



Opinion Poll

Special Press Release

**FEDERAL BOARD OF REVENUE
TAX STATISTICS****(1st Release: Who pays the most income tax in Pakistan)**

Contrary to popular belief, only 15 % of the income tax collected in the year 2018 was paid by salaried individuals; formalized sector consisting of SECP registered firms paid more than half of all income tax: Gallup Pakistan Analysis on FBR Tax Directory

Islamabad, November 10, 2020

Federal Board of Revenue, for the past 3 to 4 years, has been releasing the details of all taxpayers of the country with respect to income tax filing. Gallup Pakistan Data Analytics Team is publishing this press release as a series of notes based on data analysis and commentary on this data release by FBR. The team at Gallup Pakistan is also working on using the 2.7 million data set as a Big Data exercise and creating a dashboard for the use of both policy makers and academics studying taxation related issues in Pakistan. This analysis is being undertaken under a team led by Bilal I Gilani, Executive Director of Gallup Pakistan.

This press release addresses the question **who pays the most income tax in Pakistan in terms of commercial status of the taxpayer.**

How many entities filed a tax return in the tax year ending 2018?

Analysis of the data reveals that there are 2.8 million tax filers in Pakistan. To give an idea of the magnitude in comparison with other similar numbers, there are almost 32 million households in Pakistan so approximately 10% households are paying income tax. In recent months, the government of Pakistan paid almost 13 million households Ehsaas Cash Transfer to safeguard these households from acute effects of COVID-19 lockdown and loss of livelihood. If we remove these 13 million from 32 million, then we have 19 million households that are not acutely poor (they may well be significantly below the minimum threshold for being a taxpayer). Looking at this base, approximately 20% of Pakistanis from the relevant base are already filing their returns.

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Who are the tax filers?

As can be expected from the 2.8 million tax filers, **the largest single chunk is non-salaried individuals** which essentially in local terms is the sole proprietor businessman or woman. There are about 1.5 million of these businesses in the tax net. Again, to provide comparison, in 2005, Economic Census ventured to count businesses in Pakistan and reported that there were around 3 million businesses in Pakistan (other than farming). Using simple population growth rate projections, the number may now be close to 5 million. If this is correct, less than half of the businesses are registered or filing a return.

The **second largest group is of salaried individuals**, of which there are 1.2 million in the tax directory.

The third and fourth largest group is of SECP registered firms (Ltd liability firms of various forms) and AOPs (or partnerships as they are called locally). These together account for another 100,000 tax filers. It is no surprise that formally registered firms with real corporate credentials make up a small portion of the total tax body in Pakistan.

Income Tax Returns Tax Year 2018				
Type	# of Filers	Filers (%)	Tax Collected (%)	Gap between Tax filers and proportion of tax PKR filled
Companies	44,609	1.56	55.84	+54%
AOPs	64,336	2.26	8.49	+6%
Non-Salaried Individuals	1,542,088	54.06	21.01	-33%
Salaried Individuals	1,201,316	42.12	14.66	-28%
Total	2,852,349	100	100	

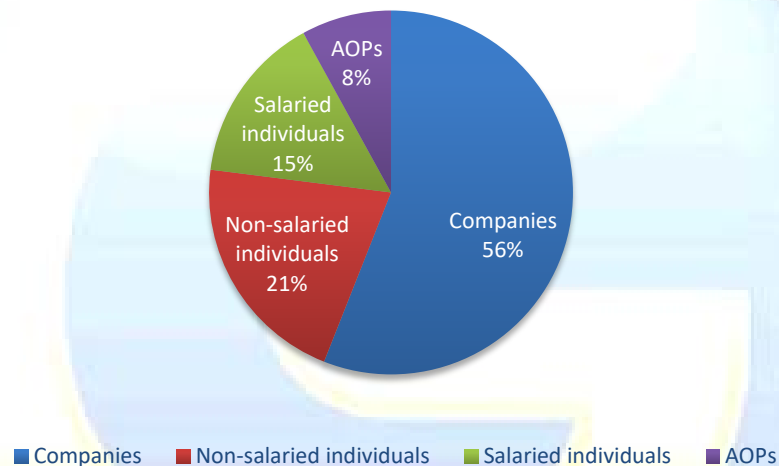
Source: Gallup Pakistan Report based on Data Analytics on FBR 2018 data

Who files how much tax in Pakistan: 3% tax filers paid almost 3 in 4 PKR of the income tax collected!

Contrary to popular belief, only 15% of the income tax collected in year 2018 was paid by salaried individuals; formalized sector consisting of SECP registered firms paid more than half (64%) of all income tax.

Companies and AOPs together represent only 3% of the total taxpayers but together paid 64% of the income tax collected.

Share of firms in tax collected in PKR in tax year 2018



Source: Gallup Pakistan Report based on Data Analytics on FBR 2018 data

These numbers present an interesting anatomy of tax structure in Pakistan and provides insights into how it can be improved in the future. It is obvious from the above landscape that corporatization in Pakistan in terms of registering formally with a centralized body such as SECP is only being done by larger revenue firms (who are in turn paying more taxes as well). In other words, one can also surmise that bringing more firms under the SECP registration umbrella may help in raising more direct income tax in Pakistan.

Moreover, the data busts the myth that is seldom repeated that income tax is majorly contributed by salaried class in Pakistan. This is true in terms of total numbers but not in terms of the tax this class contributes. The political economy of the salaried class has had serious implications for Pakistan and the tax contribution by the class has been one key figure for their disproportionate influence in national politics. Our current finding may help bring some reasonableness to the debate between the salaried class and the business class.

Lastly, the informal business which represents the largest segment of businesses in Pakistan is still largely outside the tax net and those within the tax net are able to avoid at least the income tax.



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Gilani Research Foundation is a not for profit public service project to provide social science research to students, academia, policy makers and concerned citizens in Pakistan and across the globe.

Gilani Research Foundation is headed by Dr. Ijaz Shafi Gilani who pioneered the field of opinion polling in Pakistan and established Gallup Pakistan in 1980. Currently Dr. Gilani, who holds a PhD from the Massachusetts Institute of Technology (MIT) and has taught at leading universities in Pakistan and abroad, is Chairman of Gallup Pakistan.

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