How can Pakistan strengthen its revenues?

To address current revenue challenges, federal and provincial governments need a major change in approach, working collaboratively to expand the tax base and make taxation more progressive.

Revenue collection in Pakistan is low by international standards\(^1\)

- **Pakistan**: 11.8% of GDP
- **South Asia**: 14.6%
- **World**: 18.5%

**Tax revenue in international comparison (% of GDP) 2018**

- **Pakistan**'s fiscal system is also uniquely regressive
  - Personal income taxes and consumption-based indirect taxes impose equal, if not greater, financial burdens on the very poorest households as on the wealthiest ones\(^2\).

As federal revenues fall short of expenditures and the government faces persistent budget deficits...

**How can Pakistan strengthen tax revenue generation & return to a path of fiscal sustainability?**

In the immediate term, the government can:

1. **Improve federal-provincial coordination**
2. **Close corporate tax exemptions**
3. **Close personal income tax loopholes and adjust tax brackets**
4. **Increase excise duties on socially harmful goods**
5. **Close exemptions for basic household items**
6. **Reduce tax expenditures in the energy sector and for COVID-19 response**
7. **Increase provincial revenue through improved agricultural taxation**
8. **Protect the poor through social protection interventions**

References:

2. In cash terms, and relative to pre-tax incomes, the poorest 10 percent of the population in Pakistan pays a greater share of income in taxes than the richest 10 percent (see World Bank, 2023. Pakistan Discussion Note 6: Welfare Impacts of Fiscal Policy.)