



## Impact of Fiscal Decentralization on Services Tax Collection in Khyber Pakhtunkhwa

Muhammad Atif<sup>1</sup>, Dr. Naila Nazir<sup>2</sup>

### Abstract

This study aimed to evaluate the post-decentralization difficulties, the Khyber Pakhtunkhwa Revenue Authority (KPRA) faced in collecting services tax in the province of Khyber Pakhtunkhwa at its actual potential. The study also sought to pinpoint challenges that the new tax authority was having and needed assistance from both the provincial and federal governments to fix. The foremost issues were analyzed via conducting Focus Group Discussions (FGDs) with KPRA Officers Tax Experts and consultants. Following Krueger & Casey (2000) and note-based technique, the result of the study showed that multiple issues, specifically, un-documentation, tax exemptions in FATA/PATA, and lack of tax experts & strategic plan leading to collection of services tax lower than actual potential. All such issues were caused by incapacity and lack of coordination by the province with federal authorities after decentralization. Finally, it is suggested that collaboration and sustained assurance of all stakeholders, including the federal and provincial governments are required to collect services tax at optimum level.

**Keywords:** Fiscal Decentralization, Services Tax, FGD, Tax Potential, Tax Administration

### 1. Introduction

Fiscal decentralization is today a crucial policy instrument employed all over the world, but especially in Asia to boost economic efficiency. It can help with more accurate targeting and reduce the unneeded engagement of the central government (Faridi, Chaudhry, Hanif & Ansari, 2012). More than 80% of the 75 developing countries examined, according to data gathered by Garman, Haggard, and Willis (2001), were undertaking some form of decentralization of authority at the start of the new century. However, 70% of countries have decentralized since 1950, according to the measure of regional authority calculated by Hooghe, Marks, and Schakel (2010) for 42 democracies and semi-democracies.

The financial responsibilities that are transferred to regional and local governments are referred to as fiscal decentralization. It can foster a sense of citizen ownership of the government and result in immediate advantages including improved public goods delivery efficiency, quality of government through democratic accountability, and economic expansion (Bahl, 1999; Oates, 1972). However, after the 18th amendment, fiscal devolution in Pakistan became a contentious issue. The provinces now collect the services tax on sales thanks to the amendment (Mustafa, 2011). Even though this big reform was seen as a victory for provincial autonomy, it had important repercussions for both taxpayers and tax collectors in the provinces. According to Bukhari and Haq (2020), with the devolution of authority and the establishment of provincial services tax bodies, the provinces faced significant difficulties that put the possibility of collecting the devolved services tax in jeopardy. These issues include a lack of coordination, incapacity, and lack of trust between provincial governments; each provincial revenue authority, including Khyber Pakhtunkhwa Revenue Authority (KPRA), has created its tax laws to maximize its collection, regardless of the effects on taxpayer compliance (Kharl, Abbass, & Oghai, 2018).

Taxpayers may lose trust in and be reluctant to contact the tax authorities when such problems occur, especially the devolved tax agency in Khyber Pakhtunkhwa (Amjad, 2021; Ahmad, 2010). Thus, the strength and ability of the new tax administration at the subnational level determine how well taxes are collected after fiscal decentralization. Tax collection may suffer if the newly constituted tax administration does not have the appropriate tools, knowledge, and institutional competence. Therefore, the current study assesses the difficulties the Khyber Pakhtunkhwa provincial revenue authority had during decentralization, which prevented the best possible collection of the devolved services tax. The study guide will also provide policymakers and tax authorities with evidence-based suggestions for enhancing administrative procedures, streamlining tax laws and regulations, and improving the framework for the devolved services tax on services.

### 2. Literature Review

The argument about efficient tax administration following fiscal decentralization as a reform to effectively collect devolved taxes is ongoing in the literature. The research (Akai and Sakata, 2002; Brueckner, 2006) showed that it improves delegated tax efficiency, transparency, and accountability with the goals of economic stability and sustainable growth. As a result, higher tax collection efficiency and higher revenue were positively correlated with an effective and efficient tax administration at the subnational level (Martinez-Vazquez & McNab, 2003). Asserting the claim, Bird and Smart (2002) looked at how countries that implemented comprehensive tax administration reforms—

<sup>1</sup> PhD Scholar, Department of Economics, University of Peshawar, Pakistan, [atif.economics@gmail.com](mailto:atif.economics@gmail.com)

<sup>2</sup> Chairperson, Department of Economics, University of Peshawar, Pakistan, [nailauom@gmail.com](mailto:nailauom@gmail.com)

including building capacity, enhancing taxpayer services, and stepping up enforcement measures at the subnational level—saw higher tax collection efficiency and higher revenue generation. In the context of fiscal decentralization, Gordon and Li (209) also offered insights into the connections between tax administration, revenue mobilization, and governance. To achieve the best revenue results at the subnational level, they emphasize the significance of efficient tax administration and high-quality institutional design. A paradigm for comprehending the effects of tax administration interventions on tax revenue was provided by Keen and Slemrod (2017). It highlighted tax revenue's enforcement flexibility as a crucial indicator. The framework provides direction for creating efficient tax systems and aids in providing answers to crucial problems in tax administration.

However, several studies contend that if the new tax administration is ineffective in enforcing such taxes, it would inevitably harm the decentralized tax collection and revenue mobilization (Torgler, Schneider, & Schaltegger, 2010; Keen & Lockwood, 2010). The local tax administration is the foundation for collecting local taxes and user fees, as Mahi (2011) noted. The author discovered that most taxes and user fees, which are the primary sources of municipal tax revenue, are not regarded as favorable taxes in Indonesia. The author did, however, advocate for a robust municipal administration with a straightforward tax collection system and a strong enforcement network. Khan and Ahmad (1998) concentrated on important taxation reform topics, such as tax administration and policy, in the case of Pakistan. The distinction between federal and provincial taxation jurisdictions was one of the writers' key points for tax policy reform. The main reform concerns surrounding tax administration often revolve around the institutional capacity that is insufficient to handle a modern economy and accountability. The GST that is actually collected and the GST that is potentially collectible varies significantly, as noted by Hassan and Sarker (2012). It demonstrates that the GST system in Pakistan is underperforming in terms of income generated. Weak enforcement of administrative changes in Pakistan is one factor for the low performance. Numerous other tax-related problems are caused in part by inadequate administration, thus impeding revenue collection below realistic expectations. According to Adebisi and Gbegi (2013), tax evasion and avoidance are the main problems when tax authorities are not performing to expectations regarding tax administration, but taxpayers' lack of patriotism is also a major contributing factor. Kamal (2019) also brought up the problem of tax evasion in Pakistan, which occurs as a result of a trust deficit in tax authorities.

After devolution, the examined literature has indicated the significance of strong tax administration for revenue collection. In a developing nation like Pakistan, an extensive study is lacking. As a result, the current study is being done to investigate this important problem and attempt to fill this gap.

### **3. Research Methodology**

#### **3.1. Introduction**

The present study uses the qualitative approach of the Focus Group Discussion (FGD). Contrary to more conventional methods such as individual case studies, interviews, and surveys, it provides an opportunity to explore, in more detail, economic issues that are not well understood or where there is little prior research on the topic. The focused group discussion is regarded as an effective tool for eliciting information (Vanderstoep & Johnson, 2008). In the present study, the FGD aimed to uncover the possible causes of challenges faced by the newly established revenue authority in Khyber Pakhtunkhwa after decentralization and how it affects devolved services tax collection in the province effectively.

#### **3.2. Data Collection and Saturation**

The most common relevant principle to ascertain the suitability of FGDs is saturation (Morse, 2015) also known as data saturation or thematic saturation. In data collection through FGDs, the point where the discussions about issues become repetitive and further collection becomes redundant (Nelson, 2017). Therefore, it was important to determine the number of FGDs to be arranged for such kind of research and data collection. The more the number of FGDs, the more there will be potential constraints for the researcher in the shape of time, personnel, and cost. This principle was used while arranging FGDs with relevant tax Officers of KPRA and tax experts such as consultants and lawyers. No further FGDs were conducted beyond the point of saturation.

Regarding determining the number of participants in an FGD group, this normally depends on the type of FGDs and the data to be acquired. Krueger & Casey (2000) have suggested six to eight participants, arguing that the smaller the number of participants the more there are chances of less saturation and more relevant data. Further studies showed that the best manageable number for FGD participants is 4-10, small enough to manage, and not become disorderly, and large enough to get relevant data.

Keeping in view the stated principle, there were five participants (Officers) in FGD arranged with KPRA which includes: two Deputy Collectors, one Assistant Collector, and two Inspectors of KPRA who experienced challenges in collecting services tax in Khyber Pakhtunkhwa. The FGD, comprising 120 minutes, was arranged on 28<sup>th</sup> April 2023, in the Head Office Khyber Pakhtunkhwa Revenue Authority, Peshawar city.. Six were the participants in FGD with Tax Experts and Consultants with one member each from Usman Zulfiqar & Co., Dilroze Khan & Co. and Bukhari Tax Law Chamber. The FGD was also attended by Arshad Tax Consultant, Rizwan Tax Practitioner, and one retired Officer from FBR to have varied and independent perspectives on the subject and further explore issues faced

by KPRA subject to data saturation. The FGD comprised 160 minutes and was arranged at Bukhari Tax Law Chamber Main office in Peshawar on 03<sup>rd</sup> June 2023.

### 3.3. Analytical Technique

For the analysis of qualitative data, various analytical techniques can be applied. However, as researchers suggest, a combination of techniques can also be adopted as Green & Thorogood (2004) have recommended. Krueger (1994), however, recommended several steps for better analysis and management of the large and complex nature of qualitative data. The researchers further suggested the use of analytical equipment such as computers or large tables, to contrast and evaluate data more conveniently, through different sets of comparison. The use of a computer-based approach is more favored, because of fewer human errors, and saving time in doing complex operations.

The recommended criterion, for data analysis, by Krueger (1994), is seven established criteria which were further reduced to the five (5) sets of headings in a later publication by Krueger & Casey (2000). Both criteria are given in table 1:

**Table 1: Recommended Criteria for FGD data analysis**

Krueger (1994) Criterion	Krueger & Casey (2000) Criterion
1. Words	
2. Context	
3. Internal Consistency	
4. Frequency and extensiveness of comments	1. Frequency
5. Intensity of comments	2. Extensiveness
6. Specificity of responses	3. Emotions
7. Big ideas	4. Specificity
	5. Big picture

The author excluded words, internal consistency, and context from the analysis. While frequency and extensiveness have been split into two categories, intensity was renamed as emotions and big ideas as the big picture. About the literature, this latest development was used for the present research to interpret the data.

In the present study, Krueger & Casey's (2000) criterion was used to provide a brief impression of the study that which issue(s) were highly focused on by the participants, however, for further in-depth analysis of the issues faced by KPRA, note-based data gathering technique was employed (Beyea & Nicoll, 2000; Onwuegbuzie et al., 2009). In such form of data, the researcher as a moderator was allowed to note the important points of the discussion which were later on, used for further evaluation. At the end of FGD, the main noted arguments were reassured by the participants to ignore any ambiguity in the final assessment. In addition, the outcome of the study was also shared with the participants of FGD for their confirmation which was sent back by the participants with suggestions of minor corrections.

## 4. Results & Discussion

In the present study, the FGD process was straightforward, and divided into different segments. Initially, general questions were posed to the participants to gather basic and necessary information. These initial responses allowed the researcher to establish broad discussion points and lay the foundation for the more details discussion in the second session. Participants were asked to respond as per their convenience and the nature of the topic to questions under broad categories, guided by the questions provided to them. The data and inputs were transcribed as it is for further analysis had adhered to the guidelines set by Krueger & Casey (2000) criterion and Note Based technique. The results of the discussion on each issue are presented below:

### 4.1. Un-documentation of Services sector/Grey Economy

In Khyber Pakhtunkhwa, undocumented or unregistered service taxpayers who engaged in activities with a market value but who are nonetheless unregistered pose a serious problem. The undocumented services businesses make up a sizable portion of the informal sector and assist in tax evasion. In Khyber Pakhtunkhwa, a sizable number of potential businesses and individuals in the services sector are not registered for the services sales tax and are not reporting their

sales and transactions to KPRA. However, KPRA has not carried out any reliable studies or surveys on the tax potential of the entire services industry. The University of Peshawar attempted to conduct an "Economic Survey" in 2017 to determine the potential in the services sector, but it overestimated that potential and could not be considered a reliable research survey because of disagreement from the KPRA.

Practically, the size of un-documented services taxpayers is difficult to measure due to the nature of these services sectors and cash transactions that cannot be easily observed and are therefore untraceable. However, it is critical to estimate the potential of unregistered service taxpayers in Khyber Pakhtunkhwa due to the importance of this issue, which results in lost tax revenue for the government and unfair competition for companies that are registered and paying their taxes. Un-documentation by potential individuals has also a negative impact on the timely and efficient compliance of those who have already registered as taxpayers since the more the un-declaration, the greater the burden on those who have already registered.

Apart from the overall size of the un-documented sector, KPRA offered sector-wise analysis which elaborated that the majority of the transportation, rental-car, advertising, and property consulting sectors are not documented and contribute to a low tax base. These service providers mostly deal in cash, hence, they are prone to ignoring registration requirements. As a result, KPRA is unable to collect decentralized services in the province to the full extent of its capacity due to the grey economy, which is neither taxed nor regulated by the government.

Additionally, KPRA's low tax base is due to taxpayers' negative perceptions of the Federal Board of Revenue (FBR). Taxpayers are less likely to register with the KPRA if they are reluctant to register with the FBR due to negative perceptions, as registration with the FBR is required before registration with the KPRA. This is because it stands to reason that taxpayers are less likely to voluntarily comply with tax rules and regulations which resulted in a low tax base of KPRA.

To address these issues, it is crucial that the FBR and KPRA both endeavor to enhance their public perception, increase openness, and lower administrative barriers. Effective communication, outreach initiatives, and better taxpayer services can broaden the tax base.

It is also crucial for KPRA policymakers to concentrate on putting policies into place that gradually broaden the services tax base by simplifying tax returns, providing incentives for companies to register for the services sales tax, and running outreach campaigns to inform people and companies about their tax obligations. The government of Khyber Pakhtunkhwa has taken several actions to encourage companies to register and follow the rules. However, there is still much to be done to bring these businesses into the official tax system, improve compliance, and address the issue of undocumented service taxpayers in Khyber Pakhtunkhwa.

Following the Krueger and Casey (2000) criteria, the low tax base under the caption un-documentation of services businesses was frequently mentioned by the respondents. This is because a low base of services tax is a key reason for the negative gap between actual collection and true potential in the province. Bringing new taxpayers into the tax net is also necessary for KPRA to increase services and tax collection without putting an additional burden on registered taxpayers.

#### **4.2. Tax evasion in the Services sector**

In Khyber Pakhtunkhwa, tax evasion in the service sector is both a social and financial problem. On the one hand, it creates difficulties for the recently established KPRA tax collection organization to increase revenue and robs the government of vital resources needed to meet its budgetary obligations. On the other side, it takes advantage of taxpayers by having them pay for both tax evaders and themselves.

The issue of services tax evasion in Khyber Pakhtunkhwa is complicated and not specific to any one area of the services industry. Any industry where there is a chance of underreporting sales, fiddling with invoices, or misclassifying goods or services to avoid paying the full amount of service sales tax is susceptible to tax evasion. However, historically, the Khyber Pakhtunkhwa real estate services sector has been the most prone to tax evasion. This is due to the nature of business, where cash transactions are generally carried out from Business to Consumer which is difficult to detect. Therefore, the real estate sector frequently and easily suppresses transactions to avoid paying the full amount of service sales tax on their commission income. The rental car sector and the transportation industry are two other service industries that can be more prone to tax fraud due to the cash nature of business-to-consumer transactions.

There are several ways to evade taxes, including underreporting sales and income, claiming erroneous deductions, and cash transactions. Tax avoidance, on the other hand, is the legal practice of reducing one's tax liability by legal and permissible means. Therefore, tax evasion not only causes KPRA to lose revenue but also has detrimental effects on the provincial economy and society, such as making government policies and programs less effective, making it more difficult for honest taxpayers to pay their taxes, and causing economic inequality. To create a just and fair society, all businesses and people must abide by the tax rules and regulations.

In its attempts to prevent or minimize tax evasion in Khyber Pakhtunkhwa, the KPRA faces several obstacles. Several of these difficulties include, scarce resources and personnel, lack of awareness among taxpayers, and perception of corruption about tax authorities pose a serious obstacle to the execution of tax laws.

The KPRA needs to focus on public education initiatives to increase awareness of tax duties to address these issues. Khyber Pakhtunkhwa government could also need to provide KPRA more funding so they can hire more staff and invest in technology to track compliance with tax laws.

#### **4.3. Weaknesses in Law**

The participants remarked on Ex. Federally Administered Tribal Areas/Provincially Administered Tribal Areas (Ex. FATA/PATA) exemption from services tax as a specific flaw in the law, however, due to the significance of the topic, follow-up questions were asked to further clarify and explore the issue. Considerable detail was provided by the respondents specifically regarding the tourism services sector in tax-exempt areas. Loopholes in the former FATA/PATA tax exemption law and its possible impact on KPRA's revenue were generalized and the detail is given below:

Regarding the exclusion of the former FATA/PATA, there may be legal flaws. Services providers in tax-exempt areas are excluded from the services tax through June 30, 2023, following the Finance Act of 2019. The problem with exempt areas that exemption from the services tax was that it unfairly treated businesses in other sections of the province that were subject to the services tax. This could deter businesses from setting up in taxable areas, which would be detrimental to the province's overall economic growth.

Regarding the tourist services sector, the former FATA and PATA territory has enormous potential and can be a significant source of revenue for the KPRA. However, the KPRA is unable to collect services tax from businesses engaged in the services sector in the region, nevertheless, because of the tax exemption provided to the area. Therefore, it was viewed as a potential loss of revenue for the Khyber Pakhtunkhwa government. The potential income loss caused by exemptions may grow as the area expands and more tourist services are expanding.

Overall, the Ex. FATA/PATA exemption from the services tax is a complicated matter because it aims to support regional economic growth while simultaneously costing the government tax loss. The KPRA might perhaps earn a sizable sum of taxes from the region's services sector if the tax exemption were to be removed. However, the potential effects on the expansion of the region's tourism industry and general economic development must be taken into account before any decision to end the tax exemption is made. Consequently, it would necessitate careful consideration of the constitutional and legal ramifications of such a choice.

Additionally, none of Pakistan's revenue authorities have properly implemented the laws and regulations relating to the taxation of IT services due to the complexity of taxing foreign IT service providers like Google, Netflix, and others. The KPRA is also having trouble locating and following these foreign IT service providers and their activities in the province. Similarly, it is difficult to enforce tax collection from foreign corporations, particularly if they do not have a physical presence in the province or the country. If the IT service providers do not have a permanent establishment in the province, they might not be liable for services tax in Khyber Pakhtunkhwa. The concept of a permanent establishment is used to identify the jurisdiction of taxes for cross-border transactions.

It is crucial to note that regulations governing the taxation of IT services are continuously changing, thus KPRA may take the appropriate actions to rectify these problems and ensure that local and foreign IT service providers are properly taxed in the future.

Therefore, KPRA must streamline its tax processes with the help of FBR, making them more user-friendly, and less onerous for taxpayers, and increasing compliance rates through the implementation of initiatives like the single window system. By doing this, KPRA can better collect services tax, which will raise services taxes for the Khyber Pakhtunkhwa government.

#### **4.4. Jurisdiction issue with FBR and other Provinces**

The FBR and other provinces' jurisdictional disputes with KPRA have a substantial influence on KPRA's revenue. Some services fall under the purview of both KPRA and FBR, which cause jurisdictional disputes and confusion for taxpayers. This is one of the major challenges that KPRA faces. It is challenging to ascertain which body has the power to collect taxes on particular services because, for instance, some services may be offered across multiple provinces or may be governed by federal regulations. Delays in tax collection and conflicts between KPRA and FBR may result from this, which may ultimately hamper KPRA's efforts to collect money.

Furthermore, if other provinces impose various tax rates or policies on the same service, this results in tax competition and a reduction in KPRA's income. Businesses decide to operate in provinces with lower tax rates, which could result in a smaller tax base for KPRA and less money coming in.

KPRA may need to collaborate closely with FBR and other provinces to coordinate tax policy and settle any jurisdictional disagreements to deal with these difficulties. To do this, it may be necessary to create explicit policies and procedures for exchanging tax money and data, as well as to set up a process for resolving disputes. KPRA can

contribute to ensuring a more effective tax system that supports efforts to collect money by collaborating with other agencies.

#### **4.5. Lack of Strategic Plan**

A revenue authority's strategic planning process entails identifying the organization's long-term vision, mission, and goals as well as formulating plans to attain them. Due to several obstacles, KPRA was unable to design a strategy plan for services sales tax collection following decentralization that would have improved tax compliance, expanded the tax base, and increased overall revenue collection for the government.

Each year, the KPRA sets revenue goals for the country's service sales tax collection. These revenue projections, however, were not based on careful planning and anticipated expansion in the services sector during KPRA's early years. Therefore, due to a lack of a strategic plan, KPRA has been unable to reach its revenue goals six times since 2014 and to fully explore the services sector's potential. The success of these solutions has been constrained by various flaws in the planning process comprising; a lack of a data-driven approach, insufficient stakeholder engagement, and weak enforcement.

Even though the KPRA has made significant strides in recent years to increase the collection of services sales tax, the Finance Department of Khyber Pakhtunkhwa is required to address these weaknesses of its subordinate revenue authority to allow him to develop more effective strategies to meet its assigned revenue targets in Khyber Pakhtunkhwa.

#### **4.6. Organizational Structure and lack of professional staff**

The critical issue of weak organizational structure and lack of professional staff was extensively discussed by different respondents as compared to other challenges. The provinces have the power to levy a sales tax on services after the 18th amendment to Pakistan's constitution that was passed in 2010. However, some provinces, including Khyber Pakhtunkhwa, experienced delays in the creation of revenue authorities. This was caused by several things, such as the government's lack of understanding and vision about the services tax, administrative obstacles, political resistance, and logistical difficulties. Additionally, it showed that the provinces were not entirely ready to collect sales tax on services right away following the passage of the 18th Amendment to Pakistan's Constitution.

After a three-year delay, KPRA was finally formally founded as a corporate body, but without the necessary employees or funding to do so. However, KPRA appointed three FBR officers to manage the affairs of the new revenue authority after a three-year delay, or in the tax year 2016. KPRA still needed to hire and train sizable personnel to carry out its duties efficiently. However, due to a lack of resources and expertise, there were delays in giving staff members the proper training, which had an impact on their performance.

Additionally, there were problems with coordination between the KPRA and other departments, such as the Excise & Taxation Department, which resulted in an overlap of efforts and disagreements over decisions. Later, KPRA was separated from the Excise & Taxation department, and the Khyber Pakhtunkhwa government's Finance Secretariat was given responsibility.

Similarly, technological issues plague KPRA, despite outsourcing its IT system to Pakistan Revenue Automation Limited (PRAL). To support its operations, the KPRA had to create and install new technological systems. However, there were problems with data management, cyber security, and system compatibility. The department's inability to maintain, update, and resolve issues with the IT system is caused by a lack of IT specialists.

Despite these obstacles, the KPRA has improved its internal structure and ability to collect sales tax on services. To improve performance and hit revenue collection goals, it has implemented several reforms, including staff training, technology upgrades despite a shortage of IT specialists, and collaboration with other departments.

#### **4.7. Other factors affecting the collection of devolved services tax**

##### **4.7.1. Political factor**

The KPRA's ability to collect services tax is significantly influenced by political issues. Confusion and other problems resulted from the Khyber Pakhtunkhwa leadership's lack of planning and knowledge in establishing KPRA after the 18th Amendment. It takes careful planning and cooperation between numerous parties, including government officials, tax professionals, and taxpayers, to set up an efficient tax collection agency. However, uncertainty and confusion during the establishment process caused delays, misunderstandings, and other challenges that made it difficult for the KPRA to efficiently collect taxes.

The absence of political resolve to enforce tax collection from powerful corporations and people, especially during election periods from advertisement services, is another significant obstacle. Additionally, it may be challenging for KPRA to successfully plan and implement its services tax collection strategies due to political unpredictability and a lack of consistency in policy. The independence and integrity of KPRA may also be jeopardized by political meddling in tax administration and official appointment processes.

Additionally, political pressure from specific interest groups may result in tax exemptions or rate reductions for particular industries or businesses, which would result in a loss of revenue for KPRA. The credibility and efficiency of KPRA's efforts to collect services tax may be harmed by these elements.

#### 4.7.2. Behavior and Cultural factors

Khyber Pakhtunkhwa taxpayers' mindset and cultural perspectives may affect how well KPRA collects services tax. In certain instances, people do not understand the value of paying taxes or the advantages that the general public receives from tax money. Additionally, cultural attitudes in Khyber Pakhtunkhwa towards paying taxes show that some people see it more as a burden placed on them by the government than as a civic obligation.

Furthermore, the KPRA's ability to collect taxes is affected by the public's negative perception of tax offices, particularly the Federal Tax Agency. Taxpayers are less inclined to pay their taxes or even try to cheat them because they believe that tax offices are dishonest, ineffective, or inattentive. For KPRA, this might mean less revenue being collected in taxes.

To solve these issues, KPRA may need to make an effort to raise public understanding of the value of paying taxes and the advantages of tax money for development and public services. Additionally, efforts to improve the efficiency and simplicity of the tax collection process as well as greater accountability and transparency in the use of tax revenue may help to foster greater trust and compliance among taxpayers. Last but not least, tackling the informal economy and increasing the accuracy of tax assessments can both be significant steps in enhancing KPRA's ability to collect services tax.

### 5. Conclusion

The study concluded that significant difficulties in the collection of sales tax on services after the devolution of powers following the 18th Amendment were caused by a lack of coordination between the federal government and the Government of Khyber Pakhtunkhwa as well as a lack of understanding and capacity on the part of the provincial government itself. The Khyber Pakhtunkhwa government was not adequately prepared to take on the responsibility of collecting the devolved services tax. Therefore, the establishment of KPRA presented significant challenges in terms of expertise, infrastructure, and coordination with the federal government. The failure to collect sales tax on services was further complicated by a narrow tax base and grant of tax exemptions in services tax potential sectors. The study came to the further conclusion that before enacting such a significant constitutional amendment, particularly one relating to fiscal devolution, prior planning, and coordination are essential among the concerned revenue agencies. Overall, it is apparent that the Khyber Pakhtunkhwa government is aware of the problems that KPRA is experiencing and is acting to resolve these difficulties. To guarantee efficient implementation to collect services tax at its full potential, these initiatives will need the collaboration and sustained assurance of all stakeholders, including the federal government, KPRA, and taxpayers.

#### 5.1. Future Recommendations

- i. Because of undocumented sectors in Pakistan's economy, many of the activities are in grey areas. Broadening the tax base (BTB) may help in documenting such areas and recording the increased fiscal collection of the country.
- ii. Apart from undocumented areas, several other sectors are not in the tax net, either exempt or otherwise specifically the merged districts of former FATA/PATA. Increasing the number of taxable sectors could potentially help in documenting the economy as well as increasing its contribution towards fiscal collections, potentially.
- iii. The latest developments in information technology can be used to develop a robust tax collection system with simplicity in the tax structure. Such a system would help in facilitating taxpayers as well as tax collection agencies, online payment processing, ease of access, and overall tax regime. Similarly, cross-payments can also be adjusted between provincial and federal tax authorities.
- iv. Being newly established in the field, the tax authority of Khyber Pakhtunkhwa requires expertise in both technical and administrative sectors. The human resources deficiency can be tackled by providing relevant training programs to the staff with consultation from International donors, federal tax institutes, and other provincial tax authorities.

### References

Adebisi, J. F., & Gbegi, D. O. (2013). Effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. *American Journal of Humanities and Social Sciences*, 1(3), 125-134.

Ahmad, E. (2010). Why is it so difficult to implement a GST in Pakistan? *International Growth Centre*.

Amjad, M. (2021). Tax Policy in Pakistan: Concerns and Reforms. Available at SSRN 3791148.

Bahl, R. (1999). Implementation rules for fiscal decentralization. *International Studies Program Working Paper*, 30.

Beyea, S. C., & Nicoll, L. H. (2000). Collecting, analyzing, and interpreting focus group data. *AORN Journal*, 71(6), 1278-1278.

Bird, R. M., & Smart, M. (2002). Intergovernmental fiscal transfers: International lessons for developing countries. *World Development*, 30(6), 899-912.

Bukhari, H., & Haq, I. (2020). Tax Reforms in Pakistan. *PIDE Islamabad*. 978-969-461-147-1

Faridi, M. Z., Chaudhry, I. S., Hanif, I., & Ansari, F. N. (2012). Fiscal Decentralization and Employment in Pakistan. *International Business Research*, 5(11), 54.

Garman, C., Haggard, S., & Willis, E. (2001). Fiscal decentralization: A political theory with Latin American cases. *World politics*, 53(2), 205-236.

Gordon, R., & Li, W. (2009). Tax structures in developing countries: Many puzzles and a possible explanation. *Journal of Public Economics*, 93(7-8), 855-866.

Green, J., & Thorogood, N. (2004). Qualitative methods for health research London SAGE Publications Ltd.

Hassan, B., & Sarker, T. (2012). Reformed general sales tax in Pakistan. *International VAT Monitor*, 23(6), 417-421.

Hooghe, L., Marks, G. N., & Schakel, A. H. (2010). *The rise of regional authority: A comparative study of 42 democracies*. Routledge.

Kamal, A. (2019). Tax evasion in Pakistan: determinants and requisite policy interventions. *European Online Journal of Natural and Social Sciences: Proceedings*, 8(1 (s)), pp-185.

Keen, M., & Lockwood, B. (2010). The value added tax: Its causes and consequences. *Journal of Development Economics*, 92(2), 138-151.

Keen, M., & Slemrod, J. (2017). Optimal tax administration. *Journal of Public Economics*, 152, 133-142.

Khan, A., & Ahmad, M. (1998). Reform Issues in Tax Policy and Tax Administration for Self-reliant Development [with Comments]. *The Pakistan Development Review*, 1105-1122.

Kharl, S. H., Abbass, K., & Oghai, N. (2018). Governance decentralization in Pakistan: An analysis of district council and its power. *International Journal of Latest Research in Humanities and Social Science (IJLRHSS)*, 1(5), 56-60.

Krueger RA (1994) Focus Groups: A Practical Guide for Applied Research. Thousand Oaks, CA: Sage Publications.

Krueger, RA, & Casey.MA (2000). Focus groups: a practical guide for applied research. Thousand Oaks, CA: Sage Publications, Inc.

Mitchell, DE, & Kerchner, CT (1983). Labor. *From Your Editor*, 95.

Mahi, B. R. (2011). Local Own Revenue Mobilization in Indonesia. *Journal of Indonesian Economy and Business*, 26(1), 90-102.

Martinez-Vazquez, J., & McNab, R. M. (2003). Fiscal decentralization and economic growth. *World Development*, 31(9), 1597-1616.

Morse, J. M. (2015). Data were saturated... *Qualitative health research*, 25(5), 587-588.

Mustafa, U. (2011). Fiscal Federalism in Pakistan: The 7th National Finance Commission Award and Its Implications. *Working Papers & Research Reports*, 2011.

Nelson, J. (2017). Using conceptual depth criteria: addressing the challenge of reaching saturation in qualitative research. *Qualitative research*, 17(5), 554-570.

Oates, W. E. (1972). *Fiscal federalism*. Edward Elgar Publishers.

Onwuegbuzie, A. J., Dickinson, W. B., Leech, N. L., & Zoran, A. G. (2009). A qualitative framework for collecting and analyzing data in focus group research. *International journal of qualitative methods*, 8(3), 1-21.

Torgler, B., Schneider, F., & Schaltegger, C. A. (2010). Local autonomy, tax morale, and the shadow economy. *Public Choice*, 293-321.

Vanderstoep, S. W., & Johnson, D. D. (2008). *Research methods for everyday life: Blending qualitative and quantitative approaches*. John Wiley & Sons.