

DETERMINANTS OF LOW TAX REVENUE IN PAKISTAN

Prof. Dr. Abdul Ghafoor Awan¹, Faisal Hayyat²

1. Dean, Faculty Management and Social Sciences, Institute of Southern Punjab, Multan, Pakistan. drabdulghafoorawan@gmail.com.
2. M. Phil Scholar, Department of Economic, Institute of Southern Punjab, Multan, Pakistan. faisalhayat2400@gmail.com.

Abstract

The main purpose of this research paper was to investigate the factors that are responsible for low tax revenue in Pakistan by using time series data for the period from 1997 to 2017. ADF test was applied to check stationarity among variables. The autoregressive distributed lag (ARDL) model and Bound Test were applied to analyze the long-run relationships between variables while Error Correction Model (ECM) was used to determine short run relationship between variables. The results of our empirical analysis show that economic growth, political stability and foreign direct investment boosts tax revenue in Pakistan while inflation rate and gross fixed consumption expenditure negatively affect tax collection. People's trust in the government may also increase tax collections.

Keywords: Tax Revenue; Political stability; Economic growth; welfare of people
Corresponding author. Email: drabdulghafoorawan@gmail.com

Article History: Paper received: May 10, 2021. Accepted June 11, 2021. Online published July 01, 2021.



1. Introduction

1.2 Background of study

Raising tax revenue is one of the important issues of economic development. Society's economic resources are scarce, and an increase in government spending usually requires a decrease in private spending. Taxation is one way to move the capital from the private sector to the public sector, but there are other ways to generate more revenue through imposing tariffs and levies on goods and services, or borrowing from domestic or international financial institutions. Although governments often use all possible ways of enhancing resources, taxation is the main source of government income (Chaudhry & Munir, 2010). Taxes are a crucial source of government revenues in a country's tax system as they contribute to reduce poverty and to finance social and physical infrastructure projects. The provision of public services, such as infrastructure, education, and health care, etc. is the foundation for sustainable development. For many countries, however, tax collection is also very difficult. Such problems include existence of informal sector, a low tax base, weak governance, and administrative inefficiency, tax evasion by elite class and corporate sector (Madni et al. 2019).

A good fiscal policy is a key component of economic development. On the policy side, it is possible to have three forms of relationships between government and government spending. Next, budget deficits may be reduced through policy initiatives that produce more tax revenue than government spending. Second, as government spending generates public income, it means government first spends and then raises taxes to pay for the expenditure. Such practice may create capital outflow because of the fear that higher taxes may

be paid in the future. Third, spending is made based on decisions affecting revenue that can result in large budget deficits, as government spending increases faster than government revenues. For these purposes, government spending and government revenues must be investigated (Gounder et al. 2007).

A tax system affects the government's tax revenues; the more complex the tax system, the higher the tax avoidance in society that leads to a sharp reduction in revenue and raising the government's administrative burden. It is found, with specialization and economic performance, that nations with fewer trade obstructions and a high tax to GDP ratio of trade have a high rate of taxation and GDP. The best indicator of the administrative performance of the government is the GDP tax ratio. It is good that resources are transferred from private to public and public expenditure is funded. These are also found in administratively less effective and poor economies, such as printing more money, paying for public goods, or borrowing. There are many ways to finance government spending. In most cases, it can be seen that the low level of tax GDP ratio in developing countries has contributed to systemic flaws and dysfunctional institutions with massive corruption (Islam & Siddique, 2017).

Tax-to-GDP ratio of Pakistan is about 13.9% in 2019 it is increasing but in slow rate. The efforts of government under the guidance of various IMF programs have been concentrating more and more on macroeconomic stabilization. More emphasis has been placed on the reduction of the budget deficit to contain inflation and restore fiscal stability by stopping the increase in the ratio between debt and GDP ratio. There are several reasons for low tax revenue in Pakistan. The first is the loss of the economy's growth momentum, in particular of large-scale output and imports, which constitute the economy's

primary tax bases. This has resulted in decreasing average tax to GDP ratio over time. The second reason is the income losses resulting from the country's ongoing tax reforms in the 1990s, particularly the trade liberalization process, which led to substantial cuts in the statutory import tariff rates. So it is important to investigate the factors responsible for low tax revenue in Pakistan. This is the main problem of our research work ([Awan and Hannan, 2014](#)).

1.2 Objectives of Study

The objectives of the study are given below: -

- To investigate the causes of low tax revenue in Pakistan.
- To study the impact of low tax revenue on Pakistan's economy.
- To analyze relationship between GDP growth, FDI, Political instability, inflation rate, gross fixed consumption expenditure and tax revenue.

Low tax revenue and high public expenditures are two main problems of developing countries. Pakistan is among those countries where the volume of tax revenue is very low and due to this reason it has to borrow from domestic sources as well as from international financial institutions. It has been facing problem of twin deficit, high amount of foreign debt and low foreign exchange reserves. The same issues are being faced by most of developing countries. Due to these reasons, the scope of this study is wide and its specific results can be generalized and policy makers of other developing countries can reap benefit from them as well.

1.3 Scope of study

The scope of this study is wide in a sense that all developing countries are facing shortage of resources due to low per capita income and low paying capacity of tax payment by the people. Almost all developing countries are

struggling hard to meet their budget deficit through borrowing from domestic and international sources. The results of this study can be helpful for policy makers of developing countries to devise policies in the light of the recommendations of this study.

2. Literature Review

[Gnangnon & Brun \(2019\)](#) explored the relationship between tax revenue and trade openness in developing countries by using time series data from 1981 to 2015 of 95 developing economies. The results suggested that tax reforms and tax revenue positively associated with developing countries. It was also found that countries having high trade openness had a high positive impact on tax revenue in comparison to the countries that have a low level of trade openness. Their results show that there is a positive relationship between trade openness and tax revenue. [Anwar and Awan \(2019\)](#) has contended that fiscal policy played a vital role in resources mobilization. If fiscal policy is expansionary it will create inflation and increase quantity of money. In this situation, the Government will be able to collect more taxes in nominal term but in real term this policy is not effective in the long run. The expansionary policy mostly followed in the developing countries and end result of such policy is that these countries are facing problem of high inflation, low purchasing power and high debt. [Awan and Umair \(2019\)](#) has pleaded that Globalization also affect volume of tax revenue positively because opening of economies increases volume of international trade, besides increasing economic activities. However, in some developing countries like Pakistan globalization has negatively affected local industry due to in competitiveness and hundreds of industries were closed, resulting in low collection of taxes. [Awan \(2013 and 2014\)](#) revealed that China and Brazil followed the policies

which did not only enhance tax revenue but also reduce level of poverty. These two countries expedited economic growth through exporting surplus goods and services and diverting resources to the development of poor segments of society. Such policies significantly increase tax revenue and also cut poverty level substantially. He also argues that state political system also plays a vital role in resources mobilization. [Awan \(2015\)](#) has stated that free market economic system motivates precipitate economic activities and helps wealth creation through innovations. The advanced countries are its best example which are producing high tech products and selling at monopoly prices in international market. It has not only increased per capita income of their citizens but also enhanced their capability to pay more taxes. [Boukbech et al. \(2018\)](#) explored the factors of tax revenue in developing nations. The panel data of twenty-nine middle-income countries from 2001 to 2014 was employed. The influence of tax effort and capacity was also seen in tax revenue. The outcomes the study show that the gross domestic product per capita and agriculture value-added optimistically linked to the tax revenue. The trade openness turns out to be positive although the insignificant association with tax revenue. Likewise, the rate of population growth originated to be a negative but insignificant determinant of tax revenue. The inflation rate and public spending positively related to the tax revenue. However, the impact of these variables was significant. Public aid and foreign debt were inversely related to the tax effort. [Andrejovska & Pulikova \(2018\)](#) analyzed relationship between macroeconomic variables and tax revenue among members of European Union. The results show that gross domestic product (GDP) encouraged tax revenue and this association was highly significant. High employment rate and increase in foreign direct investment

also boost tax revenue in selected European Union member states. [Ali & Audi \(2018\)](#) examined the role of macroeconomic variables in the tax revenue in Pakistan by using data from 1975 to 2016. The results of the study revealed that the rate of unemployment had an encouraging and considerable influence on tax revenue. The money supply also positively related to tax revenue. The rate of inflation was found to be a negative determinant of tax revenue in Pakistan. Based on outcomes of this analysis, the authors concluded that a country like Pakistan requires a macroeconomic atmosphere that boosts the revenue from taxes. [Islam & Siddique \(2017\)](#) explored the factors that were related to the tax to the gross domestic product in high and low-income countries by using data from the year 2000 to 2014. The results revealed that income per capita, capital inflows, tax base, and openness to trade positively related to the tax revenue. The variable corruption found to be a negative determinant of the tax to GDP ratio. [Anichebe & Ezeabasili \(2016\)](#) examined the linkage between economic growth and tax revenue in Nigeria. The yearly data from the years 1981 to 2012 was used in this study. The outcomes showed that economic growth and tax revenue had a positive relationship in the long run. Property, income, and consumption tax were found to be negative determinant of economic growth. [Masiya et al. \(2015\)](#) scrutinized the factors that affect the tax revenue in Malawi. The data from 2003 to 2012 was used in this study. The results drawn through Ordinary Least (OLS) method suggested that gross domestic product was positively related to the tax revenue. The increase in broad money also boosts tax revenue. This study recommended that monetary and tax authorities should cooperate each other in the formation of policies to boost the revenue from the tax in Malawi. [Annan et al. \(2014\)](#) investigated causes of tax evasion in Ghana by using data from 1970 to 2010

in this analysis. The findings showed that per capita income, average tax rate, and inflation rate were the factors that caused tax evasion in the short-run. The negative sign of the error correction term showed that the deviation from equilibrium tax evasion was forty-five percent. The outcomes of granger causality analysis inferred that rate of inflation and tax forecast the future level of tax evasion in Ghana. [Muibi and Sinbo \(2013\)](#) estimated the variables that affect the tax revenue in Nigeria. They used annual time series data from 1970 to 2011. It was observed that the rate of exchange and rate of inflation was significantly and positively correlated with tax revenue. The elasticity of income showed that a one percent increase in income would lead to 0.63 percent increase in tax revenue. The macroeconomic instability in Nigeria was found to be the most important factor that encourages tax buoyancy. [Hakim & Bujang \(2012\)](#) assessed the association between macroeconomic variables and tax revenue in high-income countries by using data from 1960 to 2010. This analysis revealed that the higher income of a country leads to a high tax to GDP ratio. Rate of inflation directly linked to the tax revenue. The direct taxes were more appropriate than indirect taxes to boost economic growth. Foreign direct investment was inversely correlated to tax revenue. It was found that a higher rate of tax reduced the profit of multinational companies. The higher rate of indirect taxes such as sales tax leads to a higher rate of private savings due to the low consumption of goods. [Aamir et al. \(2011\)](#) examined the effect of direct and indirect taxes in the tax revenue of Pakistan and India by using ten-year data from 1999 to 2009. The study found that in Pakistan indirect taxes produces the high tax revenue while in India the direct taxes produce the more tax revenue. The authors concluded that high rates of indirect taxes broaden the gap between poor and rich so that direct taxes and tax base should

be enhanced to increase the tax revenue in both countries. [Chaudhry & Munir \(2010\)](#) investigated the factors that influence the tax revenue in Pakistan by utilizing the annual time series data from the period of the years 1973 to 2009. The outcomes explored that trade openness, external debt, political stability, and board money optimistically related to the tax revenue in Pakistan. The contracted tax base, lower levels of literacy rates, dependence on the agriculture sector were the factors that were responsible for the low tax revenue in Pakistan.

3.Data and Methodology

3.1 Type of data and sources

In this study, we have used twenty-year time series data from 1997 to 2017 for the analysis. The main sources of data were: World Development Indicators (WDI) of World Bank and Pakistan Economic Surveys. The purpose of this study was to analyze the relationship between tax revenue and its determinants. Tax revenue is the dependent variable while Growth rate of GDP, political stability, inflation rate, foreign direct investment and gross final consumption expenditures were independent variables.

3.2 Selected Variables

The description of variables of the study are given in Table 1.

Table 1: Description of Variables

Variables	Description of Variables	
Dependent Variable		
TAXR	Tax Revenue	Percentage of GDP
Independent Variables		
GDPG	GDP growth Rate	Annual
PS	Political Stability	Lies between 0 and 1
INF	Inflation rate	Annual
FDI	Foreign direct investment	Percentage of GDP
GFCE	Gross final consumption expenditures	Percentage of GDP

3.3 Hypothesis of the study

The hypothesis of this study were

H₀: There is no relationship between GDP growth and tax revenue.

H₁: There is positive and significant relationship between Tax revenue and GDP growth.

3.4 Econometric Model

The econometric model of this study is shown in the following equation:

$$Taxr = \beta_1 i + \beta_2 gdp_g + \beta_3 ps + \beta_4 inf + \beta_5 fdi + \beta_6 gfce + \mu it$$

Where;

TAXR= Tax revenue

GDPG= Gross domestic product growth rate

INF= Inflation rate

FDI= Foreign direct investment

GFCE= Government final consumption expenditures

3.5 Analytical techniques

The statistical techniques to be used in this study are the followings: -

- Descriptive statistics.
- ADF Test.
- Correlation Analysis.
- Bound Test.
- ARDL Model.

4 Empirical Analysis

The analysis of the preliminary data associated with the analysis of time series characteristics and properties of data with one cross section such as Pakistan. The primary analyses are as follows:

4.1 Descriptive Statistics

The analysis of descriptive statistics consists of mean, median, minimum, maximum, standard deviation, skewness and kurtosis. Table 2 shows that the mean value of the tax revenue for the Pakistan is 10.63. Tax revenue maximum value is 13.17 and the minimum is the 8.94. The tax revenue's value of standard deviation is 1.31. The gross domestic product average value is 4.05. The growth rate of gross domestic product maximum and minimum values are 7.67 and 1.01 respectively. The dispersion value of the growth rate of gross domestic product is 1.82. Similarly, the values of other variables can be seen in Table 2.

Table 2: Results of Descriptive Statistics

Variables	TAXR	GDPG	PS	FDI	INF	GFCE
Mean	10.63	4.05	0.57	1.24	8.00	10.00
Median	10.20	4.26	1	0.89	7.60	10.36
Maximum	13.17	7.67	1	3.67	20.29	11.89
Minimum	8.94	1.01	0	0.38	2.54	7.78
Std. Dev.	1.31	1.83	0.51	0.95	4.49	1.22
Skewness	0.79	0.25	-0.29	1.55	0.93	-0.48
Kurtosis	2.28	2.35	1.08	4.10	3.71	2.07

Source: Author's Calculations

4.2 Correlation Analysis

The correlation between the variables can be strong or weak is depend on the degree of correlation. If the degree of correlation is equal or near to one 1 then the correlation relationship is strong. If the degree of correlation is zero and near to zero, then the correlation association between variables is weak. The with-out sign value is positive value. Negative sign indicates the inverse correlation among the variables. Table 3 shows that tax revenue is positively correlated with GDP growth rate, political stability, and gross fixed capital formation while negatively correlated with foreign direct investment, and inflation rate.

Table 3: Correlation Matrix of Variables

Correlation	TAXR	GDPG	PS	FDI	INF	GFCE
TAXR	1					
GDPG	0.04	1				
PS	0.13	-0.41	1			
FDI	-0.31	0.14	-0.25	1		
INF	-0.35	-0.36	0.48	0.43	1	
GFCE	0.51	-0.26	0.75	-0.06	0.19	1

Source: Author's calculations

4.3 ADF Unit Root Test

Table 4 illustrates the results of the augmented dickey fuller (ADF) test with intercept and trend. The tax revenue variable is stationary on the level. The statistics value is negative -5.05 and probability value is less than 5%. The variable growth rate of GDP is stationary at the first difference with intercept. The second variable inflation rate is stationary on the first difference with intercept. The value of statistics is negative -4.973 and the probability is 0.0009. The political stability variable and gross final consumption expenditure are also stationary on the intercept at first difference. The statistics and probability of these variables are -4.123, 0.0054 and -3.647, 0.0153. Thus, all variables are stationers at different levels and now we can use ARDL model for estimation of relationship between variables.

Table 4: Estimates of Unit Root Test

Variables	Level				First Difference				Results
	Intercept		Intercept and Trend		Intercept		Intercept and Trend		
	Cal	Pro	Cal	Pro	Cal	Pro	Cal	Pro	
TAXR	--	--	5.0888	0.0007	--	--	--	--	I(0)
GDPGR	--	--	--	--	-3.6391	0.0149	--	--	I(1)
INF	--	--	--	--	-4.9732	0.0009	--	--	I(1)
PS	--	--	--	--	-4.1231	0.0054	--	--	I(1)
GFCE	--	--	--	--	-3.6479	0.0153	--	--	I(1)

Source: Author's calculations

4.4 Bound Test Analysis

The bound test is applied to check long run relationship between variables in the long run. The WALD test and F-statistics are providing the basis for bound test. If the F-statistics value is higher than the upper bound critical value, then we can accept alternative hypothesis and rejects the null hypothesis. According to the analysis, the value of F-statistics is 23.58 which is the greater than all critical upper bound values which can be seen in Table 5.

Table 5: Bound Test

Test Statistic	Value	K
F-statistic	23.58	5
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	2.26	3.35
5%	2.62	3.79
2.50%	2.96	4.18
1%	3.41	4.68

Source: Author’s calculations

4.5 ARDL Long Run Analysis

We have used use ARDL model to determine tax revenue in case of Pakistan. For this purpose, the dependent variable used in a study is tax revenue as a percent of GDP while the explanatory variables are growth rate of GDP, political stability index, inflation rate, foreign direct investment and gross capital formation. The results found that economic growth, political stability and foreign direct investment increase tax revenue while inflation rate and gross capital formation decrease tax revenue in Pakistan. The results are presented in Table 6.

Table 6: Results of ARDL Model

Dependent Variable: Tax Revenue as a Percentage of GDP				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDPG	0.48	0.08	5.67	0.0048
PS	4.96	0.82	6.05	0.0038
FDI	0.98	0.24	4.05	0.0155
INF	-0.40	0.05	-7.85	0.0014
GFCE	-1.47	0.28	-5.21	0.0065
C	22.05	2.40	9.17	0.0008

Source: Author's Calculations

According to long run analysis of ARDL Model, there is positive association between tax revenue and gross domestic product (GDP). The ARDL results indicates that the one unit increases in the GDP growth rate will cause increase in tax revenue by 48 percent. The probability value shows the high significant association between these two variables. Political stability is the main factor for the stability of economy in any country. If political instability exists in any country, it will not only affect tax revenue negatively but also every sector of the economy. Political instability causes dis integration and conflicts between different section of the society. On the other side, the political stability in Pakistan is necessary for the productivity and tax revenue. The result shows the positive link between political stability and tax revenue in Pakistan. Both variables are moving in the same direction. This association is statistically significant at the 1 percent level of significance. If one unit increases in political stability it will increase tax revenue by 4.96 percent.

In our analysis, foreign direct investment has direct association with the tax revenue collection. We can say that FDI is the determinant of low or high

tax revenue in Pakistan. The coefficient value of foreign direct investment is 0.98 which means if one-unit increases in the foreign direct investment (FDI) it will likely to increase tax revenue by 98 percent in Pakistan, FDI has positive impact on the tax revenue. It indicates how much FDI is important for Pakistan for its growth in tax revenue. INF stands for the inflation rate in any economy. High inflation reduces the purchasing power of the consumer because it reduces the value of the money. It also has bad effect on the collection of taxes. According to our long-run analysis, the inflation rate has negative impact on tax revenue in Pakistan. The coefficient value of the inflation rate for Pakistan is -0.40 that indicates one-unit increases in the inflation rate will decrease tax revenue by 40 percent. Thus, inflation is harmful for tax collection and it should be kept under control rather than following policies to accelerate it.

GFCE stands for gross final consumption expenditure. The consumption expenditure held on those products and commodities which are tax free or near to zero tax then it has relatively negative impact on tax revenue. In our analysis, there is negative association between gross final consumption expenditure and tax revenue. The estimated coefficient value for the gross final consumption expenditure is -1.47 which means that one unit increases in the gross final consumption expenditure will decrease tax revenue by 1.47% in the long run.

4.6 Error Correction Model (ECM)

This model is used to determine short run relationship between variables. The value of the co-integration coefficient should be negative or less than one in the absolute term. In Table 7, the value of the co-integration term is -0.69 and the probability value shows that this results is significant. In our ECM model, there are more than 50 percent variables are insignificant. It means that

there is negative relationship between tax revenue and GDP growth, political stability and grows fixed consumption expenditures in the short run. The results of Error Correction Model are given in Table 7.

Table 7: Short Run Analysis

Co-integrating Form				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDPG)	-0.04	0.03	-1.51	0.2051
D(GDPG(-1))	-0.06	0.05	-1.10	0.332
D(PS)	-1.82	0.27	-6.70	0.0026
D(FDI)	-1.09	0.17	-6.45	0.003
D(INF)	0.04	0.02	2.03	0.1121
D(INF)	-0.14	0.02	-9.28	0.0007
D(GFCE)	0.06	0.06	1.11	0.3303
D(GFCE(-1))	-0.10	0.03	-3.00	0.0399
Coint Eq (-1)	-0.69	0.06	-11.77	0.0003

Source: Author's calculations

4.7 Granger Causality Analysis

Granger causality analysis is used to examine the causation between variables. Table 8 shows the granger causality analysis results. It can be noted from the results in the above table that there is a unidirectional causality between tax revenue and GDP growth rate. Inflation and FDI also show unidirectional causality. Political stability and tax revenue is found to be no causation. The results of Granger causality analysis are shown in Table 8.

Table 8: Granger Causality Analysis

Null Hypothesis:	Obs	F-Stat.	Prob.	Description
GDPG does not Granger Cause TAXR	19	0.4939	0.6205	GDPG does not Granger Cause TAXR
TAXR does not Granger Cause GDPG		5.9556	0.0134	TAXR does not Granger Cause GDPG
PS does not Granger Cause TAXR	19	1.9611	0.1775	PS does not Granger Cause TAXR
TAXR does not Granger Cause PS		3.6205	0.054	TAXR does not Granger Cause PS
FDI does not Granger Cause TAXR	19	0.8922	0.4318	FDI does not Granger Cause TAXR
TAXR does not Granger Cause FDI		0.488	0.6239	TAXR does not Granger Cause FDI
INF does not Granger Cause TAXR	19	1.7937	0.2025	INF does not Granger Cause TAXR
TAXR does not Granger Cause INF		0.2494	0.7827	TAXR does not Granger Cause INF

5. Conclusions

Low tax revenue of any country creates the fiscal and trade deficit problems and these countries have to borrow from other countries or from domestic or from international financial institutions. This not only increases the debt burden but also accept IMF harsh conditional ties for seeking funding to meet budgetary gap. Pakistan is among those countries which been facing problem of low tax revenue since long. The Government has unable to collect tax revenue according to its targets. In this perspective, we conducted this

study to investigate the causes of low tax revenue collection in Pakistan. In order to conduct this research empirically, we collected annual time series data from 1997 to 2017 for analysis. We used ADF test to check stationarity among variables of the study and to determine which model should be used for analysis of data. We found that the variables are stationary at different levels and as such we applied ARDL model to determine long run relationship between variables. Granger causality test was applied to determine the cause and effects of variables. The results show that economic growth, political stability, and foreign direct investment boosts the tax revenue in Pakistan while inflation rate and gross capital formation reduce tax revenue. In other words, GDP growth rate has positive effect on tax revenue and these two variables have positive relationship. Similarly, political stability has also positive relationship with tax revenue because Pakistan mostly face political crisis due to weak political system and tussle between power sharing groups. During political crisis, local and foreign investors are reluctant to invest in Pakistan on long term basis and this results not only low GDP growth but also low tax collection. Foreign Direct Investment (FDI) has a significant impact on GDP growth and tax revenue because Pakistan is a poor country and don't have sufficient resources to carry out development projects and provide necessary amenities to its people. So FDI is very imperative for Pakistan and our empirical results also prove it. Political stability and FDI are two important determinants of high productivity and high tax revenue in the long run. Inflation rate and gross fixed consumption expenditures have negative relationship with tax revenue in the long run. The reason is that constant hike in inflation rate reduces purchasing power of consumers and value of currency as well as it also has negative impact on fixed wage earners and pensioners. In

the high inflationary environment, the people will have to spend more money on consumption expenditures and they have less disposable income.

6. Policy Recommendations

We would like to make the following policy recommendations keeping in view the above results and conclusions.

- ▶ Tax collection directly relates to the political stability and law and order in a country. It increases investment in a country and in turn enhances employment opportunities. Due to the higher employment opportunities people have more money and purchasing power and financial ability to pay more taxes. So it is suggested that political stability must be created in Pakistan to create employment opportunities and increase in tax revenue through reconciliatory policies.
- ▶ People's confidence must be built through creating transparency in public expenditures and reducing the chances of misuse of public funds.
- ▶ There must be consistency in economic policies in order to create optimism among local and foreign investors. It will enhance the credibility of Government.
- ▶ Tax revenue must be spent on public welfare projects in order to restore the confidence of people and international donors.
- ▶ Tax evasion must be controlled through policy initiatives and introducing strict punishment for tax evaders.
- ▶ Tax culture must be developed to motivate the people to pay taxes voluntarily.
- ▶ Inflation must be kept under control in order to save the fixed wage earners, pensioners and poor segment of society from its negative effects.
- ▶ Per capita income of the people must be increased to enable them to meet

their growing expenditures and tax liabilities.

- ▶ Tax reforms must be introduced to eradicate corruption in tax department and corrupt tax authorities must be awarded exemplary punishments.
 - ▶ Honest tax payers must be given incentives and due respect so that they may feel honour as tax payers rather than harassing them in different ways.
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Acknowledgement

The authors are grateful to the anonymous referees of the journal for their extremely useful suggestions to improve the quality of the article.

Disclosure of Interests

The authors declared no potential conflicts of interest with respect to the research, authorship and/or publication of this article.

Funding

The authors received no financial support for the research, authorship and/or publication of this article.

ORCID

Abdul Ghafoor Awan  <https://orcid.org/0000-0001-5767-6229>.

Notes on contributors

Prof. Dr. Abdul Ghafoor Awan is serving as a Dean, Faculty of Management and Social Sciences since 2010. He has his first Ph.D in Business Administration from University of Sunderland, UK and second Ph.D in Economics from Islamia University of Bahawalpur. He has so far supervised more than 300 research students of M. Phil levels in different discipline. He is author of eight books on different topics. He has credit to have more than 300 research paper published in different

international Journal. His research profile can be seen at Google Scholar, ORCID, Publons, and other global research databases. He can be reached at his Email ID: drabdulghafoorawan@gmail.com

Mr.Faisal Hayyat is a research scholar at Department of Economics, Institute of Southern Punjab, Multan. He has completed his M.Phil in Economics and is seeking further higher studies. He can be reached at his email ID: faisalhayat2400@gmail.com

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