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Tax Amnesty Schemes in Pakistan and their Effect on Tax Collection and Economic Performance



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Abstract: Tax is a significant source of income for governments worldwide, and a strong taxation system has a long-term impact on a country's economic performance. However, people often do not report their exact earnings to avoid taxes, leading to a loss in tax collection and ultimately affecting government revenue. Business-friendly tax policies can attract new investors, improve the confidence of existing businesses, encourage reforms, increase tax collection, and help build industries and infrastructure. The central theme of this Paper is to examine introduction of tax amnesty schemes in Pakistan in the years 2018 and 2019 and their effects on tax collection and economic performance. The short-term effects of tax amnesty schemes in countries like Pakistan may appear favorable, but their long-term effects are less clear. These schemes are considered controversial and can have adverse impacts on the overall tax collection system and economic performance, as they may encourage tax evasion and whitening of black money. The issue under study is significant as it will highlight important policy issues relating to tax amnesty schemes in Pakistan. By examining tax amnesty schemes in Pakistan this study aims to conclude the benefits of tax amnesty schemes and their drawbacks. The findings of this research can guide the government in making informed decisions about tax policy and help improve tax collection and economic performance in the country. Case study method has been used for analysis of tax amnesty schemes introduced in Pakistan in the years 2018 and 2019 and their comparative analysis with earlier tax amnesty schemes. Tax amnesty schemes, based on their nature, tend to widen tax gaps and do not address structural inefficiencies. Pakistan's tax system is complicated and often discriminatory, leading to inadequate revenue generation. Consequently, Pakistan needs a series of reforms to improve its tax collection and enhance economic performance. Instead of relying solely on tax amnesty schemes, the government should focus on overhauling the Federal Board of Revenue (FBR), building confidence in tax institutions, automating tax systems, and introducing a system that incentivizes citizens to join the tax net. By implementing these policies, Pakistan can increase its tax revenue and improve its economic performance. Based on research work carried out policy recommendations have been given regarding tax collection and economic performance in view of amnesty schemes launched in Pakistan..

Keywords: Tax Amnesty, Economic Performance, Tax Collection

Introduction

Tax Amnesty Schemes

For any government, tax is a major source of income to run its day to day affairs. Governments around the world know the fact that sometimes people do not report exact amounts of their earnings in order to

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avoid tax and such non-reporting leads to loss in tax collection which ultimately affects revenue of the governments. A strong taxation system has long-term impact on economic performance of a country. Business friendly tax policies attracts new investors, improve confidence of existing businesses, encourages reforms, increases tax collection, helps in building of industries and infrastructure² However, due to non-documentation of whole economy, a country like Pakistan faces issues and problems in tax collection that ultimately affects economic performance. For addressing such issues and problems relating to tax collection and economic performance, tax amnesty schemes are introduced as a tool to increase tax collection and improve economic performance. The basic purpose of amnesty is to improve tax compliance. The tax amnesty is “a limited-time offer by the government to a specified group of taxpayers to pay a defined amount, in exchange for forgiveness of a tax liability (including interest and penalties), relating to a previous tax period (s), as well as freedom from legal prosecution”³ If people know that one tax amnesty scheme will be followed by another, then they will hardly be pushed towards compliance and this leads towards failure of tax amnesty schemes⁴ However, elites who do not pay due share of taxes in country like Pakistan get benefits of amnesty tax schemes as they know that government sooner or later will offer amnesty tax schemes with minimal consequences⁵ Successful tax amnesty schemes may help in reducing the unemployment rate and improving tax to GDP in a long-run when there is increased tax compliance⁶. In short-term, tax amnesty schemes remain supportive in collection of additional revenues that support in the times of recession or financial crisis when revenues are under pressure and expenditures are growing rapidly and in the medium-term, it is expected that through successful tax amnesty schemes, the tax base will be increased which will help in future revenue collection and in brining tax evaders into the tax net by improving tax compliance⁷ The revenue collected through tax amnesty schemes is utilized for the betterment of the state.

Overview of Tax Amnesty Schemes in Pakistan

In Pakistan, the tax amnesty schemes have remained under debate and their effectiveness regarding tax collection and economic performance has remained questionable. In Pakistan people consider higher taxes as burden though governments from time to time have also been introduced various tax amnesty schemes in order to improve revenues. However, increasing number of tax amnesty schemes has not given the desired results. Political uncertainty, lack of uniformity in the governance structure, and bureaucratic and corrupt systems also affect the optimal and potential tax revenue collection through amnesty schemes. Amnesty schemes alone are not enough to encourage people to pay taxes, and there must be tools and mechanisms through which people are discouraged from tax evasion. It is very clear that only launching of amnesty tax schemes again and again with certain intervals of time are not enough to get people into tax brackets. This suggests that tax amnesty schemes in Pakistan have not been very

² Prime Policy Report *Tax Amnesty Schemes: Helpful or Counterproductive*, from Prime Institute: <https://primeinstitute.org/wp-content/uploads/2021/05/TAX-AMNESTY-SCHEMES-HELPFUL-OR-COUNTERPRODUCTIVE-FEBRUARY-2017.pdf>

³ Baer, K., & Borgne, E. L. (2008). *Tax Amnesties: Theory, Trends, and Some Alternatives*. Washington, DC : International Monetary Fund .

⁴ Qayum, A., & Rehman, A. (2019, June 19). *Have amnesty schemes ever worked?* from The Express Tribune: <https://tribune.com.pk/story/1995277/amnesty-schemes-ever-worked>

⁵ Younus, U. (2019, May 15). Tax amnesty: Is PTI packaging gimmicks as economic reforms? from Dawn: <https://www.dawn.com/news/1482441>

⁶ Mujahid, A., & Siddiqui, D. A. (2019). The effect of tax amnesties programs on tax collection and economic performance: A global macro economic analysis. *International Journal of Social and Administrative Sciences* , 4 (2), 108-128

⁷ Baer, K., & Borgne, E. L. (2008). *Tax Amnesties: Theory, Trends, and Some Alternatives*. Washington, DC : International Monetary Fund

effective in increasing the tax base and revenue collection. In later part of this policy paper, tax amnesty schemes introduced in Pakistan will be discussed in detail under finding and analysis.

Reasons for Introduction of Tax Amnesty Schemes

The primary goals of tax amnesty schemes offered by the governments around the world include broadening the tax base, improving tax compliance, and generating additional revenue for the government with aim of improving economic performance. Tax amnesty schemes generally help governments to raise money during crisis because such schemes are considered the easiest way for improving revenues and these also provide quick and short-term solution to overcome tax compliance issues and generate revenue⁸. In short run, these tax amnesty schemes may have positive effects on the economy but in long run benefits to be driven from such schemes may not sustain due to political uncertainty and lack of structural reforms⁹. Tax amnesty schemes can be used as a tool to address tax evasion issues. Tax evaders are allowed through the schemes to disclose their income and assets in order to avoid crackdown upon them and these schemes in return provide opportunities to governments to bring people into tax net and collect taxes on previously undisclosed wealth.

Tax amnesty schemes are also used to encourage taxpayers to repatriate their undeclared foreign assets to the domestic economy and this can help to boost investment and economic growth. For example, the Indonesian government introduced a tax amnesty scheme in 2016 that resulted in over US\$100 billion in foreign assets being repatriated to the country. The 2016 tax amnesty program remained successful for Indonesia whereby Indonesian government was able to collect \$229 billion¹⁰. Tax amnesty schemes are also used for reduction of the stock of outstanding tax arrears that have accumulated over time and in this regard, in 2018 through tax amnesty scheme Pakistani government aimed to collect outstanding tax arrears of Rs. 1 trillion¹¹¹². In general, governments can use tax amnesty schemes as a useful tool for generation of additional revenue rapidly, increasing tax compliance, repatriation of flight capital, and reducing the stock of outstanding tax arrears. However, they should be used cautiously and carefully, as they also have a number of potential drawbacks too.

Benefits and Drawbacks of Tax Amnesty Schemes

In order to collect taxes through amnesty schemes, the central agency or department which collects tax reminds general public through various means including emails, advertisements, text messages etc to pay certain amount and in return, get relief on tax liability relating to previous tax years without facing any penalty or prosecution. Tax amnesty schemes are not new concepts for Pakistan or any country in the world. Such schemes are being offered by the governments to people to improve tax collection and bring

⁸ Mujahid, A., & Siddiqui, D. A. (2019). The effect of tax amnesties programs on tax collection and economic performance: A global macro economic analysis. *International Journal of Social and Administrative Sciences*, 4 (2), 108-128

⁹ Mujahid, A., & Siddiqui, D. A. (2019). The effect of tax amnesties programs on tax collection and economic performance: A global macro economic analysis. *International Journal of Social and Administrative Sciences*, 4 (2), 108-128

¹⁰ Ibrahim, M. A., Myrna, R., Irawati, I., & Kristiadi, J. B. (2017). A Systematic Literature Review on Tax Amnesty in 9 Asian countries. *International Journal of Economics and Financial Issues*, 7 (3), 220-225

¹¹ Ahmed, M. A. (2019). Pakistan: Economy under Elites – Tax Amnesty Schemes, 2018. *Asian Journal of Law and Economics*, 10 (2), 2019-0016

¹² Ahmed, H. N., Ammar, S., & Bukhari, H. (2019). Tax amnesty schemes of Pakistan: are amnesty schemes beneficial for country? Lahore: Centre for Business and Society, LUMS.

people into tax net through documentation. However, there are certain benefits and drawbacks of tax amnesty schemes for the governments and some of them are given below¹³

Benefits:

1. Tax amnesty schemes are rapid source of income for the governments.
2. Tax amnesty schemes are considered quick source for governments to fund projects.
3. Tax amnesty schemes help in recovering budget shortfalls.
4. Government can improve economic performance if its offered tax amnesty scheme is based on rationality and provides protection to people from prosecution.
5. For public, it is considered a good opportunity to bring their undocumented assets/income into documented economy through payment of certain amount and in return get relief on tax liability relating to previous tax years without facing any penalty or prosecution.

Drawbacks

1. Tax amnesty schemes are big demoralization and injustice to current honest tax payers.
2. Due to low rate in tax amnesty schemes in Pakistan, people are more inclined to such schemes rather than compliances.
3. Tax amnesty schemes are introduced at wrong point of time. For example tax amnesty scheme is introduced by the government who is going to complete its tenure. Such selection of time may not produce desired results. New government may start crackdown against persons who get benefit of such schemes.
4. Frequency of tax amnesty schemes in Pakistan is in higher side. People do not consider such schemes seriously and wait for other schemes.
5. Government considers such tax amnesty in order to achieve their revenue target which is bad performance indicator.
6. Big giant gets more benefits from such tax amnesty schemes than common man.
7. Pakistan does not have any follow up mechanism to ensure compliance from the people who become part of tax net.

Significance of the Issue

Tax amnesty schemes have mix impact on tax collection and economic performance. The effects of tax amnesty schemes in short-term may be favorable but effects in medium to long-term are less clear particularly in country like Pakistan. The introduction of tax amnesty schemes is considered as controversial tool and can have adverse impacts on overall tax collection system and economic performance as it may lead to tax evasion and whitening of black money. Thus, the issue under this Policy Paper is significant as it will highlight important policy issues relating to tax amnesty schemes in Pakistan. This study will try to fill gap in knowledge relating to tax amnesty schemes in Pakistan and provide valuable insights to policy makers. The findings of the study may help government to either design more effective tax amnesty schemes in future and to assess their potential impact on the country's economy or take some other effective measures for improving tax collection and economic performance.

Analysis and Findings

Analysis and findings are discussed as under:

¹³ Rehman, A. u. (2018, June 28). *TAX AMNESTY SCHEMES IN FBR – GOOD or BAD*. from <https://khilji.net.pk>: <https://khilji.net.pk/kco-blogs-phase-iii-2/>

Quarter-Wise Tax Collection by FBR from 2015 to 2022

The Federal Board of Revenue (FBR) has published quarter-wise tax collection of past several years. In this regard, quarter-wise tax collection made by FBR is given as under;

Table 1

Quarter	Total net collection of taxes (In Billion Rs)	Quarter	Total net collection of taxes (In Billion Rs)
Quarter-1, 2015-16	590.2	Quarter-1, 2019-20	959.1
Quarter-2, 2015-16	780.7	Quarter-2, 2019-20	1135.0
Quarter-3, 2015-16	718.1	Quarter-3, 2019-20	966.3
Quarter-4, 2015-16	1023.5	Quarter-4, 2019-20	937.0
Total 2015-16	3112.5	Total 2019-20	3997.4
Quarter-1, 2016-17	627.1	Quarter-1, 2020-21	1004.1
Quarter-2, 2016-17	845.2	Quarter-2, 2020-21	1200.0
Quarter-3, 2016-17	796.3	Quarter-3, 2020-21	1190.7
Quarter-4, 2016-17	1099.2	Quarter-4, 2020-21	1350.1
Total 2016-17	3367.9	Total 2020-21	4745.0
Quarter-1, 2017-18	765.0	Quarter-1, 2021-22	1396.4
Quarter-2, 2017-18	956.7	Quarter-2, 2021-22	1523.4
Quarter-3, 2017-18	906.2	Quarter-3, 2021-22	1455.8
Quarter-4, 2017-18	1215.9	Quarter-4, 2021-22	1772.9
Total 2017-18	3843.8		
Quarter-1, 2018-19	832.3		
Quarter-2, 2018-19	962.6		
Quarter-3, 2018-19	907.6		
Quarter-4, 2018-19	1126.1		
Total 2018-19	3828.5		

For knowing overall economic health of a country, Gross Domestic Product (GDP) is assumed a major indicator. Similarly, Tax-To-GDP ratio is supposedly used for a country's annual tax collection relative to country's GDP. When an economy performs well, it suggests that revenue collection through taxes have also been increased. In this perspective, brief detail of targets set by the FBR for tax collection, achievements made during last five fiscal years and growth made year wise is given as under.

Table 2

Tax Targets and Collection Profile (Rs. in Billion)

Year	Targets	Collection	%Growth	%Target Achieved	Tax-GDP Ratio (Base year 2015-16)
2017-18	3,935	3,844	14.1	97.7	9.8
2018-19	4,150	3,828	-0.4	92.2	8.7

2019-20	3,908	3,997	4.4	102.3	8.4
2020-21	4,691	4,745	18.7	101.2	8.5
2021-22	6,100	6,148	29.6	100.8	9.2
2022-23	7,640	7,144	19	93.5	8.5

From the above provided data, it appears that tax collection in some years may have been impacted by certain factors including unproductive expenditures, lower tax revenues, inefficient tax administration, rebate given, difficult business environment, and slowness of world economy due to the COVID-19 pandemic. The reduction in collection of direct taxes has also been attributed to the reduced rates on salary income announced in budget 2018-19 and the suspension of withholding. Apparently, impact of tax amnesty schemes appears in tax collection to the some extent but impact on economic performance is not clear. The challenge for Pakistan persists as the country struggles with the task of enhancing its tax system and increasing the tax-to-GDP ratio, which has historically been low.

Tax Gap Report, 2022

FBR has published the first Tax Gap Report 2022 which has estimated tax gap in tax revenue for the Federal taxes, i.e., Income Tax, Sales Tax and Customs Duty despite best efforts on part of FBR in tax collection, a considerable portion of tax revenue remains unpaid. FBR has excluded underground economy including agriculture sector, construction and services sector for estimation of tax gap. The summary of tax gap estimates calculated by the FBR is given as under:

1. Overall Tax Gap is Rs. 1,289 billion that is 26% of potential collectable tax under current regime
2. Sales Tax Gap is Rs. 519 billion that is 24% of potential collectable tax under current sales tax regime
3. Income Tax Gap is Rs. 730 billion that is 31% of the potential collectable tax under current income tax regime
4. Customs Duty Gap is Rs. 40 billion that is 11% of the potential collectable customs duty
5. Above provided data implies that a significant portion of tax revenue remains unpaid. This suggests weaknesses in tax system that has enforcement and compliance issues to recover potential collectable tax. Without proper tax collection system, economic performance will not be improved. Non-documentation is main factor that makes it difficult for FBR to improve its collection from identified potential collectable tax.

Tax Amnesty Schemes before 2018

In Pakistan, the first tax amnesty scheme was introduced in the regime of Ayub Khan in 1958 that brought approximately 71,000 declarations and 266,133 taxpayers entered into fold and paid about Rs. 12 billion; whereas during tax amnesty scheme introduced in 1997 an amount of Rs. 142 million only was collected¹⁴. Through the amnesty tax scheme launched in 2000 approximately 79,200 people filed declarations and an amount of Rs. 10 billion was brought into national exchequer (ibid). Similarly, in 2001, a tax amnesty scheme having name “Investment Tax on Income” by inserting section 120A into the Income Tax Ordinance, 2001 was launched whereby facility for whitening of un-taxed money and assets was offered just by paying meager amount of 2% and by such only Rs. 2.5 billion could be recovered

¹⁴ Shah, S. (2019, May 16). *Tax amnesty schemes in Pakistan and world over.* from The News: <https://www.thenews.com.pk/print/471825-tax-amnesty-schemes-in-pakistan-and-world-over>

(ibid). In 2012, the government led by Pakistan People's Party (PPP) offered Tax Investment Scheme to the investors of Stock Exchange whereby various concessions were given to tax evaders during May and June of 2012 in order to achieve the budget target of Rs. 1,952 billion but target was missed by over Rs. 70 billion (ibid). In 2013, a money-whitening scheme was announced by the government of Pakistan Muslim League-Nawaz (PMLN) which only dealt assets held within Pakistan and the said scheme was basically for owners who imported cars without paying taxes (ibid). The scheme introduced in 2016 just attracted 10,000 declarations with a collection of meager amount of Rs. 0.85 billion into national exchequer (ibid). In December, the National Assembly of Pakistan had approved a blanket tax amnesty scheme to whiten an estimated Rs. 7 billion black money invested in the real estate sector by paying just 3% (ibid). Analysis of earlier tax amnesty schemes indicates that those schemes have failed to improve tax revenue and tax compliance behavior. Additionally, by increasing the number of offered tax amnesty schemes, no assurance was observed that revenue and the number of people who avail the tax amnesty schemes would increase. This suggests that tax amnesty schemes have been launched for personal and political purposes more than the economic ones. Thus, the impact of tax amnesty schemes in Pakistan is not very clear in view of turmoil of economy. The debate on the effectiveness of tax amnesty schemes in Pakistan continues and there is a need for a comprehensive tax reform process to address the underlying issues in the tax system.

Tax Amnesty Schemes Announced in 2018

In 2018, the government of Pakistan announced two tax amnesty schemes for undisclosed foreign assets and voluntary declaration of domestic assets through ordinances which became acts namely the Voluntary Declaration of Domestic Assets Act, 2018 and the Foreign Assets (Declaration and Repatriation) Act, 2018 which were further amended through ordinances and closing dates for filing of declaration were extended on account of representations made by trade bodies, professional associations and general public¹⁵. The tax amnesty scheme applies to both liquid and immovable assets and tax rates range from 2% to 5%, depending on the type of asset and further special tax at the rate of 2% was also made applicable to liquid assets which are repatriated into Pakistan (ibid). The preamble of the Voluntary Declaration of Domestic Assets Act, 2018 says that there is a large scale non-reporting and under-reporting of assets held in Pakistan¹⁶This suggests that law makers knew about non-reporting or under-reporting of assets at a large scale in Pakistan. Thus, instead of making law for compelling people to report their assets, an amnesty tax schemes was launched through the said act. The salient features of the tax amnesty scheme made effective through the said act are given as under:

1. The said act applies to, undisclosed income and domestic assets held by individuals in Pakistan except assets held by public office holders and where proceedings are pending in any court of law in Pakistan.
2. The provision of the said act shall not apply to assets involving or deriving from the commission of a criminal offence.
3. Two percent (2%) tax rate for declaring foreign currency held in a foreign currency account in Pakistan as on the 31st March, 2018 and encashed in equivalent Rupees.
4. Two percent (2%) tax rate for declaring foreign currency held in a foreign currency account in Pakistan as on the 31st March, 2018 which is invested in Government securities up to 5 years in US

¹⁵ MOFA. (2018). *Tax Amnesty Scheme 2018*. from Ministry of Foreign Affairs, Pakistan: <https://mofa.gov.pk/tax-amnesty-scheme-2018-33/#:~:text=Amnesty%20scheme%20for%20foreign%20assets,which%20are%20repatriated%20into%20Pakistan>

¹⁶ Voluntary_Declaration_of_Domestic_Assets_Act. (2018). *pakistan Code*. from Ministry of Law & Justice: <https://pakistancode.gov.pk/pdf/files/administrator9d407344f007e842a53c70974c1f7952.pdf>

dollars denominated bonds with six-monthly profit payment in equivalent Rupees (rate of return 3%) and payable on maturity in equivalent Rupees.

5. Five percent (5%) tax rate for declaring other assets.
6. Particulars of any person making a declaration under the said act or any information received in any declaration made under the said act shall be confidential.
7. Another Act called the Foreign Assets (Declaration and Repatriation) Act, 2018 was also promulgated in Pakistan whose preamble says that there is a large scale non-reporting and under-reporting of assets and income held outside Pakistan and this act was actually tax amnesty scheme to get assets declared against paying certain amount for assets and income held outside Pakistan¹⁷. The salient features of the tax amnesty scheme made effective through the said act are given as under:
 8. The said act applies to, undisclosed income and domestic assets held by individuals outside Pakistan except assets held by public office holders and where proceedings are pending in any court of law.
 9. The provision of the said act shall not apply to assets involving or deriving from the commission of a criminal offence.
 10. Five percent (5%) tax rate for declaring liquid assets not repatriated into Pakistan.
 11. Three percent (3%) tax rate for declaring Immoveable assets outside Pakistan
 12. Two percent (2%) tax rate for declaring liquid assets repatriated and invested in Government securities up to 5 years in US dollars denominated bonds with six- monthly profit payment in equivalent Rupees (rate of return 3%) and payable on maturity in equivalent Rupees.
 13. Two percent (2%) tax rate for liquid rate repatriated.
 14. Particulars of any person making a declaration under the said act or any information received in any declaration made under the said act shall be confidential.

Through amnesty tax scheme by June, 2018, about 5,000 people had filed returns by declaring their foreign assets and deposited approximately an amount of Rs. 80 billion as tax into national exchequer¹⁸

Tax Amnesty Scheme, 2019

In 2019, the Assets Declaration Ordinance, 2019 was promulgated which became an act called the Assets Declaration Act, 2019. The said act says in its preamble that there is reportedly large-scale non-declaration of assets, sales and expenditure¹⁹ Definitions for undisclosed assets, undisclosed expenditure and undisclosed sales given in the said act are as under:

1. “Undisclosed assets” means all domestic and foreign assets of every kind the value of which has been unreported, under-reported or understated and includes Benami assets as defined in the Benami Transactions (Prohibition) Act, 2017.
2. “Undisclosed expenditure” means any unexplained or unaccounted expenditure under the provisions of the Income Tax Ordinance, 2001 up to the tax year 2018, which has not been declared in the return of income or for which a return of income has not been filed and such expenditure is not accounted for.
3. “Undisclosed sales” means sales or supplies chargeable to sales tax or goods or services subject to federal excise duty under the Sales Tax Act, 1990 or the Federal Excise Act, 2005, respectively, which were not declared or have been under-declared up to the 30th June, 2018.

¹⁷ Foreign_Assets_(Declaration_and_Repatriation)_Act. (2018). *Pakistan Code*. from Ministry of Law & Justice: <https://pakistancode.gov.pk/pdf/files/administrator816a08a6debbb94bac3056459a17dfc1.pdf>

¹⁸ Shah, S. (2019, May 16). *Tax amnesty schemes in Pakistan and world over*. from The News: <https://www.thenews.com.pk/print/471825-tax-amnesty-schemes-in-pakistan-and-world-over>

¹⁹ Assets_Declaration_Act. (2019).

4. The salient features of the tax amnesty scheme made effective through the said act are given as under:
5. Declaration of undisclosed assets held in Pakistan and abroad acquired including benami assets acquired or held on or before the date of declaration, undisclosed expenditure incurred, sales made up to the 30th June, 2018 may be made on or before the 30th June, 2019.
6. Benefits have been made available through the said act relating to any proceedings initiated or pending for assessment of income to undisclosed assets and expenditure under the Income Tax Ordinance, 2001 and proceedings initiated or pending to undisclosed sales or supplies under the Sales Tax Act, 1990, or the Federal Excise Act, 2005 except the matter that has attained finality.
7. The due date for payment of tax chargeable was 30th June, 2019.
8. Valuation of the assets will be as per the said act.
9. The tax in respect of foreign assets or foreign currency held in Pakistan shall be paid in foreign currency according to the procedure prescribed by the State Bank of Pakistan, in the mode and manner provided in the said act.
10. The said act shall not apply to public office holders and proceedings pending before the any court of law as well as to proceeds of assets involved or derived from the commission of a criminal offence.
11. The rates of tax imposed on undisclosed assets, sales and expenditure are as under:
 - a. 1.5% on domestic immovable properties
 - b. 2% on undisclosed sales
 - c. 4% undisclosed expenditure
 - d. 4% on all other assets
 - e. 6% on foreign liquid assets not repatriated
12. Rate of default surcharge payable after the 30th June, 2019 fixed from 10% to 40% in view of time on quarterly basis delay.
13. Particulars of any person making a declaration under the said act or any information received in any declaration made under the said act shall be confidential.

Effects of Tax amnesty Schemes Offered in 2018 and 2019

Tax amnesty schemes offered in Pakistan in the years 2018 and 2019 were aimed to address key issues in tax compliance and revenue generation by providing a window for taxpayers to disclose previously undisclosed assets and income. The said schemes somehow brought certain individuals into the tax system; however, the long-term effects on economic performance require further scrutiny. The tax amnesty scheme of 2019 was sequel of tax amnesty scheme of 2018 which covered all types of assets for whitening including real, liquid, domestic, foreign, whether repatriated or not (self-owned or benami), and sales, and expenditures made both in and outside the country²⁰ Under tax amnesty scheme of 2019, 125,349 declarations were filed which were more than double of the expected figure of 55,000. The tax amnesty scheme of 2018 yielded Rs. 121 billion of tax revenue and the tax amnesty scheme of 2019 gave 64.66 billion of tax revenue (ibid). During fiscal year of 2019, among other factors, adjustment of tax amnesty was also reason towards decrease in direct tax collection²¹.

It appears that due to very high rate of taxes in Pakistan, people consider tax as burden even after introduction of various taxes amnesty schemes; resultantly, continuation of the amnesty schemes have not improved tax revenue and tax compliance behavior as schemes were more inclined towards specific

²⁰ Ahmed, M. A. (2019). Pakistan: Economy under Elites – Tax Amnesty Schemes, 2018. *Asian Journal of Law and Economics*, 10 (2), 2019-0016

²¹ Finance_Division. (2019). *Pakistan Economic Survey*.

persons and political purposes than economic ones²² (Ahmed, Ammar, & Bukhari, 2019). The practice of launching tax amnesty schemes again and again has remained unsuitable as it on one side gave confidence to people to wait for another tax amnesty scheme for filing of their returns and disclosing of assets and on the other side it created the problems of moral hazards amongst the existing honest taxpayers because repeated tax amnesty schemes discourage them from paying their taxes on a regular basis and allow them to wait for amnesty schemes (ibid). Continuity of tax amnesty schemes in Pakistan has pushed it towards an irrepressible black economy, which undermines tax collection and hinders a robust anti-money laundering regime.

Tax amnesty schemes offered in the years 2018 and 2019 had a mixed impact on tax collection and economic performance. On the positive side, the schemes led to a significant increase in the number of taxpayers who declared their undisclosed assets and income. This resulted in a temporary boost in tax collection. Besides, the schemes contributed to a reduction in the size of the informal economy, as more individuals and businesses started to formalize their financial activities. However, the long-term impact of these tax amnesty schemes of 2018 and 2019 on tax collection and economic performance is less clear. While the schemes generated a short-term increase in tax revenues, the sustainability of this increase is uncertain. It is possible that some individuals and businesses took advantage of the tax amnesty to legalize their undisclosed assets and income, only to revert to their previous tax evasion practices once the scheme ended. Tax amnesty schemes of 2018 and 2019 may have had limited impact in terms of improving overall economic performance. The broader economic benefits of these schemes, such as promoting investment and economic growth, are less apparent. Additionally, the perception of unfairness among compliant taxpayers who regularly fulfill their tax obligations may have undermined the effectiveness of these schemes in the long run.

Policy Recommendations

Based on research work carried out in this Policy Paper, the following policy recommendations are given regarding tax collection and economic performance in view of amnesty schemes launched in Pakistan:

1. **Transparent tax policies:** Transparent tax policies should be made including streamlining tax codes and procedures for minimizing confusion and facilitating taxpayers through robust processes to meet their obligations. Such tax policies should be conveyed through an effective mechanism to the general public to foster comprehension and adherence.
2. **Structural Reforms:** The Government of Pakistan should focus on implementing structural policies that include governance and structural reforms and methodologies that can help people in discouragement of tax evasion. Only amnesty schemes are not enough to get people into tax brackets and improve tax collection and economic performance. This can be achieved by overhauling the FBR, building confidence in tax institutions, automating tax systems, and introducing a system that incentivizes citizens to join the tax net.
3. **Streamline of tax related processes:** Government should simplify all tax related processes through streamlining these for encouraging compliance.
4. **Lower Tax Rates:** Tax rates in Pakistan are very high, that discourage people from paying taxes even after availing amnesty schemes. Therefore, the Government of Pakistan should consider reducing tax rates to encourage people to voluntarily declare their assets and income and pay due taxes so that tax collection could be improved which in result will improve economic performance.

²² Ahmed, H. N., Ammar, S., & Bukhari, H. (2019). *Tax amnesty schemes of Pakistan: are amnesty schemes beneficial for country?* Lahore: Centre for Business and Society, LUMS

5. **Effective Implementation:** If Government of Pakistan intends to increase tax collection and economic performance through tax amnesty scheme, then it must ensure effective implementation of amnesty schemes.
6. **Use of Technology:** Reforms must be made through use of technology to identify and catch tax evaders after the expiry of time of amnesty tax scheme.
7. **Avoid Moral Hazard for honest tax payers:** Repeated tax amnesty schemes discourage honest taxpayers from paying taxes punctually and encourage them to wait for amnesty schemes so that assets can be declared at a lower rate. Therefore, the Government of Pakistan should avoid offering amnesty schemes too frequently to avoid moral hazard for honest tax payers.
8. **Evaluate the Impact through audit and review:** Government of Pakistan should conduct audit and evaluate the impact of tax amnesty schemes on tax collection and economic performance to determine their effectiveness. This includes comparing the results of tax amnesty schemes in Pakistan with those of other countries to conclude the benefits of tax amnesty schemes.
9. **Documentation of Economy:** Government should focus on documentation of economy. This will help in not introducing tax amnesty schemes.
10. **Anti-corruption measures:** Government should take appropriate measures for curbing menace of corruption by improving governance within tax administration. A corruption-free environment fosters trust in the tax system and reduces the need for amnesty schemes as a remedy for past non-compliance.
11. **Political Will:** Government should show strong political will and leadership for bringing tax reforms in the country.
12. **Incentives for compliance:** Government should introduce such policies whereby compliant taxpayers should be offered attractive incentives such as discounts, rebates, or priority services.
13. **International Cooperation:** Mutual Legal Agreements should be made with other countries for sharing of information and combating cross border tax evasion and avoidance.
14. **Adopt best international practices:** Government should adopt the best practices being applied internationally in tax administration and learn from successful strategies implemented elsewhere.
15. **Education and awareness:** Government should allocate resources for general public awareness campaigns aimed at educating citizens and businesses on the significance of fulfilling tax obligations and the repercussions of tax evasion. Government should offer readily available information on filing procedures, deadlines, and potential exemptions to enhance accessibility for taxpayers.

Conclusion

Tax amnesty schemes, based on their nature, widen tax gaps and do nothing to address structural inefficiencies. Tax amnesty schemes, which are often used as short-term solutions, are largely ineffective and unfair, and they encourage tax non-compliance and the growth of illegal activities and the undocumented economy. Pakistan's tax system is complicated and often discriminatory leading to inadequate revenue generation. Thus, Pakistan needs a series of reforms for improving its tax collection and bringing betterment in economic performance. Instead of relying on tax amnesty schemes, the government should focus on reforming the tax system of Pakistan. This can be achieved by overhauling the FBR, building confidence in tax institutions, automating tax systems, and introducing a system that incentivizes citizens to join the tax net. There is a need to take pragmatic steps to deal with tax evasion and increase tax revenues, which in turn will fund the construction and reconstruction of public goods and services, resulting in a more prosperous Pakistan.