

THE DETERMINANTS OF TAX EVASION IN PAKISTAN-A CASE STUDY OF SOUTHERN PUNJAB

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ABSTRACT: *Every citizen is legally bound to pay tax to the government to enable to meet its expenditures to discharge its obligations regarding defense, education, public health, law and justice, infrastructure etc. In most of the countries, tax revenue is a major source of government income. Taxes also play a very important role in the economic development of a country. Tax evasion is concerned with all unlawful activities which are adopted by the taxpayers in order to escape from the payment of tax. The objective of this study is to probe the determinants (causes) of tax evasion in Pakistan from both tax payers and tax collectors point of view. In order to record the views of both tax payers and tax collectors the author has collected data from 150 respondents through two separate structured questionnaires. The data collected through this method has been analyzed through different statistical techniques such as arithmetic mean, percentages, standard deviation, t-tests, ANOVA etc. The results highlight six main cause of tax collection: unproductive expenditures / misuse of funds, anti-tax culture, corrupt tax administration, multiple & higher tax rates, complex tax system and amnesties and incentives for tax evaders. The author has also made certain recommendations to combat tax evasion problem and submitted suggestions to improve tax collection in order to ensure financial independence of Pakistan.*

KEYWORDS: Tax Evasion, Determinants, Tax Collector's point of view, Taxpayer, Pakistan

INTRODUCTION

The governments of the countries promises to provide the basic facilities and utilities of common use and to achieve many other common objectives such as defense, education, public health, law and justice, infrastructure etc., against some contribution from the public, which is termed as "TAX". Tax plays a very important role in economic development of a country. It helps in the existence and financial independence of country and also supports the government to finance the social welfare programs and building of infrastructure in the country. It aids in the equal

distribution of wealth, fair and just allocation of resources, removal of foreign dependence and protection of home industry from external industrialists by restricting imports through heavy taxes. In Pakistan federal taxes are divided into the following categories;

Direct taxes:

Direct taxes consist of the following;

- a) Income Tax
- b) Wealth Tax

Indirect taxes:

Indirect taxes include the following types of taxes;

- a) Customs
- b) Sales Tax
- c) Federal Excise Duty

Most of the people in the world want to enjoy all those benefits and services which are provided by their state governments but do not like to pay their taxes. This ratio is very low in the advanced and developed countries but much higher in the developing and less developed countries. Such is the case in Pakistan. The persons try to save themselves from payment of tax by two ways which are;

- ❖ Tax Avoidance and
- ❖ Tax Evasion

Tax avoidance:

Tax avoidance is defined by the United Kingdom Royal Commission on the Taxation of Profits and Incomes, as follows;“By tax avoidance is understood some act by which a person so arranges his affairs that he is liable to pay less tax than he would have paid but for the arrangement. Thus the situation which he brings about is one in which he is legally in the right.”(U.K., 1955).Tax avoidance takes place where taxpayers reduce their tax liabilities by using the loopholes in the tax law. The transactions are made or structured in such a way that they minimize tax liability. In some of the cases, tax avoidance is intentionally encourages by the legislators in order to grant some favors, both with good or mal- intention. Tax avoidance is considered legal as it does not break any law. Activities like fraud, concealment, misrepresentation and other illegal activities are excluded from tax avoidance. Tax avoidance is against the spirit and basic purpose of the law and taxpayer does not follow it but the word of law. Tax avoidance often takes place in those areas where law is ambiguous and needed to be translated and interpreted by the discretion of tax authorities.

Tax Evasion:

United Kingdom Royal Commission on the Taxation of Profits and Incomes has defined the term “tax evasion” in the following words; The term evasion “denotes all those activities which are responsible for a person not paying the tax that the existing law charges upon his income. Ex hypothesis he is in the wrong, though his wrongdoing may range from the making of a deliberately fraudulent return to a mere failure to make his return or to pay his tax at the proper time.”

Tax evasion refers to all those illegal activities or practices which are adopted by a taxpayer to escape him/her-self from taxation. For this purpose taxable income / profits liable to tax or other taxable activities are concealed, tax reducing factors like expenditures, exemptions or other tax credits are knowingly and willfully overstated and the amounts received or the source of income misrepresented.(Alm and Vazquez, 2001 and Chiumya, 2006).Taxation and tax evasion is an observable fact that occurs in all societies. (Bird and Oldman in Oberholzer and Stack, 2009).It was found in a study that the taxpayers in Tanzania hide themselves in the bushes when tax authorities of Tanzania undertook a tax campaign against them.(Fjeldstad & Semboja, 2001)It was summarized by (Oberholzer & Stack, 2009) “Taxation and evasion have always gone hand in hand.” Tax evasion is not limited to few countries of the world but it is a universal phenomenon, irrelative of region or continents.

The author will focus both on tax evasion and tax avoidance, because the core purpose of the research under consideration is to find out the behaviors of public / taxpayers that why they try to escape from paying taxes.Further, from the above mentioned discussion we came to know the different types of taxes. In the case of Indirect Taxes the taxpayer has to play the role of intermediary party or as a tax collecting agency on behalf of the government and then to deposit such collected revenues in the government exchequer. The taxpayer has not to pay even a single rupee from his own pocket. Although, there exists tax evasion in Indirect Taxes in Pakistan but through effective enforcement and education of taxpayers, it can be controlled and reduced to minimum negligible levels.

But in the case of Direct Taxes the taxpayers has to pay all the taxes from his own pocket which reduces his income and effects his financial / liquidity position. As we discussed earlier in the chapter that Direct Taxes are of two types i.e. Wealth Tax and Income Tax. Wealth Tax is not being levied, charged and collected now a days, so there is no question of tax evasion and there is no need to conduct research on tax evasion of wealth Tax. However, Income Tax is the tax in which there exists massive evasion in Pakistan and its contribution to national exchequer is declining. Due to this, the researcher has decided to conduct research in only one type of tax which is termed as “Income Tax”. It is important to mention that in this research the word TAX will be used for income tax.

LITERATURE REVIEW

Mirrles (1971) suggested that tax evasion is a topic of theoretical research which motivated Allingham&Sandmo (1972) to review the income tax evasion in his paper. The objective of paper was to analyze the decision of taxpayer to evade tax or not and to know the extent of tax evasion through under reporting of economic activities. Yitzhaki (1974) analyzed that there is a positive relationship between probability of detection, rate of penalty and reported income. Azhar (1996) discussed some conceptual issues regarding the title of tax evasion. He also identified some important causes of tax evasion and suggested measures to address them. Tanzi (1983) suggested that in the shadow economy transactions are mainly made in cash in order to conceal them. Etzioni (1986) concluded that main reason of tax evasion in USA is the sense that taxes are unfair. Franzoni (1998) said that tax evasion is a complex phenomenon that can be overcome by bringing changes in social and moral behavior. Houston & Tran (2001) conclude that there is a negative relationship between education and tax evasion. Self-employed persons evade more than the employees.

Molero&Pujol (2004) added two new factors of tax evasion which are guilt and shame. McGee & Smith (2006) Conducted study in order to authenticate the various arguments which are presented for tax evasion. Alm& Vazquez (2007) discussed the structured features of tax system, weak tax enforcement capacity, corruption, presence of informal sector in the economy and tried to correlate the informal sector with the fiscal gap. McGee & Nornoha (2008) discussed the ethical aspects of tax evasion and concluded that there is a general perception that tax evasion is unethical and also that there is a wide spread feeling that tax evasion is justified in certain cases. Siehl (2010) discussed that tax system in almost all the developing countries are not well established. The author also indicated some main reasons of tax evasion such as low tax morale low quality of service in return of taxes, corruption, low transparency etc. Neck, Wachter, & Schneider (2011) focused on the effect of tax evasion and tax avoidance on the size of economy. Abasi&Haidaryemady (2012) conducted research to find out the reason of tax evasion by employees and legal persons and give remedies for the problem in Iran. Wadhwa& Pal (2012) concluded that main reasons of tax evasion are high tax rates, corruption, multiple tax rates and inefficient tax administration. Thure (2013) proposed single comprehensive model containing the factors that have the most influence on tax compliance. Muhrtala&Ogundeji (2013) argued that the issue of tax evasion and tax avoidance is same in almost all countries of the world. The study was based on the information gathered from tax professionals. They concluded that most significant factors were; deficiencies in tax structure.

Distinction of Study

The review of literature revealed that almost all the researchers conducted their research on the basis of information / data gathered from general public who may not be registered with the tax department and consequently may not be facing and feeling the actual problems which discourage them from payment of taxes. The taxpayers who are the actual and foremost important party to tax revenue and who loses their hard earning in payment of taxes have not been focused.

The first distinction of this study is that it has only considered the taxpayers in order to get the true and fair opinion about factors of tax evasion.

Secondly, this study has also took into account the opinion of tax collectors/tax administration in order to know their version about tax evasion factors.

RESEARCH METHODOLOGY

Research methodology is an important in any type of research. It includes the techniques, methods and approaches which are used to measure the main research problem. It explains that how data is collected, processed and interpreted to reach the results. It includes the following;

Research Design:

The design of research is descriptive in which the determinants of tax evasion were noted and described.

Population

The researcher selected tax officers / officials and taxpayers of three (03) cities as population from Southern Punjab, Pakistan, who are enforcement & collection of tax and tax payment or tax evasion respectively. Names of selected cities are as;

- Bahawalpur
- Multan
- Dera Ghazi Khan

Sampling Design:

Tax officers / officials of selected population were selected to conduct their interviews under a structured questionnaire. The sampling design was applied to obtain tax collector’s point of view. In order to obtain the opinion of taxpayers, simple random sampling method was used.

Sample Size:

The researcher selected a total sample of 200 persons from the selected population which is further distributed as;

Taxpayers	=	150 (Individuals, AOPs, and Companies etc.)
Tax Officers	=	50
Total	=	200

Data & Sources:

The researcher mainly relied on the primary data which is collected by serving 5-Poin Likert-scale questionnaires and personal interviews of both tax officers and selected taxpayers. Further, the researcher also conducted un-structured interviews of the tax officers and taxpayers in order to collect their opinions and suggestions.

The researcher visited many of the sampled tax officers and taxpayers, and distributed & collected the questionnaires personally. But a significant number of questionnaires have been collected by using the social network i.e. relatives, friends, colleagues etc.

Selected Variable:

The researcher has selected two types of variables;
From the tax collectors’ point of view and
From the taxpayers point of view

Variables from Tax Collector’s Point of View:

The questions relating to these variables have been answered from the tax officers.

- a) Lack of Education and Lack of Counseling for Govt. Services Provided through Taxes
- b) Shadows of Exempted Incomes
- c) Political Influence and Lack of Political Will for Tax Enforcement
- d) Undocumented Economy and No Role Model from Political Leadership

Variables from Taxpayer’s Point of View:

The questions relating to these variables have been answered from the taxpayers.

- a) Complex Tax System and Procedures
- b) Multiple Tax Systems & Higher Rates of Taxes
- c) Corrupt and Non-Cooperative Tax Administration
- d) Unproductive use and Unequal Distribution of Funds by Government.
- e) Amnesties and Incentives for Tax Evaders nothing for Tax Compliers

f) Anti Tax Culture & Feeling of No Responsibility from Religious Point of View

Data Collection Instrument:

In order to collect data from the respondents, a structured questionnaire was developed and used. For those respondents who had busy schedules, the questionnaires were delivered to them and were retrieved after an agreed convenient time. The respondents who were not able to understand the English language, the questionnaires were read by the author to make understandable for them.

Questionnaire:

The questionnaires containing seven and nineteen close ended questions for tax collectors and taxpayers, respectively, were issued to the respondents in order to enable the researcher to get answers in the intended words.

Data Processing and Analysis:

The questionnaires collected from the respondents were classified, codes and analyzed.

Data Processing:

Data collected from respondents through questionnaires and personal unstructured interviews was then compared with data and information gathered from different journals, articles, books, documents etc.

Data Analysis Techniques:

The arithmetic mean, percentages, ANOVA, t-tests etc. will be used for statistical analysis of data. To check the relationship between the variables SPSS- Version-21 will also be used.

Conceptual Framework

In this chapter I will try to define and explain the variables, which have been selected for this study and will try to explain that;

Why people evade taxes?

What theories say about the causes of tax evasion?

This chapter covers the explanation of both types of variables which have been selected from taxpayer's point of view and tax collector's point of view. Variables from taxpayer's point of view have been discussed in point no. 4.1 to 4.6 while the variables from tax collector's point of view have been discussed in point no. 4.7 to 4.10, hereunder;

Complex Tax System and Procedures:

In many developing countries tax laws are being changed very frequently which increase instability in the tax system. Due to this the tax laws become complicated and confuse both the taxpayer and tax officials. It creates the opportunity of tax avoidance (Mo, 2003). It also helps in occurrence of a type of tax evasion which is not intentional but occurs due to ignorance of tax laws.

Another cause of tax evasion in developing countries like Pakistan is unfamiliarity of process of books keeping, tax calculations and preparation of tax returns. Due to lack of education and knowledge of book keeping people hesitate to get them registered with the tax collecting agency and try to escape from tax net through all means, legal or illegal. The alternate to lack of book keeping and other documentations is the hiring of qualified & trained accountant or tax lawyer

who can do all this, but it will need certain high costs to be born by the taxpayer. Such types of costs are termed as compliance costs. High compliance costs may motivate the taxpayers to evade tax. The World Bank's 2008 World Development Indicator for "time to prepare and pay taxes" shows huge differences between countries: While preparing and paying taxes requires 210 hours on average in high income OECD countries, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. Further, the fairness of tax system is very important in order to gain the confidence of taxpayers. But in the developing country like Pakistan the tax system is not fair and just. Some people who should have pay meager taxes are paying high amount of taxes such as employees, whose taxes are being deducted at source, while on the other hand there are categories of persons who should have pay more taxes, such as businessmen, firms, corporations, large farmers or agriculturists, are pay meager amount of taxes.

Multiple Tax System and Higher Rates of Tax

The perception of fair and just tax system also play a very important role in motivating taxpayers to pay taxes. But if the taxpayer has a different perception it will lead to tax evasion. (Everest-Philips, Business tax as state-building in developing countries: Applying governance principles in sector development, 2008) described a mapping of local taxes in Yemen which found over 1500 different taxes, licenses and fees covering various bases at different rates. This situation led business to worry more about the administrative burden than about the actual tax burden. In such a situation it can be assumed that compliance costs are very high and the probability of the taxpayer complying with such a great variety of taxes low. (McGee & Noronha, 2008) Concluded in their study "The Ethics of Tax Evasion" that a large proportion of respondents strongly agreed to the statement that tax evasion is ethical if the tax system is unfair.

Higher and un-rationale tax rated is another main reason for evasion of tax. Normally, people are willing to contribute a fair proportion of their earnings in the national development of the country in which they live and for common welfare projects. But when this amount touches the high percentages, it compels the people to make a decision to pay or not to pay the tax with the help of all legal or illegal tactics. Thus the amount which a person was willing to pay as tax went lost. (Cummings, Martinez-Vazquez, McKee, & Torgler, 2009) made a comparative study of two countries and concluded that the taxpayers of the country with higher rates of tax were keener in the evasion of tax as against the taxpayers from other country whose tax rates were comparatively low. (Torgler, Tax Morale in Latin America, 2005) concluded that due to higher rates of taxes people of Latin America try to evade tax.

Corrupt and Non- Cooperative Tax Administration

Fair, motivated, integral, qualified, experienced and highly trained tax administration is of vital importance for the implementation, enforcement of tax laws and collection of tax revenue. But unfortunately, Pakistan is facing a scarcity of above mentioned idea tax administration. The main and sole tax collection and enforcement agency of Pakistan i.e. Federal Board of Revenue is regarded as most corrupt institutions of the country. Due to high level of corruption in tax administration, the taxpayers feel no fear in tax evasion by manipulating their books of accounts or through other means, because they are enough confident to get through the audit and assessment

process by offering bribes. (Wadhwa & Pal, 2012) concluded in their research that 60% of the respondents consider that corruption in tax administration is cause of tax evasion in India.

A well organized, highly trained and well equipped body of tax administration is essential for detection and prosecution of tax evaded by the taxpayers. Lack of competencies, experience and more importantly willingness and commitment in tax administration helps in reducing the discrimination of taxpayer regarding making the decision to pay or not to pay the true and actual amount of tax duly. (Fishlow & J., 1994)

Discrimination of tax officials regarding assessment of tax liability of taxpayers is also one of the main causes of tax evasion. The corrupt tax officials use their discriminatory powers to over-assess or under-assess the tax liability in return of bribes or other benefits. (Abbasi & Haidaryemady, 2012) conducted an empirical study and suggested that the process of assessment should be observed keenly in order to prevent the tax officials from harming the interest of the government. The commitment, responsibility, integrity, respect of taxpayers and good relationship with taxpayers of tax officials and administration play a vital role in the establishment of mutual confidence and trust among both sides of table and can help in reduction of tax evasion. According to (Frey & Feld, 2002) a good positive civil relationship between taxpayers and tax officials as against controlling and authoritative relationship can help in boosting the morale of taxpayers and help in controlling the tax evasion. (Torgler & Schaltegger, Tax Morale: a survey with a special focus on Switzerland., 2006) argued that the taxpayer who receive personal attention and respect from the tax authorities is more compliant as against the taxpayer who is treated the other way.

Unproductive Expenditures and Unequal Distribution of Funds by Governments:

The governments often make unproductive expenditures from the public funds such as; expenditures on their lavish living, perquisites, benefits and heavy advertisements from public funds for the promotion of their own political purposes and motives. On the other hand the real contributors of public funds i.e. taxpayers receive a very low quality of services in return of their contribution i.e. taxes. So the failure governments to provide services or benefits which the taxpayers expect from the governments, leads the people to evade taxes and provide a strong justification for this illegal act. (Pashev, 2005), (Everest-Philips, 2008), (Lieberman, 2002), (Brautigam, Odd-Helge, & Mick, 2008) Lack of fairness and accountability in the use of funds also motivates the people to evade taxes. Taxpayers think that their funds are not being spent on the public service or benefits but are going in to the pockets of corrupt politicians and bureaucracy. It also increases lack of trust on the credibility of governments and decrease affiliation of the people with the government. (Kirchler, Stephen, Barbara, & Ingrid, 2007) and (McGee & Noronha, 2008). Another reason which motivates taxpayers to evade tax is the large spending of tax revenue on defense. Taxpayers consider as fair percentage of their funds for defense purpose as justified and acceptable. But a heavy percentage of funds utilization on defense is being regarded as wastage of public money. (McGee & Noronha, 2008) argued that people don't like to spend their monies on unjust wars.

Most of the governments or leadership in the developing countries tries to spend a huge amount of public funds in the areas/cities from where they belong in order to get political support and votes in the years to come. This disturbs the people of other areas and provides justification and reasons

to involve in such type of activities which help them in reducing their tax liability. (Alm & Vazquez, Tax Morale and Tax Evasion in Latin America, 2007) concluded that the social norm of payment of taxes is also affected by the popular support of the government program. It means that there will be more tax compliance if the government's benefits and services provided to the public are popular.

Amnesties and Incentives for Tax evaders Nothing for Tax Compliers:

Most of the governments use tax amnesties as a part of their fiscal program. The amnesty is scheme which is offered by governments from time to time and allows the taxpayers to pay their previous taxes with little portion of penalties or surcharge or without any penalty, just the principal amount of tax unpaid. Government of Pakistan is also using this tactics in order to increase their revenues. But it also have some cost which to are to be born by the governments such as it may de-motivate and discourage the honest taxpayers who paid their tax duly. According to (Alm & Vazquez, Tax Morale and Tax Evasion in Latin America, 2007) "the introduction of a tax amnesty may also affect the social norm of compliance".

It is a general principle that a person making contribution for any cause, fund or project of public welfare expects some recognition from the society. The taxpayer also contributes in the national exchequer which is ultimately used by the government for different purposes include in their duty and obligation. The provision of some distinctive privileges and incentives to taxpayers or preferential treatments for government services may help in motivating the people to pay taxes, because almost everyone likes to be treated distinctively. Previously in 1990's the government of Pakistan introduced the scheme of issuing NTN Cards which was associated with some privileges. This scheme got a good appreciation from the taxpayers. The present government of Pakistan is also issuing distinctive cards to the taxpayers in the continuity of that scheme. In an empirical study by (Abbasi & Haidaryemady, 2012), a question was asked about effect of tax related incentives in motivating the people to pay taxes, the respondents marked 385/1310 to medium and 289/1310 to high which is 29.4% and 22.1% respectively. It showed that the effect of tax related incentives has significant role in motivating the people to pay taxes or vice versa.

Anti-Tax Culture and Feeling of No Responsibility form Religious Point of View:

Tax culture means that there exists the habit of paying taxes in the country in general. Means to say, that everyone feel himself responsible and legally obliged to pay taxes. Governments utilize their taxes in providing services and benefits to public in return. Governments also adopt such policies which help in promoting tax culture and public interest in paying taxes duly. But unfortunately like all other developing countries, Pakistan is also lacking the tax culture. People are unaware of government services and benefits provided with the help of tax or the quality of services provided by the government is very poor and people are not satisfied with them. Due to this they feel taxes as extra burden on their pockets and they feel justified to evade tax. According to (Azhar, 1996), "An anti-tax culture prevails in the country. Tax pilferage had become the rule and compliance as exception. There is no social stigma attached to tax pilferage".

Penalties and punishments play a very important role to stop all acts of illegal nature i.e. crimes. Tax evasion is financial crime which is committed by the people of a country by violating the

national tax laws and give loss to the government revenue. So it is strongly needed that the tax evaders should be as punishable as the other criminals. It will help in reducing the tax evasion. (Allingham & Sandmo, 2009) stated that the option of taxpayer to comply tax laws or not depends upon the probability of being detected and punished. (Slemord, 2007) also showed that tax evasion is influenced by the probability of being caught and the severity of penalties. (Cummings, Martinez-Vazquez, McKee, & Torgler, 2009), (Gcabo & Robinson, 2007)

The commitment and responsibility of people of a country to pay taxes as national obligation, is also an important factor in deciding the people to make compliance of evasion decision. If the nationals of a country are committed, affiliated and in love with their country they feel pleasure to obey the orders of the state in general. But in the contrary situation the people will try to escape from their legal obligation including taxes. (Abbasi & Haidaryemady, 2012) concluded that in an answer to question about the commitment and obligation of taxpayers to pay tax the respondents showed 28.8% and 27.6% response to medium and high points of Likert Scale respectively, than that of very high. The situation in Pakistan is much more embarrassing and disturbing. The level of commitment and responsibility to pay taxes as national duty is very low.

Many studies have been made in many countries regarding justification of evasion of tax from religious point of view. (Murtaza & Ghazanfar, 1998) discuss the ethics of tax evasion from the point of view of Muslims about tax evasion. There are different opinions and view points of respondents about tax evasion in different religions and regions. Some felt tax evasion unethical, some ethical and few felt liability to pay taxes in certain situations such as the situation of war (Pennock, 1998), or if the tax rates are fair and just (Schansberg, 1998) etc. otherwise no liability. In Pakistan, there exists a sense that the evasion of government taxes is justified from religious point of view because there is no tax in religious literature except Zakat and Ushar. Furthermore, this argument is also supported by some religious scholars.

Lack of Education and Lack of Counseling for Govt. Services Provided Through Taxes:

There are different views and conclusions of researchers about the effect of education on tax evasion. Some are of the view that education has no effect on the tax compliance, while others claim that lack of education tends to increase in the tax evasion. (Torgler, 2002) stated that education has not role in the decision making process of the person about tax evasion or not. (Mughal & Akram, 2012) in their study titled as “Reasons of Tax Avoidance and Evasion: Reflections from Pakistan” concluded five factors of tax evasion including illiteracy of taxpayer regarding tax calculation. Taxpayers are not aware of complex process of filing of returns and other compliance documents and statements. The education of taxpayer can help in increasing the tax morale and ultimately tax compliance. Government and tax authorities of Rwanda and Peru also started education and training process of taxpayers in order to increase the tax compliance. International Tax Compact issued working paper titled “addressing tax evasion and tax avoidance in developing countries” published by The German Ministry for Economic Cooperation and Development, stated that normally the taxpayer are not aware of the significance of tax revenue for the proper functioning of governments. It is, therefore, needed to educate the people about them.

Counseling campaigns by the governments with the help of electronic & print media, awareness conferences, and seminars, E-learning programs at schools, colleges, universities, education courses and video lessons can be conducted in order to convince the people about the importance of taxes and the services provided through taxes.

Shadows of Exempted Incomes:

Exemption of certain sectors of incomes such as agriculture income or some regions such as tribal areas is also one of the major causes of tax evasion in Pakistan. Tax authorities detect evasion of income tax by tracing the assets or investments of the people. The people are questioned about such assets or investments and their source of acquisition. The people present their exempted incomes as source, as there is no record of such incomes. In this way the exempted incomes provide a strong cover in order to explain their untaxed incomes (Azhar, 1996). Motor vehicles in the names of persons residing in tribal areas are also a source of tax evasion which is caused by exempted areas. (Kemal, 2007) stated that the exemption of agriculture sector provided a shelter to the businessmen to hide their taxable incomes. (Richardson, 2006) stated that taxation on the proceeds would be very difficult in a situation where farming and informal trading are major activities.

Political Influence and Lack of Political Will for Tax Enforcement:

In the words of (Azhar, 1996) “it has become privilege of the high and mighty to not to pay any tax. On top of it, they interfere in tax administration to help even others to evade taxes”. In Pakistan, the political system is immature and is in its early phase. The political leaders, whose main function is to legislate laws for the country, are supposed to help the public in the affairs like, police, courts, education, utilities and in almost every department of life. Similarly they also interfere in the matters relating to taxes. They influence the tax machinery in order to relax the tax thieves and helps in escaping from tax net or punishments.

Enforcement and implementation of every law heavily depends upon the political will and commitment of the government. If the government is not willing to implement the laws and the behavior of the government is relaxing the enforcement of law become difficult for law enforcing agencies. Tax enforcing agency being a main financial institution of the country is a department which fetches amounts from the pockets of the public is also affected and influenced by the political leadership. In the words of (Alm & Vazquez, Tax Morale and Tax Evasion in Latin America, 2007) “if the perception become wide spread that the government is not willing to detect and penalize evaders, such a perception legitimate tax evasion. The rejection of sanctions sends a signal to each individual that others do not wish to enforce tax laws and tax evasion is in some sense socially acceptable and the social norms of compliance disappears”.

Undocumented/Underground Economy and no role model from Political leadership: Alm & Vazquez, (2007) called undocumented economy as informal sector or shadow economy and concluded that it includes unreported incomes from the production of legal goods or services either from monetary or barter transaction, and so include all economic activities that would generally

be taxable were they reported to the state tax authorities. Self-employed individuals, small firms and corporation are mainly involved it.

Underground economy includes all illegal activities like corruption, narcotics, smuggling, black marketing etc. Such activities are not registered with the tax authorities and have a significant effect on the social welfare of a country because a considerable amount of tax revenue cannot be collected. Undocumented/underground economy exists in almost every country of the world. Under this system transactions are mainly made on cash and without issuing cash memo, receipt or invoice in order to conceal the evidence of transactions. (Yasmin & H., 2003) stated that “underground economy and tax evasion affects formal GDP negatively in Pakistan”. (Schneider & D. H., 2000) tax evasion increase with increase in the underground economy which in turn reduces the government revenue resulting in poor quality and quantity of public service and benefits provided through taxes. Underground economy has very negative impact in the economic development of a country. In order to increase revenue government increase tax rates, due to high tax rates the people try to evade more taxes than earlier which in turn increase the underground economy. (Alm & Vazquez, Tax Morale and Tax Evasion in Latin America, 2007) calculated some facts and figures of shadow economy on some Asian countries which are as; Thailand has 52.6% of official GNP in 1999-2000, Sri Lanka 44.6%, Philippines 43.4%, India 23.1%, Israel 21.9% and Japan 11.3% averaging almost 26% of official GNP in the developing Asian countries.

Leadership means to lead from the front. It means that leadership has to come forward in every sphere of life in order to set examples to be followed by the public. If the leadership of a country is paying their taxes duly, it will be a role model for the public and public will also be tax compliant. But in Pakistan, generally the situation is not so appreciable. The perception of public about the financial character of their leaders and tax compliance is not mention worthy. (Azhar, 1996) stated that “our honorable law makers, who legislate taxes for the nation, exempt themselves on the major source of their own incomes. They do not even care to pay whatever little they are liable to pay..... In such an environment, the rulers lack the necessary moral authority and the political will to enforce tax compliance. Tax thieves feel morally justified to emulate the examples set by the rulers”.Data analysis

5.1 Determinants of Tax Evasion from Tax Collector’s Point of View

The view of tax collectors is shown in Table 5.1 to 5.7

Table 5.1 Lack of Education

Sr.	Statement	Response	<i>f</i>	%	Mean
1	Do you think that the lack of education is a cause of tax evasion?	Very Low	8	30	2.0
		Low	10	37	
		Medium	9	33	
		High	0	0	
		Very High	0	0	
		Total	27	100	

In the table 5.1 respondents were asked "do you think that the lack of education is a cause of tax evasion?", where 37% of the respondents found it to be low, 29.63% of the respondent felt it very low. While 33.33% of respondents found it to be at medium level. The mean score 2.0 negated the statement. So the majority 37.04% of respondents negated the statement.

Table 5.2 Lack of Counseling Campaigns by the Governments

Sr.	Statement	Response	f	%	Mean
2	Do you think that the lack of counseling campaigns by the governments about government services provided through taxes is one of the causes of tax evasion?	Very Low	26	96	1.0
		Low	1	4	
		Medium	0	0	
		High	0	0	
		Very High	0	0	
		Total	27	100	

In the table 5.2 respondents were asked "do you think that the lack of counseling campaigns by the governments about government services provided through taxes is one of the causes of tax evasion?", where 96% of the respondents found it to be very low, 3.70% of the respondent felt it low. While no one found it to be at medium level. The mean score 1.0 negated the statement. So the majority 96.30% of respondents negated the statement.

Table 5.3 Shadows of Exempted Incomes

Sr.	Statement	Response	f	%	Mean
3	What is the extent of tax evasion which is caused under the shadows of exempted incomes?	Very Low	1	4	3.9
		Low	1	4	
		Medium	6	22	
		High	12	44	
		Very High	7	26	
		Total	27	100	

In the table 5.3 respondents were asked "what is the extent of tax evasion which is caused under the shadows of exempted incomes?", where 44% of the respondents found it to be high, 25.93% of the respondent felt it very high. While 22.22% of respondents found it to be at medium level. The mean score 3.9 supported the statement. So the majority 44.44% of respondents supported the statement.

Table 5.4 Political Influence

Sr.	Statement	Response	<i>f</i>	%	Mean
4	What is the extent of political influence on tax evasion?	Very Low	0	0	4.0
		Low	0	0	
		Medium	9	33	
		High	10	37	
		Very High	8	30	
		Total	27	100	

In the table 5.4 respondents were asked "what is the extent of political influence on tax evasion?", where 37% of the respondents found it to be high, 29.63% of the respondent felt it very high. While 33.33% of respondents found it to be at medium level. The mean score 4.0 supported the statement. So the majority 37.04% of respondents supported the statement.

Table 5.5 Political will and Commitment of Governments

Sr.	Statement	Response	<i>f</i>	%	Mean
5	What is the level of your satisfaction about the political will and commitment of governments regarding tax enforcements?	Very Low	0	0	5.0
		Low	0	0	
		Medium	0	0	
		High	1	4	
		Very High	26	96	
		Total	27	100	

In the table 5.5 respondents were asked "what is the level of your satisfaction about the political will and commitment of governments regarding tax enforcements?", where 96% of the respondents found it to be very high, 3.70% of the respondent felt it high. While no one found it to be at medium level. The mean score 5.0 supported the statement. So the majority 96.30% of respondents supported the statement.

Table 5.6 Undocumented / Underground Economy

Sr.	Statement	Response	<i>f</i>	%	Mean
6	What is the extent of tax evasion due to undocumented/underground economy?	Very Low	7	26	2.1
		Low	12	44	
		Medium	6	22	
		High	1	4	
		Very High	1	4	
		Total	27	100	

In the table 5.6 respondents were asked "what is the extent of tax evasion due to undocumented/underground economy?", where 44% of the respondents found it to be low, 25.93% of the respondent felt it very low. While 22.22% of respondents found it to be at medium level. The mean score 2.1 negated the statement. So the majority 44.44% of respondents negated the statement.

Table 5.7) Non-payment of Taxes from Political Leaderships

Sr.	Statement	Response	f	%	Mean
7	Do you think that the alleged non-payment of taxes from political leaderships is a cause of tax evasion?	Very Low	3	11	3.6
		Low	1	4	
		Medium	1	4	
		High	20	74	
		Very High	2	7	
		Total	27	100	

In the table 5.7 respondents were asked "do you think that the alleged non-payment of taxes from political leaderships is a cause of tax evasion?", where 74% of the respondents found it to be high, 7.41% of the respondent felt it very high. While 3.70% of respondents found it to be at medium level. The mean score 3.6 supported the statement. So the majority 74.07% of respondents supported the statement.

5.2 Determinants of Tax Evasion from Taxpayer's Point of View

The tax payers' point of view is given below in the form of tables:

Table 5.2.1 Reliability Statistics of Factors

Cronbach's Alpha	N of Items
.533	6

Table 5.2.2 Item Statistics of Factors

Item Statistics	Mean	Std. Dev.	N
Complex System	7.83	2.372	109
Multiple Taxes and Higher Rates	8.04	1.694	109
Corrupt Tax Administration	10.69	2.515	109
Misuse of Tax	14.72	3.266	109
Amnesties and incentives to Evaders	6.67	1.700	109
Anti-Tax Culture	13.45	2.737	109

Table 5.2.3 Scale Statistics of Factors

Mean	Variance	Std. Dev.	N of Items
61.39	64.535	8.033	6

Table 5.2.4 ANOVA of Factors

ANOVA		SS	df	MS	F	Sig
Between People		1161.636	108	10.756		
	Between Items	5881.934	5	1176.387	234.187	.000
Within People	Residual	2712.566	540	5.023		
	Total	8594.500	545	15.770		
Total		9756.136	653	14.940		

Grand Mean = 10.23

The tables 5.8-11 show the reliability of the factors of tax evasion. The Cronbach's Alpha for the scale is 0.533 and significance value 0.000 is proving the statistical significance of the result of this reliable scale.

FINDINGS AND RESULTS

The analysis of data relating to the *tax collector's point of view* is shown in Tables 5.1 to 5.7, which revealed that;

- The statement “lack of education” as a determinant of tax evasion is negated by the respondents because 37% and 30% of them considered it low and very low, respectively and the mean score is 2.0.
- The statement “lack of counseling campaigns by governments” as a determinant of tax evasion is negated by the respondents because 96% and 4% of them considered it very low and low, respectively and the mean score is 1.0.
- The statement “shadows of exempted incomes” as a determinant of tax evasion is supported by the respondents because 44% and 26% of them considered it high and very high, respectively and the mean score is 3.9.
- The statement “political influence” as a determinant of tax evasion is supported by the respondents because 37% and 30% of them considered it high and very high, respectively and the mean score is 4.0.
- The statement “political will and commitment of governments” as a determinant of tax evasion is supported by the respondents because 96% and 4% of them considered it very high and high, respectively and the mean score is 5.0.
- The statement “undocumented / underground economy” as a determinant of tax evasion is negated by the respondents because 44% and 26% of them considered it low and very low, respectively and the mean score is 2.1.

- The statement “non-payment of taxes from political leadership” as a determinant of tax evasion is supported by the respondents because 74% and 7% of them considered it high and very high, respectively and the mean score is 3.6.

The results relating to the *taxpayer's point of view* are discussed in this section. Out of the total 150 questionnaires distributed to the taxpayers, 109 questionnaires were received back filled in full and completed with response rate of 72.67%. The data gathered from these questionnaires was analyzed.

Table 5.9 reveals overall analysis of factors of tax evasion. According to the statistics; mean of complex tax system is 7.83 with standard deviation of 2.372, mean of multiple taxes and higher rates is 8.04 and standard deviation is 1.694, mean of corrupt tax administration is 10.69 and standard deviation is 2.515, mean of misuse of taxes / unproductive expenditures is 14.73 and standard deviation is 3.266, mean of amnesties and incentives to evaders is 6.67 and standard deviation is 1.700 and mean of anti tax culture is 13.45 and standard deviation is 2.737.

The Cronbach's Alpha for the scale i.e. 0.740 and significance value 0.000 is proving the statistical significance of the result of this reliable scale.

The tables 5.8, 5.10 and 5.11 show the reliability of the factors of tax evasion. The Cronbach's Alpha for the scale is 0.533 and significance value 0.000 is proving the statistical significance of the result of this reliable scale.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion:

The concept of tax evasion is not limited to few countries or nations but it is an international phenomenon. The results of the study relating to *tax collector's point of view* can be concluded as;

- On the basis of descriptive analysis of the “determinants of tax evasion” from tax collector's point of view it is revealed that the statements; shadows of exempted incomes, political influence and non-payment of taxes from political leadership has been supported by the respondents i.e. tax officers /officials. The statements; lack of education, lack of counseling campaigns by governments, political will and commitment of government and underground / un-documented economy has been negated by the respondents.

On the basis of analysis of data and results & discussion relating to *tax payer's point of view*, it is concluded that;

- All the variables /factors regarding determinants of tax evasion are correct. Further, on the basis of arithmetic mean the factors can be ranked as; unproductive expenditures / misuse of funds is at first, anti tax culture at two, corrupt tax administration at three, multiple & higher tax rates at four, complex tax system at five and amnesties and incentives for tax evaders at six number.
- The analysis on the basis of gender did not revealed significant difference in opinion. It may be due to very un-significant number of responses.

- Age wise comparison on opinion of taxpayers about tax evasion factors was calculated by applying ANOVA but results are not significant because the significant value is higher than the significant value at 5% level of significance.

Recommendations:

On the basis of results and findings of the study, the author recommends the following to avert tax evasion and to improve tax collection:-

- The income tax exemptions from different sectors of income should be withdrawn, so that the taxpayers may not be able to hide their taxable income under their shadows.
- There is a need to depoliticize the taxation department and measures should be taken to remove and eliminate the political influence from the tax department. So that it may be able to collect taxes from all taxpayers indiscriminately.
- The political leadership should come forward and lead from the front in the payment of taxes. The tax payments by the political leaders, ministers and members of legislative assemblies should be advertised and highlighted through media campaign, in order to set examples and to encourage the general public to follow the leaders and pay their taxes. It will help in removing the negative impression of non-payment of tax from political leadership.
- Tax laws and procedures should be made simple and easily understandable. The complexities of the system should be removed and the awareness seminars and trainings should be conducted for the public / taxpayers. If needed the laws and tax statements may be translated into Urdu to make it easy. Telephone helpline and online inquiry department should be established for quick guidance of taxpayers.
- Tax rates should be revised and reduced rationally. If tax rates are low, it is possible that more people may be come willing to pay taxes. It will widen the tax base, which will increase tax revenue, ultimately.
- In order to increase the motivation and determination of tax administration, fair salary packages, work incentives / rewards, good working conditions, facilities to perform their duties and welfare benefits should be provided. After that a strict system of accountability and performance evaluation should be adopted. It will help in reducing corruption and inefficiency.
- Professional trainings and development programs should be applied for the existing employees. Fresh, efficient, well educated, highly trained, experienced and professional staff should be recruited. It will enhance the tax evasion detect ability and professional capacity of tax collecting agency.
- Expenditures for the personal benefits of the governments should be cut down to its minimum possible level and public welfare expenditure should be increased. It will enhance confidence, trust and responsiveness of the taxpayers and they will pay more and more taxes.
- Spending of huge funds on mega projects in large and few cities should also be discouraged and ignored and backward areas should be targeted for public welfare and development projects in order to increase their standard of living.

- Regular and repeated offering of tax amnesties should be discouraged and strict tax collecting measures should be enforced. Regular and compliant taxpayers should be offered with different incentives and such as discounted tax rates, installments for payment of tax liability, exemptions from certain procedures and formalities and penalties etc.
- Massive public enlightenment and awareness campaign should be initiated through radio and television programs, print media, seminars and conferences in order to motivate and inform the taxpayers about the need and use of taxes. It will help in development of tax culture in the country.

In the end, it is stated that we all should know the fact that our small contribution in the form of tax revenue can help a great in the social and economic development of country. On the other hand tax evasion is one of the major hurdles in raising tax revenue for the country. The researcher's this tiny effort will help in understanding, the users or readers of this study, the factors which influence or affect tax evasion, which ultimately affect the economic development.

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