exchanges on September 30, 2018.

Keeping in view the fact that the total value of Pakistanis' account balances as on December 31, 2017 is a little under US$ 8 billion, the number of account holders over 150,000 is relatively on the higher side. The staggered account-category wise values are given in Table 5 below:

Table 5: Pakistanis' Offshore Bank & Financial Accounts on 31-12-2017

#	Particulars	Data
1	US $ 1.0 – 150 million	1,074
2	US $ 0.75 – 1 million	238
3	US $ 0.5 – 0.75 million	331
4	US $ 0.25 – 0.5 million	1,142
5	US $ 0.1 – 0.25 million	2,373
	Total (> US $ 0.1 million)	**5,158**

Source: Pakistan Revenue Automation Ltd.

Most of the Pakistanis whose offshore bank and financial accounts have been reported, appear to have been in the export and import sectors, which implies that those exports and imports are mis-invoiced and the resultant surpluses are retained outside Pakistan. This information should have provided a powerful policy prompt but it has not. Likewise, most of the persons maintaining offshore accounts of substantial size successfully availed amnesty and wriggled out of the situation. MC was an inflection point, but it was lost and the elitist juggernaut was successful in getting an amnestization initiative launched.

(b) Foreign Income & Assets Statement, 2018

In order to have a handle on the offshore issue, a new declaration namely the Foreign Income and Assets Statements (FIAS) was included in the tax return through Finance Act, 2018.[54] The data of offshore assets held by Pakistanis in offshore jurisdictions is given in Table 6. While Pakistanis having real estate abroad were 2,698 carrying a total value of Rs. 229,944 million, and those investing in overseas business is only 210 and with a value of Rs. 6,889 million. This is reflective of deeper societal trends, which is a non-entrepreneurial tendency.

[54] Section "116A. Foreing income and assets statement." insterd through the Finance Act, 2018, reads "(1) Every resident taxpayer being an individual having foreign income of not less than ten thousand United States dollars or having foreign assets with a value of not less than one hundered thousand United States dollars shall furnish a statement, hereinafter referred to as the foreign income and assets statement, in the prescribed form and verified in the prescribed manner giving particulars of -- (a) the person's total foreign assets and liabilities as on the last day of the tax year; (b) any foreign assets transferred by the person to any other person during the tax year and the consideration for the said transfer; and (c) complete particulars of foreign income, the expenditure wholly and necessarily for the purposes of deriving the said income. (2) The Commissioner may by a notice in wirting require any person being an individual who, in the opinion fo the Commissioner on the basis of reasons to be recorded in wirting, was required to furnish a foreign income and assets statement under sub-section (1) but who has failed to do so to furnish the foreign income and assets statement on the date specified in the notice."

Table 6: FIAS, 2018 - Offshore Assets Declared

(Rupees in Million)

Amount Description	Persons	Amount
Commercial, Industrial, Residential Property (Non-Business)	2,698	229,944.2
Business Capital	210	6,889.5
Investment (Non-Business)	2,899	283,936.3
Debt (Non-Business)	377	63,653.1
Motor Vehicle (Non-Business)	113	550.9
Any Other Asset	459	44,321.2
Assets in Others' Name	110	7,789.2
Share or Interest in Foreign Trust, Foreign Company or any Foreign Entity	416	76,652.7
Assets held outside Pakistan	**4,117**	**713,737.1**

Source: Pakistan Revenue Automation Ltd.

The information regarding offshore incomes earned by Pakistanis is plotted in Table 7.

Table 7: FIAS, 2018 - Offshore Incomes Declared

(Rupees in Million)

Amount Description	Persons	Amount
Income from Salary	446	2,182
		2,181
Income from Business	248	1,666
		1,667
Gains from Capital Assets	125	101
		101
Income from Other Sources	339	2,097
		2,097
Income Subject to Separate Taxation	1,330	3,979
		3,980
Dividends	276	637
Profit on Debt	557	654
Rent from Property	946	2,3
Capital Gain on Disposal of Securities u/s 37(A)	101	18
Capital Gain on Disposal of Immovable Property u/s 37(1A)	82	357
Total Income	**1,876**	**10,027**
		10,027

Source: Pakistan Revenue Automation Ltd.

The comparative analysis of the data plotted in Table 6 of offshore asset holders at 4,117 and Table 7 of offshore income earners at 1,876 reveals that Pakistanis tend to hold their assets in offshore jurisdictions more than setting up businesses and earning incomes abroad. Likewise, while the quantum of total incomes earned outside totals Rs. 10,026 billion, that of total assets held abroad by Pakistanis is at a staggering Rs. 713 billion.

6. Conclusion

The paper is an attempt to move beyond text-book analytical templates and dissect Pakistan's tax system innovatively mainly from a political economy perspective. Section 1, which briefly surveys the tax scene, indicates that though revenues have moved up substantially under all major heads over the past five years, the fiscal deficit remains quite a serious challenge for economic managers. It is also indicated that not only has the tax administration been failing to achieve its assigned targets, the target-setting itself is not scientifically or rationally based. Even if those targets were met, the resultant revenue collection would not afford adequate fiscal space to the government to try and fix macroeconomic imbalances, or make for the regulatory deficit through substantial investment in governance structures, and undertake development schemes primarily in the education and health sectors. The government revenue projections for the next fiscal years are also outlined, and these are appraised over the next sections whether or not those are achievable.

Section 2 provided the theoretical scaffolding within which the dissection of the tax system takes place. It is argued that elitism is still the most relevant theory applicable to and the way the statecraft is conducted in Pakistan – particularly in the fiscal domain. The paper inventively plugs in the theory of political settlements to argue that Pakistan's fiscal woes are cast in the structural formation of the polity. Section 3 explored such structural fault-lines that stem from insufficient political settlementization i.e. fragmentation of the base between the federation and the federating units, insufficient fiscal base on account of the absence of the wealth tax, inheritance tax, capital gains tax, and gift tax as wellas brute secrecy in the economic domain, and the erosion of the state's fiscal base through reckless vanity agreementization with the outside world.

Section 4 was a cursory glance at the repeatedly identified problems that the polity has consistently failed to overcome – the most critical being exemptization as its price-tag in 2018 to the exchequer was Rs. 540.98 billion – almost 20% of the total revenue collection. Section 5 covered the new maladies of the tax system that are likely to operate as a headwind on the revenue effort. This includes whitened future earnings by business entrepreneurs during the last amnestization initiative, and offshore problems. Not enough is being done about these problems in spite of the government's avowed public commitment on this count and the international crackdown against money laundering and tax evasion amply evidenced in the OECD's work. The data harvested from the OECD, FAS, 2018, and FIAS, 2018, lent adequate credence to this assertion. All these factors, it is empirically put, would exert pressure on the tax effort, and the government is not likely to meet its projected revenue targets.

It is evident that the polity is at another inflection point as the political leadership appears restless and is running out of patience with the FBR's fiscal effort. But the fact remains that lack of investment in the system has completely drained it of even an iota of capacity. Resorting to the pleasure principle prongs to reap quick money into the exchequer consistently for decades, ought to have brought realization to the state that there are no short cuts to revenue. In order for the tax system to generate both healthy and sufficient revenues, substantial investments are required to be made in the system as necessary inputs before expected outputs can be derived. This would require a gestation period of a couple years, at the least, and that too after sufficient political settlement has been arrived at a broader level in key areas of the extractive function.

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