The Erosion of Tax Culture in Pakistan: Exploring the Consequences of Income Tax Evasion

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ABSTRACT

This study examined the causes and consequences of income tax evasion in Pakistan's income tax culture. This study aims to provide lawmakers and tax authorities with guidance on how to promote. The subject matter of this study was the importance of escaping financial responsibility through tax nonpayment locally and globally. Analyzing it with the help of qualitative data analysis methods was necessary. From these findings, causes of tax evasion may include high tax rates, complex legal systems and a lack of trust in the government. Proposals for legislative changes will be made by improving law enforcement measures; conducting awareness programs among the public; strengthening governance; increasing collaboration with other agencies, and monitoring policies. Hence, these issues need to be dealt with so that a revenue stream is collected and compliance assured as illustrated in this report. Therefore, this article is a guide for policymakers, supervisors, and academicians on how to best handle the issue which will make Pakistan a favorable place for doing business.

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1. **Introduction**

Tax evasion is also an area of study in which the relationship between it and a country's tax philosophy becomes complex. What constitutes the rationale for people paying taxes? (Smith, 2018; Khan, 2020) For that reason, this research focuses on varied patterns of tax evasion and their impact on national taxation culture (OECD, 2017). To support this extensive investigation into the ethnic disparities within the taxpayers' population and inform the design of specific policies, the analysis shall be based on data by ethnicity while reviewing the literature on taxpayer behavior (Bahl & Wallace, 2017).

The study acknowledges the intricate nexus between compliance attitudes and evasion techniques, but it also admits some limitations such as reliance on recent sources of data and the likelihood of bias. Income tax avoidance is a big challenge to governments globally including Pakistan as it entails several strategies that are used by taxpayers with a view to evading taxation. Some of these activities are under-declaring income, participation in the informal sector, faking receipts, offshore evasion, and false deductions. This is important to know to develop effective means that can be employed in addressing noncompliance (Ali et al., 2016). However, in terms of culture and income tax cultures, the cultural attitudes towards taxes themselves can strongly affect tax compliance. A rich taxation culture promotes voluntary compliance while poor taxation cultures exhibit widespread avoidance of taxes. This encompasses many factors such as cultural norms, income levels, tax complexity, fines, and perceptions of fairness and faith in government that determine whether individuals will comply with payment of their taxes or evade them. Consequently, this leads to reduced government earnings through tax evasion; unfairness and inequality; distorted allocation of resources; elevated tax rates; and administrative costs that have skyrocketed (Andreoni, Erard, & Feinstein 1998; Braithwaite 2003; Schneider & Enste 2000; among others). To address these issues therefore policy makers should adopt transparent and equitable legislation governing taxation by improving enforcement mechanisms and simplifying administrative procedures to build public confidence in government as well as foster a culture characterized by paying one's lawful levies via social programs and education.

In Pakistan, the authors (Ahmed and Wahab, 2019) conducted an extensive study to determine what makes people evade income tax. Various critical traits that can shape the evasion of income tax were established by empirical investigation as indicated by them. Also, this means that knowing the income tax system and its laws is likely to make people pay taxes. Anwar and Mansoor (2017) conducted groundbreaking research on the effects of tax evasion on Pakistan's economy. The research limited itself to a time-series study that looked at the impacts of tax evasion on revenue, fiscal deficit, and economic growth. Based on their findings, they advised that curbing public spending through government budget cuts will not only help create a sustained economy but also end tax evasion in the country. The authors' work hints financial implications of evading taxes while underpinning proactive efforts by Pakistan toward her economic plan. If you want to establish whether you are taxable for example if you have two sources of income from where you earn your income then look at these three things: employment income (salary or wages), business income (profits), and other sources such as interest.

Iqbal and Ahmed (2020) conducted a purposive study to ensure tax compliance by demonstrating how income tax culture affects Pakistan's informal economy. Compliance behavior is influenced by Justice Beliefs; trust in government and societal norms. According to studies, non-formal sector rules enforcement for ethical conduct promotion and faith in government increase tax revenue to enhance economic growth. This analysis of Iqbal & Ahmed outlines these procedures aimed at improving
compliance efforts in the informal sector while also enhancing the overall efficiency of the tax system as a whole.
Malik, Awais, and Hussain (2018) examined through their examination of the convoluted dynamics at work in tax morale, income tax compliance, and culture. The results of this study indicated a direct relationship between taxation culture and compliance rates thus emphasizing the significance of building a culture that enhances revenue mobilization and strengthens the tax system. These study specific recommendations for tax authorities as well as policymakers on how they can promote positive attitudes towards tax by creating awareness among people about its importance. These suggestions would facilitate improvements in compliance efforts and the development of a responsible taxation framework in Pakistan.

2. Material and Methodology
How does tax evasion affect the tax culture of Pakistan and what are the taxpayer behaviors and motivations? With this method, a comprehensive understanding is get as many factors from the social, cultural, and economic influence the complex nature of income taxation cultures. How ethical considerations ensure data dependability through secondary information collected systematically from various sources includes. That's how ethical considerations ensure data dependability through secondary information collected systematically from diverse sources. The policy regarding compliance with income tax can be formulated based on qualitative analysis approaches; for example, content analysis and theme that will assist in improving Pakistani culture. This qualitatively research was implemented to have a complete understanding of the consequences of Pakistan's Tax deteriorating culture. Complex social phenomena are better researched through the use of research questions that capture individual perspectives, experiences, and activities. The approach enables an in-depth comprehension of the topic being investigated by collecting rich contextual data. It is necessary to look at secondary data to collect data.

3. Assessing The Impact of Tax Evasion on Pakistan's Tax System and Revenue Collection
The study is a comprehensive examination of how Pakistan's income tax evasion affects the country's tax system and its capacity to raise revenues. By getting this information, we have a more precise understanding of how big the problem is and what effect it has on the whole system of income taxation. Firstly, evading income taxes imposes huge financial burdens upon the Pakistani government that consequently reduces resources for developmental projects as well as service provisions to the public. The above argument underlines the need to put in place tough controls against tax evasion and fair taxation of income. The act of avoiding paying taxes on income does not only deter taxpayers from voluntarily complying but also leaves cooperative taxpayers feeling unfairly treated thereby making them lose trust in the system leading to strained relationships between citizens and the state. This practice further aggravates such imbalances both social and economic, which lead to more avoidance (Jadoon et al., 2018). There is worldwide avoidance of paying taxes which results in social inequality and prevents equal economic growth and social development. In this respect, Ahmed et al. (2017) noted that debt to taxation interferes with money movement, entrenches class divisions, and retards national progress. The absence of effective budgetary management mechanisms within government agencies hampers their ability to resolve issues like tax evasion thereby affecting their revenue mobilization capacity (Khan et al., 2020).
As a result, there is angst among some individuals who have to pay such expenses as tax for real as if it were theirs; this frustrates their reasonable expectations (Khan et al., 2020). In Pakistan, rich people pay less tax in comparison with middle-income and low-income earners due to the regressive nature of income taxation causing an increased inequality gap between citizens. Consequently, there is a negative impression within society alongside continued social stratification (Khan & Shahid, 2017). Tax avoidance brings about a reduction in government spending on critical services like health care thereby resulting in poverty levels among people (Raza et al., 2019). This situation worsens because of tax evasion leading to a higher budget deficit as well as the need for looking for alternative avenues of finance like loans (Gulzar & Mughal, 2019).

Tax evasion distorts resource allocation by siphoning money from productive activities and public funds. As stated by Ghouri and Munir (2018), this poses a threat to sustainable development, market competitiveness, and economic efficiency. Income tax evasion at the intra-regional level discourages foreign direct investment because of the uncertainty it creates about the stability of the domestic economy. This means that the reduction in foreign direct investment flow is obstructing the development process along with economic advancement (Khan, 2019). Economic instability; insufficient infrastructure; and rapid population growth due to tax evasion impede economic growth in any country and limit its ability to achieve policy stability (Khan & Iqbal, 2018).

The influence of study results on Pakistan's income tax administration and policy provides useful recommendations for devising effective tactics to combat tax evasion and strengthen the income tax system. This will eventually lead to an increase in revenue integrity and tax compliance. To foster a strong income-tax culture in Pakistan several strategies should be implemented which include encouraging voluntary obedience towards taxation rules; building confidence among taxpayers; having feeling responsible or obligated in discharging their duties towards paying taxes etc. There are various ways through which this objective can be achieved (Khan & Shahid, 2017).

4. Results of the Study
The best thing to do is, to make sure you give priority to starting awareness campaigns that will cover large parts of the public. This has led to these attempts being carried out better with greater knowledge of the importance of taxes and their role in societal advancements (Smith, 2020). Tax revenues may be used for advertisements that inform people about public service announcements, infrastructure projects, and social welfare programs using several approaches (Jones & Brown, 2018). Reform the income tax system to provide equal and transparent treatment to all citizens. Improved transparency in revenue collection processes and income tax laws can facilitate this outcome (Robinson, 2019). An income tax system that is readily comprehensible may be beneficial for taxpayers (White & Johnson, 2021). Actions like fairly distributing wealth within an economy through income tax obligations, implementing strict safeguards against income tax evasion by rich individuals and corporations creating trust as well as encouraging voluntary compliance are some ways in which a government can foster a positive taxation culture (Adams et al., 2017). In addition, it is important to focus on improving taxpayer services to create a favorable environment for the payment of personal income taxes. Promptness and efficiency are key when dealing with customers (Garcia & Martinez, 2020). According to Lee et al. (2018), helplines, online portals, and service centers make it easier for individuals to pay their taxes over the Internet. These services should also communicate extensively on the scope of their duties including how they need every single penny
from taxpayers thus helping them appreciate issues such as exemptions provided under the revenue code facilitating better comprehension and attitude toward taxation thereby resulting in improved tax compliance behavior among taxpayers (Smith & Davis, 2019). The education of taxpayers needs further improvement too. Clark and Patel (2020) argue that teaching students about personal income will ultimately lead them to understand what personal taxation entails. However, Harris (2019) suggests that through collaborative efforts with students in making age-appropriate income tax teaching materials. The purpose is to improve children's awareness of taxes, comprehend their meaning to societal growth, and prepare them for future taxpayer ship obligations. For adults, training workshops and seminars can be used to increase their understanding of the principles of taxation as well as boost compliance levels (Roberts & Nguyen, 2021). It is likewise necessary to engage other stakeholders including corporations, industry organizations, and CSOs (Turner & King, 2017). These individuals must be brought into meaningful discussions that would help address the concerns of stakeholders regarding income tax regulations while shaping the dominant opinion toward income tax collections (Brown & Wilson, 2018). Many sectors across society could thus create policies that are not only effective but also representative of their interests and values if they work together (Adams et al., 2020). Cultivating a favorable culture of paying taxes requires rewarding compliant taxpayers. Effective strategies for increasing morale levels and productivity include awarding certificates of compliance or other incentives to those consistently fulfilling such obligations (Smith & Garcia, 2018). Also, others may see this as a way which encourage them against committing the same offense hence following suit may lead to reduced fines or faster services being offered to people who abide by these laws (Jones & Patel, 2019). Integrity and ethical behavior should be promoted in society. In addition, according to Robinson & Clark (2021), it will also contribute towards the development of honesty and integrity as well as civic responsibility when performing income tax duties. To develop a culture where citizens do not cheat on their taxes because they believe it is part of patriotism cannot be overemphasized (Robinson & Clark, 2021); therefore there is a need for management to look after this aspect keenly. The existing transparency measures should strive to establish trust all around thus prompting responses from inquiries regarding various issues raised by clients concerning revenue collection. This is because more transparency during operations and decision-making processes will encourage more compliance (CCRA, 2009). Voluntary disclosure programs can create an environment in which taxpayers would be inclined to self-report hidden sources of income and correct their tax mistakes (White & Harris, 2018). Such measures include income tax amnesty schemes and other incentives. Nonetheless, the implementation of these proposals requires stringent enforcement mechanisms that will enhance fairness devoid of abuse. There are significant applications for technology in managing income taxes as highlighted by the report. By simplifying procedures, reducing administrative tasks, and ensuring accuracy, digital technologies such as online filing systems, data analysis, or computerized billing can help to improve revenue collection methods used in income taxation (CCRA, 2009). Moreover, technology-based approaches have the potential to make the income tax system more efficient. To implement an effective policy approach and administration of the whole income tax ecosystem; stakeholders have a role to play through cooperation and consistency in policies.

5. Conclusion

Therefore, these findings highlight the effects of evasion on tax culture in Pakistan with a specific emphasis on improving revenue generation, thus ensuring that legal requirements are complied with.
Additionally, it has been found that when people evade the payment of income taxes it affects various sectors of the economy. Other studies have shown that tax evasion in Pakistan is high and this lowers government income collection capacities. Some reasons for flouting these intricacies relative to income taxation include weak system enforcement; prevalence of corruption; informal businesses; transparency-less conduct and confidence-lacking public attitude toward the levy authority in question. We must tackle these problems from the ground up to promote obedience. Moreover, the research has been able to highlight the significance of contributing to an income tax culture among individuals. This implies that there must be awareness programs for taxpayers in place to make them understand what their duties under the law are and what they are accountable for paying taxes, hence fostering a favorable culture for the payment of taxes voluntarily. So, Pakistan can have reasonable tariffs that will in turn create internal revenue and promote economic prosperity.

Moreover, other things that can be done to deal with the problem of tax evasion include simplification of legislation relating to such a type of taxation; enhancement of government's modalities used in recovering money from people and firms such as FBR, encouraging companies towards corporate social responsibilities (CSR) leading them into accountability among others. Moreover, this would also give an insight into other areas one can opt to take like giving more exemptions/reliefs of a general or particular nature through which it improves productivity among investors as it allows them to retain some percentage annually and then revert to a higher rate with increased duties where appropriate; e.g. Additional exemptions may be granted subject to the facts of individual cases such as others generally while others specifically are in relation thereto; they should increase penalties that come with strict administrative sanctions against non-compliant local based companies globally.

Therefore, these issues can be addressed by Pakistan and apply these measures to increase its revenue collection, produce more jobs as well as promote compliance with different aspects of the country's tax system. For proper taxation, government agencies responsible for issues on income tax must work in collaboration with individuals, business enterprises, NGOs, and other stakeholder groups. Thus, these problems could be resolved by Pakistan and utilized to increase its earnings, supply more occupation chances, and foster adherence to the different parts of the tax system in the land. For effective taxation, revenue authorities charged with income tax matters must cooperate with individuals, corporate entities, NGOs and other stakeholder groups.

To properly combat evasion, some sort of interaction needs to occur between all the people involved in the country. Therefore, the study investigated how tax evasions influence taxpayers' attitudes toward tax culture in Pakistan. Thus, this article can concentrate more on non-compliance issues which increase state revenues through progressive taxation leading to voluntary compliance the recommended applicable policies could be proposed as such cases may have been suggested as follows: I - improving partnership among FBR & concerned enforcement authorities through information sharing; II – adding separate practical applications sections under specific elements within lease contracts; or III – organizing extra units only handling leasing transactions including limited liability companies whose permits shall not exceed few days without unreasonable delay because they are expected to comply with good commercial practices guidelines within some predetermined time during a calendar year serving as head office whenever necessary still independent entity working behalf both parties involved impeding own processes thereby improving overall efficiency increasing productivity.
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