

Review Article

Pakistan Taxation Enquiry Committee Report

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Taxes have a strategic role in the development effort of an underdeveloped country. The reasons are simple. First, there is the need to mobilize resources for the public sector. Second, voluntary savings are far short of a minimum desirable size of investment programme; there is thus need for increasing saving through taxes. And third, taxes provide the safest means of finance for economic development as concerns the inflationary effects of development spending. Furthermore, they assume added significance in influencing the extent and direction of private enterprise and in affecting the distribution of income.

The recently released *Taxation Enquiry Committee Report*¹ of Pakistan is of special interest and deserves close attention. The *Report* may be divided into two sections. In the first seven chapters it gives a survey of the existing tax structure. It summarizes the main features of the tax structure and examines their implications for development; fiscal trends over 1948-58 are analysed; the distribution of the tax burden among various sections of the population is discussed; the redistributive effects of the tax structure are examined; and the conflict between the objective of maximum economic development and of equitable income distribution is noted.

The principal findings of the Committee in this part of the *Report* are:

1) Pakistanis are one of the most lightly taxed peoples of the world. The overall tax burden as measured by the ratio of total taxes to national income at current prices is only about 7.5 per cent². This is low even in comparison to other underdeveloped countries of Asia and Latin America. What is perplexing is that the tax burden showed signs of decline in the first three years of the first planning period.

2) The growth in tax revenue over time has not kept pace with the growth in government expenditure.

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1. Government of Pakistan, *Taxation Enquiry Committee Report*, submitted to Government in June 1960 and publicly released in March 1962. The Committee was appointed in July 1957. It gave two *Interim Reports* in 1959. We are here concerned only with the *Final Report*.

2. It is probably lower than that if we consider the likely underestimation of official national income figures.

3) The tax system has not been sufficiently flexible—it has not responded adequately to the growth in national income.

4) Direct taxes reach only a very small fraction of the population—reportedly less than 0.1 per cent³ in 1955-56.

5) Agricultural income which forms about 55 per cent of national income is exempt from central income tax.

6) The exemption limit of income tax stands at the high level of 25 times per capita income. This is much higher than the limit in other similar countries.

7) Capital gains and wealth are exempt from taxation.

8) Land taxes are very low. Generally, the rates were determined a long time ago and have fallen in real terms with the subsequent rise in prices. Moreover, the rates of land taxes are inflexible as these cannot be changed over a long period of land settlement.

9) The tax system has disincentive effects on private initiative and enterprise.

10) A considerable portion of the tax burden is borne by a very small part of the population. Income tax contributes about 18 per cent and import duties contribute about 31 per cent of the total tax revenue; income tax covers only about 0.1 per cent of the population and import duties cover a limited section living mostly in urban areas.

11) Per capita tax on urban people is roughly 16 times that of the rural people while per capita income in the urban sector is about 6 times greater than per capita income in the rural sector. Adjusting for this income disparity, the tax incidence in the urban sector is roughly $2\frac{1}{2}$ to 3 times that in the rural sector⁴.

12) Except for the low income ranges, an urban person pays a much higher amount of taxes than his rural counterpart at the same income level especially as this level rises above Rs. 25,000⁵.

³. The number of income tax assesses quoted by the Committee is actually less than 0.1 per cent of the population; the Committee simply says "less than 1 per cent".

⁴. This finding is not particularly helpful, since with higher incomes we ought to expect more than proportionately higher incidence as the ability to pay increases more than proportionately with rise in income.

⁵. This follows from the Committee's calculations of the incidence of direct taxes by income source at various income levels (ranging from Rs. 6,250 to Rs. 50,000) even when the areas selected for the rural incidence have the highest rates of land revenue in West Pakistan.

13) The tax system does not contain adequate safeguards against growing undesirable income inequalities.

14) Tax evasion has been widespread.

SECTION II

In the second section, the *Report* passes on to individual taxes separately under central, provincial and local heads and embodies the Committee's specific recommendations. It is with this part that we intend to concern ourselves mostly. We will examine only the main recommendations⁶.

Central Direct Taxation

The Committee makes several valuable recommendations in the general context of taxable income. It quite rightly points out that *bonus shares*⁷ should be excluded from income tax in order to provide incentive to the re-investment of business profits. The Committee's advocacy of taxing non-cash benefits granted by an employer to an employee is based on good tax principles. But the suggestion that perquisites up to one-third of an employee's salary be exempted seems unnecessary. It leaves considerable income untaxed and encourages evasion on the part of employers.

The Committee recommends discontinuance of presently permitted initial and additional depreciation allowances on plant and machinery over and above the normal allowances. As a compensatory measure it favours introduction of a "development allowance" at 20 per cent of the original cost, which will permit building reserves up to 120 per cent of the original cost. Replacement at the original cost is rarely possible in a growing economy because of inflationary movements either at home or in the capital-exporting countries, or because of technological change and obsolescence which increase the real cost of investment.

We now come to a very important question of broadening the tax coverage. As noted earlier, the Committee recognizes "a serious limitation of the existing income-tax system is its low coverage. The present exemption limit of Rs. 6,000 is disproportionately high as compared to the average per capita income". The Committee thinks that on purely economic grounds it would be justified to bring down the limit to Rs. 3,600. But on additional grounds, supposedly administrative, it has recommended the limit of Rs. 4,200. This seems to be an unfortunate compromise.

⁶. Within the confines of this paper it is not possible to deal with the whole catalogue of recommendations.

⁷. These are shares issued to the shareholders out of the company's profits thereby retaining profits for re-investment.

A rough indication given by the Planning Commission suggests that the gross saving rate in Pakistan amounts to about 7 per cent of national income⁸. The net rate (after financing depreciation of the existing capital stock) is so small that only a very meagre growth rate of per capita income is possible. Such a situation is far short of the requirements for a minimum acceptable rate of economic development. While the very low per capita income level admittedly limits the attainable saving rate, the existing saving rate in Pakistan is much lower than the attainable rate.

Three income groups may be distinguished— (1) very low, (2) middle and (3) high. Since the first group maintains a bare living, there is little room to reduce consumption; hence taxes will lead them to dissave. Income earners in the third group have a high margin of income after consumption and hence they are in a position to maintain the same consumption standard even if taxed. Taxes on them will mainly reduce private saving. On the other hand, the middle income group does not have a substantial margin of saving because a comfortable living standard maintained. Taxes on this group will help substantially to reduce consumption.

One should frankly admit that in Pakistan there is no known means of pushing up the rate of economic development except by reducing the consumption level to the minimum acceptable living standard. From this standpoint one could argue that in Pakistan there is probably little sense in leaving untaxed even monthly incomes of Rs. 250 to Rs. 300. At these incomes, people save very little of their own accord. Nevertheless, they can afford to contribute significantly to aggregate savings without too much hardship if forced to do so. The needs of economic development are overpowering and the constraint of administrative capacity should be geared to this need and not the other way round.

The Committee also recommends a reduction in the tax burden in the case of high incomes to a maximum marginal rate of 75 per cent and some relief to those in the income slab immediately above the exemption limit. More exemptions are recommended for personal saving. These are quite admirable propositions from the point of view of incentives to private initiative, saving and enterprise. Some reorientation of personal allowances in the light of family obligations is also suggested. A more important recommendation in this context is for a downward revision of the general tax rate on incorporated enterprises from 55 per cent (60 per cent on non-industrial undertakings) to 45 per cent. The suggested revision is appropriate from the point of view of incentive consideration for domestic enterprise. The existing rates are high compared to those prevailing in other countries, and a revision

⁸. The revised estimates of the Second Plan suggest a much lower gross saving rate. The figures show it to be 4.33 per cent for 1959/60.

might attract private foreign capital. With respect to unincorporated enterprises, the recommendation for withdrawing the existing discrimination between registered and unregistered firms seems appropriate as the existing system encourages tax evasion.

One of the most unhappy aspects of the present tax system is the exemption of agricultural income from central taxation. The Committee⁹ has recommended treatment of all incomes together under a central income tax¹⁰. This is a crucially important recommendation. Exemption of agricultural income from central income tax means a considerable loss of revenue and of potential savings in Pakistan where the major proportion of national income originates in agriculture. A rapid pace of industrialization is inconceivable without agriculture making a heavy sacrifice. The fact of disguised unemployment also confirms the need to tax agriculture in order to mobilize the potential savings (consumables) associated with the surplus labour that is being (or has to be) drawn off from the agricultural sector. While the Committee recognizes the need for adequate taxation of agricultural income, it recommends an additional exemption limit in terms of land holdings in the case of persons whose income is "mainly" agricultural. The proposed general exemption limit is 30 acres of irrigated or 60 acres of unirrigated land in West Pakistan or 90 standard *bighas* of land in East Pakistan. It is not clear why an exemption criterion in terms of land holdings should be necessary in addition to the criterion in terms of income. Even if there is some justification for a criterion in terms of land holdings, the proposed high limit will discriminate in favour of agricultural income and leave considerable income untaxed.

The Committee recommends taxation of capital gains of Rs. 15,000 and above at the minimum rate of 5 per cent applicable to the first slab between Rs. 15,000 and 50,000 and maximum rate of 30 per cent applicable to gains above Rs. 5 lakhs. The rates appear very modest, but may be justified from the standpoint of incentives to capital movement.

Some incentive proposals of the Committee were noted earlier. Additional measures recommended are: (1) extension of the tax holiday period from 2 to 5 years¹¹ for industries that require heavy initial investment and particular technical skill, (2) exemption from tax liability of interest income from foreign loans, (3) extension of tax exemption to foreign technicians, and (4) some concessions in the less developed regions of the country.

⁹. With the exception of one member who dissents from the Committee's stand on this particular point.

¹⁰. The Committee has also recommended that the proceeds of agricultural tax should be allocated to the provinces after deducting the cost of collection.

¹¹. Subject to a maximum equal to the original investment in plant and machinery.

The measures suggested are suitable for promoting private domestic enterprise in the desired channels and for attracting foreign capital and skills.

The Committee's recommendations concerning estate duty (death duty) are that, (1) agricultural estates should not be exempted, (2) the period during which *inter vivos* gifts become liable to this duty should be increased from 1 year before death to 3 years, (3) the maximum rate of the duty should be raised from 35 to 40 per cent for estates above Rs. 30 lakhs and the minimum rate should be lowered from 6 to 5 per cent in the first slab and (4) the exemption limit should be raised from Rs. 1 lakh to Rs. 2 lakhs. The first two measures clearly will increase tax coverage and reduce tax evasion. The last two, however, require closer analysis. The Committee gives examples of other countries where death duty is levied at very high rates (maximum rates in the United Kingdom of 80 per cent, in the United States of 77 per cent, in Ceylon of 55 per cent) and recognizes that this duty "is one of the most effective instruments for removing and preventing concentration of wealth and that a high rate of estate duty has far less serious effects on productivity and effort". But this recognition is not reflected in what is actually recommended. The suggested raise in the maximum rate is timid enough. On the other hand, the appreciation of the value of assets does not warrant a doubling of the exemption limit, especially when the existing limit is many times the per capita wealth and when in actual practice the valuation of assets for tax purposes is likely to be a gross underestimate.

An important new direct tax recommended is a wealth tax, a tax on personal net worth. The tax is advocated on revenue and equity considerations, the latter being the more important reason. The tax also introduces an element of self-enforcement into the tax system inasmuch as it helps partly to tax on account of wealth that part of income which evades the income tax. The exemption limit recommended is as high as Rs. 5 lakhs and the tax rate recommended is a flat rate of 1 per cent. Foreign investment is to be exempted from the scope of the tax, which it is hoped will promote the inflow of foreign capital.

Central Indirect Taxation

The Taxation Enquiry Committee attaches considerable importance to indirect taxes in an underdeveloped country such as Pakistan. In the absence of an expenditure tax which is considered to be administratively unsuitable and in view of the inadequate coverage under direct taxes, indirect taxes fill up a lacuna in the tax system and are most conveniently administered. The case for indirect taxes also rests on considerations of their allocative and stabilizing effects. These taxes cannot be ruled out on grounds of regressivity as they can be made fairly progressive. The Committee rightly points out that

of the three categories of indirect tax—sales tax, excise duty and customs—the first two offer the most promising field. Customs, mostly import duties, have shown in the recent past dwindling relative importance which is likely to continue because of an anticipated lag in the growth of foreign trade in relation to growth of income and because of possible shifts within imports to articles of lower duties.

With respect to sales tax, three kinds of revenue-yielding proposals are made: (1) a lowering of the turnover exemption limit from Rs. 60,000 to Rs. 40,000 with provision of some marginal relief¹²; (2) a raising of the standard rate from 10 per cent to 12½ per cent and of some special rates by some “suggested” amounts; and (3) an extension of the taxable list of commodities. New items suggested are *desi* sugar at the standard rate and some articles of amenities at 15 per cent.

There seems to exist a good case for a much bigger rise in the standard rate than that which is recommended. Also it seems that there is further room for extending the sales tax coverage. At present a number of items are exempt from sales tax though some of them are taxed under excise duty. The Committee could have considered for inclusion under sales tax such items as tea, utensils, sports goods and salt. Especially, there is no reason for exempting domestically consumed tea from the tax when exports are subject to duty.

So far as excise duty is concerned, the Committee believes that not much can be done about extending the coverage under it because of administrative limitations although excises provide a large potential for revenue. The arguments advanced for additional excise taxation are that (1) it will replace the customs revenue on what would have been imported if it had not been domestically produced, (2) it will enable the government to have a due share in the development of subsidized and protected industries, and (3) it will put a restraint on the growth of consumption. The Committee, however, has recommended only a few marginal changes. Worth noting are those in the rates of duty on coarse cloth and vegetable products, on the former from 6 pies to 1 anna per yard and on the latter from about 9 pies to 1 anna per pound. Three new goods are proposed for duties—cement, betelnuts and *biris* respectively at the rates Rs. 15 per ton, annas 2 per pound and 2 pice per packet. In the *Interim Report* the Committee recommended a lowering of the exemption limit for textile factories to 10 power-loom¹³.

In Pakistan only a few items are subject to excise duty. This probably

¹². The Government has already implemented this recommendation originally made in the *Interim Report* by lowering the limit to Rs. 36,000.

¹³. The Government responded by lowering the limit to 4 power-loom,

follows from the large coverage under sales tax. Despite this, the Committee should have extended the duty to more items which have begun to be domestically produced by replacing imports.

The Committee finds that the existing customs rates are not based on well-conceived principles. There are anomalies in many places. The Committee makes certain broad recommendations in the light of which the entire structure of import duties should be reviewed. The recommendations are: (1) a basic 75 per cent duty on articles of no special consideration; (2) a concessional 10 per cent duty on goods of medicinal, educational or other similar use and on industrial machinery, equipment and raw materials; (3) a 100 per cent duty on semi-luxury items commonly used by the middle class; and (4) high duties ranging from 150 to 300 per cent on luxury articles. The principles upon which the scheme has been framed are those of equity and positive incentives to industrial growth. Increased rates on some specially mentioned items were recommended in the *Interim Report* and already accepted by the Government.

In Pakistan the major export items, jute, cotton and tea, have been subject to export duties. The Committee feels that "export duties are retrograde in principle and the objective should be to do away with them eventually". However, on consideration of demand and supply elasticities of these goods, the Committee does not feel that an outright abolition of these duties is advisable. It suggests no reduction in the duty on tea exports, some reduction in the duty on cotton exports and only a test for judging the need for any reduction or withdrawal of the duty on jute exports. The test is that the minimum-export-price regulation is to be lifted from the jute trade and if the new prices which the Pakistan jute fetches in the face of world competition tend to cause a structural shift away from jute production, the export duty should then be considered for abolition. This is tantamount to suggesting a study of the elasticity conditions of the demand for and the supply of jute. There have been changes in the elasticity conditions relating to jute in the recent past and it is probable that the changes are significant enough to justify for jute the same kind of treatment as for cotton.

As commented earlier, the growth potential of revenue from customs is of little significance from the point of view of the needs of a growing economy. The recommendations of the Committee as recorded in the above paragraphs are not important as revenue-yielding proposals; these are to some extent compensatory in nature, and mainly focus on the need for reorienting the rates of duties on appropriate principles.

Provincial Taxation

The taxes that have been examined above cover, by and large, the most

extensive area. Nevertheless, from the point of view of the economy as a whole, provincial taxes do have enormous importance.

In the case of provincial taxes, land revenue may be singled out as the most important source of revenue. The same kind of logic as applies to the agricultural income tax also applies to the land tax. The land tax touches almost every farmer while the agricultural income tax if introduced will touch only a small fraction of the farmers¹⁴. As already noted, agricultural taxation has a crucial role in the process of economic development. And from this standpoint it is necessary that the farmers are made to bear a large burden of sacrifice. The case for reasonably high land taxes, as the Committee points out, also rests on the fact that in Pakistan existing rates were fixed long ago and do not presently bear any relation either to the needs of a conscious development effort or to the real burden originally imposed.

But the Committee did not go far enough in this direction. As for East Pakistan, where a constitutional limitation prevents significant increase in land rents (*i.e.*, land revenue), the Committee recommends the immediate abrogation of this limitation but does not suggest a significant increase in the present rates which should be introduced after the repeal of the constitutional bar. The present rents in East Pakistan have remained almost unchanged since 1937. The Committee considers only a 50 per cent increase in rents as appropriate. Since a 25 per cent increase was already imposed by the East Pakistan Government in the form of development cess, it recommends another 25 per cent raise subject to a minimum per acre rent of Rs. 2-8-0 and a maximum of Rs. 10 for cultivated lands.

As for West Pakistan, the Committee does not go beyond the existing theoretical basis for the fixation of land revenue. This basis stands at 25 per cent of the net assets of the *zamindar*. The Committee finds that the existing rates are "far below" the theoretical basis. Hence, enhancements of land revenue according to the theoretical basis are enough. But this seems to amount to suggesting that the rates of land revenue fixed long ago without the special purpose of financing economic development are enough even now.

Land revenues in both the provinces are highly inflexible because of the long interval between land settlements. The Committee has recommended reduction of the astonishingly long period of 30 years to 15 years. Moreover in order to maintain some relation between land revenue and agricul-

¹⁴. A question may be raised that both agricultural income tax and land tax falling on the same person will cause him to bear a heavier burden than that borne by a person with the same non-agricultural income. If this is desirable as a policy measure, it is all right; if not desirable, some means of rebates may be allowed on agricultural income.

tural prices, it has recommended a sliding scale of assessment for West Pakistan, but advances no reason for not suggesting the same thing for East Pakistan.

Besides land revenue and agricultural income tax, there is hardly any important provincial tax which deserves special attention. It almost goes without saying that whatever the extent of improvements suggested for the minor heads of revenue, the expected revenue yield is bound to be very low. To mention a few, the Committee justifies betterment levy on the increase in the value of land resulting from development projects. It, in accordance with the Ghulam Mohammad Barrage principles, recommends the levy at the rate of 50 per cent of the difference between post-barrage and pre-barrage value of the best quality land. It has recommended some increased rates of the motor vehicles tax.

SECTION III

This concluding section attempts to bring together the foregoing discussion and to make a very brief overall evaluation of the Taxation Enquiry Committee's recommendations. We may ask ourselves the following questions: What could we say about the adequacy of the Committee's recommendations? Or, to be more specific: (1) Are the recommended changes productive enough to ensure a sufficient transfer of resources to the Government? (2) Do they provide sufficient built-in flexibility to the tax system? (3) Do the proposals make the tax system sufficiently self-enforcing? (4) Do they hinder private initiative and enterprise? And (5) do they sufficiently moderate the inequalities of income and wealth without compromising economic development?

It is not possible here to give precise answers to these questions. What is briefly noted below, however, is believed to be a fair approximation to the true answers.

Productivity and Self-enforcement

The Committee has not really suggested much to ensure a highly productive tax system. The revenue-yielding proposals may be summarized as a reduction of the exemption limit of personal income tax, the transfer of collection of the agricultural income tax from the provinces to the centre for treatment of all income together under income tax, some small increases in the coverage and rates of sales tax and excise duty, the inclusion of agricultural assets under estate duty, two new taxes—capital gains tax and wealth tax at very moderate rates—and some increase in land revenue rates. These will be partly offset by revenue-decreasing proposals such as a substantial

reduction in the rates of company taxation and some other incentive suggestions. As has been observed, the Committee leaves untouched considerable taxable potential. The recommendations are inadequate for a satisfactory public-sector programme. Especially, personal income tax exemption limit has been recommended at a still very high level and no increases in the rates of tax on the lower income brackets have been suggested. The problem of administrative limitation has been overstressed. Fundamental changes are needed to make the tax system highly productive.

Another new tax which the Committee could recommend at least for an experiment is the expenditure tax which is especially suitable for an under-developed country like Pakistan. The case for this tax has recently been strongly advocated¹⁵. Apart from considerations of a positive discouragement to consumption and a positive yield of revenue, there is another justification for introducing this tax in the tax system of Pakistan, namely, providing a large measure of self-enforcement to the tax system. An overhauling of the administrative system can hardly be expected to guarantee one hundred per cent honesty from tax collectors and tax payers. There thus remains large room for tax evasion. An integrated self-enforcing tax system makes tax evasion largely impossible. Such a system¹⁶ has been advocated by Kaldor and in a slightly different form by Higgins. The essential components of this system are an income tax, a sales or turnover tax, a wealth tax and an expenditure tax. The "components are so designed", as Higgins puts it, "that efforts to evade one tax will automatically involve the tax payer in other tax liabilities so great that evasion is not worthwhile". In the Committee's recommendations, the component missing is an expenditure tax.

The Taxation Enquiry Committee believes that the introduction of an expenditure tax will not be a successful venture. Once again we may point out that the supposedly practical limitations can be overcome. As a first reaction, one might fear that administration of the expenditure tax would require comprehensive records of personal expenditure. Irving Fisher showed that such comprehensive records are unnecessary and things can be greatly simplified¹⁷. The lack of such a tax definitely does not make the tax system sufficiently self-enforcing.

Flexibility

The question with regard to flexibility cannot be answered precisely.

¹⁵. See, N. Kaldor, *An Expenditure Tax*. (London: George Allen & Unwin Ltd., 1955).

¹⁶. See, N. Kaldor, *Indian Tax Reform*. (New Delhi: Dept. of Economic Affairs, Ministry of Finance, Govt. of India, 1956); also, B. Higgins, *Economic Development*. (New York: W. W. Norton & Company, Inc., 1959).

¹⁷. See, N. Kaldor, *An Expenditure Tax*, op. cit., pp. 191-192.

It is necessary to have a growing tax-to-national-income ratio with a growing national income for a considerable time. In a very recent study at the Institute it has been indicated that the present tax system of Pakistan is highly inflexible¹⁸. The Committee's recommendations that are directly relevant to the question of flexibility are (1) a sliding-scale basis of land taxation in West Pakistan, (2) change of some specific duties into *ad valorem* ones, (3) some increase in the coverage of sales tax and excise duty, and (4) a lowering of the income tax exemption limit. But these suggested changes are not extensive enough. These are unlikely to guarantee a good degree of flexibility to the tax system. As Nuruddin's paper shows that corporate taxes are relatively the most flexible part of the entire tax structure, in the short run the proposed reduction in the corporate tax rate will involve some loss of flexibility. Without introducing the sliding scale in the whole country and without appreciably extending the tax coverage, especially under sales tax, excise duty and direct taxes, we cannot expect a high degree of flexibility.

Incentive

The incentive aspects of taxation have received good attention from the Committee. A number of proposals have been directed to this aim. We have noted these are for (1) a substantial reduction in the rate of corporate tax, (2) a reduction in the maximum marginal rate of personal income tax, (3) an indirect subsidy to industries in the form of an investment allowance, (4) a substantial extension of the tax holiday period for specific industries, (5) exemption of bonus shares from taxation, (6) certain personal allowances to encourage personal saving, (7) certain special incentives to attract foreign capital, and (8) certain special provisions to encourage investment in the backward areas of the country.

Equity

Gross inequalities in income and wealth need to be reduced as far as possible without adversely affecting economic efficiency. This is equity. But it has also important implications for investment choices *via* the market price structure. While the Committee finds that considerable income polarization has taken place in Pakistan, its recommendations having direct bearing on equity are very weak. We have noted them to be (1) an extension in the coverage of estate duty, (2) a minor increase in the rate of estate duty, and (3) a newly proposed wealth tax at a very modest rate. Much higher rates of estate duty and wealth tax are needed to minimize significantly the existing and growing inequalities of income and wealth.

¹⁸. See, A. H. M. Nuruddin Chowdhury, *The Predictability and Flexibility of Tax Revenues in Pakistan*, published in this issue of *The Pakistan Development Review*.

Summary

The present tax system of Pakistan, as the Taxation Enquiry Committee finds it, has serious deficiencies and drawbacks. Its most deplorable aspect is its low productivity and inflexibility. If the fiscal machinery is to play a very useful role, it is necessary that large changes be introduced in the tax system. We have indicated above that the Committee's recommendations, especially with respect to tax productivity, are inadequate. Essential to the process of economic development is the extraction of surplus from agriculture. The Committee's recommendation that agricultural income taxation be put into the hands of the Central Government deserves appreciation. But the additional exemption limits suggested for this tax and the proposed increases in land tax rates appear too modest to serve the underlying purpose. Elsewhere, productivity receives poorer treatment. The large middle-income group has received undue concessions from the Committee in the form of high exemption limits. In sum, while the Committee pays considerable attention to the incentive aspect of taxation, it largely slights the other aspects, most notably productivity.