

EDITORIALS [PRINT 2025-03-10](#)

Inequitable as well as unsustainable

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EDITORIAL: The latest tax collection data confirms the uncomfortable truth that Pakistan’s salaried class is shouldering an increasingly disproportionate burden in the government’s desperate bid to meet revenue targets, largely dictated by IMF conditions.

With a staggering 59.2 percent increase in withholding tax paid by salaried individuals in the first half of 2024-25, this segment has emerged as the biggest contributor to direct tax collection, even as vast swathes of the economy remain outside the tax net. This is not just inequitable — it is unsustainable.

The structural flaw in Pakistan’s tax system has long been evident. The salaried class, trapped within the formal economy, is taxed at source with no avenues for evasion. Meanwhile, powerful lobbies — traders, real estate tycoons, large agricultural landowners — continue to exploit loopholes, enjoying minimal tax obligations or outright exemptions. This selective enforcement of taxation not only fosters resentment

among compliant taxpayers but also undermines the state's capacity to generate stable revenues.

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The over-reliance on withholding taxes is yet another symptom of a flawed revenue strategy. While withholding tax serves as an easy collection mechanism, it disproportionately burdens those already within the system while doing little to bring untaxed sectors into compliance. This explains why Pakistan continues to have one of the lowest tax-to-GDP ratios in the region despite repeated IMF-backed reforms. Instead of meaningful broadening of the tax base, the authorities have resorted to squeezing existing taxpayers dry.

Beyond direct taxation, the reliance on indirect taxes is exacerbating economic hardship for ordinary citizens. Sales tax on essential goods such as electricity, cement, sugar, and motor vehicles has risen sharply, making necessities more expensive and fueling inflation. At the same time, revenue collection from major industries like cigarettes has actually declined, exposing the government's failure to enforce taxes on sectors with deep pockets and political influence.

A course correction is imperative. First and foremost, the government must finally muster the political will to enforce taxation on sectors that have remained untouchable for decades.

The retail and wholesale sectors, which constitute a significant portion of economic activity but contribute little in direct taxes, must be brought into the formal tax system through digitisation and enforcement.

Similarly, the real estate sector — often a haven for untaxed wealth — needs urgent reforms, including transparent valuation mechanisms and higher taxation on speculative investments.

The agricultural elite, long shielded by political influence, must also be made to contribute proportionally, particularly those with large landholdings generating significant revenue.

Tax reforms must also focus on reducing the distortionary impact of indirect taxation. While sales taxes are an important revenue source, their regressive nature means they disproportionately affect lower and middle-income groups. Instead of blanket sales tax hikes, the government should introduce targeted taxation on luxury consumption while reducing the burden on essential goods and services. Similarly, import duties need rationalisation to prevent arbitrary cost escalations that hurt domestic industry and consumers alike.

The IMF's revenue targets may be non-negotiable, but how those targets are met should be up for debate. A taxation system that continuously punishes salaried individuals while allowing others to escape is not just unjust, it is also self-defeating.

Expanding the tax net, enforcing existing laws equitably, and restructuring indirect taxation to protect lower-income groups are all necessary steps to ensure Pakistan's

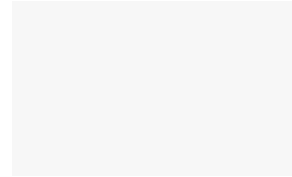
economic stability. The state must recognise that it cannot tax its way out of a fiscal crisis by overburdening those who already contribute the most.

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