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# Revenue-Maximising or Revenue-Sacrificing Government? Property Tax in Pakistan

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**ABSTRACT** *The idea that states seek to maximise their revenue collection has occupied a significant place in contemporary political economy analysis of taxation, and has helped us understand the history of state formation. It is, however, very much at variance with the daily experience of tax policy and practice. Governments are frequently revenue-sacrificers: they fail to use the functioning, legitimate tax collection systems they have available to actually collect much revenue. This paper details the case of property tax collection in Pakistan, and concludes that governments tend to maximise rule before they maximise revenue.*

## 1. Introduction

The idea that governments normally seek to maximise their revenue collection has occupied a significant place in contemporary political economy analysis of taxation. It is associated in particular with Margaret Levi, especially her book *Of Rule and Revenue* (Levi, 1988).<sup>1</sup> Levi is too good a social scientist to believe or claim that any social actor actually attempts to maximise a single objective to the exclusion of all other considerations. She talks of governments seeking to maximise revenue subject to constraints of ‘relative bargaining power, transactions costs and discount rates’ (Levi, 1988, p. 2; see also Levi, 1999). Nevertheless, her work conveys a strong impression that, if states are not revenue-maximisers, they are certainly revenue-hungry, and the continuous search for additional revenue significantly shapes their behaviour. That idea has underpinned a very valuable body of comparative historical sociology on the ways in which varying sources of government revenue have shaped state formation, especially in Europe.<sup>2</sup> We cannot dismiss any reasonable interpretation of the concept of the revenue-hungry state as being either evidently false or misleading. In some contexts the proposition seems both valid and analytically useful. Nevertheless, it grates with anyone familiar with contemporary tax policy. Governments conspicuously and routinely refrain from collecting the tax revenue that is within their reach. How can the notion of the revenue-hungry state appear so plausible from one perspective but so erroneous from another?

One possible explanation is that governments and tax collectors refrain from grabbing every potential tax penny because they know that aggressive collection undermines the ‘grudging compliance’ that underpins any effective taxation system.<sup>3</sup> But no such distinction between short-term and long-term approaches to revenue maximisation can plausibly account for the extent to which contemporary governments – especially governments of low-income countries, which capture a relatively low proportion of GDP as tax revenue anyway (Prichard, Cobham, & Goodall, 2014) – consistently refrain from maximising their revenue (Moore, 2013). The most tangible and significant instance is the widespread grant of tax exemptions for investors. These exemptions are granted far more generously than would actually be required to attract investment. The revenue foregone often amounts to a large fraction of actual collection.<sup>4</sup> The consistent failure of governments to behave in a revenue-hungry fashion needs explanation.

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There is an obvious explanation: politics. Taxation is ‘the process of extracting money from people and organisations with no promise of any specific reciprocity. Resistance to this process is normal, natural and desirable’ (Moore, 2013, p. 11). Levi’s notion of relative bargaining power (above) is a more formal way of saying the same thing. This appeal to politics is appropriate. However, like the notion of revenue maximisation itself, it comes close to tautology. Tax collection is always steeped in politics. To say that all outcomes are political is to explain nothing. What kind of politics, actors, and interests lead governments to leave some juicy revenue sources untouched, and to squeeze others? These are, of course, not new questions. There is an implicit answer in the vast literature on the politics of public finance: interest group politics.<sup>5</sup> Societal interest groups have varying capacities to influence how revenue is collected and spent. The distributional outcomes will depend on their power relative to one another and to the political executive. This answer is not wrong. But it is incomplete. The literature on the politics of taxation tends to privilege the effects of the interactions of two major categories of actors: political executives (rulers, states) and (organised groups of) taxpayer-citizens. But that ‘is not how the process [of taxation] is experienced by those involved. Nor does it very accurately reflect the actual flows – and leakages – of revenue. A cursory look at the actual money flows in any contemporary tax system suggests that we should assume at least four main categories of actors and interests: taxpayers, tax intermediaries, rulers and revenue collection organizations’ (Moore, 2015b).

This paper explores a case of ‘sacrificing revenue’; that is, the failure on the part of government to use the functioning, legitimate tax-collection systems they have available to actually collect revenue. Our case is the system for taxing property in urban Pakistan (Punjab Province).<sup>6</sup> In Sections 2–8 we explain the routine operations of the Excise and Taxation Department, which collects property tax. We focus in particular on the institutionalised and somewhat ritualised struggle between two distinct categories of staff: the more senior staff have career motivation to try to raise more revenue from property tax; the field-level staff use a range of techniques to resist those pressures, including de facto control of the information that their seniors would need to deploy those pressures effectively. In Section 9, we look beyond the Excise and Taxation Department to explain how the interactions of a range of actors and interests in Pakistan – located inside the state, outside it, or somewhere on the state-society boundary – provide political motivations for governments to continue to maintain a tax system that yields very little revenue. We conclude in Section 10 by suggesting that, especially if we are interested in understanding or trying to influence public policies in the short or medium term, it is more useful to assume that states maximise rule before they maximise revenue.

## **2. Introducing Property Tax Administration in Pakistan<sup>7</sup>**

The Urban Immovable Property Tax is a recurrent annual tax on the ownership of residential, commercial, and industrial property in urban areas. It is known colloquially as property tax.

Like most of South Asia, Pakistan retains a variant of the colonial British property tax system (rates), in which properties are valued at their estimated rental return. Pakistani governments have radically modified the colonial system in one respect: large discounts are given for owner-occupation of both commercial and residential premises. Currently rented commercial properties are assessed at five times the rate of owner-occupied properties. The differential for residential property is 10 times. Most property taxpayers therefore face low assessments. For example, in the cities of Punjab Province, where we did field research, the annual assessment of an owner-occupied house with 500 square yards of land in the highest value category was only about PKR 5000, or approximately USD 50. In Pakistan, as in many countries, property revaluation is routinely postponed. The property valuation tables currently in use in the Punjab Province were drawn up in 1999. In the interval, actual rental values have increased several-fold.

Responsibility for the administration of property tax is divided between the three main tiers of sub-national government: provincial, district, and town (see Section 9). The tax is assessed and billed by the Excise and Taxation Department of the Punjab Provincial Government.<sup>8</sup> There are four

organisational levels within the department. We classify the top two as senior levels; they are the secretary and director general at provincial level, and nine regional directors. These provincial and regional officers have responsibility for all the activities of the department within their jurisdiction, including the collection of excise taxes on liquor and motor vehicles. There are large gaps – in background, career expectations, work culture, knowledge, and experience – between them and those staff we label as field level. The field staff whose work patterns we researched have few responsibilities beyond property tax.

The most senior of the field-level staff are the excise and taxation officers (ETOs), each in charge of a zone and supported by an assistant ETO. There are about 50 zones in the Punjab Province. Below the zones are rating areas, of which there were 117 in 2012. The more significant organisational unit is, however, the lowest unit in the hierarchy: the circle. There were 483 circles in 2012 when the research reported here was done. Each circle is headed by a tax inspector, who is primarily responsible for the initial assessment of property and updating property records. There is also one constable, who goes from house to house to deliver property tax bills. The constable is also charged with reporting new information about property that is relevant to assessments. In principle, each circle employs a clerk. However, in 2012 the Punjab Excise and Taxation Department reported that there were official clerks posted in only 268 of the 483 circles in the province. As we explain in [Section 4](#), the circle staff employ and pay a large number of unofficial clerks on an informal basis. The staff of each circle typically operate as a relatively cohesive and autonomous entity.

The various dimensions of differences in the background, experience, and expectations between senior (provincial, regional) and field-level (zone, rating area, circle) staff become more evident in the following sections. The primary indicator – and much of the underlying cause – lies in the difference in work experience and career orientation. Regional directors are in transferable posts. They expect to move from one location and position to another within the Punjab Province. Even if a transfer does not involve a formal promotion, it may mean a move to a more rewarding location (see [Section 5](#)). In contrast, field-level staff are predominantly localist. They have limited promotion prospects, and are likely to serve their entire careers in the same locality; in the same circle, rating area, or city. For most field-level staff stationed outside large cities, a transfer to a different location is an unlikely prospect. It would be a punishment; one of the few effective disciplinary procedures to which they are subject (see [Section 6](#)). As we shall see below, the resulting loss of local knowledge and local social and political connections would reduce both their income and their social standing and influence.

### 3. Field-Level Administration: An Office Encounter

In the sixth week of field research, the first author was sitting in the office of an ETO to whom we give the pseudonym Saen. A middle-aged woman, who we will call Mrs Chalak, walked in. She showed Saen her recent property tax bill, explaining that it related to a residential house owned by her mother-in-law. Note that the annual tax assessment on the property was likely similar in value to her monthly electricity bill. Mrs Chalak complained that the assessment must be wrong, as the bill never used to be this high. Saen took the bill and asked Mrs Chalak if her mother-in-law was a widow. Mrs Chalak said that she was. Saen then picked up his cell phone and called the relevant tax inspector, telling him the house address and bill amount, and asking how it was calculated. There followed a three-way conversation as Saen spoke to his inspector on the phone and to the lady sitting in front of him.

Saen (to Mrs Chalak): ‘Your mother-in-law *died* last year’.

Mrs Chalak: ‘Ah ... yes’ (slightly embarrassed as her lie is discovered).

Saen (to Mrs Chalak): ‘You live upstairs and downstairs you have a beauty parlour’.

Mrs Chalak: ‘Oh, that is still under construction...’.

Saen (to inspector): ‘Isn’t that still under construction?’

Saen (to Mrs Chalak):

‘There is some finishing work going on, but it is functional isn’t it?’

Satisfied, Saeen put down his cell phone and addressed Mrs Chalak.

Saeen: ‘So how much rent do you get for the parlour?’

Mrs Chalak: ‘It’s not on rent; I am running it myself’ (Office on the Excise and Taxation Officer, Region B, Lahore, 20 March 2012).

Note that the property tax payable would be considerably higher if the premises in question were, first, being used for commercial purposes, and, second, rented out by the owner. Saeen did not seem too convinced with Mrs Chalak’s answer, but went on to make some calculations on the back of her bill. He kept calculating aloud so that Mrs Chalak could hear what he was doing and object if she did not agree with something. He kept flipping the bill to see the size of the plot and of the upper and lower stories of the building. He then applied the relevant rates and came up with a final assessment figure, which he underlined twice. He flipped the bill one last time and read off his figure, which was the same as that on the bill Mrs Chalak had brought with her. Saeen then explained the classifications he had used: ‘self-occupied residential’ for the upstairs floor of the building in which Mrs Chalak lived and ‘self-commercial’ for the beauty parlour on the ground floor. He had treated the car porch area on the ground floor as being in self-residential use and not commercial use, in exactly the same way as his inspector had when preparing the original bill. Saeen told Mrs Chalak that under the law he was to presume that any property not occupied by the owner is on rent. However, he was taking a lenient view in her case. He advised her to get the property transferred to the name of the heir or heirs of her deceased mother-in-law, as this was required under the law. Mrs Chalak did not have anything further to say, but still did not seem very happy with her bill. She went away without saying anything about paying, and Saeen did not ask.

Saeen then turned to me and explained that the increase in the bill was because the property no longer qualified for the reduction granted to widows. He remarked that Mrs Chalak would pay up once that information had sunk in. Saeen did not seem to resent the way in which she had tried to hide the truth about the death of her mother-in-law, the commercial use of the downstairs section as a beauty parlour, or the fact that it was likely rented out. Indeed, he had given her the benefit of the doubt on the latter point. Had he classified the downstairs as rented commercial premises, the tax bill for that part of the property would have increased fivefold. He explained that he had been lenient because he preferred to make a lower assessment and have her pay up, rather than assess her strictly and risk non-payment. He added that ‘even a rupee more in assessment than the “fair” assessment in the mind of the assessee raises the risk of non-payment multiple times’. That was a lesson he had learned in a quarter-century of assessing and collecting property tax.

#### **4. Field-Level Administration: The Underlying System**

This routine interaction over Mrs Chalak’s bill gives some clues about important dimensions of field-level property tax assessment and collection processes in Pakistan.

First, circle-level property tax staff enjoy wide discretion in making assessments. Valuations are made for blocks of adjacent properties, not individual premises. All properties in a block are assigned to a category between A and G, according to an estimate of rentability that is based largely on the extent of infrastructure and service provision in the area. The tax payable on any individual property within a block is then dependent on whether or not it is deemed to be used for commercial or residential purposes, whether it is owner-occupied or rented out, and whether the owners or occupants merit reductions because they are, for example, widows or retired public servants. Formally, the ETO is the assessing authority. He – and all are male – has the authority to change the basic rating value of a block of properties, a single property that is uniquely situated, or buildings in multiple (both residential and commercial) usage. He can reassign it from category A to B, C to D, and so forth. However, standard procedures require the assessing authority only to check a limited proportion of valuations. Given the incompleteness of property registration systems and residence records, the complexities of

joint family property rights, and the informality of most rental arrangements, circle staff enjoy enormous discretion. In most cases they, rather than the ETO, are the effective assessing authority. They also prepare and deliver the bills, and visit taxpayers repeatedly to follow up on payment until they receive or are shown the bank receipt as evidence that payment has been made. The billing process itself is complex. Bills are initially prepared on the assumption that they will be paid within the first three months of the financial year, and will therefore be eligible for a 5 per cent rebate; should they not be paid in this time, new bills are prepared. Duplicate bills are delivered regularly as reminders anyway. All these bills are prepared by hand; no duplicates are kept in the office.

Second, field staff do not generally use their discretion in ways that generate widespread resentment. Indeed, as the case above illustrates, they tend to make an effort to keep their taxpayers content, even at the cost of foregoing some revenue.<sup>9</sup> This reflects the interaction of several features of the property tax system examined elsewhere in this paper: the ability of field-level staff to fend off pressure from above to increase collection; the danger of providing opportunities for local politicians to intervene on the side of taxpayers; and the potential cost of disrupting a set of arrangements that provides collectors with reliable revenue streams and most taxpayers with very low revenue demands.

Third, circle staff have a deep knowledge of virtually all properties within their jurisdiction, including both those that are registered – on average about 1,100 per staff member – and those that for one reason or another have not been registered and therefore escape payment. They maintain a written register of all property which contains basic information on assessments, payments, and arrears; but their personal knowledge is more extensive. The constable in particular is constantly out on the streets and haunts the local bazaars. He – again, all are male – is known locally as a tax officer and is referred to by an honorific – *Chaudhri Sahib, Malik Sahib, Mian Sahib, Khan Sahib, Shah Sahib*, and so on – according to his caste or lineage. Although circle staff have official uniforms that are similar to police uniforms, they do not normally wear them. The constable knows what is going on in the area, both generally and especially with respect to property. He has close contact with local real estate dealers. Typically the constable serves his whole career of 20–30 years in one circle. He may see a house being constructed and therefore knows who owns it; what the owner does for a living; when it is initially occupied and hence becomes liable for property tax; whether it is owner-occupied or rented out; and whether it is being used for residential or commercial purposes. He also makes it his business to assess the political and social connections of the owner, and thus her/his negotiating power. When telephoned by his ETO, the inspector for the circle in which Mrs Chalak resided immediately recognised her property and knew the relevant recent history: the death of her mother-in-law, and the progress in converting the ground floor into a beauty parlour. He had put an end to the widow's deduction on the property without waiting for Mrs Chalak to record formally the change in ownership of the property with the Board of Revenue. This was typical of the interactions observed in the four different ETO offices in which the first author did research.

Fourth, this valuable unwritten information is monopolised by the permanent circle staff, and not even shared with the office assistants that they typically hire unofficially and privately to do clerical work. These unofficial assistants are young graduates with good numeracy skills. They are willing to work long hours for a relatively low monthly salary and an occasional bonus. Their main motivation is the chance of being hired permanently if and when formal recruitment takes place. Only then will they begin to share in the rich information about the real property tax base and in the informal income associated with it.<sup>10</sup> As temporary and informal assistants, they are never taken onto the street. As one of them expressed, they have to run out of the building if there is an inspection visit by the director general or some other senior officer.

Fifth, although field-level staff are required to maintain extensive handwritten records, these do not contain much of the deep knowledge they have of their tax base. Consequently, that knowledge is not accessible to their supervisors, the regional directors and the provincial Director General of Excise and Taxation. The main official records – the assessments of individual properties – exist only in handwritten ledgers that are maintained and controlled by circle staff. They are not even routinely accessible to the ETO. But those formal records may be out of date, and more current information maintained in the heads of circle staff or in the private records that they sometimes maintain. The

written records available in circle and rating area offices include information on amounts owed, payments, and outstanding arrears; but the only financial information available to regional directors and above relates to total annual assessment and monthly collection within each circle. The collection totals given to regional directors are divided into current collection and collection of arrears. There are, however, no authentic cross-checked figures on the total amount of billing done in a particular year or on cumulative arrears. Senior officers do not know the extent to which annual collections reflect any increase or decrease in arrears owed.<sup>11</sup> These arrears can be large. As we explain further in [Section 8](#), this information bottleneck is a significant element in the property tax system.

Sixth, the frequency of personal interactions between taxpayers and collectors is high relative to the monetary value of the transactions between them. The typical annual individual property tax assessment in Pakistan is equivalent to around USD 20. To collect that money, the tax constable might meet the householder several times in a year, one year after another. There is little scope for effectively and efficiently monitoring these interactions from above.

Seventh, there is a substantial informal economy associated with property tax collection. On the basis of conversations with staff of six circles, we calculated that the average circle needed to raise about PKR 35,000 (USD 350) per month to meet those operational costs not provided for in the official budget: notably informal office assistants, office stationery, and fuel and other operating costs for motorcycles and other vehicles that staff use. This kind of ‘living off the land’ is not unusual in the Pakistani public service. Senior officials justify providing inadequate operational budgets to tax offices with the argument that field staff have large informal earnings. This is less true of offices dealing with property tax than of other offices within the Excise and Taxation Department. Positions in offices collecting excise duties on liquor and motor vehicle taxes are more lucrative and more eagerly sought. However, property tax field staff certainly supplement their salaries significantly with informal earnings. In investigating this, we focused more on the proportional division of these informal earnings than on absolute amounts. There were some variations from office to office, and cases of individual officers who did not participate at all. But the phenomenon is broadly systemic. It is very difficult for individuals to decline to participate and have a satisfactory relationship with co-workers. It would also impinge on their ability to run their circles effectively. We were told that, on average, about 60–70 per cent of informal earnings were retained at circle level, with the inspector taking more than half and the constable and the clerk sharing the remainder. The other 30–40 per cent travels upwards. The great bulk of it stays in the office of the ETO (and the assistant ETO). We have no clear information on how consistently any of that money travels up to the office of the regional director. The regional director, however, also oversees the other offices of the Excise and Taxation Department collecting the more lucrative excise and motor vehicle taxes. There is a perception that it is more appropriate (cleaner, more honest) and less risky for the regional director to focus his attention on these other offices than on property tax collection. In talking of informal earnings, staff may use the local term for corruption, but they do not see this as unusual, or in any major sense wrong. The words of one officer summarise the general view: ‘We are all corrupt. You will not find a single officer in the department who is honest [...] it is just that some are more corrupt than others’ (Office of the Excise and Taxation Officer, Region B, Lahore, 29 February 2012).

Respondents insisted that ETOs do not become very wealthy even after a lifetime’s work, and especially not through property tax collection. The fact that property tax collectors collude directly with taxpayers to share in the money that formally belongs to the public treasury provides a ready legitimisation for informal earnings: ‘the public saves 90 Rupees and gives us only 10 Rupees, and then they call us corrupt?’ (Office of the Excise and Taxation Officer, Region B, Lahore, 29 February 2012). The sense of entitlement of informal earnings is strong.

Eighth, while there is a great deal of cooperation between staff at circle level around informal activities there is not total trust and openness, but rather a degree of individual vigilance and mutual suspicion. If an inspector is not particularly active in cross-checking information by spending time in the street, his subordinate constable can make additional money for himself by not pooling all ‘deals’ with the rest of the circle staff. For example, he could keep a few newly constructed properties off the official record, or continue to record as owner-occupied properties that have been rented out. As an

informant remarked: ‘the constable always keeps one or two properties out of a hundred for himself [...] if the inspector is old or not very vigilant the constable and the clerk might collude and start running a sideshow of their own’ (Office of the Excise and Taxation Officer, Multan, 22 May 2012).

Ninth, collusion between tax collectors and property owners to reduce assessments is not the statistical norm. Because rented and commercial properties are assessed so relatively highly, it is here that collusive activities are concentrated. Some of the rented shops in a large shopping plaza may be recorded and assessed as owner-occupied. In a multi-storey plaza, one whole floor might not be assessed at all. Since there are different tax rates for property on main roads and off main roads, a corner property may be shown wholly off the main road and charged a lower tax rate. A property being used as an office with no signboards outside may be recorded as residential and charged accordingly.

### **5. Supervisors’ Dilemmas: An Office Meeting**

While field research for this paper was taking place, the office of secretary to the Punjab provincial Excise and Taxation Department was occupied by a particularly energetic individual with good political connections, who tried hard to increase property tax collection. We received a detailed report of one of the regular monthly meetings, during which the secretary was quizzing the nine regional directors on progress in meeting their monthly tax collection targets. Discussion focused on two statistics for each regional directorate: the monthly collection level in the current year, and the equivalent figure for the previous year. As we explained above, the directors knew how much each circle had collected, but did not in practice know how much of the total collected constituted arrears, what the accumulated arrears were, or what the overall property tax potential was.

The secretary believed it was possible to increase collection in the region for which Nikama was director, and gave him a higher target. Nikama refused to accept the revised target, claiming that it was unachievable. The secretary then asked another regional director, Kamu, whether he could do the job if transferred to Nikama’s region. Kamu was willing to try if the target was reduced a little. Nikama was then given an opportunity to commit to achieving this slightly lower target. He declined. The secretary had little choice but to replace Nikama with Kamu. He asked Nikama to report to headquarters for further orders.

The outcome of this meeting was quite consequential for the two regional directors. For Kamu this was an opportunity: he was being transferred to a region that was more urbanised than his present posting and accordingly had more revenue potential, formally and informally. If he were to do well there, his next posting could be one of the three plum regional directorships in Lahore, the provincial capital. For Nikama this was a career setback: he had fallen out of favour with the secretary, and could not expect to get a decent posting as long as this secretary was in position. The two became involved in a complex conflict in which departmental disciplinary procedures, the courts, planted newspaper stories, and political connections were all invoked. The secretary prevailed while he remained in office, but actually left the post after about a year.

### **6. Supervisors’ Dilemmas: Information Asymmetry**

At first sight it seems surprising that senior public servants would become involved in intense conflict over an issue with such apparent low stakes. The potential additional revenue that was in dispute was trivial in the context of aggregate provincial tax collection, and even more trivial in the context of the provincial budget. We have less reason to be surprised when we look carefully at the context.

Senior departmental staff are highly present-oriented, focusing on monthly or annual collection targets from positions that they are unlikely to be occupying in two years’ time. From their perspective it is this year’s target that matters, for that is a major indicator on which their performance will be judged. From 2010 to 2014, the average tenure of secretary and director general of the department was less than a year. Regional directors tend to be in post for a few years at most. However, taxes are



actually collected by field staff, who have very different career perspectives and interests; they expect to be in the same job or office for long periods of time, possibly throughout their careers. They are concerned about how their behaviour today might affect their capacity to work and earn in the future, especially as it might impact on their relationships with taxpayers and local politicians. Field staff are rarely moved out of their circles or districts, except as punishment in instances of serious or repeated complaints.

In fact, senior staff have few disciplinary or other instruments available to change significantly the normal work practices and performance of their subordinates. At best, they can discourage blatant misbehaviour. The Excise and Tax Department has a monitoring wing to investigate allegations of misbehaviour. The monitoring wing is small, however, with staff only at the provincial level. If the monitoring wing or a senior officer on inspection unearths irregularities, the perpetrators can offer plausible excuses: they do not understand the rules properly; they are understaffed and too busy to check on everything; or the property was put to a different use only recently. If disciplinary action is initiated and charges proven, staff normally emerge with minor penalties that generally do not affect their jobs. While going through records of these disciplinary proceedings, we found that, where a revenue loss had been established, it was often reported that the taxpayer concerned had paid the money back. Those restitutions were in turn cited as mitigating circumstances and a reason for the inquiry officers – who are appointed from within the Tax and Excise Department – to recommend leniency. No departmental staff, including those of the Human Resources wing in the director general's office, could remember anyone being dismissed from service for under-assessing property.<sup>12</sup>

Even if they had more potent disciplinary tools, it would be difficult for senior staff to use them to motivate field staff to increase collection, because they lack detailed information on their subordinates' work performance. The only procedure available to senior staff to set collection targets for rating areas and circles is cash incrementalism: more money should be collected than last year. But how much more? The demands made by superiors and the responses to them are, to a large degree, shaped by instinct and intuition. Regional directors have no guaranteed means of achieving high targets. They will almost inevitably invoke their standard toolkit: intense regimes of inspection of subordinate offices, frequent cajoling of staff, and, at the end of the year, a brief campaign to collect unpaid money (see [Section 8](#)); but the near-absence of performance statistics means that it is hard for them to make an objective case to explain their failure to meet targets. It is sometimes rational for them to reject the targets that the secretary tries to set for them. It is equally rational for the secretary to encourage regional directors to compete for postings, often by giving them temporary postings ('acting charge') until they have proved their worth. The secretary has few other means of discovering where the additional collectable revenue lies. In particular, he has no information on how much potential revenue is sitting as uncollected arrears in each circle and rating area.

## **7. Arrears: The Strategic Use of Information**

A regional director told the first author how he once summoned a circle inspector to ask about the extent of cumulative arrears. The inspector reported that they amounted to about PKR 20 million (USD 200,000). When asked to bring all his registers to the regional office for inspection, the inspector revised that figure to PKR 40 million. By the time he arrived with the registers, his estimate was PKR 50 million. The director guessed that, had he taken the time to go through the registers, the real figure might have been double that. But he did not have the time, for the written information on arrears exists only – and at best – in the original registers, where it is recorded property by property. According to departmental regulations, inspectors should maintain separate registers that list all properties in arrears along with sums outstanding. However, these are badly maintained and rarely used.

It seems certain that property tax arrears are large relative to annual collections. The Excise and Taxation Department has no aggregate figures. Estimates given to us in different localities ranged from 50 per cent to 400 per cent of the annual tax demand. Accumulated arrears are not simply the result of the inability or unwillingness of circle staff to persuade property owners to pay on time; they also

reflect the fact that circle staff sometimes actively encourage property owners to accumulate arrears. Why would they do that? There seem to be several interacting reasons.

- One is that this gives field staff some leverage over the taxpayer concerned. The law gives revenue staff considerable authority to deal with property taxpayers in arrears.<sup>13</sup> These powers are rarely used, but field staff seem to find it useful to have at least some of their clients vulnerable to legal sanctions.
- More significant is the scope for staff and property owners to collude in accumulating large arrears on a property given out on rent. After some years staff can orchestrate an appeal by the owner on the grounds that the property had been self-occupied the whole time and that he was, for example, living abroad. The appellent authority in such cases is the regional director. His decision depends mainly on information provided by his field staff.
- There is, in addition, a more collective incentive for lower-level staff to encourage the accumulation of arrears: it helps them buffer demands from above. The kinds of interaction at the level of regional director discussed in [Section 5](#) might at any moment generate a blitz of inspections and urging from superiors to ramp up collection. Field staff simultaneously cooperate in such campaigns and tacitly resist (see [Section 8](#)). When under intense pressure it makes sense to produce a little more revenue. This could come from the informal earnings of the field staff; it could come from taxpayers, at the risk of upsetting them, and local politicians, by renegeing on too many collusive assessment deals. A buffer of uncollected arrears provides a very useful alternative or supplement. It is relatively easy to press for payment of arrears when in real need of money, and allow arrears to accumulate again once pressure is relaxed. Because senior staff have little information on arrears, especially on accumulated arrears, it is very difficult for them to forestall this kind of response.

## 8. Campaigning for Collection

Toward the end of most financial years, staff of the Excise and Taxation Department engage in intensive collection campaigns to try to meet their targets. This campaigning was particularly aggressive while the first author was doing field research in the financial year 2011–2012. The secretary to the department mentioned in [Section 5](#) was attempting to make his mark, and had sufficient political support to take unusual measures. The first author witnessed this campaign in three different regions. The following were its more visible components.

- Rather than travelling around individually in civilian clothing, circle staff went out in groups, generally in vehicles, wearing their official police-like uniforms that otherwise rarely saw the light of day, under the leadership of ETOs and regional directors.
- To encourage defaulters to pay, their properties were sealed.
- Reports on collection were submitted frequently to superiors, and progress meetings held in offices every morning.

Like all campaigns, but with greater intensity, this one generated energetic and anxious responses from taxpayers, both individually and collectively, and sometimes from politicians representing them. This was most evident in the large number of people who flooded into the tax offices to pay, protest, or explain.

The campaign was effective in the sense that total collection during the final quarter of that year (2011–2012) was considerably higher than in the previous year. The annual total also increased, although less markedly. However, during the next year, after the energetic departmental secretary had moved on, total annual collection increased only at the normal rate in cash terms, while the collection during the campaigning final quarter fell significantly compared to the previous year. In the longer-term perspective,

intensive campaigning seems to have changed nothing. These campaigns have become institutionalised. All the main actors know broadly what to expect, and how to behave.

To some extent these campaigns generate a genuine sense of enthusiasm, mission, and camaraderie among the field staff, and a degree of solidarity between them and senior staff. Field staff know, however, that the support they are receiving from their superiors is only temporary. Once that recedes their relationship with – and need to accommodate – taxpayers and local politicians again has priority. So the appearance of strict enforcement is tempered by informal compromise. Although the properties of some defaulters are sealed with locks, they are not made completely inaccessible. Staff typically place a lock on the front gate so that vehicles are unable to exit or enter, and people can only squeeze in with difficulty. Although the law does not allow it, properties may be unsealed if the owners pay only part of the arrears due. And, since a large number of defaults are the result of staff tolerating or encouraging arrears, they have considerable discretion over which defaulters to pursue.

Especially during enforcement campaigns, while they are in the field, senior staff can use evidence or suspicion of misbehaviour on the part of their subordinate staff to squeeze a little more tax from them. For example, in one of the morning meetings a regional director asked an inspector to bring his arrears register. The register was actually a private notebook. The director showed the first author the long list of arrears, spread over many pages, and then mentioned that this particular inspector had won the highest cash award in the province for the last quarter under an experimental tax collectors' incentive scheme. He turned to the inspector and said: 'You don't deserve a bonus that big, just look at your arrears. I should confiscate your award and buy office furniture with it' (Director Excise and Taxation Officer, Region B, Lahore, 5 May 2012). He then went on to mark some of the larger amounts with a highlighter and numbered them, giving the inspector a week to show progress on the highlighted cases under threat of a posting to a part of Punjab where he would certainly be unable to earn a bonus. The director was not interested in the details of arrears, provided he could use the list to raise some more revenue. No less than his field staff he was using informal practices – and tolerating the informal practices of his subordinates – while apparently engaged in a campaign to enforce formal procedures.

## **9. Why does Property Tax Persist?**

Few tax specialists would be surprised to learn that Pakistan sustains a property tax system that generates little revenue. There is a substantial literature that attempts to explain why property taxes, which are from an economic perspective among the most desirable taxes, consistently underperform almost worldwide.<sup>14</sup> Three explanations recur. First, property owners dislike property taxes and tend to be politically influential. Second, recurrent property taxes are more unpopular than most other taxes because the taxpayer is regularly reminded of their existence as she/he receives a quarterly (or half-yearly or annual) bill and then has to pay it. By contrast, personal income tax, sales and value added taxes, import and export taxes, and excise taxes are, in most cases, collected and remitted to government by someone other than the person who bears the ultimate economic burden: by employers or by trading firms. They are less visible and irritating to taxpayers than the recurrent property tax. Third, in most countries of the world, property taxes are collected by and directed to sub-national governments. Sub-national governments are typically weak in relation to central government; their interests do not have high priority when revenue policy and administration are reformed.

Pakistan is not alone in the underperformance of its recurrent property tax. It is, however, a rather extreme case. The property tax yield is exceptionally low, even when compared to other low-performing systems in low-income countries.<sup>15</sup> There is, in principle, considerable scope, technological and organisational, to make the system perform better.<sup>16</sup> Aid donors regularly initiate new property tax reform experiments, but none have made much progress. The government seems to have little faith in the prospect of reforming the recurrent property tax system. It has instead multiplied the number of separate taxes it levies on the legal transfer of property ownership. There

are five such taxes at the time of writing.<sup>17</sup> Their yield remains paltry, but collectively exceeds that of the recurrent property tax.

If the prospects for obtaining significant income from the recurrent property tax are so poor, why does the government not simply abolish it? It is not popular, and the Excise and Taxation Department's periodic collection campaigns generate some overt political resistance. To the best of our knowledge, the abolition of property tax has never been formally proposed or openly debated in Pakistan. Our interpretation of why it persists is therefore based on inference. We see three likely reasons.

The first is evident from the information we have provided above: there are vested interests, above all within the Excise and Taxation Department, in continued collection. Although levels of rent-taking are relatively low, the current system provides appreciable salary enhancements and relatively secure livelihoods for departmental staff. Their collective political power is so far untested, but, given the density of their local personal connections, including with politicians, it is likely considerable. The second reason is more implicit: fear on the part of the government that the abolition of any tax – and especially a tax that clearly could yield more revenue if better managed – would give a wrong signal to Pakistan's aid donors. Pakistan is often cited as the emblematic case of a country that receives appreciable aid but conspicuously fails to tax its own wealthy citizens. The abolition of a tax that could in principle be used to tax the wealthy would probably generate adverse headlines. The third reason for the persistence of property tax requires more explanation. The summary version is that it serves as a tool for the federal government to appear to sustain and promote a system of elected sub-national governments while simultaneously keeping those sub-national governments weak by discouraging cooperation and fostering tension between them.

Although property taxes worldwide are typically collected by and assigned to sub-national government, it is not unusual that the responsibilities for administering the tax are shared among more than one tier of government. For example, the valuation and revaluation of properties is often performed by a central government agency. This may help insulate the valuation process from local political pressures (Bird, 2010). Pakistan is, however, distinctive in that responsibility for the administration of property tax is divided in a tortuous fashion among the three main tiers of sub-national government: provincial, district, and town.<sup>18</sup> The dominant role in collection is played by the provincial government, in which property tax rates and exemptions are decided, and from which the collection apparatus – the Excise and Taxation Department – is largely controlled. However, it is the district governments that provide the operational budgets for the local offices of the Excise and Taxation Department. Town governments only control whether and when to declare newly urbanised zones to be liable for property tax. Yet those same town authorities are supposed to receive 80 per cent of property tax receipts.<sup>19</sup> The provincial authorities receive 14 per cent, and the district authorities receive no property tax revenue at all. No tier of sub-national government combines real authority over property tax collection with a strong direct incentive to increase yields. This particular set of arrangements derives from decentralisation reforms introduced by the military government in 2001. It is hard to believe that part of the reason is not as summarised above: to create the appearance of a vibrant system of elected local government while in reality keeping it hobbled and dependent on central government. There is a long tradition in Pakistan of (military) federal governments using control over local governments to undercut their political opponents (Cheema & Mohmand, forthcoming).

It is not possible to find a definitive explanation of why Pakistan's recurrent property tax has not been abolished. It is difficult, for example, to assess the role of political and bureaucratic inertia. The explanation we have provided speaks directly to the broader concerns of this paper. First, it illustrates the organisational complexity of tax administration and policy, and therefore of tax politics. The politics of property tax cannot usefully be conceived or modelled as a game involving just two main categories of players: a political executive and taxpayers. The game engages many more organised interests, in particular different categories of staff within the Excise and Taxation Department and various tiers of sub-national government. Second, this case illustrates some of the ways in which a part of the state apparatus that is all too easily represented and understood purely in terms of its revenue-raising function is also embedded and involved in the routine practice of rule. Responsibility for

property tax is shared in a tortuous and dysfunctional fashion between the three tiers of sub-national government to set them against one another and help keep them collectively weak. The internal management, information, and disciplinary processes within the Excise and Taxation Department have been allowed to atrophy. While this undermines revenue collection, it also decreases the likelihood of serious organised dissent from either the lower-level staff of the department or the taxpayers. Ruling effectively – including minimising the chances of generating organised resistance – is not always compatible with raising a great deal of revenue.

The power to tax – and therefore the power to grant tax exemptions – is not just a means of raising financial resources for the state. It is also – and especially in polities characterized by low levels of democratic institutionalization and legitimacy – a basic and direct instrument of rule. It can be used as both carrot and stick: to generate support and to discourage oppositional activity. (Moore, 2015b)

## **10. Conclusion: Maximising Revenue and Sacrificing Revenue**

This paper explores one case of what we term sacrificing revenue: failure of government to make good use, in revenue terms, of a functioning, legal tax collection mechanism. In this case, the more immediate reasons for the tax system generating such little revenue and why it nevertheless persists are located principally in the realm of bureaucratic politics. The phenomenon of sacrificing revenue, and the politics behind it, is, however, much more widespread and diverse. For example, there is in most countries a big difference between the formal, so-called ‘headline’ rate of corporate profits tax, and the average rate at which companies actually pay tax on their profits. The latter is typically much lower. The difference results from a variety of mechanisms, ranging from legal exemptions and investment allowances through to tolerance of tax evasion. Michael Durst argues that we should view this phenomenon as intentional. It permits governments to claim that they are mitigating inequalities and ensuring that business bears its fair share of the tax burden, while simultaneously taxing companies lightly enough to ensure that the country does not lose out in the international competition to attract new investment and the headquarters of large transnational corporations (Durst, 2015). In other cases, and especially in low-income countries, the motivations to grant tax exemptions may be more particular: they can be a means of raising political contributions and bribes, or of rewarding political allies and keeping potential political opponents on a short leash (Moore, 2015a; Therkildsen, 2012).

The broader point is that sacrificing revenue is not a marginal phenomenon; it is widespread. Perhaps it is relatively insignificant in large historical or comparative frameworks, but, if we are to think about the politics of taxation within the same kinds of time scale as policymakers, then the notion of the revenue-maximising or even the revenue-hungry state is unlikely to be a very useful starting point. As Irigoien and Grafe suggest in their commentary on Margaret Levi’s work, ‘rulers did and do not maximize revenue, but rule’ (Irigoien & Grafe, 2013, p. 205).

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## Notes

1. See also Timmons (2005).
2. The classic work is Tilly (1992). See also Brewer (1989); Centeno (1997, 2002); Coffman, Leonard, and Neal (2013); Daunton (2001); Dinuccio (2011); Herb (2003); Hoffinan and Norberg (1994); Kwass (2000); Rosenthal (1998); Stasavage (2010).
3. Aggressive collection increases taxpayer resistance and decreases the legitimacy of the system. Unless the majority of taxpayers are willing to pay before sanctions and pressure are applied, the cost of collecting taxes escalates, and collections are likely to decline (Daunton, 2001).
4. There is a large literature on this topic. The Organisation for Economic Cooperation and Development has recently provided an excellent summary (OECD, 2015).
5. There is a vast literature on the subject, and no good overview. Schneider's work on Central America provides a good recent illustration of the interest group approach to explaining tax politics (Schneider, 2012).
6. This paper is based on some of the data collected by the first author for his doctorate, including field observations, interviews with current and retired staff of the Excise and Taxation Department, and examination of official departmental files and records (Piracha & Moore, 2015).
7. For more details, see Piracha and Moore (2015).
8. This paper deals with those offices of the department that have property tax responsibilities, and not with other offices within the department that collect the more lucrative excise taxes on liquor and motor vehicles.
9. When the property tax bill is generated it is supposed to reflect the tax assessment shown in Property Tax Register 8. However, no copy of the actual bill is retained in the office; there is no universal numbering system for them; and in most cases 'official' office stationery is purchased privately by circle staff. This creates scope for staff to produce fake, exaggerated bills, which could be used to extort money on the understanding that a new, lower bill will then be issued. This practice seems rare, apparently because it is likely to generate complaints from taxpayers to higher authorities. Similarly, tax staff have the legal authority to fine an assessee for non-payment up to the amount outstanding. However, this is hardly ever done.
10. Retired circle staff are never rehired into the Excise and Taxation Department. They would have the knowledge to cut into the informal income of the other staff. By contrast, in the Board of Revenue, which collects registration fees on changes of property ownership (among some other levies), the equivalent officers, known locally as *Patwaris*, are sometimes rehired informally after retirement to do routine work. In this case, the main source of informal earnings is the signature of the official incumbent *Patwari* on property transfer documents. Informal employees cannot substitute and do not put this source of income under threat.
11. Until a few years ago there was a practice of having figures on arrears and current collections reported separately, with separate targets for each. However, the information on arrears became highly unreliable. Inspectors maintain a separate record of arrears at circle level, but there is no effective cross-check of these figures; that would require that the arrears records for each inspector be checked manually. These records typically cover a period of about five years, with information for each year on annual bills and whether these were cleared for each of about 2,500–3,000 properties. These data might be contained in eight to ten thick registers.
12. The Provincial Audit Department is responsible for the external audit of the offices of the Tax and Excise Department. However, this audit deals only with the internal consistency of office records. It involves no checking of the accuracy of property tax assessments. Furthermore, several informants reported that passable audit reports are routinely exchanged for informal payments.
13. Under the Land Revenue Act, staff can institute legal proceedings for the recovery of outstanding government dues, and, without court permission, seal immovable property to prevent access by the owner, impound it, attach the rent of the property, or even arrest the owner.
14. See, for example, Bahl, Martinez-Vasquez, and Youngman (2008); Bird and Slack (2004, 2006); Connolly and Bell (2009); Hale (1985); Jibao and Prichard (2016); McCluskey, Cornia, and Walters (2013); National Institute of Urban Affairs (2010); Norregaard (2013); Orton (2005); Phillip and Gary (2003); Rao (2013); von Haldenwang (2015); Yun Casalilla and O'Brien (2012).
15. In 2012–2013, the combined revenue from property tax and the main tax on property transfers, the registration fee, amounted to only 0.03 per cent of GDP ([http://www.finance.gov.pk/fiscal/July\\_June\\_13.pdf](http://www.finance.gov.pk/fiscal/July_June_13.pdf); accessed 12 October 2013). The more typical figure for low-income countries lies within the range of 0.1–0.6 per cent of GDP (IMF, 2011; Kelly, 2013).
16. Digital technologies have greatly improved the prospect of assessing and collecting urban property taxes more reliably, efficiently, and transparently. Geographic information systems make it easier and cheaper to identify – and to some extent to classify – properties liable to taxation. Bill management can be automated; management information systems can be used to analyse system performance in many dimensions; property tax information can be cross-checked with relevant information from, for example, household utility bills, the census, or taxes on the legal transfer of property (Nabi & Shaikh, 2011).
17. These are: a stamp duty on transactions; a registration fee for changes in property records; a capital value tax on transfers, recently reallocated to the provincial government from the federal government; a transfer tax on immovable property; and a withholding income tax on real estate transactions, recently introduced by the federal government.

18. We are referring here to the situation in 2012 under the Punjab Local Government Ordinance, 2001. Some changes have been introduced under new legislation in 2013–2014.
19. The provincial governments do not always hand over all this money; they sometimes divert some of it to water and sanitation agencies in large cities that continually run deficits.

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