Gallup Pakistan History Project's Weekend Read 30: Public Opinion on Taxation Structure in Pakistan in Year 2015 by Abdullah Tajwar, Research Executive at Gallup Pakistan

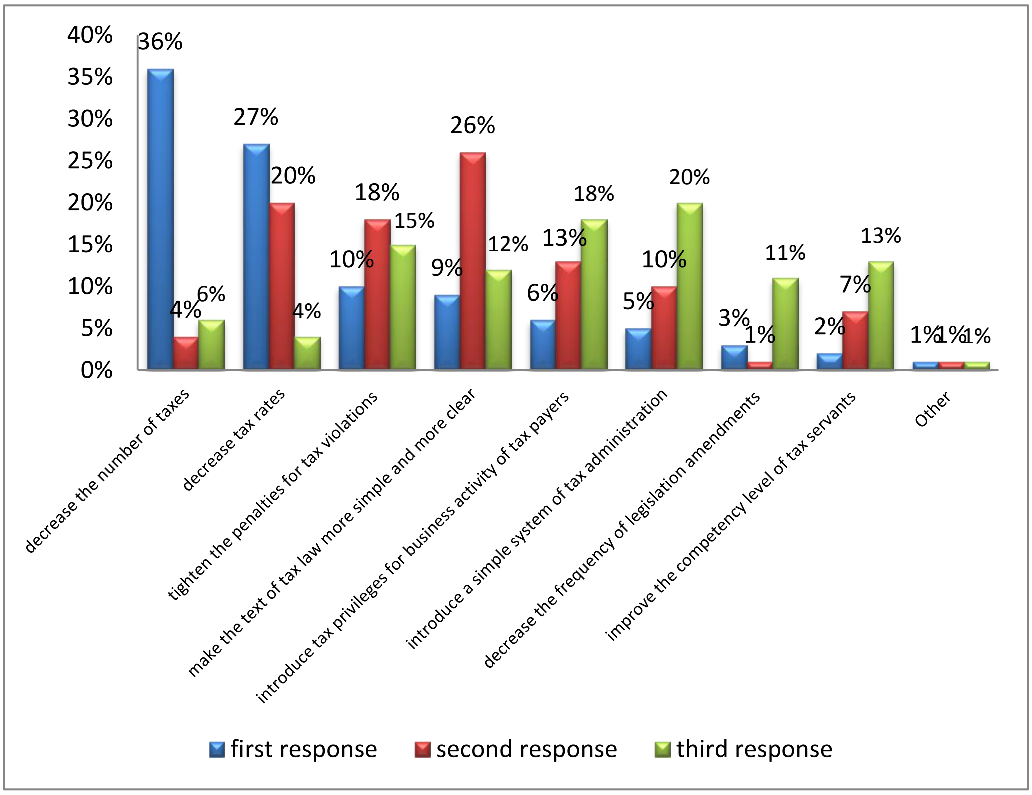
Abstract: *The analysis presented in this article is predicated on the empirical **findings of three surveys carried out by Gallup Pakistan** with the intent of gauging public opinion regarding irregularities in the taxation system in Pakistan and their urgent reform. The first survey was carried out by Gilani Research Foundation in March 2015 among a nationally representative sample of 1639 men and women in rural and urban areas of all four provinces of the country. The respondents were asked the question: "If you were on a decision maker position in a state agency, which would be your three primary actions?" In response to this question, 36% respondents mentioned decreasing the number of taxes as their first action, while 4% respondents mentioned it as the second action and 6% mentioned it as the third action. Decreasing tax rates was the first response for 27% respondents, while it was the second response for 20% respondents and third for 4% respondents. Tightening penalties for tax violations was the first response for 10% respondents, while it was the second response for 18% respondents and the third response for 15% respondents. Making tax laws clearer and simpler was the first response for 9% respondents, second response for 26% respondents and third response for 12% respondents. Introducing tax privileges for business activity of tax payers was the first response for 6% respondents, second response for 13% respondents and the third response for 18% respondents. Introducing a simple system of tax administration was the first response for 5% respondents, while it was the second response for 10% respondents and the third response for 20% respondents. Decreasing the frequency of legislation amendment was the first response for 3% respondents, while it was the second response for 1% respondents and the third response for 11% respondents. Improving the competency level of tax servants was the first response for 2% respondents, while it was the second response for 7% respondents and the third response for 13% respondents. In a second survey carried out by Gallup Pakistan in March 2015, a nationally representative sample of 1574 men and women from Pakistan's rural and urban areas was asked the question: "As I read off some different groups, please tell me if you think they are paying their fair share in federal taxes, paying too much, or paying too little?" Regarding lower-income groups, 49% respondents said they pay too much tax, 36% respondents said they pay their fair share of tax and 13% respondents said they pay too little. Regarding middle income groups, 33% Pakistani respondents said they pay too much tax, 49% believe they pay their fair share of tax, while 16% believe they pay too little tax. Regarding upper-income groups, 15% Pakistani respondents said they pay too much tax, 35% believe they pay their fair share of tax, while 48% believe they pay too little tax. In the third and final survey also carried out in March 2015, a sample of 1574 men and women from Pakistan were asked the following question. "Would you favor or oppose National Assembly*

passing a new law that would require households earning Rs.1 crore a year or more to pay a minimum of 30% of their income in taxes?" In response to this question, 38% respondents said they would favor such a law a lot, 39% would favor it somewhat, 16% would neither favor nor oppose it, while 2% would somewhat oppose it and 5% would oppose it a lot. The error margin for all surveys was at 2-3% at the 95% confidence interval.

If one were to browse through a high school economics or finance text book, a chapter on taxation would undoubtedly come up. Within this chapter, the reader would be informed about the need for a strong and efficient taxation policy by a state to ensure positive growth and development within that country. In short, taxes are the funds paid by the citizens of a country to their government which then utilizes these funds to initiate developmental projects within the country. Hence, taxation is the process which primarily enables a government to garner the finances required to provide essential services, such as healthcare, education, energy, public transport etc. to the people living within that state. In the absence of a strong and efficient tax collection network, governments are forced to take financial assistance from foreign countries and other lending agencies. However, this approach of raising funds is detrimental to a country on a number of levels. Apart from the obvious erosion of national sovereignty brought about by financial indebtedness to the lending institution, it further hinders a country's economic progress as a substantial chunk of the state budget goes into the servicing of this debt instead of being utilized in more productive and nationally beneficial avenues.

Pakistan, apart from being embroiled in a number of crises, is also suffering from a severely debilitating taxation problem. Pakistan has a very narrow tax base. This can be gauged by the fact that in 2010, only 750 thousand of Pakistan's 180 million people paid income tax. This amounts to less than one percent of Pakistan's population. This statistic, published by the Sustainable Policy Development Initiative (SDPI), becomes even more appalling in light of the revelation that there are around 7 million people who are eligible to pay income tax. This narrow tax net is caused in part by an unfair and inequitable taxation structure in Pakistan which discriminates between taxpayers and conveniently provides tax exemptions to the class wielding power and political clout within the country. The crookedness of Pakistan's taxation system is highlighted by the finding that an astounding 61% of Parliamentarians do not pay income tax. This damning statistic astutely describes the shortcomings that exist within the Pakistani State as well as its continued inability to effectively remedy the taxation problem. When a country's elected officials are able to avoid paying taxes, then one can hardly blame the larger population for following suit. As a result of these exemptions, the onus of paying taxes falls on the poorer class of citizens, majority of whom pay taxes indirectly, via deductions made on household electricity and telecom bills for example. However, since the less well-off spend a larger portion of their incomes on the purchase of items, these indirect taxes hit them harder, thus leading to the growing sentiment that the Government is only targeting the poor with taxes. Furthermore, certain industries pay significantly higher amount of taxes than others. The agriculture sector in Pakistan, despite contributing 21 percent to GDP, contributes less than one percent in taxes. On the other hand, the manufacturing sector, despite having a lesser share in the GDP (13%), still contributes approximately 52 percent in taxes. Therefore, in light of such disparities that have sapped the motivation of public to pay taxes, more people have resorted to informal financial institutions, losing faith in the state's ability to adopt a just and accountable taxation system. All statistics have been quoted from the Sustainable Development Policy Institute's Draft Study (September 2013) on Reforming Tax System in Pakistan.

With regards to empirically determining public perception regarding the taxation structure of the Country, Gallup Pakistan has carried out a series of surveys over the years. One such survey was carried out by Gallup Pakistan in March 2015, in which a nationally representative sample of the Pakistani population was asked to rate between possible options that they would initiate regarding the reformation of Pakistan's taxation system if they became a decision maker in the state. They were specifically asked the following question: "**If you were a decision maker in a state agency, which would be your three primary actions?" The respondents were given the following options to rate as their first response, second response and third response respectively: 'I would decrease the number of taxes', 'I would decrease tax rates', 'I would tighten the penalties for tax violations', 'I would make the text of tax law more simple and more clear', 'I would introduce tax privileges for business activity of tax payers', 'I would introduce a simple system of tax administration', 'I would decrease the frequency of legislation amendments', 'I would improve the competency level of tax servants'**. The results of this survey are presented in a tabular form.



Source: Gallup Pakistan Nationally Representative Survey 2015

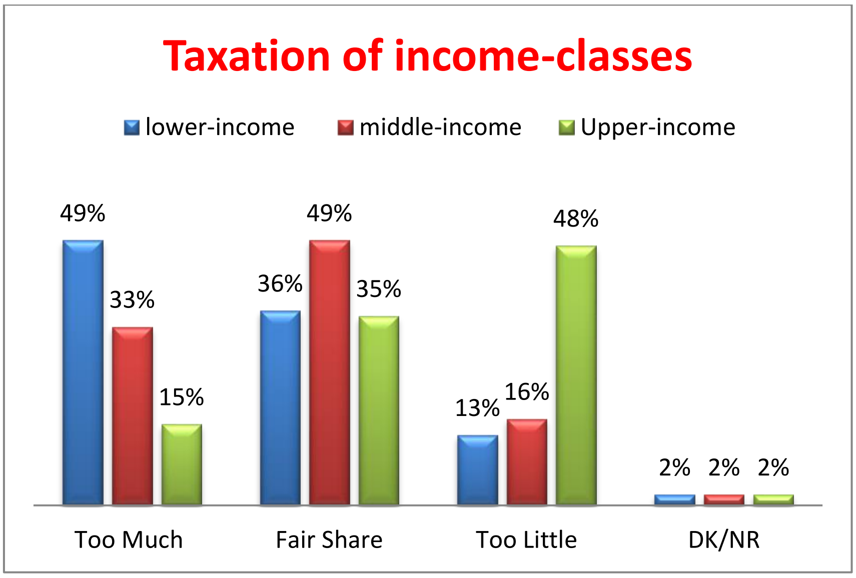
Disclaimer: The views and inferences expressed in the article are that of the author himself and Gallup Pakistan does not take any responsibility in this regard. Moreover, Gallup has taken utmost care in collection of data and in other processes.

As can be seen from the table, in response to the survey question, the first response of a significant proportion of the public (36%) was to 'decrease the number of taxes'. Furthermore, 'decreasing tax rates' was also the first response of a sizeable ratio of the public (27%). The fact that the two highest first responses were for these two statements does provide a valuable insight into the perception of Pakistanis regarding their taxation system. **A majority of the public does feel that it is being overtaxed by the government. A lot of that perception has to do with the concept of indirect taxation in Pakistan since the percentage of people paying income tax is almost negligible.** With a significant 21% of Pakistan's population languishing below the poverty line at the 2008 population estimates, a World Bank's Poverty Head Count Analysis undertaken in 2014 further suggested that if income per adult in Pakistan is raised from $1.25 to $2 which is the international standard poverty mark for middle income countries, then nearly 60% of Pakistan's population would be considered as falling below the poverty line. In light of these statistics on poverty, one can begin to understand that the majority of Pakistan's populace, upon paying indirect taxes via their utility bills and in the goods they consume, particularly automotive fuel and everyday necessities of life, would undoubtedly feel that the government's taxes are taking up a significant chunk of their incomes which, in most cases, are only sufficient at meeting their bare essentials. Thus, as the survey results themselves elucidate, a sizeable proportion of Pakistanis yearn for tax relief for themselves and their fellow citizens.

This perception can be empirically validated by another survey conducted by Gallup Pakistan among a sample of 1574 men and women in rural and urban areas of all four provinces of the country, during March 16- March 23, 2015 at an error margin of approximately ± 2-3 per cent at 95% confidence level. The purpose of this survey, released by the Gilani Research Foundation, was to gauge public opinion on whether Pakistan's different income classes, namely the low, middle and high income classes, are paying their fair share of federal taxes or not**. Predictably so, an overwhelming proportion of the public believed that the low income class of Pakistan was paying too much tax while an equally large proportion of the public was of the opinion that Pakistan's high income class was comparatively paying too little in federal taxes.** To be more specific, the precise question put forward in this survey to the public was: "**As I read off some different groups, please tell me if you think they are paying their fair share in federal taxes, paying too much, or paying too little?"**

Disclaimer: The views and inferences expressed in the article are that of the author himself and Gallup Pakistan does not take any responsibility in this regard. Moreover, Gallup has taken utmost care in collection of data and in other processes.

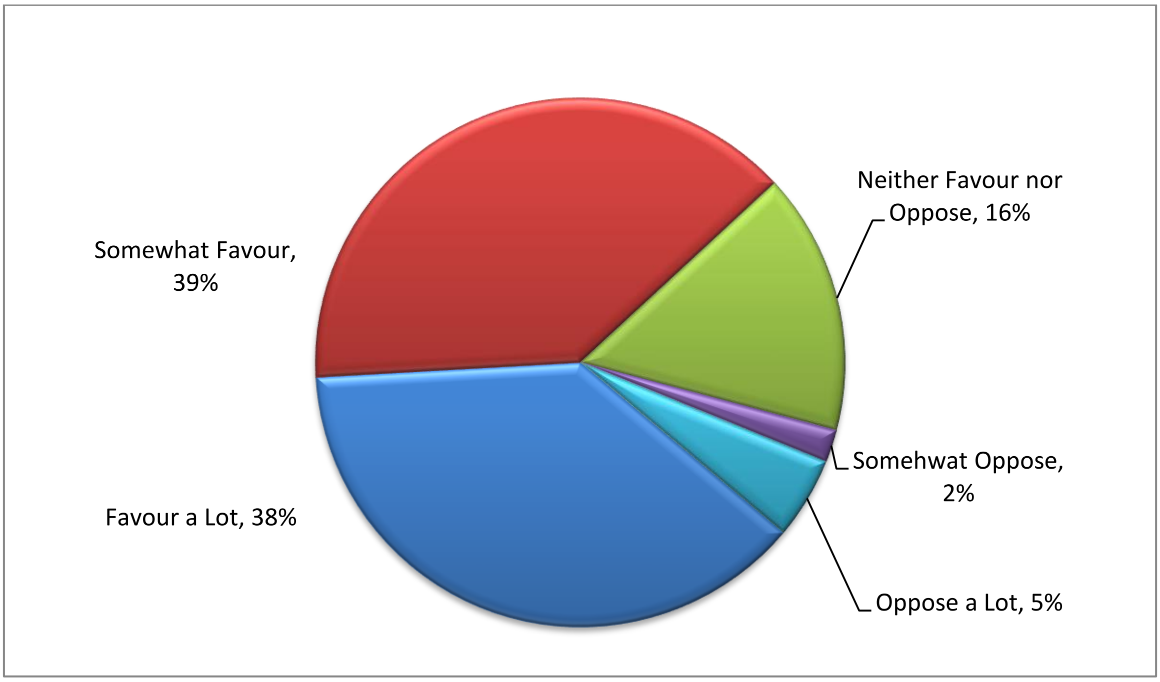
The findings of this survey have been presented in a bar chart to further clarify and compare the public view on taxes paid by the various income stratifications of Pakistan's society.



Source: Gallup Pakistan Nationally Representative Survey 2015

The results indicate that a dominant number of Pakistanis (49%) are of the view that it is only the middle class of the country that is paying their fair share of taxes. However, with regards to the upper and the lower income classes, views of the public are essentially negative**. A large proportion of Pakistan's public is in clear agreement with the notion that Pakistan's upper classes, particularly Pakistan's elite classes, are not paying federal taxes representative of their incomes.** Simply put, despite earning more, this segment of Pakistan's society is paying far less in taxes as compared to Pakistan's poor and middle classes. In contrast, majority opinion is of the view that Pakistan's poor are being over-taxed by the federal government. The perverse taxation structure existing in Pakistan, where an inverse relation exists between taxes paid and income earned, has successfully been empirically validated by this survey, conducted rather recently.

Before delving into the reasons behind this public opinion regarding Pakistan's taxation structure, it would be worthwhile to look at another survey of the Gilani Research Foundation and carried out by Gallup Pakistan in the month of March, 2015. In this survey, a nationally representative sample of 1574 men and women in rural and urban areas of all four provinces of the country, were asked the following question: **"Would you favor or oppose National Assembly passing a new law that would require households earning Rs.1 crore a year or more to pay a minimum of 30% of their income in taxes?"** A sum of Rs. 1 crore roughly equals US $96,000. Thus, in effect, earning anything above this yearly sum puts a person in Pakistan's upper-middle and elite class. Therefore, the results of this survey become even more revealing since they also provide a window into the overall Pakistani public's opinion regarding the adequacy of taxes already in place for Pakistan's upper-income classes. In response to this survey question, resounding 38 percent of respondents said that they would wholeheartedly be in favour of such a law whereas another significant proportion (39%) was partially in favour of this law. On the other hand, 16% of the public was neutral towards this law while a mere 2% stated that they would partially oppose this law. In comparison, just 5% of Pakistan's public was wholly against the application of such a law. A pie-chart of the survey results has been added to make the findings clearer.



Source: Gallup Pakistan Nationally Representative Survey 2015

The fact that a resounding majority (77%) of respondents was in favour of approving this law in Pakistan serves to highlight the growing discontent among Pakistanis regarding the Country's taxation system. The fact that a significant proportion of Pakistan's financially wealthy citizens are successfully able to evade tax or not give it altogether has not gone lost on the general public. As has been stated earlier, the knowledge that 61 percent of the Country's parliamentarians do not pay income tax reflects the extent of loopholes that exist within the taxation structure. This growing discontent among Pakistan's masses is a further indicator of the growing disconnect between the rich and the poor, which, at least in the public's view, shows no signs of abating. An equitable taxation system, implemented with sincerity and accountability will go a long way towards assuaging this widening gap.

CONCLUSION

To conclude, there is an imminent need of reforming Pakistan's regressive tax structure. There are a number of industries, particularly the agriculture industry that are not being effectively brought into the tax net. Furthermore, the government's seemingly negligible collection of income tax is another major problem that is causing the state to levy even greater indirect taxes, thus overburdening the poorer segments of the society. Taxes need to be centered on the level of income earned in order to ensure some measure of accountability and equity. Furthermore, tax exemptions awarded to individuals and businesses need to be brought under the microscope again and a uniform criteria needs to be applied to all cases of exemptions instead of them being arbitrarily handed out to people. More importantly, there needs to be a reformation of the Federal Board of Revenue so as to rid the institution of corruption and mismanagement. An efficient tax system is critical to sustained positive economic growth. Pakistan needs to implement tax reform and initiate a stable, fair and equitable tax policy whereby every taxable sector of the Country comes under the tax net. It is integral towards reducing the dependence of foreign aid and driving Pakistan towards self-sufficiency.