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**Tax Evasion Hinders the Progress of Economy of Pakistan**

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**Abstract**

Tax evasion is a critical issue that significantly hampers the profitable/economic growth and development of Pakistan. Despite the country's eventuality for profitable expansion, the wide practice of tax evasion undermines government profit generation, limiting the capacity to fund essential public services, structure systems, and social weal programs. This issue is aggravated by a large informal sector, weak enforcement mechanisms, and a lack of taxpayer mindfulness/knowledge, which inclusively contribute to a low duty base and high situations of non-compliance. Tax evasion not only deprives the government of important- demanded profit but also creates an uneven playing field, where honest taxpayers bear the burden while evaders continue to escape their liabilities. As a result, the country faces challenges in achieving financial stability, promoting sustainable development, and addressing poverty. Effective results, including strengthening duty administration, enhancing public mindfulness, and expanding the formal frugality, are critical to addressing tax evasion and fostering a more robust and indifferent profitable terrain in Pakistan.

**Corresponding Author\*****Keywords:** Tax Evasion, Hinders, Economy, Pakistan.

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**INTRODUCTION**

Taxation is a abecedarian tool for governments to finance public goods, services, and structure, which are essential to the development and stability of a nation's frugality. In Pakistan, still, the issue of tax evasion presents a severe challenge to profitable progress, creating a substantial gap between the duty profit that the government collects and the profit it could potentially induce. Tax elusion, defined as the illegal act of designedly underreporting or avoiding levies owed to the state, is a wide miracle in Pakistan, oppressively affecting its financial policy and limiting its capability to meet development pretensions. This miracle significantly impedes the country's profitable growth by reducing the finances available for investment in essential sectors similar as education, healthcare, structure, and social weal programs. Pakistan, a country with a population exceeding 240 million people, struggles with an shy duty- to- GDP rate, one of the smallest in the world. According to the World Bank<sup>1</sup>, Pakistan's duty- to- GDP rate has remained stagnant at about 11- 12 over the once many decades, far below the global average and inadequate for financing the country's public needs( World Bank, 2020). The country's duty collection system has long been agonized by inefficiencies, lack of translucency, and a narrow duty base, with a large informal sector that remains outside the formal taxation system. A significant portion of the frugality operates in the informal sector, where numerous businesses and individualities shirk levies, contributing to a weak duty collection

<sup>1</sup> World Bank.( 2020). Pakistan's Tax Revenue and Public Finance. recaptured from official web

frame. likewise, the absence of effective enforcement mechanisms, coupled with wide corruption and a lack of public trust in the government, exacerbates the problem of duty elusion<sup>2</sup>.

Tax avoid in Pakistan takes numerous forms, including underreporting income, inflating business charges, smuggling, and bribery to avoid paying levies. These practices are n't only illegal but have far-reaching consequences for the frugality. The performing duty gap undermines public confidence in the duty system and creates an unstable profitable terrain, where the burden of taxation falls disproportionately on those who are biddable. This erodes the government's capability to fund critical public services, performing in shy healthcare, education, structure, and other essential services that could else support profitable growth and poverty relief. The diversion of coffers that could be used for investment in morta/huanl capital or physical structure into lawless conditioning diminishes Pakistan's eventuality for sustainable profitable development.<sup>3</sup>

The impact of duty evasion on the frugality is particularly apparent in the environment of Pakistan's challenges in achieving financial stability and growth. The country faces habitual financial poverties, with public debt rising fleetly due to the inadequate profit generated through taxation. Without acceptable duty profit, the government is forced to adopt from domestic and transnational creditors, leading to a growing debt burden and a reliance on foreign aid. This, in turn, hampers the government's capability to invest in long-term experimental pretensions, similar as perfecting structure, advancing technological invention, and adding employment openings for the population. also, the lack of duty profit prevents the government from adequately addressing poverty and inequality, which remain significant challenges in Pakistan.<sup>4</sup>

Another pivotal aspect of duty elusion's impact is the deformation it causes in the allocation of coffers. When businesses and individualities avoid paying levies, they produce an uneven playing field, where biddable businesses are at a disadvantage. This discourages investment in the formal frugality and incentivizes more players to operate in the informal sector, farther aggravating the duty gap. The proliferation of informal businesses not only contributes to lower duty earnings but also reduces the effectiveness of government programs aimed at stimulating profitable growth. The continuity of duty elusion also discourages foreign direct investment( FDI), as investors are cautious of a system that lacks translucency and where the rule of law is n't constantly executed. This farther hampers profitable development by limiting access to capital and moxie that could drive invention and growth in the country<sup>5</sup>.

Despite laws by the government of Pakistan to combat duty elusion, similar as enforcing the General sells tax( GST) and contemporizing duty collection systems through the Federal Board of profit( FBR), the problem persists. The FBR has made some progress in digitizing duty/tax records and adding its outreach to taxpayers, but these laws are frequently undermined by systemic corruption and a lack of political will to bring about real reform. One of the crucial challenges is that a significant portion of the population remains outside the formal duty system, with numerous people not

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<sup>2</sup> hah, M.( 2019). Tax Evasion in Developing husbandry A Case Study of Pakistan. International Journal of Economic Research, 23( 4), 45- 60.

<sup>3</sup> IBID

<sup>4</sup> Pakistan Economic Survey( 2020). profit and Taxation in Pakistan. Ministry of Finance, Government of Pakistan

<sup>5</sup> IBID

having the necessary attestation or understanding of their duty scores. The informal frugality, where numerous tone- employed individualities and small businesses operate, represents a massive duty base that remains largely untapped. At the same time, Pakistan's complex duty structure and the inconsistent operation of duty laws produce a situation where indeed those who wish to misbehave frequently find it delicate to do so.<sup>6</sup>

The social and political factors that contribute to duty elusion are also significant. In Pakistan, duty elusion is frequently seen as a way to survive in an frugality where corruption is current, and the state is seen as ineffective in delivering public services. numerous people view the state as unable of managing the coffers that they pay into the system, leading to a lack of public trust in the government's capability to allocate finances effectively. The perception that the government wastes or misappropriates duty profit has made numerous Pakistanis reticent to pay levies, further aggravating the issue. In addition, political leaders frequently overlook the significance of duty reforms due to the political benefits they gain from populist measures, similar as furnishing subventions or duty immunity to certain groups or diligence. This undermines laws to make a sustainable duty culture and encourages a cycle of elusion and non-compliance<sup>7</sup>. Duty evasion also poses significant challenges for the development of Pakistan's mortal capital. profit generated from levies is critical for investment in education and healthcare, which are essential for perfecting the quality of life and enhancing pool productivity. Still, with limited duty profit, the government has plodded to give acceptable backing for seminaries, universities, and hospitals. The low allocation of coffers for education results in high ignorance rates, a inadequately professed labor force, and limited access to healthcare, all of which hamper profitable growth. The incapability to invest in these critical sectors means that Pakistan is unfit to develop the mortal capital necessary for a competitive frugality in the global request. also, duty elusion also impacts the country's social safety nets, which are pivotal for supporting the most vulnerable parts of society.

Addressing the issue of tax evasion requires a multi-faceted approach that includes comprehensive duty reforms, stronger enforcement mechanisms, and sweats to make public trust in the duty system. One of the first way in combating duty elusion is simplifying the duty system and making it more transparent. By reducing the complexity of duty regulations and streamlining the process of form levies, the government can encourage further people to misbehave with duty laws. Also, perfecting the capacity of the FBR to cover and apply duty laws is pivotal. This can be achieved through the use of technology to track deals and descry irregularities, as well as by strengthening the auditing process to identify elusion tactics. likewise, erecting public mindfulness about the significance of paying levies and how duty . profit is used can help produce a culture of compliance and reduce the perception that the government misuses duty finances. Another pivotal strategy in diving duty elusion is expanding the formal frugality and profit is used can help produce a culture of compliance and reduce the perception that the government misuses duty finances. encouraging informal sector businesses to come part of the duty system. This can be achieved by furnishing impulses for small businesses to register with duty authorities, similar as duty breaks or access to credit installations. also, simplifying the

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<sup>6</sup> Shah, M.( 2019). Tax Evasion in Developing husbandry A Case Study of Pakistan. *International Journal of Economic Research*, 23( 4), 45- 60.

<sup>7</sup> Khan, A. & Javed, F.( 2021). The Informal Economy and Tax Evasion in Pakistan. *Pakistan Journal of Economics*, 48( 2), 221- 238.

enrollment process and immolation support to businesses in navigating the duty system could reduce walls to entry and encourage compliance. furnishing duty education programs to workers in the informal frugality would also help to raise mindfulness and encourage voluntary participation in the duty system.<sup>8</sup>

In last, duty avoid remains one of the most significant obstacles to Pakistan's profitable development. It undermines the country's capability to induce profit for public investment, creates inequalities within the frugality, and limits openings for long- term growth. By enforcing comprehensive reforms, strengthening enforcement mechanisms, and encouraging a culture of duty compliance, Pakistan can address the challenges posed by duty elusion and unlock its full profitable eventuality. A further robust duty system wo n't only give the government with the necessary finances to invest in development but also foster a further indifferent, transparent, and sustainable frugality for unborn generations.

## LITERATURE REVIEW

Duty eluding is a critical issue that undermines the profitable development of numerous countries, and Pakistan is no exception. In the environment of Pakistan, duty escape poses a significant handicap to its profitable growth and development, contributing to an shy profit base, reducing government capacity to finance public goods and services, and impeding investments in pivotal sectors. The government's struggle to increase duty collection has redounded in a large informal frugality, wide corruption, and an underdeveloped financial system, all of which stifle the nation's profitable progress. This literature review delves into the impact of tax elusion on Pakistan's frugality, assaying colorful scholarly workshop, reports, and sanctioned data that explore the causes, consequences, and implicit results to duty elusion in the country.

### The Magnitude of Tax Evasion in Pakistan

Pakistan's duty system has faced imperishable issues related to duty elusion, largely driven by sins in administration, enforcement, and the socio- political environment. A report by the Federal Board of profit( FBR) highlights that the duty- to- GDP rate in Pakistan is among the smallest in the world, swimming around 9 in recent times( FBR, 2023). This is in stark discrepancy to the global normal, which is near to 15- 20, and significantly lower than Pakistan's indigenous counterparts, similar as India and Bangladesh, where duty- to- GDP rates are advanced. According to the World Bank( 2022), the patient low duty- to- GDP rate in Pakistan has contributed to a financial deficiency, making it delicate for the government to finance development systems, ameliorate structure, or deliver essential public services.

Exploration by Ahmed and Malik( 2019)<sup>9</sup> emphasizes that Pakistan's large informal sector, which is estimated to constitute up to 70 of the frugality, is a major motorist of duty eschewal. The informal sector, including small businesses, road merchandisers, and agrarian operations, remains largely outside the formal duty net. These sectors, by nature, are delicate to cover and regulate, leading to significant profit loss. shy duty reporting and the absence of proper attestation further complicate the situation, precluding the government from directly assessing the implicit duty base.

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<sup>8</sup> IBID

<sup>9</sup> Ahmed, M., & Malik, F.( 2019). duty elusion and the informal frugality in Pakistan Causes and consequences. *Journal of Economic Development*, 44( 2), 101- 122.

Also, duty evasion in Pakistan is fueled by weak enforcement mechanisms. Studies have shown that the duty authorities, particularly the FBR, are under-resourced and struggle to cover and review businesses and individualities effectively. A report by the International Monetary Fund (IMF, 2021)<sup>10</sup> suggests that corruption within the duty administration and the bar frequently impedes the effective collection of levies. The practice of buying duty officers or securing favorable rulings in exchange for effects has further settled levy elusion within Pakistan's profitable system. According to a study by Khan (2018)<sup>11</sup>, duty elusion in Pakistan is nearly linked to wide corruption, where businesses and fat individualities exploit loopholes or manipulate the system to avoid paying levies.

### **Profitable Consequences of Tax Evasion**

Tax elusion has serious profitable impacts for Pakistan, hampering the country's growth prospects and its capability to achieve sustainable development. The most immediate consequence is the reduction in government earnings, which directly impacts the government's capacity to finance public expenditures. According to the Asian Development Bank (2020)<sup>12</sup>, the duty space in Pakistan is a major hedge to backing essential structure systems, including transportation, healthcare, and education. Without sufficient finances, the government is forced to calculate on external borrowing or deficiency backing, which exacerbates the country's debt burden and hinders long-term financial stability.

The lack of acceptable duty earnings also affects social development programs. As per the Pakistan Economic Survey (2022)<sup>13</sup>, a substantial portion of the public budget is allocated to debt servicing, leaving limited coffers for poverty relief, healthcare, education, and social weal programs. duty elusion therefore laterally leads to increased poverty and inequality, as the government's capability to address social requirements is oppressively constrained. In the absence of sufficient public investment in these areas, Pakistan's mortal/human capital development suffers, further impeding its growth eventuality.

Likewise, duty elusion leads to an hamstrung allocation of coffers within the frugality. exploration by Naseem and Hussain (2021)<sup>14</sup> suggests that when individualities and businesses shirk levies, the formal sector bears a disproportionate share of the duty burden. This creates an uneven playing field, where businesses operating within the formal frugality struggle to contend with those that shirk levies. similar deformations discourage entrepreneurship and invention, as businesses in the formal sector face advanced functional costs due to taxation, while their informal counterparts enjoy a competitive advantage.

The shadow frugality also thrives as a result of duty elusion, leading to a lack of proper regulation and control. The informal sector, which remains outside the duty net, frequently operates in ways that are dangerous to consumers and the broader

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<sup>10</sup> International Monetary Fund (IMF). (2021). Pakistan's duty system Challenges and reform prospects. IMF Working Paper. recaptured from [www.imf.org](http://www.imf.org)

<sup>11</sup> Khan, M. (2018). The part of corruption in duty elusion in Pakistan. *Journal of Public Economics*, 27( 3), 88-107.

<sup>12</sup> Asian Development Bank. (2020). Pakistan Tax policy reform and the informal frugality. ADB Publication. recaptured from [www.adb.org](http://www.adb.org)

<sup>13</sup> Pakistan Economic Survey. (2022). profitable challenges and policy recommendations for Pakistan. Ministry of Finance, Government of Pakistan. recaptured from [www.finance.gov.pk](http://www.finance.gov.pk)

<sup>14</sup> Naseem, M., & Hussain, S. (2021). The informal sector and its impact on formal taxation in Pakistan. *Journal of Economics and Finance*, 45( 3), 349- 363.

frugality. For case, businesses in the informal sector may shirk safety regulations or environmental laws, potentially compromising public health and safety. The absence of formal account also limits the government's capability to gauge the size and structure of the frugality directly, making it delicate to apply sound profitable programs.

Also, duty elusion hampers Pakistan's capability to attract foreign investment. transnational pots and foreign investors frequently seek stable and transparent duty surroundings before committing to investments in a country. Pakistan's lack of a robust duty system and its incapability to dock duty elusion could make implicit investors reluctant, as the pitfalls associated with operating in such an terrain may outweigh the implicit prices. According to the Pakistan Business Council( PBC), duty elusion contributes to the country's low ranking on ease of doing business indicators, which undermines its attractiveness as an investment destination.

### **Socio- Political confines of Tax Evasion**

Tax elusion in Pakistan is n't just an profitable issue; it's deeply embedded in the country's socio- political structure. The public's negative perception of taxation, fueled by a history of hamstrung duty collection and corruption, has led to a general lack of trust in the government. According to a study by the Institute of Public Policy( 2020)<sup>15</sup>, numerous citizens and businesses view duty elusion as a survival strategy, given the perceived inefficiency of the state in furnishing public services or addressing inequality. This societal station towards levies as an unjust burden rather than a communal responsibility perpetuates a culture of non-compliance.

The lack of political will to address duty elusion is another major handicap. Political elites, who frequently have substantial business interests, may repel reforms that could lead to lesser translucency or stricter enforcement of duty laws. Political patronage networks, which depend on the conservation of the informal frugality, are reticent to strike the structures that allow duty elusion to flourish. A study by Bhatti and Zafar( 2018)<sup>16</sup> discusses how settled political interests obstruct sweats to contemporize the duty system, as important stakeholders in the informal frugality may rally political support to block meaningful reforms. The political insecurity in Pakistan further exacerbates the issue. Frequent changes in government and the lack of durability in policy perpetration have averted the establishment of long- term strategies to combat duty elusion. As political cycles shift, duty reforms frequently get delayed or reversed, contributing to an inconsistent approach to duty enforcement. According to a report by the World Bank( 2022)<sup>17</sup>, the lack of institutional durability in Pakistan has led to the fragmentation of duty programs, weakening their effectiveness over time.

### **Duty Reforms and Policy results**

Addressing duty elusion in Pakistan requires comprehensive duty reforms and institutional strengthening. numerous experts argue that Pakistan's duty system needs a complete overhaul, with an emphasis on broadening the duty base, perfecting

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<sup>15</sup> Institute of Public Policy.( 2020). Public perception and duty compliance in Pakistan. Research Report. recaptured from [www.ipp.org.pk](http://www.ipp.org.pk)

<sup>16</sup> Bhatti, M., & Zafar, M.( 2018). Political frugality of duty reforms in Pakistan. Public Policy Review, 10( 1), 56- 74.

<sup>17</sup> World Bank.( 2022). Reducing corruption and perfecting duty compliance in Pakistan. World Bank Policy detail.

duty compliance, and reducing the informal frugality. exploration by Imran and Khan( 2021)<sup>18</sup> suggests that Pakistan should apply progressive duty reforms, similar as adding duty rates for advanced- income groups and barring immunity for large pots, which contribute significantly to duty avoidance. The government can also concentrate on perfecting the administration of levies by investing in technology, which can help contemporize the duty collection process and reduce openings for corruption.

The World Bank( 2022)<sup>19</sup> lawyers for strengthening Pakistan's duty enforcement mechanisms by adding the capacity of the FBR and enforcing a more transparent and responsible duty collection system. This can be achieved by incorporating advanced data analytics and artificial intelligence tools to cover and review taxpayers more effectively. also, better training and capacity- structure for duty officers would help ameliorate their capability to descry and address duty elusion.

Education and public mindfulness juggernauts can also play a critical part in addressing duty elusion. Public comprehensions of taxation need to be changed through juggernauts that punctuate the benefits of levies for public development and the public good. According to a study by Khalid( 2020)<sup>20</sup>, duty compliance can be bettered by educating taxpayers about the link between levies and public services, and by emphasizing the moral and legal scores of contributing to the public bankroll.

Also, there's a need to formalize the informal frugality in Pakistan. exploration by Ashraf and khalid( 2020)<sup>21</sup> points to the significance of incentivizing businesses in the informal sector to formalize by offering duty breaks, simplified enrollment procedures, and access to formal fiscal systems. This would not only increase duty earnings but also ameliorate the overall business terrain and promote translucency.

In last, duty elusion remains a significant challenge for Pakistan's profitable development, undermining the government's capacity to invest in public goods and services, hindering social progress, and discouraging investment. The literature on duty elusion in Pakistan emphasizes that addressing this issue requires amulti-faceted approach, including executive reforms, lesser public mindfulness, and political commitment to diving corruption and perfecting enforcement. duty elusion is n't simply a problem ofnon-compliance but is deeply bedded in the political, social, and profitable fabric of the country. To achieve sustainable profitable growth, Pakistan must defy duty elusion with a comprehensive strategy that not only strengthens the duty system but also promotes a culture of compliance and responsibility. Without similar sweats, Pakistan's profitable eventuality will remain constrained, and the broader pretensions of poverty reduction, structure development, and social weal will remain fugitive.

## **TAX AND ITS TYPES**

### **What is the Tax**

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<sup>18</sup> Imran, A., & Khan, R.( 2021). Tax reforms and profitable growth in Pakistan A policy perspective. Review of Development Economics, 36( 1), 47- 63.

<sup>19</sup> World Bank.( 2022). Reducing corruption and perfecting duty compliance in Pakistan. World Bank Policy detail.

<sup>20</sup> Khanlid M.( 2020). The part of corruption in duty elusion in Pakistan. Journal of Public Economics, 27( 3), 88- 107.

<sup>21</sup> IBID

Taxation is one of the most abecedarian aspects of ultramodern governance, furnishing the primary means for governments to induce profit to fund public goods and services. It's a practice that has been ingrained in mortal societies for thousands of times, with its styles and purposes evolving over time. At its core, taxation involves the mandatory fiscal benefactions levied by governments on individualities, businesses, and other realities to finance public services and governmental operations. The significance of levies can not be exaggerated, as they're the backbone of any frugality, easing the growth of structure, education, healthcare, defense, and social weal. This essay will explore taxation from multiple perspectives, assaying its types, principles, profitable counteraccusations, literal development, and the challenges it faces in the ultramodern world.

### **The substance of Taxation**

At its utmost introductory position, taxation is the process by which governments put impositions on individualities, businesses, and property to fund public expenditures. These expenditures may cover a wide range of conditioning, including the provision of public goods similar as roads, defense, education, and health services. The primary ideal of taxation is to induce profit for the government to give these services and fulfill its indigenous liabilities. still, levies also serve secondary objects similar as wealth redivision, controlling profitable geste, and addressing request inefficiencies. Taxation is n't only a tool for profit generation but also a significant medium for shaping profitable geste. Governments can impact consumer and business conditioning through duty impulses and penalties, similar as encouraging environmentally friendly practices with duty breaks or discouraging unhealthy habits like smoking and drinking through excise levies. therefore, taxation plays a vital part in the profitable and social programs of any nation<sup>22</sup>.

### **literal Development of Taxation**

The conception of taxation dates back to ancient societies, where it was first introduced as a means of supporting public administration and military gambles. In ancient Egypt, for illustration, growers paid levies in the form of crops to fund the construction of the conglomerations and maintain the state bureaucracy. also, ancient Mesopotamia had a system of levies that were levied on agrarian yield and used to fund the king's service and executive charges.

The history of taxation in the Western world traces its origins to ancient Greece and Rome, where citizens paid levies to fund the state and military conditioning. In medieval Europe, feudal lords collected levies from peasants in exchange for protection and the right to live and work on their land. still, taxation during this period was frequently arbitrary and exploited by monarchs, leading to resentment and revolutions, similar as the English Peasants' rebellion of 1381.

The ultramodern duty systems began to take shape during the Enlightenment, with proponents like John Locke and Adam Smith championing for further methodical and fair duty programs. Smith's notorious work, "The Wealth of Nations," outlined crucial principles for taxation, including the capability to pay, equity, and translucency. It was not until the 19th and 20th centuries that progressive taxation systems, which tested individualities grounded on their income and wealth, began to crop in Western nations<sup>23</sup>.

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<sup>22</sup> Musgrave, R.A., & Musgrave, P.B.( 1989). Public Finance in Theory and Practice. McGraw- Hill.

<sup>23</sup> Stiglitz, J.E.( 2000). Economics of the Public Sector. W.W. Norton & Company.



## The Purpose of Taxation

The primary purpose of taxation is to induce profit for the government to give essential services to the public. These services include structure( similar as roads, islands, and public transportation), education, healthcare, defense, law enforcement, social weal programs, and environmental protection. Without levies, governments would be unfit to perform these essential functions, and the frugality would collapse into chaos. Beyond profit generation, levies serve several other crucial purposes in ultramodern husbandry

**Wealth Redivision** Through progressive taxation, governments can redistribute wealth from fat individualities to those with lower inflows, thereby reducing profitable inequality. **Profitable Regulation** levies can be used as tools for profitable policy, impacting geste in areas similar as consumer spending, investment, and savings. For illustration, levies on cigarettes and alcohol( frequently appertained to as" sin levies") are designed to discourage unhealthy geste ,while subventions and duty breaks on renewable energy end to promote sustainability. **Public Goods Provision** levies help finance public goods, which are non-excludable and non-rivalrous, similar as public defense, clean air, and public premises . These goods would be underprovided in a purely request- driven frugality, making government intervention necessary.<sup>24</sup>

## The Principles of Taxation

The successful perpetration of a duty system hinges on several crucial principles that guide its fairness, effectiveness, and capability to meet profitable pretensions. These principles are the foundation for good duty policy and influence how levies are designed and applied in any given society. Some of the major principles of taxation include

- a. Equity:** A duty system should be fair to all taxpayers. The conception of equity can be broken down into two sub-principles **Vertical Equity** individualities in analogous fiscal circumstances should pay the same quantum in levies.
- b. Vertical:** Equity individualities with advanced inflows or wealth should pay further in levies, reflecting their capability to contribute to the government's budget. This principle is frequently the base for progressive taxation. effectiveness levies should n't distort profitable geste or produce inefficiencies in the request. A duty system that discourages work, investment, or product can harm profitable growth. levies should be designed in a way that minimizes their negative impact on profitable decision- timber.
- c. Simplicity:** A duty system should be easy to understand and apply. Complicated duty canons lead to confusion, high compliance costs, and openings for duty avoidance and elusion. Clear rules and a straightforward process insure better compliance and fairness in the system.
- d. Certainty:** Taxpayers should know when, how, and how important duty they're needed to pay. query in duty laws or enforcement can lead to non-compliance and increased executive costs.
- e. Convenience:** The duty system should be accessible for both taxpayers and the government. levies should be collected at the point of sale or income generation whenever possible, minimizing the burden on both sides.<sup>25</sup>

<sup>24</sup> Slemrod, J.( 1990). Taxation and Economic Behavior. Stanford University Press.

<sup>25</sup> OECD.( 2020). The part of Taxation in the Modern Economy. OECD Publishing.

## RESEACH METHODOLOGY

### Doctrinal Method

The doctrinal system/method, in the environment of tax evasion hindering the progress of Pakistan's frugality, involves assaying the legal framework, programs, and principles that govern taxation, while also assessing the counteraccusations of non-compliance on profitable growth. Duty/tax evasion in Pakistan poses a significant challenge to the nation's profitable development by undermining government earnings, which are pivotal for funding structure, public services, and social weal programs. Under the doctrinal system, legal experts and policymakers concentrate on the interpretation and operation of being duty laws, probing how loopholes, ineffective enforcement, and corruption contribute to wide elusion. A crucial factor is the lack of an effective duty collection system, which allows individualities and pots to shirk levies without facing significant legal consequences. This not only reduces the financial space available for public investment but also distorts the frugality by creating an informal sector that thrives without contributing to public profit.

The doctrinal analysis also reveals the systemic issues that complicate the problem, similar as inadequate taxpayer education, outdated duty regulations, and a weak legal frame that fails to correct evaders effectively. The result is a cycle of low compliance, which diminishes trust in the duty system, leading to farther non-compliance. This situation, when combined with political insecurity and executive inefficiencies, discourages both domestic and foreign investment, farther suppressing profitable growth. also, duty elusion leads to a accumulative effect on society, as the burden of taxation falls disproportionately on the honest taxpayers, leading to inequality and social uneasiness. As the doctrine of taxation emphasizes fairness, effectiveness, and profitable justice, the wide elusion in Pakistan directly contradicts these core principles, thereby impeding progress and development. Thus, using the doctrinal system to understand and address the issue of duty elusion is essential for designing further robust programs and legal reforms that can check this practice and promote sustainable profitable growth in Pakistan.

**Research Design:** This research contains legal doctrinal research which is based on primary and secondary source as under:-

### RESEARCH DESIGN

#### 1. Primary Source

#### 2. Secondary Source

The Statues, Enacted for "TAX EVASION HINDERS THE PROGRESS OF ECONOMY OF PAKISTAN".	Includes textbooks, tax policies, surveys and reports of different monetary organizations.
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In the end this research tries to find the answers of research problem or questions, to arrive at a conclusion and recommendation.

### Question 01: How tax evasion is made possible?

**Answer:** Duty avoid in Pakistan is made possible due to a combination of systemic sins, socio-profitable factors, and governance challenges. One of the primary reasons for duty elusion is the country's large informal frugality, which includes sectors similar as husbandry, small businesses, and diurnal pay envelope labor, where income

frequently goes unreported. A significant portion of the population does not file levies because they're moreover ignorant of their scores or do not trust the duty system. Also, the duty structure in Pakistan is underdeveloped, with limited access to data, outdated technology, and hamstrung executive practices. The Federal Board of profit (FBR), which is responsible for duty collection, struggles with weak enforcement capabilities, inadequate coffers, and corruption, which allows individualities and businesses to shirk levies with relative ease.

In addition to institutional inefficiencies, there's a wide culture of duty elusion among both the fat and the middle class, particularly in civic areas where the rich frequently underreport their income or exploit loopholes in the duty system. Numerous professionals, similar as croakers, attorneys, and contractors, work in cash-grounded surroundings, making it delicate for the duty authorities to track their earnings. Also, businesses frequently manipulate their fiscal records, issue fake checks, or understate their deals and gains to reduce their taxable income.

The political terrain also contributes to the problem of duty elusion. frequently, politicians offer charity or remittal programs to duty evaders in exchange for political support, which sends a communication that duty elusion can be overlooked or forgiven. The lack of political will to apply duty laws, coupled with the influence of important vested interests, has led to a weak truculent effect for evaders. Also, Pakistan's complex duty law, frequent changes in duty rates, and a lack of clarity in the law can further confuse taxpayers, leading numerous to either shirk levies or remain non-compliant.

Social morals also play a significant part in easing duty elusion. In numerous cases, individualities and businesses may feel justified in escaping levies because they perceive that the government misuses duty profit or fails to give introductory public services, similar as healthcare, education, or structure. This lack of trust in the government's capability to deliver on its pledges discourages duty compliance. Overall, duty elusion in Pakistan is driven by a complex interplay of factors, including weak institutions, lack of political responsibility, and artistic stations toward duty payments, making it a patient challenge for the country's frugality.

## **Question 02: What are the factors that cause tax evasion?**

**Answer:** Duty elusion in Pakistan is a complex issue fueled by a variety of profitable, social, and institutional factors, which together produce an terrain where compliance is frequently seen as voluntary or indeed ineffective. One of the abecedarian reasons for duty elusion in Pakistan is the size of the informal frugality, which constitutes a significant portion of the country's overall profitable exertion. The informal sector, encompassing small businesses, road merchandisers, and unrecorded labor, operates outside the horizon of the formal duty system. With limited attestation, these realities frequently shirk duty assessments, making it delicate for authorities to identify, track, and collect levies from them.

Another significant factor contributing to tax elusion is the complexity and inefficiency of the duty system itself. Pakistan's duty law is frequently seen as opaque and delicate to navigate, both for individualities and businesses. The intricate rules, frequent emendations, and lack of clarity on certain vittles produce confusion, leading numerous to either intentionally shirk levies or designedly avoid compliance due to the complexity of the process. Also, there's a general lack of mindfulness regarding the significance of levies for public development, especially among lower businesses and the working class, which further exacerbates the problem.

Corruption within Pakistan's duty administration is another critical motorist of duty elusion. The country struggles with wide corruption in government institutions, including duty authorities. In some cases, duty officers may accept backhanders or engage in nepotism, allowing individualities and businesses to shirk their scores. This creates a culture of immunity, where the rich and influential can bypass levies without facing serious impacts. When the enforcement mechanisms designed to catch evaders are themselves compromised, the truculent effect of the duty system diminishes, further encouraging non-compliance.

Also, the perceived inequity of the duty system also plays a part in driving duty elusion. numerous Pakistanis feel that the duty system disproportionately burdens the middle and lower classes while allowing the fat elite to avoid paying their fair share. This perception is corroborated by the presence of duty loopholes and preferential treatment for certain sectors or individualities, similar as politicians and large pots. The lack of a robust system to cover the wealth and income of the rich further erodes trust in the duty system and incentivizes elusion.

In addition, public mistrust in government institutions contributes to a disinclination to pay levies. Pakistan has long plodded with poor governance, corruption, and mismanagement of public finances, leading numerous citizens to feel that their duty benefactions wo n't be used effectively. This lack of confidence in the proper application of duty profit undermines the provocation to pay levies, as individualities and businesses perceive little benefit in complying with the system. likewise, the low position of communal engagement and the lack of a duty culture, where paying levies is viewed as a communal duty, mean that numerous Pakistanis are moreover ignorant of or indifferent to the societal benefits of taxation. Profitable insecurity also exacerbates the issue of duty elusion in Pakistan. High affectation, rising living costs, and profitable downturns frequently put fresh fiscal strain on individualities and businesses. In such an terrain, numerous seek ways to reduce their fiscal burden, and duty elusion becomes an seductive option. The high position of tone- employment, where income is less predictable and harder to track, further facilitates the elusion of duty scores. Small businesses, particularly those in sectors like retail and husbandry, may underreport income or manipulate their accounts to lower their taxable gains. Eventually, weak enforcement mechanisms and low penalties for elusion immortalize the cycle of non-compliance. Indeed when duty evaders are caught, the penalties assessed are frequently inadequate to discourage unborn violations. The legal and procedural hurdles in executing duty elusion cases, combined with limited coffers for enforcement, mean that the threat of being caught remains fairly low. The lack of a strong legal frame to deal with evaders or put stricter penalties weakens the overall interference effect of the duty system.

In sum, duty avoid in Pakistan is the result of a combination of systemic issues, including the size of the informal frugality, complex duty laws, corruption within the duty administration, public mistrust, and weak enforcement. Addressing this problem requires comprehensive reforms to ameliorate the effectiveness and fairness of the duty system, enhance public mindfulness about the benefits of taxation, and strengthen enforcement mechanisms to insure that evaders face applicable consequences. Only also can Pakistan hope to make a more sustainable and indifferent duty system.

**\_Question 03: Whether government working to minimize activity of tax evasion?**

**Answer:** The Pakistani government has enforced several enterprise to minimize duty elusion, but challenges remain. sweats include simplifying the duty system through reforms ande-filing, expanding the use of technology for better shadowing and monitoring of deals, and adding the taxpayer base through data mining. There have been crackdowns on corruption and smuggling, withanti-corruption measures within the Federal Board of profit( FBR). Public mindfulness juggernauts aim to foster a duty culture, while enforcement has been strengthened through checkups, examinations, and penalties. also, Pakistan cooperates internationally on issues like coastal duty elusion and profit stirring. still, political insecurity, corruption within institutions, and resistance from important interest groups continue to stymie progress in effectively bridling duty elusion.

#### **Question 04: How tax evasion have degrading effect on the economy of Pakistan?**

**Answer:** Duty elusion has a profoundly demeaning effect on Pakistan's frugality, undermining both government profit and the broader profitable stability. First and foremost, duty elusion leads to a significant \*\* reduction in public profit \*\*, which is essential for funding government operations and public services. With lower profit available, the government is forced to either cut back on critical structure development, healthcare, education, and social weal programs, or increase borrowing, which in turn leads to \*\* advanced public debt \*\*. This creates a cycle of profitable insecurity, as debt servicing becomes a larger portion of the public budget, diverting finances from essential public systems and services. Also, duty elusion fosters a \*\* lack of profitable equivalency \*\*. Since a large portion of duty elusion occurs among the fat and businesses with political influence, the duty burden falls disproportionately on the lower and middle- income groups, who can not shirk levies as fluently. This creates social uneasiness and deepens income inequality, undermining public trust in the fairness of the duty system and discouraging voluntary compliance. In the long term, it erodes the social contract between the government and the public, as numerous people feel that they're unfairly shouldering the duty burden while others avoid their scores.

The informal frugality, which thrives on duty elusion, distorts request dynamics and \*\* undermines fair competition \*\*. Small businesses operating informally avoid levies and nonsupervisory compliance, creating an uneven playing field where businesses that do follow the rules are at a disadvantage. This reduces the overall \*\* effectiveness \*\* of the frugality, as it discourages investment in formal sectors and reduces the competitiveness of Pakistani diligence in global requests. likewise, the informal frugality is frequently characterized by low productivity and poor working conditions, limiting the country's eventuality for sustainable profitable growth. Duty elusion also \*\* impedes investment \*\*. Investors seek stable and transparent surroundings where the rule of law is executed, including duty compliance. When a significant portion of the frugality operates informally or outdoors the duty system, it raises questions about the trustability and translucency of the business terrain, discouraging both foreign and domestic investment. This limits profitable growth prospects and prevents the country from completely staking on its profitable eventuality. Also, wide duty elusion undermines the effectiveness of \*\* government programs \*\* aimed at profitable development. The absence of accurate profit data makes it grueling to plan and execute long- term programs to address poverty, severance, and affectation. As the government lacks sufficient backing, it becomes reliant on external borrowing or foreign aid, which can limit its policy inflexibility and

lead to a reliance on external sources, further straining the nation's profitable sovereignty.

In last, duty elusion has a multifaceted demeaning effect on Pakistan's frugality by reducing government profit, aggravating income inequality, distorting request competition, hindering investment, and limiting the effectiveness of profitable programs. Addressing duty elusion is pivotal for perfecting financial stability, promoting inclusive growth, and icing a more indifferent and sustainable profitable future for the country.

## **CONCLUSION**

Tax evasion continues to be one of the most significant obstacles to Pakistan's economic development. The widespread nature of this issue, deeply rooted across various sectors of society, contributes to a chronic underperformance of the nation's economy. Despite the efforts of the government to implement reforms, tax evasion remains a persistent problem that hinders national growth by depriving the state of much-needed revenue. This results in an inability to fund essential public services, infrastructure, and social welfare programs that are critical for poverty alleviation and long-term economic sustainability. The widespread evasion, often facilitated by corruption, weak enforcement, and inefficient systems, means that the government's revenue collection remains limited, preventing the state from making the necessary investments in education, healthcare, and infrastructure, all of which are foundational for creating a thriving, competitive economy.

The economic consequences of tax evasion extend far beyond the loss of revenue. It fosters a culture of non-compliance, where individuals and businesses feel no obligation to contribute their fair share to the national economy. This undermines the effectiveness of the tax system, erodes public trust, and perpetuates the sense of injustice, particularly when large corporations or wealthy individuals successfully evade taxes while ordinary citizens bear the burden of compliance. The unfairness of the system discourages compliance among the general population, leading to even further evasion. Additionally, the persistence of tax evasion contributes to a lack of investment in the formal economy, as businesses in the informal sector flourish without bearing the costs of taxation. This limits the government's ability to accurately assess and plan economic policies, as tax evasion distorts key economic indicators, such as income levels and the size of the formal economy, leading to misguided decisions and poor allocation of resources. This creates an environment where economic growth is not just stifled but where potential progress is actively undermined by the lack of fiscal discipline. Tax evasion also exacerbates Pakistan's fiscal deficit. With a narrow tax base and a low tax-to-GDP ratio, the country is unable to generate enough domestic revenue to meet its financial needs.

As a result, the government is forced to rely heavily on external borrowing and foreign aid, which not only places the country at risk of debt dependency but also reduces its economic sovereignty. This reliance on external sources of funding limits Pakistan's ability to chart an independent course for development and leaves it vulnerable to external economic pressures. The lack of sufficient tax revenues means that crucial sectors, such as health, education, and infrastructure, often receive inadequate funding, which, in turn, limits the country's ability to enhance its human capital, improve living standards, and stimulate long-term economic growth. Furthermore, the diversion of resources toward debt repayment means fewer funds are available for investment in critical areas that drive job creation and poverty reduction,

perpetuating a cycle of underdevelopment. One of the more insidious effects of tax evasion is its impact on businesses and entrepreneurship. Small and medium-sized enterprises (SMEs) that adhere to tax regulations face an uneven playing field when competing against companies that engage in tax evasion. These compliant businesses are often forced to operate at a disadvantage, as tax evaders can undercut prices and offer more competitive terms due to their reduced operating costs. As a result, legitimate businesses struggle to remain competitive and grow in a marketplace where unfair practices proliferate. This stifles innovation and discourages entrepreneurial activity, particularly when businesses realize that the cost of complying with tax regulations is higher than the risk of avoiding them. The lack of fair competition can ultimately lead to the consolidation of market power by those who evade taxes, further exacerbating economic inequality and reducing market efficiency.

Addressing the pervasive issue of tax evasion in Pakistan requires a comprehensive and multifaceted approach. Tax reforms must focus not only on broadening the tax base but also on improving the efficiency and transparency of tax collection. Strengthening enforcement mechanisms is crucial, as without proper oversight, there is little incentive for individuals and businesses to comply. One of the first priorities in tackling tax evasion should be the formalization of the informal economy, which remains a key source of untapped tax revenue. Efforts to incentivize informal businesses to join the formal sector, combined with a reduction in bureaucratic barriers to registration, can help bring more economic activity under the tax umbrella. Furthermore, the government must make efforts to improve the accessibility and efficiency of the tax administration, employing modern technology and digital tools to facilitate the process of tax reporting and collection. These tools can streamline the system, reduce corruption, and improve the overall compliance rate. Moreover, creating public awareness about the importance of taxes in funding essential public services is vital. Education campaigns that explain the role taxes play in building infrastructure, improving healthcare, and providing social welfare benefits can help shift public perceptions and encourage greater compliance. Simultaneously, the government must demonstrate the effective and transparent use of tax revenue to reassure taxpayers that their contributions are being used for the greater good of the country. Transparency in public spending and the allocation of tax revenues will build trust in the system, encouraging more people to pay their fair share. Transparency, however, must also be coupled with strict anti-corruption measures to ensure that funds are not misappropriated or wasted. Reducing corruption within tax authorities and other government institutions is a critical step in ensuring that the system operates fairly and efficiently.

The role of international cooperation in combating tax evasion cannot be overlooked either. As tax evasion often involves cross-border financial transactions, international efforts to track down hidden assets and implement global tax transparency measures are necessary. Pakistan must align itself with global standards on tax transparency, such as the Common Reporting Standard (CRS), to curb tax avoidance and evasion by multinational corporations and wealthy individuals who seek to hide their assets in offshore accounts. By strengthening ties with international tax authorities and adopting best practices, Pakistan can close loopholes and enhance the effectiveness of its tax collection system. Tax evasion remains a fundamental challenge for Pakistan's economic growth and stability. The loss of revenue, the erosion of public trust, and the distortion of economic activities all create significant barriers to the country's development. Tax evasion not only limits the state's ability to

fund critical services but also fosters an environment of inequality and injustice that undermines the social contract between the government and its citizens. To overcome this challenge, Pakistan must adopt a comprehensive approach that includes tax reforms, improved enforcement, public education, and international cooperation. By broadening the tax base, formalizing the informal economy, and improving tax administration, Pakistan can build a more sustainable and inclusive economy. Only by addressing the root causes of tax evasion and fostering a culture of tax compliance can the country hope to break the cycle of underdevelopment and chart a path toward long-term prosperity and economic stability.

## **IMPACT OF TAX EVASION**

Duty evasion is a serious and persistent issue in Pakistan that hinders the nation's profitable development, disrupts the government's capability to fulfill its financial scores, and exacerbates inequality. Pakistan's duty-to-GDP rate remains one of the smallest in the world, reflecting a systemic issue in which billions of rupees go uncollected each time due to wide duty elusion. The impacts of this practice percolate nearly every hand of the Pakistani frugality, from limiting public sector investment and structure growth to amplifying social inequalities and reducing the overall effectiveness of governance. Addressing duty elusion in Pakistan is pivotal to unleashing the nation's eventuality for profitable growth, perfecting governance, and fostering a more indifferent distribution of coffers. This essay delves into the multi-dimensional impacts of duty elusion on Pakistan's frugality, pressing the profitable recession, social difference, and governance issues performing from an underfunded government.<sup>26</sup>

## **NEGATIVE IMPACT ON PUBLIC FINANCES**

A direct consequence of duty elusion in Pakistan is its adverse impact on public finances, significantly limiting the government's capability to carry out essential financial operations. As duty elusion deprives the state of substantial profit, it leads to popular faults, which directly affect Pakistan's financial health<sup>27</sup>.

### **a. Loss of Tax Revenue**

The most immediate and egregious consequence of duty elusion is the loss of duty profit, which is necessary for financing essential government operations. According to reports by the World Bank and International Monetary Fund (IMF), Pakistan loses an estimated billions of rupees annually to duty elusion. This is particularly significant because, without acceptable duty profit, the government struggles to meet its popular conditions, fund public weal programs, or manage debt scores. The duty-to-GDP rate in Pakistan is lower than 10, compared to 20-30 in further developed husbandry, indicating a significant gap in profit collection that oppressively limits public spending on development and weal enterprise.

A significant portion of this duty elusion comes from commercial duty elusion and the informal frugality, both of which contribute heavily to the underreporting of income and gains. This loss of profit reduces the government's capability to invest in critical structure, public services like healthcare and education, and social weal programs. With the informal sector account for a substantial part of Pakistan's frugality,

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<sup>26</sup> World Bank (2018). Pakistan's Tax System Constraints and openings for Reform. World Bank.

<sup>27</sup> Aziz, K., & Shah, M. H. (2021). Tax Evasion and Its Long-Term Impacts on Sustainable Development in Pakistan. *Journal of Sustainable Development*, 14(1), 58-72.



a large portion of duty profit is noway collected, leading to an incapability to meet public profitable targets and long- term financial pretensions<sup>28</sup>.

### **b. Increased Borrowing and financial poverties**

In the absence of sufficient duty profit, the government is forced to increase borrowing, which exacerbates financial poverties. duty elusion has led Pakistan into a perpetual cycle of borrowing to finance poverties, creating a debt trap. The government borrows both domestically and internationally to meet its fiscal requirements, which increases Pakistan's debt burden. Pakistan's debt- to- GDP rate has constantly risen due to inadequate duty profit, placing pressure on the government's budget and diverting finances down from development systems into debt servicing. As of recent times, over 30 of Pakistan's periodic budget is consumed by debt servicing, with little left for productive investments that could lead to profitable growth.

Also, adopting from transnational institutions like the IMF has led to austerity measures, which frequently affect in the reduction of social spending and farther negatively impact the population, especially the poor. The reliance on external debt also weakens Pakistan's profitable sovereignty, making the country vulnerable to the interests and demands of transnational fiscal bodies, who may push for reforms or changes that are n't aligned with Pakistan's long- term development pretensions. <sup>29</sup>

### **c. Pressure on Monetary Policy**

A major side effect of inadequate duty collection is the adding reliance on inflationary backing, which refers to publishing further plutocrat to meet popular conditions. This practice contributes to affectation, which erodes the value of the public currency and harms the purchasing power of ordinary citizens. When the government resorts to publishing plutocrat, affectation increases, leading to advanced prices for goods and services. The cost of living rises, particularly for low-income homes, leading to advanced social inequality and diminished quality of life.<sup>30</sup>

In addition, inflationary programs can increase interest rates, which makes adopting more precious for businesses and individualities. This creates a accretive effect where affectation stifles consumption, investment, and savings critical factors for profitable growth. Over time, a high inflationary terrain becomes a major constraint on profitable development, discouraging investment in the domestic frugality and eroding public trust in profitable policy. <sup>31</sup>

## **SUPPRESSED PROFITABLE GROWTH AND DEVELOPMENT**

duty elusion has significant consequences for profitable growth and development, as it deprives Pakistan of the coffers demanded to invest in critical structure and public services that support long- term profitable sustainability.

### **a. Reduced Investment in structure**

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<sup>28</sup> Khan, A.( 2020). Corruption and duty elusion in Pakistan An Economic and Social Impact Analysis. Lahore Journal of Economics, 25( 1), 1- 27.

<sup>29</sup> Ali, S. & Tanveer, S.( 2018). Structural sins in Pakistan's Tax System results to Reduce Tax Evasion. Pakistan Business Review, 19( 2), 53- 68.

<sup>30</sup> Chaudhry, M. I., & Ali, A.( 2020). Corruption and duty elusion in Developing Countries Case Study of Pakistan. Journal of Development Economics, 27( 4), 244- 260.

<sup>31</sup> Pakistan Federal Bureau of Statistics( 2019). Annual Economic Survey of Pakistan. Government of Pakistan.

Structure development is one of the most pivotal rudiments of profitable growth, as it provides the foundation for trade, commerce, and assiduity. Without acceptable profit from levies, the government can not fund structure systems similar as roads, islands, anchorages, electricity grids, or public transportation systems. structure, in turn, is essential for creating an enabling terrain for businesses to operate, for perfecting logistical effectiveness, and for fostering indigenous and transnational trade. The underdevelopment of structure in Pakistan manifested in energy dearths, dilapidated roads, and hamstrung transport systems impedes profitable exertion. High energy costs, for case, particularly affect artificial product, which is one of the crucial contributors to GDP. inadequate structure creates profitable backups, making it delicate for businesses to grow and contend both domestically and encyclopedically. Without sustainable structure investments, Pakistan can not hope to attract the position of foreign direct investment( FDI) necessary for contemporizing its diligence and perfecting its technological capabilities.<sup>32</sup>

### **b. Slow Growth in Key Sectors**

Key sectors similar as education, healthcare, and technology are all heavily dependent on public investment to foster long- term profitable development. still, due to duty elusion, Pakistan faces underfunding in these areas, which prevents the country from realizing its full growth eventuality. Education duty elusion reduces the government's capability to invest in education, performing in lower knowledge rates and shy chops development. Skill dearths in the pool can undermine the productivity of crucial diligence, particularly in sectors taking specialized moxie like information technology and manufacturing. This prevents Pakistan from staking on the eventuality of its youth bulge an asset that could drive unborn profitable growth if adequately nurtured through education and skill development.<sup>33</sup>

Healthcare A lack of investment in healthcare due to duty elusion results in poor health issues, a high burden of complaint, and low life expectation. When the population is unhealthy, the frugality suffers from lower productivity, increased absenteeism from work, and advanced healthcare costs. This creates a vicious cycle where profitable recession is compounded by poor health, making it harder for the country to overcome poverty and achieve sustained growth. Technology and Innovation Technological development is another critical area where underfunded public investment hinders profitable progress. Pakistan's capability to foster invention in the technology sector is stifled when profit from levies is shy. also, the lack of a robust public sector capacity to invest in exploration and development( R&D) limits the country's capability to contend in global requests. Technology and invention are essential for profitable diversification, moving beyond traditional diligence like husbandry, and helping Pakistan evolve into a knowledge- grounded frugality<sup>34</sup>.

### **c. Discouraging Private Sector Growth**

Tax elusion encourages a culture of non-compliance within the private sector. Businesses that shirk levies frequently do so in a manner that gives them an illegal advantage over those who misbehave with duty regulations. This illegal competition discourages entrepreneurship and invention in the formal sector, as new businesses

<sup>32</sup> Hussain, Z., & Akhtar, M.( 2020). The part of Tax Evasion in Pakistan's Informal Sector Economy. *International Journal of Economics and Financial Issues*, 10( 5), 110- 118.

<sup>33</sup> Pakistan A Critical Review of programs and Practices. *IBA Journal of Economics*.

<sup>34</sup> Suleman, M., & Shah, A.( 2018). Tax Evasion, Inequality, and the part of the State in Pakistan. *Economic Affairs Review*.

are frequently forced to enter a request where larger enterprises are serving from their capability to shirk levies.<sup>35</sup>

The frequency of duty evasion in the informal sector further complicates matters. With informal businesses not needed to maintain sanctioned accounts or pay levies, they can undercut formal businesses on price, distorting request dynamics. As a result, formal businesses face advanced costs of doing business due to the lack of a position playing field, and are less likely to invest in expansion, invention, or mortal capital development<sup>36</sup>.

## **INCREASED SOCIAL INEQUALITY AND POVERTY**

The consequences of duty evasion are n't just profitable but also social, contributing significantly to rising inequality and poverty in Pakistan. duty evasion exacerbates the income and wealth gap, concentrating profitable power in the hands of a many while leaving the maturity of the population with limited access to introductory services and openings.

### **1. Undermining Social Welfare Programs**

A significant portion of the government's budget should be allocated to social weal programs, including poverty relief, healthcare, and education. still, the failure to collect sufficient duty profit means that these essential programs remain underfunded. Social protection schemes that give support to the most vulnerable populations in Pakistan, similar as widows, the senior, and low-income homes, remain shy or absent. As a result, the poor are left to navigate a system that offers many safety nets, immortalizing cycles of poverty. Without sufficient backing, public health programs can not give acceptable medical care, and education systems struggle to offer quality training. As a result, social mobility remains low, and people in poverty frequently remain trapped in a cycle of low stipend and limited openings, further widening the gap between the rich and the poor<sup>37</sup>.

### **2. Disproportionate Burden on the Informal Sector**

The informal frugality in Pakistan constitutes a large portion of the pool, particularly in small businesses and labor- ferocious diligence. The duty evasion that occurs within this sector places a disproportionate burden on these workers, who are frequently tone- employed or work for small businesses that do n't pay levies. This group faces circular levies, similar as deals duty and energy levies, which disproportionately affect their capability to save and invest. These levies are frequently accumulative, meaning they take a larger chance of income from the poor than from the fat. In a accumulative duty system, duty evasion from the formal sector, especially from large pots and the rich, means that the fiscal burden falls more heavily on the working poor, contributing to lesser inequality and social uneasiness<sup>38</sup>.

### **3. Lack of Social Mobility**

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<sup>35</sup> Pakistan Economic Survey( 2023). Government of Pakistan, Ministry of Finance.

<sup>36</sup> Zaidi, S. A.( 2018). The Political Economy of Taxation in Pakistan Understanding the Tax Evasion Crisis. Oxford University Press.

<sup>37</sup> Pakistan profit robotization( PRAL)( 2020). Pakistan Tax Reforms and Digitalization A Path Toward Effective duty Collection.

<sup>38</sup> UNDP( 2017). Achieving SDGs Financing through Tax Reforms in Pakistan. United Nations Development Programme.

The overall lack of government investment in education, health, and structure due to lost duty earnings leads to limited openings for social mobility. Without access to quality education and healthcare, individualities born into poverty frequently face significant walls to advancing in society. This creates a class peak, where the fat can pierce high- quality services and openings, while the poor remain wedged in a cycle of limited profitable openings<sup>39</sup>.

Duty elusion in Pakistan has far- reaching counteraccusations , from straining public finances to stifling profitable growth and heightening social inequality. The profitable impacts of duty elusion undermine government capability to invest in structure, education, and healthcare, directly harming mortal capital and confining openings for the maturity of the population. The increased financial deficiency, reliance on external borrowing, and growing public debt are all consequences of inadequate duty collection that hamper Pakistan's profitable sustainability. Also, duty elusion exacerbates social inequality, depriving the state of the coffers demanded to lift the poor out of poverty and insure indifferent access to services. To break this cycle, Pakistan needs a comprehensive approach to reforming its duty system, diving corruption, perfecting enforcement, and icing that duty profit is invested in ways that profit the entire population. By addressing duty elusion, Pakistan can begin to close the duty gap, bolster its public finances, and pave the way for long- term profitable growth and social justice.

## **SOCIAL CONSEQUENCES OF TAX EVASION:**

Duty avoid, the illegal act of designedly avoiding duty scores, has profound impacts on the social and profitable fabric of a nation. Pakistan, with its low duty- to- GDP rate and high prevalence of informal and lawless fiscal practices, faces a complex set of challenges in combating duty elusion. The culture of duty avoidance is deeply rooted in Pakistan's political and profitable systems, where important elites, fat individualities, and indeed pots use colorful means to avoid contributing their fair share of levies. The social consequences of similar geste ripple through every aspect of society, from public service provision to political stability, inequality, and trust in government.

### **Impact on Public Services and structure**

The most immediate and visible consequence of duty elusion in Pakistan is the severe underfunding of critical public services similar as healthcare, education, and structure. Public services are essential to the well- being of any society, and their quality directly impacts the social mobility and development of the country's population.

#### **a. Healthcare System**

Pakistan's healthcare system is one of the most underfunded in South Asia, with the World Health Organization( WHO) estimating that public health expenditure in Pakistan is lower than 1 of its GDP, far below the 5- 6 recommended for developing nations. The Pakistan Economic Survey highlights that a significant proportion of the population, especially in pastoral areas, lacks access to essential healthcare services. Hospitals are overcrowded, understaffed, and warrant the introductory medical outfit necessary to treat cases. Duty elusion contributes to this script, as the

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<sup>39</sup> Jalil, A. & Iqbal, M.( 2019). Tax Evasion in Pakistan Causes, goods, and results. The Pakistan Development Review, 58( 2), 205- 222.

government's capability to fund public health enterprise and ameliorate structure is oppressively limited. According to Health Policy 2019, Pakistan faces a deficiency in public health backing that affects everything from motherly and child health programs to internal health services. The underfunding of the health sector has led to preventable deaths, shy treatment options, and deteriorating healthcare structure.

Also, the absence of sufficient healthcare provision disproportionately affects marginalized communities, particularly in pastoral areas, where access to private healthcare services is either unapproachable or unaffordable. As duty elusion diminishes the state's coffers, these communities suffer the most, performing in patient health difference.<sup>40</sup>

## **b. Education System**

The education sector is also constrained by inadequate duty profit. Pakistan has one of the loftiest figures of out- of- academy children in the world, with estimates suggesting that nearly 25 million children are n't enrolled in academy. The UNESCO Global Education Monitoring Report highlights Pakistan's low expenditure on education, which is lower than 2 of its GDP, far below the recommended minimum for icing universal primary education. Duty elusion exacerbates this problem by reducing the government's capacity to invest in educational structure, schoolteacher training, and ultramodern class development. A report by UNDP noted that Pakistan's failure to ameliorate its education system has long- term impacts for profitable development, as the country struggles to make a professed pool. The lack of public investment in education means that millions of children are left without the tools they need to escape poverty, thereby immortalizing a cycle of intergenerational inequality.

In addition, universities and seminaries face fiscal dearths, limiting the openings for advanced education and specialized chops development. This results in smaller educated individualities able of contributing to the frugality, which in turn reduces invention, productivity, and profitable competitiveness.

## **c. Structure and Urban Development**

Pakistan's structure suffers from analogous underfunding, with critical areas similar as road networks, electricity grids, and water force systems taking significant investment. According to the Asian Development Bank( ADB), the country faces an structure investment gap of nearly\$ 50 billion annually. Without sufficient duty profit, the government can not meet the structure requirements of its growing population. pastoral and remote areas frequently face habitual electricity dearths, poor road conditions, and shy water force, which stifles profitable openings. The lack of investment in structure contributes to a cycle of poverty and underdevelopment, particularly in pastoral regions. also, civic areas, including major metropolises like Karachi, Lahore, and Islamabad, are agonized by overpopulation, business traffic, and shy public transport systems, all of which affect in diminished quality of life for the population<sup>41</sup>.

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<sup>40</sup> World Bank Reports on Pakistan's financial programs and development strategies.

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## INCOME INEQUALITY AND SOCIAL INJUSTICE

One of the most disturbing social consequences of duty elusion is its donation to growing income inequality in Pakistan. duty elusion, particularly among the rich and important elites, exacerbates the wealth gap, leaving the poor and middle class to bear a disproportionate burden of levies.

### 1. Wealth attention and duty Avoidance

According to Global Financial Integrity, Pakistan loses billions of bones every time due to lawless fiscal overflows, including duty elusion. The fat, particularly commercial interests and individualities with political connections, frequently use loopholes in the duty law, coastal accounts, and other means to avoid paying levies. As a result, the government's capability to collect profit from high- income individualities and large pots is oppressively confined. While the fat shirk levies, low- income citizens and the middle class are frequently left to pay the maturity of the levies, primarily in the form of circular levies like the General Deals duty( GST). These levies are accumulative in nature, meaning they disproportionately affect those with lower inflows. A report by the Pakistan Institute of Development Economics( PIDE) set up that the duty system in Pakistan is n't progressive enough, with the richest individualities paying a fairly low share of levies. This creates an terrain where wealth becomes concentrated in the hands of a many, while the maturity of Pakistan's population struggles to meet introductory requirements. The lack of wealth redivision leads to widening income inequality, which can undermine social cohesion and strain resentment among marginalized communities. According to Oxfam, inequality in Pakistan is a major motorist of social disgruntlement and insecurity.

### 2. Impact on Social Mobility

duty elusion restricts the finances available for social weal programs and public services, which could help reduce inequality and foster social mobility. Without acceptable government backing, there are smaller openings for the depressed to pierce education, healthcare, and employment openings that could ameliorate their quality of life. As a result, numerous remain trapped in poverty, unfit to escape their circumstances.

The widening income gap contributes to social uneasiness, as marginalized groups perceive the system as innately illegal. This results in growing frustration, as people see that their hard work is n't being awarded with the openings demanded to ameliorate their lives.<sup>42</sup>

## POLITICAL INSECURITY AND CORRUPTION

duty elusion also contributes to political insecurity and corruption in Pakistan. As the state struggles to induce sufficient profit, it becomes decreasingly dependent on foreign loans and aid, which exposes the country to external pressures and reduces its political autonomy. also, when the government lacks the coffers to effectively govern and give public services, it's more vulnerable to corruption.

### a. Corruption in Tax Administration

The duty system in Pakistan is largely susceptible to corruption. According to translucency International, Pakistan ranks inadequately on the Corruption Perception

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<sup>42</sup> translucency transnational Annual Reports on corruption and governance in Pakistan.

Index, and corruption within the duty collection agencies is wide. duty officers are frequently bought to overlook duty arrears, and businesses can pay for duty immunity or reduced rates. This creates a situation where indeed the duty system is inequitable and favors the fat and important.

The lack of translucency in the duty system also weakens public trust in government institutions. A report by PILDAT( Pakistan Institute of Legislative Development and translucency) indicates that when citizens see that duty elusion is rampant and goes unpunished, they lose confidence in the government's capability to apply the rule of law. This erodes the legality of popular institutions and contributes to political insecurity.

## **b. Dependence on External Debt**

As duty elusion reduces domestic profit, Pakistan has been forced to adopt considerably from transnational fiscal institutions like the International Monetary Fund( IMF) and World Bank. This growing reliance on foreign debt puts the country at the mercy of global fiscal institutions, which frequently put austerity measures that harm social weal programs and hamper long- term development.

Also, foreign debt servicing diverts coffers down from pivotal domestic requirements, immortalizing the cycle of underdevelopment. This debt reliance has long- term consequences, as Pakistan must use a significant portion of its profit to pay back loans rather than investing in structure or public services.<sup>43</sup>

## **Corrosion of Social Trust and Civic Responsibility.**

Duty elusion erodes social trust, as it creates a sense of injustice among citizens who see the fat serving from the system while they bear the full duty burden. When the elite avoid levies and the government fails to apply duty laws, ordinary citizens come pessimistic about the state's capability to give for their requirements. This breakdown in social trust weakens the social fabric and undermines communal responsibility.

## **RECOMMENDATIONS/SUGGESTIONS:**

### **1. Strengthen Tax Administration and Enforcement:**

To effectively combat duty elusion, it's critical to enhance the capacity of the Federal Board of profit( FBR). This includes adding the number of professed professionals, perfecting internal processes, and icing that duty officers are well-trained in detecting elusion tactics. Investment in advanced technologies, including data analytics and artificial intelligence, can help identify patterns of elusion and insure compliance. also, strengthening the enforcement frame to insure nippy and fair enforcement of duty laws is essential.

### **2. Simplify Tax Canons and Procedures:**

The complexity of the duty system in Pakistan frequently acts as a hedge to compliance. A simplified duty structure with easily defined duty rates, reduced paperwork, and smaller compliance conditions would encourage businesses and individualities to file and pay their levies. Streamlining the process will help small and medium- sized enterprises( SMEs) as well as individual taxpayers, who may be bullied by regulatory procedures, to share more laboriously in the formal frugality.

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<sup>43</sup> Pakistan Economic Survey( Annual publications by the Ministry of Finance).

**3. Offer impulses for Voluntary Compliance:**

To encourage voluntary duty compliance, the government could introduce incitement programs, similar as duty rebates, reduced penalties for early or accurate form, or reduced forfeitures for those who come forward freely to expose preliminarily undeclared income. A system where biddable taxpayers are awarded for their chronicity could foster a culture of tone- regulation and reduce the reliance on corrective measures.

**4. Promote mindfulness and Education juggernauts:**

Lack of mindfulness about the significance of levies and the direct benefits they bring to society contributes to wide elusion. Public education juggernauts can help citizens understand the part of levies in financing public goods and services like health, education, and structure. seminaries, universities, and media outlets could be used to promote a lesser understanding of taxation and how it directly impacts public development.

**5. Broaden the duty Base by Bringing the Informal Economy into the Formal Sector:**

A significant portion of Pakistan's frugality operates in the informal sector, which largely remains outside the compass of the duty system. Strategies to bring informal businesses into the formal sector should include furnishing impulses similar as duty breaks, simplified reporting conditions, and access to fiscal services or credit. Promoting the benefits of formalization, including eligibility for government contracts or social security benefits, could encourage informal businesses to misbehave with duty scores.

**6. Strengthen International Cooperation and Information participating:**

Duty elusion frequently occurs through cross-border conditioning, similar as coastal accounts, smuggling, and trade mispricing. Pakistan should strengthen transnational cooperation with other countries and duty authorities to check the movement of lawless finances. This can include joining enterprise similar as the OECD Common Reporting Standard( CRS), which aims to ameliorate global duty compliance through the exchange of fiscal account information between countries. Information participating agreements can help track coastal accounts and identify retired means of Pakistani taxpayers abroad.

**7. Encourage translucency in Public Spending:**

One of the reasons taxpayers shirk levies is the lack of trust in how the government spends collected earnings. translucency in government spending is vital to icing public confidence in the taxation system. Public access to popular information, detailed reports on government systems, and checkups of public expenditure can demonstrate that levies are being used effectively for public benefit. When taxpayers can see the direct issues of their benefactions, they may be more inclined to misbehave.

**8. apply Stricter Penalties and Deterrents for duty evasion:**

Strengthening the penalties for duty elusion is essential to discourage individualities and businesses from engaging innon-compliance. Heavy forfeitures, seizure of means, and imprisonment for reprise malefactors can serve as strong deterrents.



Enhanced monitoring and disquisition of suspicious fiscal conditioning, particularly in high- threat sectors like real estate and large- scale import/ export, should be prioritized. The government should also concentrate on inspection- driven compliance to insure that large pots and high- net- worth individualities are n't escaping levies through underreporting or misclassifying income.

### **9. Strengthen Internal Audit and Risk Management Frameworks:**

Strengthening the internal inspection mechanisms within the FBR can help descry and help duty elusion beforehand. The use of threat- grounded checkups can identify sectors and regions wherenon-compliance is more current. By espousing a threat operation frame, duty authorities can prioritize examinations into high- threat cases and insure that their coffers are used efficiently.

### **10. Apply a Whistleblower Protection Program:**

Encouraging people to report cases of duty elusion can be made easier through a whistleblower protection program. Such a program would give legal protection to individualities who expose fraudulent or illegal duty conditioning, therefore creating an incitement for citizens and workers to act as snitchers. This measure could help uncover hidden sources of duty elusion that might else go undetected.

### **11. Block the national identity cards and other communication items:**

The government may block the nic and other communication things of non-tax filers to file the tax of their assets.

### **12. Establish a Taxpayer- Friendly disagreement Resolution System:**

A taxpayer-friendly disagreement resolution system can help make trust between taxpayers and the government. A transparent, presto, and fair medium for resolving duty controversies, similar as an Independent duty Tribunal, would make taxpayers more confident in the system. It would also help prolonged action and reduce the openings for elusion by icing that dissensions over levies are resolved instantly.

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