

## **DOCUMENTATION SIMPLIFICATION VIA TAX E-FILING: EXAMINING BARRIERS TO ADOPTION AND CONTINUANCE INTENTION OF USING E-FILING BY TAXPAYERS IN PAKISTAN**

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### **INTRODUCTION**

As the primary entity that collects tax revenue for the government of Pakistan, Federal Board of Revenue (FBR) has the responsibility to maximize tax collection to generate sufficient revenue for the country's economic growth. To increase tax revenue by means of greater tax compliance, FBR introduced the electronic tax filing system (e-filing) through its website named IRIS in 2005. The introduction of online tax filing services in 2005 initially brought more people into the tax stream than manual tax filing as reported by FBR's review of 2006. However, after a decade the number of tax e-filers still does not meet targets. According to FBR's Active Taxpayers List (ATL) there are 3.41 million active taxpayers (FBR, 2024) which constitutes only 1.4% of the population of Pakistan which stands at 245.29 million people (Worldometer, 2024) and 4.1% of the working class/labor force in the country. It is also worth noting that the number of tax filers has seen fluctuations over the years and instead of continuous increase, the number of active taxpayers has dropped from 5.7 million in 2021 to 3.55 million in 2022 and 3.41 million in 2024 which demonstrates the abysmal performance of FBR over the years. Moreover, the proportion of taxpayers in the population is the lowest in Pakistan i.e. 1.4% when compared to other countries with India standing at 5%, Indonesia at 10%, USA at 44%, France at 76%, and Canada and Australia at more than 80% (Nabi & Nasim, 2021). Some of the past studies and experts have discussed the major factors which hinders the promotion of tax compliance culture in Pakistan. Bukhari and Haq (2014) state that poor management, inefficient tax e-filing system, unjust and burdensome tax tariffs, and general mistrust on tax authority contributes towards the tax evasion culture in Pakistan. Moreover, Awan and Hannan (2014) declared tax system complexity, wastage of public tax funds, fraudulent management of tax funds, and wasteful spending by government to be the key factors contributing towards non-compliance culture. Khalid and Nasir (2020) state that high compliance costs demotivate people to comply and to file their tax returns. "This cost consists of the number of hours required for record keeping, tax planning, and forms completion and submission. It takes around 577 hours (per year) to complete the tax payment process in Pakistan compared to the world average of 108 hours" (p. 464). Other than that, tax awareness was also identified as an important factor as less tax knowledge leads to unfamiliarity with the tax filing process and its benefits which acts as a demotivating factor (Bano, Riaz, & Nadeem, 2023). Even though these studies have made mentions of various issues with tax compliance in Pakistan, no previous study in Pakistan has provided a comprehensive investigation of the barriers to the adoption of FBR's tax e-filing service by taking a holistic perspective from multiple stakeholders involved. Therefore, the present study aimed to identify the existing barriers facing the adoption of tax e-filing service in Pakistan by taking views and opinions from tax e-filing stakeholders including the tax-filers (those who have had exposure to the system/have used the system), non-filers (those who have not used the system

themselves/do not file their tax returns), and FBR officers (those who are involved in the implementation of the system). The study also provides recommendations which can help to curb the dismal tax e-filing situation.

## **METHODOLOGY**

To achieve study objectives qualitative data was collected by means of face-to-face semi-structured interviews. An interview guide was developed based on the research questions to give some structure to the interviews. Purposive sampling technique was used to collect interview data from a sample of 20 respondents including FBR officers, existing tax filers, and non-filers. Out of 20 respondents 12 were male and 8 were female. The interviews were audio recorded after seeking consent from the respondents. The collected data was then analyzed by means of thematic analysis in which the transcribed data was coded and then categorized into themes.

## **FINDINGS AND CONCLUSION**

The analysis of the data provided by study respondents revealed some useful insights. The primary issue turned out to be the complexity of the website (IRIS 2.0) i.e. the website is not easy to navigate and contains too much unexplained content which complicates the process of tax e-filing for a taxpayer. Secondly, there is general unwillingness or reluctance among the citizens of Pakistan to pay or file their taxes. This is because of the lack of trust among citizens when it comes to sharing personal financial information. Also, citizens think they can easily get away with non-compliance without any consequences. Thirdly, there is insufficient awareness about the availability of tutorials on FBR website as well as the poor quality/ineffectiveness of the content in those existing tutorials. Furthermore, taxpayers are not generally aware of the support facilities such as Taxpayer Facilitation Centers (TFCs)/helpline which raises the need for improvement and better promotion of these support services provided by FBR. Also, there is lack of awareness about Tax Asaan app which was made to simplify tax filing for taxpayers, and it also lacks full functionality which restricts its usability. Additionally, there is a language barrier as a common taxpayer in Pakistan with limited education is not able to understand the contents written in English language which is primarily being used on website and communication of FBR with citizens. Also, when citizens cannot file their tax returns due to the issues highlighted above, they get help from agents which incurs taxpayers an extraneous annual cost. Taxpayers also have concerns about the safety/privacy of their personal financial documents when shared with an agent. Lastly, most of the citizens are unaware of the exact penalties which are applicable in case of wrong income tax filing or non-compliance. These are some of the major barriers identified by this study which requires attention of FBR to improve and promote tax culture in the country.

## **KEY POLICY RECOMMENDATIONS**

Based on the study findings, the researchers have proposed a few recommendations for improvement which can be implemented by FBR to make the process of tax e-filing easier and simpler for taxpayers.

## ***User-friendliness of System***

First, there is a dire need to simplify the tax e-filing system (website as well as app) by making the interface user-friendly and easy to navigate. There should be a tab where sources of income appear so that a taxpayer can easily identify his/her relevant selection. Also, a list with checkboxes should be provided to allow taxpayers to select the taxes they have already paid as at the time of filing taxpayers sometimes find it difficult to recall all taxes they have paid in the previous year. A taxpayer should be guided during the entire process by means of a help section or small pop-ups with definitions and relevance of different terminologies/concepts stated in the form. An improved and comprehensive FAQ section should be added to the FBR website which provides answers to the most common queries of citizens. Moreover, there should be an option to view the website and the app in Urdu language to make it more inclusive so that those taxpayers who cannot read or understand English language can also file their tax returns. This can enable a common taxpayer to file their income tax returns on their own without assistance from an agent leading to elimination of taxpayers' concern about privacy of financial information as well as the doubts about accuracy of tax filing by the agents.

## ***Taxpayer Education***

It is recommended that better, and more effective tutorials can be designed by FBR for taxpayer education and assistance. FBR should work on the improvement of tutorials by providing comprehensive information about sections, sub-sections as well as the relevant data to be entered in those sections and sub-sections. They should also include a clear and detailed explanation of each step involved in the tax e-filing process. The tutorials should also be created for taxpayer education with regards to the basic concepts of taxation including but not limited to categories of assets/liabilities/incomes/wealth/expenditures/re-conciliation or adjustment of un-reconciled amount in easy (not legal) language. There is also a need to design and create tutorials in order to educate taxpayers about the list of supporting documents as well as the content within those documents which are required for filing tax returns. FBR can work on designing a few comprehensive tutorials which can explain the entire process of tax e-filing step-by-step for the most common categories which applies to most taxpayers in Pakistan. FBR can also create their own YouTube channel to upload these tutorials which will allow taxpayers to access them at their convenience. FBR should make use of layman language wherever possible in their communication with taxpayers through emails or SMS alerts, etc. The tutorials should also use layman language to ensure maximum clarity among taxpayers. The tutorials should be available in both English and Urdu language to maximize their audience and reach. Taxpayers should also be educated about the penalties/consequences applicable in the case of non-compliance through different mediums such as TV ads, social media, website, etc.

## ***Awareness and Redesigning of facilities provided by TFCs***

Presently, most taxpayers are not aware of the facilities provided by TFCs which makes the utility of these centers questionable and even those who know or have visited these centers are unimpressed by their offered services. FBR should make efforts to redesign and improve the services provided by TFCs. Relevant officers should be there who can assist taxpayers in the case of any issues with tax e-filing process. There should be a separate section or a designated person/desk in TFCs which is aimed to educate the taxpayers about taxation, provide training about tax filing, and answer all queries a taxpayer regarding taxation concepts, tax e-filing process, supporting documents, explanation of legal notice, etc. Furthermore, FBR should raise awareness about the existence of TFCs by advertising through websites, local channels, or social media. FBR can

highlight the facilities provided by TFCs while communicating the tax e-filing deadline to the taxpayers. Properly developed TFCs with helpful staff/officers can eliminate the need to get assistance from third party agents and can enable taxpayers to file their own tax returns.

### ***Data Integration with Other Departments***

FBR should also put efforts into integrating taxpayer data on their website with other relevant departments like NADRA, FIA, etc. This will automate the data entry process for taxpayers to some extent as the system will be able to pull data automatically from the integrated sources thus making it easier and less time taking for citizens to file their income tax returns. It will also eradicate the possibility of entering wrong data therefore ensuring accuracy of tax e-filing as well.