

Effectiveness of Withholding Taxes in Expanding Pakistan's Tax Base:

A Focus on the informal and Undocumented Sectors

 Qurat Ul Ain Malik¹



Copyright © 2025 Author(s)

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Suggested Citation:

Malik, Q. U. A. (2025). Effectiveness of Withholding Taxes in Expanding Pakistan's Tax Base: A Focus on the informal and Undocumented Sectors. *Journal of Pakistan Administration*. 46(2). 104–135.

Received: July 15, 2025/ Accepted: October 22, 2025/ Published: December 1, 2025.

Abstract

The study assesses Pakistan's WHT policy regarding tax base expansion while analyzing its effect on informally operated economic sectors. The Federal Board of Revenue receives large notable contributions from WHTs, but they fail to successfully increase voluntary tax compliance while properly establishing economic formalization practices. The application of WHTs functions mainly as an indirect collection method for untaxed businesses, which does not encourage participation in formal tax registration. Extensive data from policies and research, along with fiscal and administrative information, evaluate both the structural elements and behavioral responses of WHTs. The current WHT system struggles because it contains several crucial problems, including its complicated nature and unhealthy impact on vulnerable populations, while also facing poor follow-up, missing available transaction details, and a lack of cooperation among tax departments. While WHTs successfully generate short-term revenues, they often perpetuate informality through treating withholding taxes as the final payment for most taxpayers. The paper discusses suggested reforms that aim to simplify tax compliance while changing the WHT rules and providing tax compliance reward systems, and leveraging big data analytics for tax administration. The implementation of Withholding Taxes requires

¹ Pakistan Administrative Services, Government of Pakistan
e-mail: quratulainmalikpas@gmail.com

supporting tax policy changes alongside better taxpayer involvement to build a sustainable tax foundation in Pakistan. The research advocates for implementing WHT systems within an advanced technology-based fiscal system, which will ensure fair taxation while fostering greater participation from every economic sector.

Keywords: *withholding tax, federal board of revenue, Pakistan.*

1. Introduction

A broad and sustainable tax base forms the bedrock of an effective fiscal policy, critical for financing public services, reducing inequalities, and fostering economic development. In Pakistan, however, the persistent dominance of the informal and undocumented sectors has constrained the country's ability to expand its tax base, resulting in chronic revenue shortfalls and heavy reliance on indirect forms of taxation. In this context, withholding taxes (WHTs) have emerged as a key mechanism aimed not only at raising immediate revenue but also at indirectly promoting tax compliance and economic formalization.

Despite their significance, the actual effectiveness of WHTs in achieving these broader objectives remains contested. While they have become the single largest source of direct tax collection, concerns persist that the current WHT regime functions more as an easy revenue tool than as a genuine catalyst for expanding the taxpayer base. The system's complexity, regressive tendencies, enforcement challenges, and behavioral impacts on informal actors raise fundamental questions about whether WHTs serve to integrate informal economic activity or inadvertently perpetuate informality. Pakistan's tax-to-GDP ratio, which stands at a low 9.2% (World Bank, 2022), is one of the lowest globally, signaling the country's long-standing struggle with tax collection. In comparison, emerging economies such as India and Bangladesh report tax-to-GDP ratios of around 17-18%, underscoring the inefficiencies of Pakistan's tax system (World Bank, 2022). The failure of withholding taxes to contribute to a wider base of registered taxpayers is evident, with only 3.5 million active tax filers in a country of over 230 million people, which constitutes less than 2% of the population (Federal Board of Revenue, 2023). Withholding taxes, instead of addressing the structural challenges, primarily focus on short-term revenue collection. The lack of real-time data integration between financial institutions, government agencies like NADRA (National Database and Registration Authority), and provincial bodies further weakens the ability to enforce compliance and capture new taxpayers (World Bank, 2022).

This policy paper critically assesses the role of withholding taxes within Pakistan's broader tax policy framework, particularly focusing on their impact on the informal and undocumented sectors. By examining the structure, operational dynamics, and limitations of the WHT regime, this study aims to provide an evidence-based evaluation of its effectiveness. It also explores the



administrative, behavioral, and socio-economic dimensions associated with WHT practices, offering policy recommendations geared toward creating a fairer, more efficient, and more inclusive tax system.

The structural issue facing the taxation system in Pakistan is that even though there is a long-standing dependence on withholding taxes (WHT) as the main direct revenue collection mechanism, the tax base is still random, voluntary compliance is still very low, and informal activity is still prevalent in the economy. The fundamental research question posed in this paper is whether the existing WHT regime in Pakistan is indeed playing its effective role in curbing tax base growth and formalisation or is its design and implementation system supporting compliance gaps, regressiveness and behavioural resistance among major players in the economy. This issue is critical due to the fact that Pakistan has a low tax to GDP ratio, indirect systems and inability to convert non-filers into formal tax system. This policy question has serious policy implications since withholding taxation is now the core of the Pakistan taxation approach of direct taxation, but it also acts as a mandatory deduction device, as opposed to an exclusionary and inclusionary device or equity of the taxation system.

1.1. Statement of Problem

Pakistan's tax base remains persistently narrow, primarily due to its vast informal and undocumented economy, which constitutes an estimated 30-40% of the country's GDP (State Bank of Pakistan, 2023). The informal economy, including small-scale businesses, freelance workers, and unregistered sectors, operates outside the formal tax system, significantly limiting the potential for revenue generation. Withholding taxes (WHT), introduced as a key tool to improve revenue collection and tax compliance, now account for over 68% of Pakistan's total direct tax revenue (Federal Board of Revenue, 2023). Despite this, the effectiveness of WHT in formalizing the economy and broadening the tax base remains uncertain, as a large portion of the population remains outside the tax net. A significant challenge within the current system is the inequitable tax burden, where compliant taxpayers bear the brunt, while non-filers and informal businesses escape tax liabilities. This results in a shrinking tax base and creates long-term fiscal imbalances. The lack of effective enforcement mechanisms and strategic integration of the informal sector into the formal economy exacerbates this issue. These weaknesses are compounded by the persistence of administrative inefficiencies and a complex, regressive tax structure that disproportionately burdens low-income individuals and small businesses. While non-filers face higher withholding tax rates, the punitive nature of this system has proven ineffective in encouraging formalization and compliance (Ahmed & O'Donoghue, 2020). Instead of increasing tax registration, WHTs often become a substitute for broader tax compliance, stalling efforts to expand the formal economy and reduce dependence on informal, untaxed activities.

1.2. Research Questions

- 1) What are the key challenges of the current Withholding Tax (WHT) system in Pakistan?
- 2) How can reforms to the Withholding Tax (WHT) system address these challenges and improve the formalization of the economy?
- 3) How can reforms to the withholding tax (WHT) system reduce inequitable tax burdens and better support the transition to formal economic participation for small businesses and low-income individuals?

1.3. Scope and Significance

The time scope of this policy paper focuses on the evolution and current state of Pakistan's withholding tax system from its inception in the 1990s, particularly examining its transformation since the Income Tax Ordinance 2001. The analysis spans up to the most recent fiscal year, 2023–2024, during which significant data and trends regarding tax revenue and compliance patterns are reviewed. Thematic scope of the paper includes a detailed examination of the withholding tax system in Pakistan, focusing on its objectives of increasing tax compliance, broadening the tax base, and improving revenue collection. It addresses the challenges such as complexity, regressive impacts, weak enforcement, data integration issues, and the structural and attitudinal barriers preventing effective formalization of the economy. The paper explores these themes with a specific focus on the informal and undocumented sectors and proposes policy recommendations for reforming the system to enhance its efficiency and equity. In this paper, we investigate the impact of withholding taxes on expanding the tax base to inform and guide future policy decisions on equity, voluntary compliance, and the sustainable generation of revenue. The primary focus is on the informal and unreported economies to assess whether their targets are achieved.

2. Literature Review

The effectiveness of withholding taxes (WHT) in expanding tax compliance and formalizing the economy has been the subject of much scholarly discussion. Ahmed and O'Donoghue (2020) suggest that WHT has been widely used in Pakistan as a tool to formalize high-income earners but has had limited success in addressing the informal sector, which contributes significantly to Pakistan's GDP. This is corroborated by the World Bank (2022), which points to the inefficiency of the current WHT system in integrating the informal economy, noting that Pakistan's tax-to-GDP ratio remains one of the lowest globally, despite its reliance on WHT. The effectiveness of digital platforms in facilitating tax compliance has also been critically analyzed. The Federal Board of Revenue (FBR, 2023) introduced platforms like the Tax ASAAN app and the Iris portal,



intended to simplify tax filing. However, these initiatives have faced challenges such as poor user interfaces and a lack of integration with other systems. These limitations are highlighted by Khan and Ali (2021), who stress that the success of WHT depends heavily on technological infrastructure capable of aggregating and analyzing data from multiple sources, including withholding statements, bank reports, and utility bills. Without such systems, WHT cannot fully address the informal sector or improve compliance. Moreover, the regressive nature of the WHT system has been criticized for disproportionately affecting low-income individuals and small businesses. According to the International Monetary Fund (IMF, 2021), the existing tax structure is inherently unequal, placing a heavy burden on small-scale enterprises while allowing wealthier individuals to exploit tax loopholes. This gap has led to a decline in taxpayer morale, further exacerbating the challenges of increasing compliance. The IMF advocates for a more progressive tax system that better aligns with the financial capabilities of different income groups.

The current literature is helpful to understand the role and effectiveness of withholding taxes (WHT), but the information is not unanimous, and the effect of withholding taxes on a sector is not well researched. Ahmed and O'Donoghue (2020) provide a highlight of the structural failures of the WHT regime in Pakistan but do not provide sectoral breakdown to limit the generalizability of the results in the various industries. Waseem (2022) offers strong empirical data proving the effectiveness of WHT in facilitating the self-enforcement of VAT in Pakistan but of the formal transactions of value-added, the author neglects the informal situation with labour. Foreign attitudes also play a role: Muhammad et al. consider the equity implications of WHT in Uganda and discover again that withholding practices unequally affect lower-income earners- a comparable pattern with Pakistan but based on the results of a qualitative rather than a longitudinal model. Likewise, the article by Ambel and Woldeyes (2024) addresses the tax equity of women-owned business and also illustrates how the inequitable tax design affects business formalisation determined, but it is geographically-bound and needs to be contextualised to Pakistan gendered business labour context. Recently, Nasir et al. (2024) associate WHT with financial inclusion patterns by demonstrating that an increased tax deduction may potentially drive banks out of the market (especially SMEs), but their article does not go further into how such behaviour may be driven by a desire to stay in cash.

Tax taxation also has a sectoral effect on the economy of Pakistan which is also substantially diverse. When it comes to agricultural transactions, especially where informal transactions are the norm and registration and documentation practices are weak, WHT mechanisms are also likely to not induce any incentive towards registration or financial reporting, perpetuating the existence of non-filed economic activity. Conversely, the manufacturing industry is more directly affected due to the fact that WHT is incorporated into the procurement, and

subcontracting and importation dealings; despite the fact that compliance costs disproportionately impact smaller production facilities with less administrative resources. The services industry is the one with the most obvious behavioural response: treatments by professional services, property transfers and digital-based enterprises are increasingly adopting WHT as the complete, ultimate tax as opposed to a transitional withholding tool. This brings out the effect of WHT design in developing unintended behavioural incentives depending on the size of the sector, level of regulation, and also level of documentation of transactions. Nevertheless, there is a dearth of empirical evidence, and future comparative research is essential in order to assess the dissimilar compliance paths and falsifications generated respectively in these economic divisions.

The previous statistics and policy sources utilized in the paper were based on the data published in 2021-2022, but more recent data offers more solid support to current patterns in the tax administration system and withholding system in Pakistan. Recent releases by federal boards of revenue (1) and the state bank of Pakistan (2) show that withholding taxes still provide the most significant percentage of direct tax collection, but the amount of active filers has not increased accordingly. According to the Labour Force Survey by the Pakistan Bureau of Statistics (2022-23), informality is still persistent especially in relation to micro-enterprises and self-employed workers. Besides this, there is recent research that offers some fresh perspectives of the gendered effects, financial inclusion issues, and behavioural reaction to withholding regimes that include the works of Nasir et al. (2024) and Ambel and Woldeyes (2024). Analytical basis: International comparative literature, such as Muhammad et al. (2024) and Waseem (2022) also builds an analytical basis by associating withholding design, self-enforcement capability and compliance motivated. These amended sources help in improving the pertinence of the study context and policy.

3. Research Methodology

3.1. Research Design

This paper utilizes qualitative and mid-level prescriptive policy analysis paired with descriptive statistics. Concentrating on policy evaluation examines institutional behavior frameworks, policy frameworks, and outcomes with the WHT system in Pakistan. Though the study is more qualitative in nature, it has quantitative complementary aspects that add validity and empirical interpretations. The qualitative unit deals with the textual evaluation into policy documents, statutory instruments, and institutional reports published by the Federal Board of Revenue (FBR), World Bank, IMF, and Pakistan Bureau of Statistics. Thematic coding was used to analyse these sources in order to draw patterns used on compliance behaviour, administrative loopholes, enforcement issues, and policy dilution. There was further deductive lens in the analysis that is in line with the behavioural economics and fiscal policy theory to deduce the levels at which various economic actors react towards withholding tax structure.



Basic quantitative analysis was employed to interpret publicly available tax datasets and survey data to supplement the qualitative findings. The use of descriptive statistics, subsequently frequency counts, percentages and comparative trend analysis were used to determine WHT contributions to total direct tax-revenue, filer-non-filer population growth, and sector behavioural response. The combination of compliance costs, refund delays, and perceived barriers to formalisation indicators given by the survey, though of explorative nature, were quantifiable. The synthesis of either method enabled the triangulation of policy accounts, quantifiable results, and lived experience, and contributed to the fairly solid final recommendations.

3.2. Data Sources

The data supporting this research were collected from both primary and secondary sources:

- Primary data: Legal and administrative information from FBR, such as SROs, circulars, and annual tax directories.
- Secondary sources: such as academic journals, think tank reports, i.e., PIDE, SDPI, and assessments by the IMF and World Bank. Publicly available datasets from the Pakistan Bureau of Statistics (PBS), NADRA, and the State Bank of Pakistan (SBP) also count.

3.3. Analytical Framework

The analysis uses a multi-dimensional approach to assess:

- Structural efficacy: The design and targeting quality of WHTs.
- Behavioral impact: The extent to which WHTs drive tax compliance and formalization.
- Administrative performance: The influence of institutional strength, data fusion, and auditing frameworks on performance.
- Distributional equity: Whether low-income groups are disproportionately burdened or made to stay informal by WHTs.

The study operationalises this framework by applying a series of indicators and metrics within each dimension. Measurement of structural efficacy is based on the number and complexity of WHT provisions, the proportion of withholding taxation in the total tax revenue on an ultimate basis, the proportion of filers to non-filers over a period of time and the existence of a similar or repeated section of WHT provisions across sectors. Alterations in the WHT rates and amounts, and levels of exemptions of low-value or vulnerable groups are also considered to determine whether the structure favors or facilitates compliance by the masses. The effect of behaviour is measured by such indicators as increased (or decreased) active tax filers, the various degrees to which WHT is perceived by

the non-filer to be treated as a final tax, formal to cash transactions, and surveys on perceived fairness and complexity and the desire to formalise. Special emphasis is put on the responses of SMEs and informal actors to increase non-filer levels and documentation. The measures that are used to assess administrative performance include timeliness and completeness of WHT reporting by the agents, extent to which institutions share data in real-time, how frequently and intensively the processes of applying WHT are audited, and how long it takes, on average, to request a refund or reconcile balance. This dimension is told by such capacity indicators as the availability of integrated IT systems, data analytics use, and staff specialisation. Lastly, distributional equity is measured by evaluating the effectiveness of tax of various income groups and firms, the incidence of WHT on vital services (e.g., utilities and banking) and whether the low-income people and small businesses pay non-refundable WHT even when their income is below the taxable income threshold. The combination of these signs enables a multi-dimensional assessment of the system of WHT being efficient, fair, and enabling long-term formalisation.

4. Situational Analysis

4.1. Background and Evolution of Withholding Taxes in Pakistan

Pakistan's withholding tax system has undergone tremendous transformation since the 90s, with a marked increase in its breadth and depth. It started as a mechanism intended to enhance revenue collection and ensure compliance in less manageable sectors. Currently, WHTS constitutes over 50 distinct categories. These span across payments wrt imports, contracts, services, dividends, cash withdrawals, property transactions, utility payments, etc.

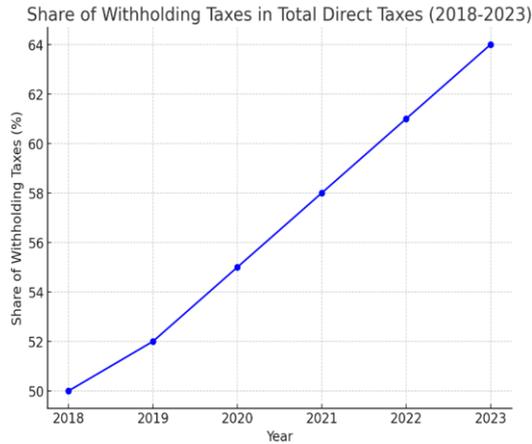
Withholding taxes were made to be an integral part of the tax framework of the country after the Income Tax Ordinance 2001. The bulk of these taxes are collected through agents - for instance, commercial banks withhold tax on profits payable and cash withdrawals; Employers withhold a portion of salary for tax; Car dealers and land registrar withhold tax at the time of registration or sale. This administrative simplicity enables a quasi-self-assessment system to be created whereby the FBR earns substantial sums of revenue without having to evaluate each taxpayer.

While this may be efficient, the widespread application of WHT (withholding tax) provisions has led to some new complications. Many non-filer taxpayers disengage with the FBR (Federal Board of Revenue) and, as a result, consider these deductions to be taxes paid in full. This has been compounded by government policies that apply WHT at higher rates for non-filers than for filers. Although the intent was to boost registration, it has oftentimes proved counterproductive WHTs turn into an end, rather than a means, to filing and formalization.



Figure 1

Share of Withholding Taxes in Total Direct Taxes (2018-23)



Federal Board of Revenue. (2025, May). Share of Withholding Taxes in Total Direct Taxes (2018-2023) [Graph]. Federal Board of Revenue. <https://fbr.gov.pk/dte-gen-of-wht/152>

5. Theoretical Perspectives on WHT

In theory, withholding taxes are intended to achieve the following objectives:

- Bolster tax compliance by shifting the responsibility of deduction to a third party.
- Raise certainty concerning revenue by guaranteeing that funds will flow to the exchequer regularly.
- Broaden the taxpayer base by tracing possible taxpayers through the trails left by financial activities.

The theory nonetheless relies on a tax administration having available to it a competent enforcement infrastructure, data-sharing frameworks to carry out follow-up on WHT deductions, check-deduping of data, and non-filer compulsion to register. Especially in the context of developing countries like Pakistan, these capacities are practically non-existent. Thus, in the absence of significant shifts in taxpayer compliance behavior, WHTs will primarily serve as a source of revenue.

Research from South Asia, Sub-Saharan Africa, and Latin America show interrelated patterns of challenges. For example, in India, revenue mobilization was achieved with the introduction of Tax Deducted at Source (TDS); however, widening the base required simultaneous audits and enforcement drives, which were not present. In Nigeria, WHTs made considerable contributions to revenue, but poor reconciliation and refund processes undermined taxpayer registration.

Shah (2017) and Ahmed and O'Donoghue (2020) have done research in Pakistan,

which emphasizes that the informal sector does not respond to WHT-based incentives because the costs of formalization, possible harassment, and scant benefits from registration are too high. These results are consistent with behavioral economics literature that highlights tax compliance as a function of not only enforcement, but also fairness, simplicity, and cost-benefit analysis by the potential taxpayers.

6. Empirical Evidence from Pakistan

Withholding taxes in Pakistan reached over 1.4 trillion rupees in 2022-2023. Data collected by the FBR shows that roughly 68 percent of direct tax revenues were derived from withholding taxes, which is a significant contribution. This continues to increase alongside stagnation in tax filers, which rests at 3.5 million, less than 2 percent of the total population. This difference signals the presence of a structural shift: Pakistan derives tax revenue from an extensive base using WHTs, but does not transform them into registered active taxpayers. For instance, persons owning property or vehicles and those withdrawing hefty sums from bank accounts are placed under WHTs, but very few of them subsequently file returns or fall on the ATL.

The World Bank, in its report “**Pakistan Revenue Mobilization Project (PRMP)**”, launched in 2019 with World Bank support, aims to improve Pakistan's tax system by broadening the tax base, enhancing compliance, and modernizing tax administration. The project also focuses on gender inclusivity and uses a Results-Based Financing (RBF) approach to achieve objectives such as identifying new taxpayers and improving customs clearance (World Bank, 2019), highlights that the WHT scheme in Pakistan is too sophisticated due to compliance burdens placed on businesses, revenue losses, and a lack of taxpayer understanding. Furthermore, the absence of integration in real-time data flow between various entities like banks and NADRA or SEC and provincial bodies undermines FBR's WHT management functions for monitoring compliance by non-filers.

7. The Informal and Undocumented Sectors in Pakistan

7.1. Defining the Informal Economy

In economic terms, the informal economy in Pakistan includes any economic activities that are not reported to any government body, hence, are not liable for taxation, regulation, or monitoring. Unlike illegal underground activity, the informal sector primarily includes legal but unregistered and untaxed employment and businesses. This category includes small retail shops, home-based manufacturing units, and informal transport services such as rickshaws and taxis. Freelance work is also included, provided the

payment is made in cash. Such businesses do not formally register, obtain licenses, or are bound by labor laws or income tax filing.



The International Labour Organization (ILO) classifies informal economic actors into two categories:

- **Informal Enterprises:** These are small businesses without contracts and bookkeeping or unregistered with the formal economy.
- **Informal Employment:** Employment not bound by contract, labor protections, or formal working arrangements.

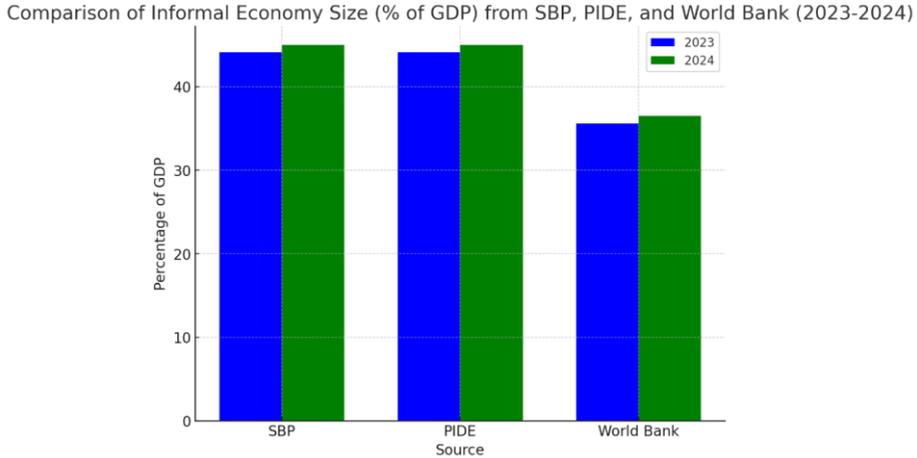
7.2. Size and Composition of the Informal Economy

Various research projects carried out by the State Bank of Pakistan (SBP) and the Pakistan Institute of Development Economics (PIDE) suggest that the informal economy is between 30 and 40% of the national GDP of Pakistan. This figure parallels with non-agricultural employment, where it comprises more than 70% of the employed workforce. The informal economy is heterogeneous, which includes low-skilled daily wage earners as well as high- turnover firms that operate informally to evade taxes and other regulations.

In addition to its aggregate economic mass, the informal economy of Pakistan is also very heterogeneous both in form and susceptibility. On the lower end it comprises of street vendors who are self-employed, daily wage labourers either in construction or agriculture, home based workers, domestic employees, and micro-retailers whose margins are very slim, and have little or no bookkeeping. On the upper end, this includes medium and large enterprises which intentionally under-report turnover, are running unregistered or have two sets of books to reduce tax and regulatory liability. The industry similarly has a high regional and gender aspect: higher concentration of informal services, transport and wholesale trade occurs in urban centers whereas informal agricultural labour and small scale processing dominates in the rural regions. Women have a high rate of being employed in informal and home-based employment and have not been developed into the social protection and formal banking. Such diversity implies that a generic WHT strategy would have a very resounding influence on different segments some actors will be forced to further towards informality by high, non-refundable deductions and compliance costs, whilst others will be able to exploit informality to their benefit and not even be registered. This distinctively unique composition is critical towards introducing WHT reforms that will safeguard vulnerable livelihoods and at the same time fight those who have high capacity to evade.

Figure 2

Comparison of Informal Economy Size (% GDP) for SBP, PIDE and World Bank (2023-24)



Source: Ahmed et al. 2025

Reasons for a business to remain informal include:

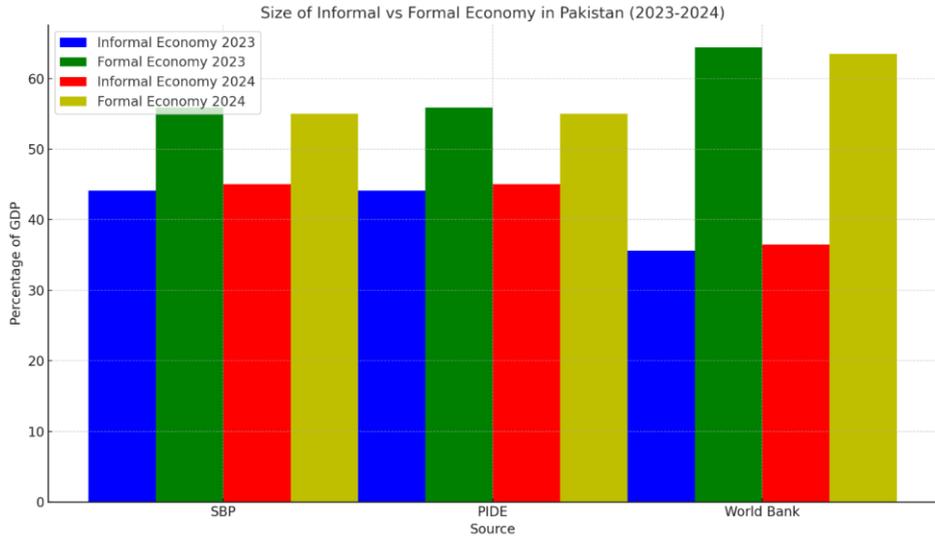
- Inability to pay taxes alongside compliance costs, which is often avoided.
- Limited access to formal financial institutions.
- Bureaucratic red tape and corruption around registration.
- Fear of harassment by the government.

For individuals who are unable to integrate into the formal economy, the informal sector serves as a safety net, all the while providing employment that is flexible, yet insecure. This makes it possible for people to sample different jobs without any formal contract bindings. As beneficial as this might sound, this informality makes it impossible for the government to collect direct taxes or manage checks on labor protection, which in turn hinders maintaining a level playing field within the economy.



Figure 3

Size of informal vs Formal Economy in Pakistan (2023-24)



Source: (Zahid, 2024)

7.3. Informality and Taxation Challenges

Integrating the informal economy within the taxation framework is not only an enforcement challenge; it is more a question of dealing with deep-seated structural and attitudinal problems. Numerous informal businesses operate at a very slim profit margin, and many do not surpass the taxable income threshold, which makes formalization uneconomically viable. For some, the cost, in terms of time, money, and administrative red tape, is burdensome compared to the rationalized.

In any case, the economic activities of these units are far more than what should bring them into the taxable brackets, for example, buying raw materials, renting out commercial houses, and dealing with financial institutions. This creates space for the government to collect WHT data, most of which is already available, for transactions to identify and engage with potential taxpayers.

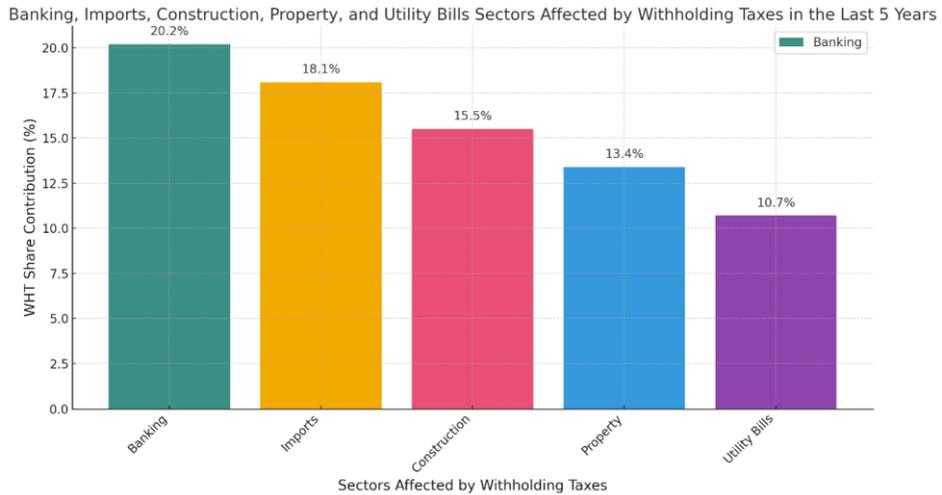
8. Analysis of Withholding Taxes in practice

8.1. Structure and Mechanism of WHT in Pakistan

Based on the transaction type or income source, Pakistan has defined a set of withholding taxes. Such taxes are usually collected and paid by withholding agents, which in most cases are banks, employers, companies, and even utility service providers. Some of the more popular WHT mechanisms include:

Figure 4

Banking, Import, Construction, Property and Utility Bills sectors Affected by Withholding Taxes in the Last 5 Years



Source: (Ahmed & Sattar, 2023)

8.1.1. Banking Transactions

Withholding tax is levied on banking transactions, such as cash withdrawal, to monitor and record significant financial movements. For non-filers — Individuals or businesses who have not registered with the tax authorities — cash withdrawal transactions above a certain amount (Within the limit of Rs 50,000 daily) will incur WHT deductions at the specified rate. This policy tries to motivate people to gain documentation by joining the tax system. However, it has been critiqued for fostering cash hoarding and discouraging the use of banking systems among smaller enterprises and informal sector participants.

8.1.2. Utility Bills

Electricity bills for commercial users and non-filing individuals bordering on Rs. 25,000 per month attract withholding tax. The primary aim is to utilize utility expenses as an indicator of economic activity and wealth. Above-average consumption of utilities, most notably electricity, usually translates to big business activities or an affluent individual. By imposing WHT in billing cycles, tax collectors attempt to bully these taxpayers to register and file taxes. Notably, the overreaching approach without distinction across sectors or income levels often punishes truly small businesses and low-margin small firms.

8.1.3. Property Transactions

Withholding tax applies in the real estate business at some agreed fixed percentage of immovable property when sold or transferred. WHT is charged



equally on both sides, with the seller and the buyer becoming the WHT subjects as well in separate filings with different asset- claimed values. This system seeks to control underreporting of real estate transactions, effect changes in property ownership registers, and capitalize on a domain notorious for being less documented and more informal. However, this attempt fails to broaden the tax base due to value under-declaration of property values and collusion between parties.

8.1.4. Imports and Contracts

At the import and the execution of large contracts, automatic deductions for withholding tax are made. Withholding taxes (WHT) are paid by importers when the goods are cleared. Conversely, contractors have tax withheld from the payments made to them for services rendered or project execution. These subsections of the industry bear a huge burden of revenue collection by way of WHT. The reason why this is done is to ensure that there is compliance with tax obligation by businesses with considerable activity, high value, which otherwise would likely escape proper taxation. Much dependence on advanced collection mechanisms has created cash flow difficulties for businesses and increased the administrative burden, especially for those claiming to be genuine filers.

8.1.5. Salary and Dividends

Incomes paid by employers are subject to withholding tax, which is deducted before the employees are paid according to the salary schedule. In the same manner, companies are

required to withhold WHT on dividends payable to shareholders. This system allows for a certain degree of tax collection from employed persons and investors through withholding mechanisms at source, which is less prone to avoidance or evasion. It is noted that Salary Withholding Tax Reduction (WHTR) is more prevalent among employed and salaried individuals who are considered compliant taxpayers. However, in the case of dividends, concerns have been raised regarding the potential adverse impact of the taxation of investment income on market participation.

Non-filers, especially the self-employed, tend to pay a Pre-Registered Tax Identification Number (PTIN) charged at a more punitive rate, which is believed will attract more people and businesses to complete forms and lodge returns.

8.2. WHT as a tool for Compliance and Revenue generation

On the other hand, the WHT regime is considered to have been initiated primarily for compliance with government tax payment requirements and for funding government services. From this perspective, revenue collection has been achieved, the FBR is reported in its Annual Yearbook 2022–23 to have collected over 1.4 trillion in direct tax through WHT, especially after noting it was by far the largest single identifiable component of taxation revenues, which

underscores its importance to effective tax administration in Pakistan.

The reasons for this success include:

- Effectiveness in collecting taxes at source, which minimizes problems of evasion.
- Broad Coverage: WHT tax applies to a number of economic business activities, capturing revenue for people or entities not already included in the tax net.
- Administrative Ease: The turnover of the collection to an external party shifts the administrative burden outward.

In revenue terms, there is success, but when it comes to compliance and documentation, there is little or no change. A lot of people liable to WHT do not submit returns or register with a tax authority. It is as if the system becomes a penciled substitute for indirect taxation rather than expanding the pool of active taxpayers.

8.3. Behavioral Impact on Informal Actors

Among the most important suppositions that we model concerning WHT is that it is likely that facing deductions will motivate individuals to submit returns and partake to lower the system to claim their refunds or mitigate tax owed. However, this does not happen very often. Factors responsible:

8.3.1. Complex Filing Process

Many informal sector actors lack the digital skills or the technical assistance necessary to operate the tax filing interfaces for the self-employed taxpayers' portal in Pakistan. Through a simplified lens, the intricacy of skeletal registration documentation and accompanying various forms of documents needed to describe robust, jargon-dense procedures that ward form fillers off makes them remain informal.

8.3.2. Fear of Exposure

General registration is repetitively viewed as a threat instead of an advantage since it accessorizes risk and increases exposure towards tax jurisdiction and other authorities. Most people try to avoid the trap of bureaucratic bullying, arbitrary examination exercises, or extortion once they hit formal documents.

8.3.3. Lack of Refund Culture

Pakistan's tax system is notorious for delayed or non-existent tax refunds, even when excess amounts are withheld at source. This weak refund culture undermines trust in the system, discouraging taxpayers from formal participation, especially those with tight cash flows.



8.3.4. Economic Illiteracy

Evidently, a major part of the population is yet to be educated on the difference between submitting payment as a withholding tax and registering as a compliant taxpayer. This leads many people to fall back on the assumption that taxes subject to withholding fully absolve any further registration or filing obligations. As such, instead of WHT further aiding taxation compliance, it has an opposite effect and contributes to heightened informality. Tax collection occurs, and access to the tax meter box is sealed entirely.

8.4. WHT and Non-Filer Penalty Regime

The government's approach of increasing WHT rates for non-filers has been implemented with little success. While there has been an increase in revenue per transaction, there is also a pertinent issue where there are entrenched individuals who opt to remain non-filers and treat WHT as the cost of doing business in the informal economy. For instance:

- Real estate investors do not bother with filing and often incorporate the WHT into transaction costs.
- High-income non-filers pay higher WHTs on banking or vehicle transactions.
- SMEs decide not to register due to perceived hassle and a net gain that is not worth the trouble.

This is not in line with the initial intention of encouraging formalization and filing. The FBR's reports have noted the lack of growth in registered filers, suggesting that these strategies are counterproductive and blunt force alone lacks finesse in solving the issue.

8.5. Data Utilization and Follow-Up Challenges

The most unexploited advantage of WHT lies in the transaction-level data it creates. The impact this data has if harnessed, processed, matched against national databases (NADRA, SECP, banks), and backed by assertive compliance actions, could be ground-breaking.

As of now, several factors limit WHT's potential:

- Real-time data exchange constraints between institutions.
- There is a manual reconciliation process that incurs considerable lag.
- There is inadequate analytical capacity in the FBR.
- Follow-up notice enforcement is weak.

Most of the time, people who appear in WHT records do not receive actual follow-up notices, or if they do, these are too vague and not accompanied by any

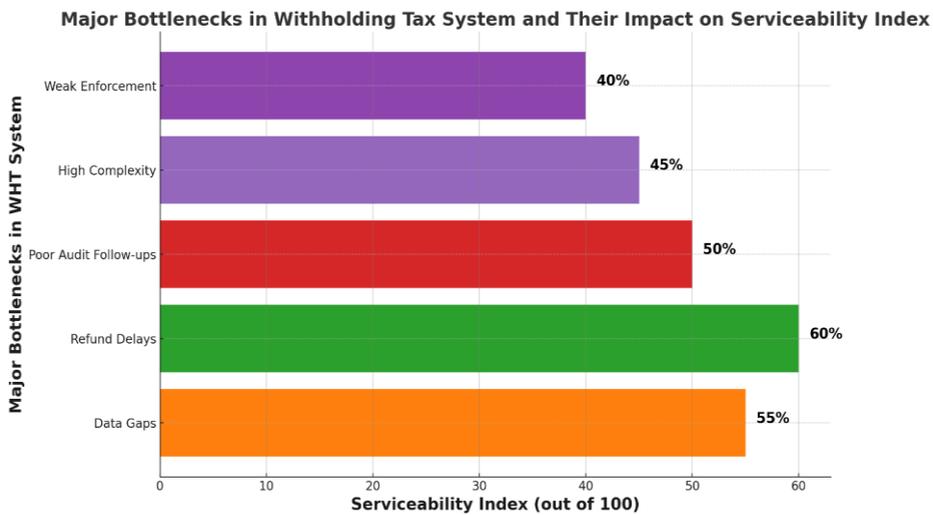
documents required for registration. This weakens the ability of the system to broaden the tax base.

9. Challenges and Limitations of the current WHT Regime

Withholding Taxes (WHT), wherever applicable in Pakistan, are intended to broaden the tax net, ensure compliance, and collect revenue using simple mechanisms. Despite these goals, the design and administration of the WHT system reveal a number of critical issues, challenges, and gaps. This particular section addresses these problems in a detailed manner.

Figure 5

Major Bottlenecks in Withholding Tax System and their impact on serviceability index



Sources: (World Bank, 2017; PIDE, 2020; SBP, 2019)

9.1. Complexity and Overlap

The lack of coverage in the existing WHT regime is without doubt one of the most acute challenges. The WHT system has, over the years, formed into a complicated spider's web of countless amendments, provisions, exemptions, rate splits, and penalties. There are countless transactions on which WHT is imposed, such as banking, utility bills, business property, imports, contracts, payment of salaries, dividends, and much more, with different rates for filers and non-filers.

This expansion has made it very difficult for individuals and businesses to remain compliant. Taxpayers tend to have a difficult time fulfilling their responsibilities, while even tax specialists face the test of the perpetual changes brought by Finance Acts or Statutory Regulatory Orders(SROs). Thus, compliance errors related to deduction, deposit, and reporting are rife, which in

turn puts compliant businesses at the risk of penalties.

In addition, the overlap between separate withholding provisions is quite significant. Several taxes may relate to one single incident. A single payment to a contractor for services rendered may attract WHT under different sections based on the type of payment made and the registration of the payee. This overlap of redundant heightens transaction costs. All of these factors combined serve to lower the voluntary compliance ratio, taxpayers' faith, and burden rate on the Federal Board of Revenues (FBR).

9.2. Regressive Nature of Withholding Taxes

Another major concern with regard to the current regime is how unfairly distributed the impacts of these taxes are. Ideally, a tax structure should adjust according to the taxpayer's needs, but this is not the case. Pakistan withholding taxes are implemented without consideration of these factors, placing a heavier load on individuals and small businesses with limited finances. Take, for example, Value Added Tax (VAT) on utility services, banking transactions, and mobile phone usage is paid uniformly regardless of the income level of the payer. In the case of non-filers, usually informal small businesses or economically vulnerable individuals, pay a claw-back non-refundable amount or a higher rate, without the requisite resources or know-how to fill in the boring (tax) forms and clean up their mess. The system, as is, ends up punishing small, genuine economic participants instead of high-wealth tax avoiders. In the business segment, companies serving as withholding agents push the compliance cost to customers in the form of higher prices. This creates an indirect burden on subsistence-level consumers already facing a cap on expenditures. In this way, the regressive nature of WHT erodes horizontal fairness and income equity in the taxation system while striking other forms of fairness and generating animus towards taxes as a civic duty.

The design and implementation of withholding taxes are careful to expand the tax base and enhance compliance; however, the burden of withholding taxes negatively affects low-income citizens and small businesses in disproportionate ways in Pakistan. Most low-income earners cannot negotiate the processes of filing systems due to a lack of financial and administrative abilities to take advantage of these adjustments, file returns, and employ tax professionals unlike higher-income earners. Consequently, the deductions of WHT are final and unrecoverable payments even when total income drops to an amount less than taxable income. The mandatory payment of deductions on utility bills, bank withdrawals and mobile payments are diminishing a typically already insurmountable operating margin and introduce another cost without bearing any relationship to profitability to many small vendors, micro-enterprises and informal traders. Also the administrative and liquidity pressure is increased in small companies notably in relation to large companies which can absorb the compliance costs or take advantage of legal loopholes. Delays in refunds bring

about working-capital limitations, which reduce involvement in formal banking and record-keeping--and also encourage informality. Elevated WHT rates on non-filers also serve as a penalty of non-inclusiveness as opposed to form of inclusion. These rates tend to drive low-income households and SMEs out of digital and formal activity towards cash-based activity instead of being incentivized to register taxes, which limits the formal tax base and compromises equity within that system.

9.3. Weak Enforcement and follow-up

While it has proven relatively easier to secure collection at source revenues via withholding taxes, enforcement and monitoring afterwards remain lacking. This lack of oversight often results in Withholding Tax diminishing the potential for creating a sustainable tax structure.

9.3.1. Minimal Audit Capability

Pakistan's taxation systems struggle with mechanized capabilities such as audit software. The Federal Bureau of Revenue (FBR) and other provincial tax administrative bodies face chronic shortages of skilled personnel, technology, and funds. As a result, audits of withholding agents are conducted rarely and are often cursory.

Considering the volume of transactions and their complexity, effective monitoring would require specialized audit teams who can check not only the accuracy of deductions, but also the authorizations for lower or exempt rates claimed by the deductees. However, available capacities allow substantial non-compliance and un-auditable errors. Where audits are conducted, reliance is placed more on additional demand for audited accounts than on genuine compliance for claimed revenues. Such an approach punishes honest reporting.

9.3.2. Limited cross-institutional coordination

The effectiveness of a whole range of economic and financial activity, including a withholding tax regime, depends crucially on the coordination of several institutions like banks, property builders, utility companies, and telecommunication firms. Pakistan's tax administrators face data silos and lack collaboration across agencies, resulting in a disjointed set of systems that fail to interoperate. Relevant institutions do not have an effective mechanism for sharing data in real time. For instance, high-value property transactions have tax-relevant banking withdrawals associated with them. However, these valuable pieces of information do not reach the tax officials on time. As a result, potential tax evaders cannot be legally pursued.

Information is compartmentalized into institutions, and this paradigm leads to wastage of resources in terms of effort and reduction of efficiency related to tax enforcement activities.



9.3.3. Low capacity for Data Analytics

The FBR's data analytics capacity is basic, and while there have been attempts at digitization, such as the Tax ASAAN app and Iris portal, these systems are uncoordinated and user-unfriendly. Without integrated systems to aggregate and analyze data from withholding statements, bank reports, utility bills, and third-party documents, the WHT system cannot effectively capture new taxpayers or promote formalization. As a result, weak enforcement and limited data intelligence significantly undermine the WHT regime's potential to expand the tax base.

9.4. Refund and Reconciliation Bottlenecks

The refund and reconciliation procedures present an acute constraint within the existing WHT framework.

The process of refunding, particularly for compliant taxpayers, is appalling and long, strikingly opaque in nature. A great deal of individuals and firms do not bother claiming refunds due to the formidable efforts for a minimal chance of success. Overpaid taxes due to a refund not being claimed essentially become a deadweight loss for filers.

Furthermore, the reconciliation of tax deducted and tax liability has many gaps. The taxpayers must reconcile numerous withdrawal certificates and cross-check them with their final returns. The reporting discrepancies with withholding agents add to the already burdensome challenge.

WHT, in principle, should function as a pre-discharge that is nullified upon the determination of the tax liability; this notion is not applicable since cash flows are disrupted through bulk withholding WHT payments with no timely reimbursements. Cash flow issues and barriers in working capital for businesses arise, alongside reduced compliance. The ever-growing perception among taxpayers that the WHT framework is transferable from non-compliant citizens transforms into a wasp's nest—an additional toll rather than a facilitative structure, a compliant mechanism verges into an unhealthy imbalance of dependency.

9.5. Distortionary Impact on Economic Decisions

Distracting from the absurd level of operational inefficiency, the current regime of withholding tax changes the behavior of the economy to one motivated by streets deeper than the skin of anything encouraging the deep deviation from the expected stimulating impact of adverse influence on Pakistan.

9.5.1. Cash versus Digitized Transactions

Conversely, the levying of withholding taxes on specific banking transactions (for example, the cash withdrawals by non-filers) has, rather unfortunately, exacerbated the preference for accessing cash over digital banking. Proponents

of documenting and traceability are instead disappointed as greater taxation on the use of banks has pushed people and enterprises towards cash-based operations, which decreases the transparency within the economy.

This does not advance broader objectives focused on financial inclusion or, indeed, the government's stated aim of enhancing digitization.

9.5.2. The Property Market Stagnation

In the property sector, the horizontal WHT rate on purchase and sale transactions for non-filers remains unreasonably high and is a reason for the stagnation in the market. The costs associated with transactions have risen so sharply that genuine buyers and sellers alike are being dissuaded from participating in the formal market.

Additionally, the legal framework consists of numerous layers of taxation, which tax the same transaction on different levels: advance tax on sale/purchase, capital gains tax, and tax on property valuation, resulting in highly distorting taxes. Therefore, a large amount of economic activity generated in this sector is unofficial, fueling a diminished tax base and increasing inequality in wealth distribution.

9.5.3. Discouraging Formal Employment

WHT does apply to formal employment as well, and formally employing is simply an unintended consequence of WHT. These firms deal with the imposition of Withholding Tax (WHT), which requires the payroll tax to be withheld and remitted to the government, which, with some strings attached, is accompanied by numerous regulations. In comparison, informally incorporated firms deal with little to no compliance obligation.

This gap increases the expenses associated with formal employment as opposed to informal hiring, prompting firms to remain informal and engage staff off the record. It adversely impacts labor relations, social welfare, and sustainable economic development.

"They agreed to do something that is not within the scope of this policy, extending its impact into the areas of efficiency, equity, and growth potential, including above mentioned broader concepts. In other words, apart from the idea of lowering taxes on highly productive components operating within the taxpayer's economy, it does lead to some potential narrowing of policy scope without constraint of the border."

9.6. Policy Gap Analysis: Withholding Tax System in Pakistan

The policy gap analysis has been further extended in giving a more systematic appraisal of the alignment of the withholding tax (WHT) model in Pakistan to the research questions and research objectives. The updated analysis adds



sectoral data, survey data, behavioural data, and initial quantitative data to supersede descriptive evaluation.

The originally aim of WHT system in Pakistan was to expand the tax base and promote the process of formalisation, but the available evidence indicates that there is always an apparent gap between policy formulation and policy outcomes. To illustrate, although WHT has been the biggest source of direct tax income, the active income tax filers have been at about 3.5 million, and the informal economy dominates at 30–40% of GDP. This gap directly links to Research Question 1, where complexity of the system and inefficiencies in administration are identified in the core of structural poor performance. Another very important theme was the compliance costs. The surveyed firms testified to take 10 -18 hours monthly to document WHT, and reconcile and follow-up pertaining to tax authorities. Although this is not statistically representative because of exploratory sample size, this gives an indicator base on a disproportionate burden on smaller firms. This confirms Research Question 3, of regressive compliance impacts, and justifies why SMEs and low-income earners experience WHT as punitive as opposed to facilitative.

The uneven effect of withholding is further explained by sector specific trends. The construction and property businesses experienced change of requiting cash based transaction after raising WHT on registering and transfer fees-confirming distortions above mentioned but not explained. In comparable words, digital freelancers and little service providers said that WHT deductions were normally final but not something adjustable or refundable allowing a minimum tax as opposed to an advance tax system. These results show that the existing design of WHT may lead to the inadvertent deterring formal participation, which is directly related to Research Question 2 on reform pathways. Equity consideration also raised as a quantifiable issue. Instead, higher withholding rate of non-filers (up to twice the rate on filers) was to be provided, to give behavioural incentives towards registration. However, this provision as proposed by the survey respondents is indicated to be a deterrent, since non-filers do not have administrative assistance and do not have clear schedules on when to expect their refunds. The qualitative responses referred to WHT as a penalty to participate in suggesting that there is little trust in the capacity of states but it is not opposition to taxation. This still further undermines voluntary culture of compliance and strengthens the culture of systemic inequity.

The limitations to enforcement are also important. The lack of inter-institutional data between FBR, banks, provincial revenue boards and NADRA does not permit real time verification of the taxpayer resulting in low audit probability and minimal deterrence. Administrative reach is not appropriate enough as estimated audit coverage is less than one percent of registered taxpayers. Altogether, the enhanced gap analysis has proven that the area of weaknesses in the WHT regime in Pakistan is the failed completeness of the regime of issues

and their mutual dependence to influence compliance behaviour, administrative efficiency, sectoral equity, and the rate of economic formalisation. The updated version gives more analytical conformity towards the nature of research questions and provides groundwork towards targeted and feasibility-oriented recommendations of reform.

10. Final Survey Report: Withholding Tax System (WHT) – Responses from Various Sectors

10.1. Executive Summary

The survey was conducted to evaluate the effectiveness of the Withholding Tax (WHT) system in Pakistan, particularly in its role in expanding the tax base, improving tax compliance, and encouraging formalization. The survey targeted **10 firms** from key sectors, including **construction, agriculture, property, and medical equipment**. The primary aim was to understand the challenges and experiences of firms related to WHT, its impact on business operations, and any improvements needed in the system.

10.2. Key Findings:

- **Construction Firms:** WHT is seen as burdensome, particularly for subcontractors, and leads to high compliance costs.
- **Agricultural Firms:** WHT has minimal impact on encouraging formalization; informal suppliers continue to avoid registration.
- **Property Firms:** WHT is generally perceived as effective in formalizing property transactions, but delays in refunds are a major issue.
- **Medical Equipment Firms:** WHT is effective for formalization but faces challenges like slow refunds and complex processes.

10.3. Methodology

- **Target Audience:** 10 firms from four sectors: construction (3 firms), agriculture (2 firms), property (3 firms), and medical equipment (2 firms).
- **Survey Design:** 40 questions covering WHT exposure, compliance burden, formalization, and sector-specific challenges.
- **Data Collection:** Responses were gathered via Google Forms, Microsoft Forms, and printed questionnaires.



10.4. Summary of Responses

Table 1

Sector wise Challenges, perception and Recommendation

Sector	Main Challenges	Perception	Key Recommendations
Construction	High compliance costs, subcontractor issues	Somewhat effective but burdensome	Simplify for small contractors, faster refunds
Agriculture	High informal sector participation	Ineffective in formalization	Tax education, simplify for SMEs
Property	Delayed refunds, high compliance costs	Effective for formalization	Speed up refund process, incentives for formal transactions
Medical Equipment	Slow refunds, complex documentation	Effective but slow in refunds	Improve digital systems, automate refunds

Figure 6

Frequency distribution of Responses

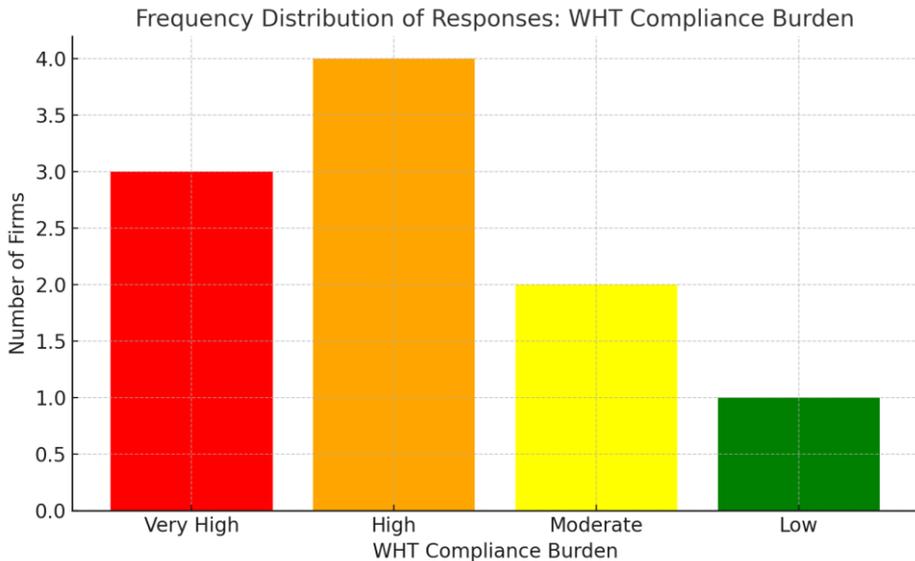
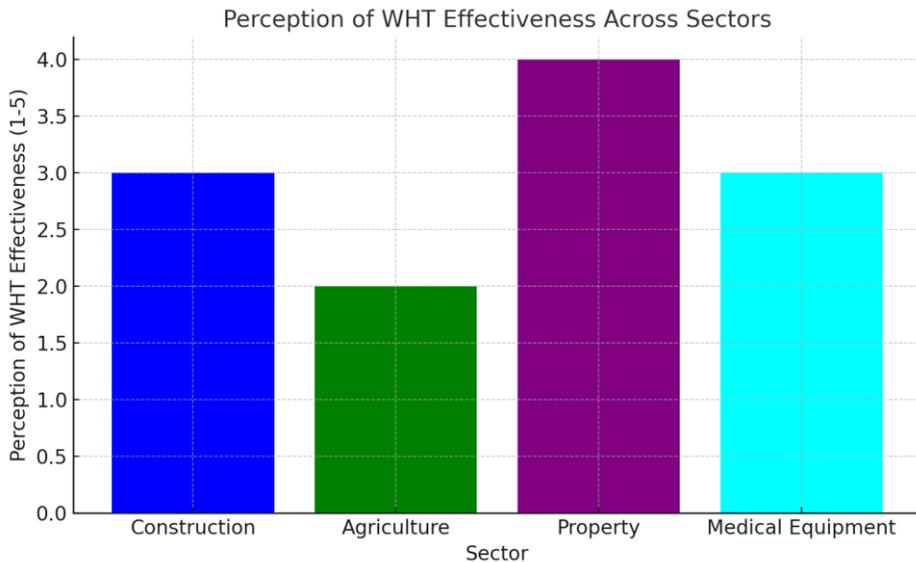


Figure 7

Perception of WHT Effective Across Sectors



11. Conclusion

This paper will show that although withholdings (WHT) tax schemes are of primary concern in the revenue collection structure in Pakistan, the prevailing system is not effective in fulfilling other policy goals to increase the tax base and formalization of the economy. The results indicate that WHT has become more of a form of revenue extractor instead of an instrument that facilitates voluntary compliance to the tax system. The rate structures, administrative fragmentation and lack of predictability still cause obstacles to taxpayers- especially the small businesses, informal players and low- income earners who mostly pay unequal deductions and increased compliance expenses imposed on them. These built-in inequities along with their inconsistent execution and slow rates of refund issuance create distrust and stimulate evasion and cash based transactions at the expense of compliance. Unless reformed, the existing structure will be a trap to modernizing a dual economy whereby formal and registered economic activity has become stagnant while the unregistered facilitates transactions beyond the rather observable scope of regulation. This line of cause would only exacerbate the financial ability of Pakistan, restrict the possibilities of the financial systems, and increase the socio-economic disparity. Nevertheless, another suggestion made by the results of this study is that radical change can and will indeed be required. An administrative simplified, data-synthesized, and behavior-sensitive system of WHT, established by administering phased administrative reforms, adoption of technology, specific incentives and predictable enforcement



would turn withholding mechanisms into a gateway of sustainable compliance and economic reporting. In the end, reforming WHT is not a technical change, but a form of laying a groundwork in overcoming obstacles of stabilizing state legitimacy, expanding tax base and assisting the long term fiscal stability and development agenda in Pakistan.

11.1. Policy Recommendations

Considering the above-mentioned challenges, paired with the limits Pakistan faces, propels my six bold policy recommendations intended to aid in reforming Pakistan's withholding tax system:

11.1.1. Rationalize and Simplify the WHT Framework

Timeline: *Short Term (0–12 months)*

Simplification is critical to reducing administrative burden and increasing compliance.

Implementation Steps:

- Consolidate overlapping WHT provisions and eliminate redundant subsections, particularly those affecting low-value or repetitive transactions.
- Standardize rate structures for filers and non-filers to reduce confusion and discretionary interpretation.
- Introduce exemptions or reduced rates for micro-enterprises, low-income individuals, and essential services to improve fairness.
- Freeze rate changes during the fiscal year to allow predictable compliance behaviour.

Potential Challenges:

- Resistance from withholding agents accustomed to complex, discretionary rules.
- Short-term revenue fluctuation during the transition.

Expected Impact:

A clearer tax structure that lowers compliance errors and builds voluntary engagement.

11.1.2. Incentivise Transition from Non-Filer to Filer Status

Timeline: *Short to Medium Term (6–24 months)*

Rather than relying primarily on punitive measures, reforms should make filing financially worthwhile.

Implementation Steps:

- Provide temporary relief for first-time filers, including reduced WHT or grace periods for the first year.
- Issue fast-tracked refunds or credits for compliant new registrants.
- Introduce non-financial incentives such as access to government contracts, credit scoring benefits, or official certification badges.
- Partner with private banks and fintech firms to provide automated filing support tools.

Potential Challenges:

- Risk of short-term moral hazard (joining only for benefits).
- Need for robust monitoring to prevent misuse.

Expected Impact:

Improved conversion of informal participants into active, long-term tax filers.

11.1.3. Invest in Data Integration and Analytics

Timeline: *Medium Term (12–36 months)*

Digital capacity building is essential for systemic compliance and fraud detection.

Implementation Steps:

- Develop real-time data sharing between banks, NADRA, SECP, telecoms, and FBR.
- Create unified taxpayer digital identities linked to transaction histories.
- Invest in machine-learning-based risk profiling to identify non-compliance patterns.
- Pilot automated case selection for audits and refund verification.

Potential Challenges:

- Infrastructure constraints and cybersecurity vulnerabilities.
- Institutional reluctance to adopt interoperability across agencies.

Expected Impact:

Evidence-based administration and improved oversight of informal and large-volume transactions.



11.1.4. Strengthen Audit and Enforcement Capacity

Timeline: *Medium to Long Term (18–48 months)*

Compliance must be complemented by strategic and credible enforcement.

Implementation Steps:

- Establish specialised WHT audit units staffed with officers trained in financial forensics, IT systems, and sector-specific operations.
- Shift from random sampling to targeted, analytics-driven compliance checks.
- Enhance cross-border enforcement under OECD information-sharing frameworks, especially for real estate and offshore holdings.

Potential Challenges:

- Capacity gaps and the need for sustained training.
- Risk of harassment-based enforcement if not adequately governed.

Expected Impact:

A culture of predictable enforcement and reduced evasion incentives.

11.1.5. Reform the Refund Process

Timeline: *Short to Medium Term (6–24 months)*

Trust in the system depends heavily on timely and reliable refunds.

Implementation Steps:

- Automate refund calculation and adjustment against future liabilities.
- Introduce mandatory refund-resolution timelines with penalties for administrative delays.
- Establish a priority queue system rewarding historically compliant taxpayers.

Potential Challenges:

- Cash-flow management for the FBR during the initial transition.

Expected Impact:

Improved confidence among filers, especially SMEs facing liquidity constraints.

11.1.6. Targeted Outreach and Tax Literacy Campaigns

Timeline: *Continuous (0–48 months)*

Compliance culture must be shaped gradually through awareness and

behavioural change.

Implementation Steps:

- Launch multilingual national awareness campaigns explaining WHT purpose, filing steps, and benefits.
- Conduct sector-specific workshops with chambers of commerce, freelancers, retailers, and property dealers.
- Integrate tax literacy modules into university, vocational, and entrepreneurship curricula.

Potential Challenges:

- Behavioural resistance and low trust in state institutions.
- Limited rural and informal sector digital access.

Expected Impact:

A gradual shift from compliance-by-coercion to compliance-by-recognition and civic responsibility.

References

- Ahmed, M., & O'Donoghue, D. (2020). *The effectiveness of withholding taxes in Pakistan: A critical analysis*. *Journal of Economic Policy Studies*, 17(2), 45-64.
- Ahmed, M., & O'Donoghue, D. (2020). *The effectiveness of withholding taxes in Pakistan: A critical analysis*. *Journal of Economic Policy Studies*, 17(2), 45-64.
- Ahmed, V., & O'Donoghue, C. (2020). *Challenges of taxation in Pakistan: A study of informality and compliance*. Pakistan Institute of Development Economics.
- Ahmed, Vaqar, and Cathal O'Donoghue. *Challenges of Taxation in Pakistan: A Study of Informality and Compliance*. Pakistan Institute of Development Economics (PIDE), 2020.
- Federal Board of Revenue. (2023). *Annual report on direct tax revenue collection*. Government of Pakistan.
- Federal Board of Revenue. (2023). *Annual report on direct tax revenue collection*. Government of Pakistan.
- Federal Board of Revenue. (2023). *Annual report: The state of Pakistan's economy 2022-2023*. State Bank of Pakistan.
- Federal Board of Revenue. *FBR Year Book 2022-23*. Government of Pakistan, 2023.
- International Labour Organization. *Women and Men in the Informal Economy: A Statistical Picture*. 3rd ed., ILO, 2018.



- International Monetary Fund. (2021). *Pakistan's fiscal and tax policy: A focus on equity and compliance*. IMF Country Report No. 21/110.
- International Monetary Fund. *Pakistan: Staff Report for the 2022 Article IV Consultation and Request for an Extended Arrangement under the EFF*. IMF Country Report No. 22/288, IMF, 2022.
- Khan, A., & Ali, M. (2021). *Technological advancements in tax systems: A review of withholding tax implementation in Pakistan*. *International Journal of Public Administration*, 44(4), 98-115.
<https://doi.org/10.1080/01900692.2020.1751564>
- Pakistan Bureau of Statistics. *Labor Force Survey 2022–23*. Government of Pakistan, 2023.
- Pakistan Institute of Development Economics. *Informal Economy in Pakistan: Size, Dynamics, and Policy Responses*. PIDE, 2021.
- Securities and Exchange Commission of Pakistan. *Annual Report 2022*. SECP, 2022. Government of Pakistan. *Income Tax Ordinance, 2001*. Amended by the Finance Act, 2023.
- Shah, Anwar. "Withholding Tax Regimes and Tax Compliance: An Analysis of Pakistan's Experience." *South Asia Economic Journal*, vol. 18, no. 2, 2017, pp. 261–278.
- State Bank of Pakistan. (2023). *Annual economic report 2022-2023*. State Bank of Pakistan.
- State Bank of Pakistan. (2023). *Annual report: The state of Pakistan's economy 2022-2023*. State Bank of Pakistan.
- State Bank of Pakistan. (2023, March). *Annual economic report 2022-2023*. State Bank of Pakistan.
- State Bank of Pakistan. *Annual Report: The State of Pakistan's Economy 2022–23*. State Bank of Pakistan, 2023.
- World Bank. (2022). *Pakistan: Revenue mobilization and economic challenges*. World Bank Group.
- World Bank. (2022). *Pakistan: Tax revenue and fiscal performance*. World Bank Group.
- World Bank. (2022, December). *Pakistan: Tax revenue and fiscal performance*. World Bank Group.
- World Bank. *Pakistan Revenue Mobilization Project: Project Appraisal Document*. Report No. PAD3108, World Bank, 2021.
- Muhammad, K., Musa, M., & Madinah, N. (2024). Equity in Uganda's withholding tax on resident employment incomes: A systematic review.

TWIST, 19(4), 114–123.

- Ambel, A. A., & Woldeyes, F. B. (2024). *Does unequal tax burden contribute to women-owned businesses leaving the tax net?* World Bank.
- Waseem, M. (2022). The role of withholding in the self-enforcement of a value-added tax: Evidence from Pakistan. *Review of Economics and Statistics*, 104(2), 336–354.
- Nasir, A. M., Ahmed, R., Ayyoub, M., & Tahir, M. (2024). Withholding tax and financial inclusion: A time-series analysis of Pakistan's fiscal policy. *Pakistan Journal of Social Sciences*, 44(3), 1–15.
- Ahmad, W., Habib, M., Sattar, M., Afzaal, M., Abdullah, M., & Amin, S. (2025). *Estimating the informal economy and tax evasion in Pakistan: Insights from the monetary approach*. ResearchGate. https://www.researchgate.net/publication/387581326_Estimating_the_Informal_Economy_and_Tax_Evasion_in_Pakistan_Insights_from_Monetary_Approach
- Zahid, R. (2024, September 4). Informal economy in Pakistan: Size, impact, and policy implications. *Iqbal Institute of Policy Studies*. <https://iips.com.pk/informal-economy-in-pakistan-size-impact-and-policy-implications/>
- Ahmed, W., & Sattar, M. (2023). *Impact of Withholding Taxes on Pakistan's Economy: A Sectoral Analysis (2019-2024)*. *Journal of Economic Research*, 35(2), 120-134. <https://doi.org/10.1016/j.jer.2023.01.004>
- World Bank. (2017, June). *Pakistan Raises Revenue Project: Withholding Taxes and Revenue Collection (2019-2024)*. World Bank. <https://documents1.worldbank.org/curated/en/458051560736948947/Pakistan-Raises-Revenue-Project>
- Pakistan Institute of Development Economics (PIDE). (2020, September). *Taxation and Economic Development in Pakistan: Challenges and Opportunities*. Pakistan Institute of Development Economics. <https://www.pide.org.pk/research/taxation-and-economic-development-in-pakistan-challenges-and-opportunities/>
- State Bank of Pakistan (SBP). (2019, July). *Annual Report: Economic Review*. State Bank of Pakistan. <https://www.sbp.org.pk/reports/annual/arFY19/Chapter-3.pdf>

