

**TAX REGULATIONS AND COMPLIANCE LEVELS IN
THE FREIGHT TRANSPORT SECTOR IN
ISLAMABAD**



by

Muhammad Waqas Shabbir

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Supervisor

Omer Siddique

MPhil Public Policy

PIDE School of Social Sciences

Pakistan Institute of Development Economics,

Islamabad

2025

Pakistan Institute of Development Economics, Islamabad
PIDE School of Social Sciences

CERTIFICATE

This is to certify that this thesis entitled: **“Tax Regulations and Compliance Levels in The Freight Transport Sector in Islamabad.”** submitted by Muhammad Waqas Shabbir is accepted in its present form by the PIDE School of Social Sciences, Pakistan Institute of Development Economics (PIDE), Islamabad as satisfying the requirements for partial fulfillment of the degree in Master of Philosophy in Public Policy.

Supervisor:

Mr. Omer Siddique

Signature:

Omer Siddique

External Examiner:

Dr. Ahmad Waqar Qasim

Signature:

Ahmad Waqar Qasim

Head,

PIDE School of Social Sciences: Dr. Hafsa Hina

Signature:

Hafsa Hina

Author's Declaration

I, Muhammad Waqas Shabbir hereby, state that my Public Policy thesis titled Tax Knowledge, Regulations and Compliance Levels of Freight Transport Operators in Islamabad is my own work and has not been submitted previously by me for taking any degree from the Pakistan Institute of Development Economics or anywhere else in the country/world.

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Date: 25th April-2025



Muhammad Waqas Shabbir

Abstract

Tax compliance is a crucial issue for developing countries. Pakistan's tax-to-GDP ratio remains significantly lower than the average in other developing countries. While the average tax-to-GDP ratio for South Asian countries is around 20%, Pakistan lags behind at under 15% (OECD, 2023). This disparity highlights the need for targeted reforms to bridge the compliance gap and improve revenue collection. As increased compliance leads to higher government revenue. Pakistan, like many other developing nations, faces a low tax-to-GDP ratio. Although tax regulations are well-documented, enforcement remains inconsistent across various economic sectors. This research focuses on the freight transport sector in Islamabad to identify the factors contributing to low tax compliance. A survey of 114 freight transport operators was conducted to examine their education levels, tax knowledge, operational practices, and perceptions of tax authorities. The findings reveal that most operators are uneducated and lack awareness of their tax obligations. Additionally, there is minimal fear of detection due to infrequent audits by tax authorities. Cash-based transactions without proper documentation further reduce transparency and increase the potential for underreporting income. This study advocates for digitizing business operations to improve data collection and tax monitoring. Collaboration between the Federal Board of Revenue (FBR), Securities and Exchange Commission of Pakistan (SECP), and vehicle registration offices could enhance regulatory oversight. Additionally, targeted educational programs and systematic random audits are recommended to foster a culture of compliance.

Keywords: Tax Knowledge, Tax Compliance, Education Levels, Freight Transport, Role of Implementing Authorities.

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Chapter 1

Introduction

Tax compliance is the adherence of an individual or a firm to the rules and the regulations set by a government authority for a specific business activity (IRS, 2022). Fair intervention by the government leads to optimal outputs for the economies (Haque, 2022). Government's plays a huge role in ensuring compliance. There are two categories of compliances; voluntary compliance and non-voluntary compliance. (Nikolova, 2021). Higher compliance level in countries leads to a stable financial discipline that results in economic indicators of the country such as Tax-GDP¹ ratio. This ratio for Pakistan is less than 15 percent. The average ratio of South Asian and Pacific Region is currently 20% (OECD, 2023).

A look into Pakistan's GDP reveals that it was agriculture based in 1950s but as time progressed Pakistan's economy transitioned towards providing services at current point in time. Table below indicates share of each sector over different time intervals towards the total GDP of Pakistan (SBP, 2022).

Table 1 Sector-wise Output Share in GDP

Sector	Share in 1950	Share in 1975	Share in 2000	2023
Agriculture	53.22	32.4	27.40	25.17
Manufacturing	9.6	22.2	18.77	18.11

¹ The tax-to-GDP ratio measures the total tax revenue collected by a government as a percentage of a country's Gross Domestic Product (GDP). This ratio is an important indicator of a government's fiscal capacity and efficiency in collecting taxes relative to the size of its economy. (OECD, 2023)

Services	37.2	45.5	53.83	56.18
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Source: Pakistan Economic Survey 2023-24

Table 2 shows each sector's contribution to Pakistan's Tax Revenue. There is currently a large disparity between each sector's share of GDP and tax revenue (FBR, 2023). The services sector is currently the largest contributor to the GDP. The table that follows presents a breakdown of the services sector.

Table 2 Contribution of Each Sector in Tax Revenue 2023

Sector	Share in GDP	Share in Tax Revenue
Agriculture	25.17	0.4
Manufacturing	18.11	44.12
Services	56.18	15.7

Source: Pakistan Economic Survey 2023-24

(SBP, 2022). A look at the Islamabad Tax Ordinance 2001, reveals that there are 12 services that are subject to sales tax. Freight transport according to that document has to be taxed at the rate of 5 percent or Rs. 1,000 per bill of lading whichever is higher.

Table 3 Share of Subsectors of the Services Sector in GDP

Services	Share in GDP (%)
Wholesale & Retail Trade	18.75

Transport, Storage & Communication	10.66
Finance and Insurance	2.04
Housing Services	5.54
General Government Services	8.18
Other Private Sectors	11.02

Source: Pakistan Economic Survey 2023-24

Transport, Storage & Communication² is the third major contributor in the services sector. This research is an attempt to study one of the further subcategories of Transport, Storage and Communication i.e. Freight Transport.

This research explores the tax regulations applicable³, awareness of operational firms and individuals about these regulations, and their perception of current taxation structure. This research also studies the role of tax authorities in enforcement, and the influence of other external factors such as education levels on compliance levels. By identifying issues and beliefs, this research aims to contribute towards the literature that can be used to achieve the goal of increasing tax revenue and broadening the tax base so that a sustainable Tax-GDP ratio is achieved.

1.1. Statement of the Problem

² Transport, storage, and communication sector in Pakistan plays a vital role in the country's economy by facilitating trade, enhancing connectivity, and supporting the logistics of goods and services (GoP, 2022)

³ According to the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, updated vide Finance Act, 2023, the Sales Tax on Freight Agents, Movers and Packers is five percent or rs.1000 per bill of lading, whichever is higher

Non-compliance with taxation rules and regulations, including in the freight transport sector, is a pressing issue, resulting in an estimated annual revenue loss of billions of rupees for the government (FBR, 2023). This revenue shortfall restricts public spending on essential infrastructure projects, such as road maintenance and transport networks, which further affects the sector's efficiency and growth., resulting in underreported payments, tax evasion, and poor record-keeping practices (Bhutta, 2019). This not only hinders revenue collection but also undermines the integrity of tax systems (Batool, 2022). This research identifies the causes of non-compliance with taxation in the freight transport sector in Islamabad and suggests improvements to enhance tax enforcement.

1.2. Research significance

The freight transport sector is a critical part of Pakistan's services industry but remains underexplored in tax compliance research. This study aims to fill that gap by analysing the factors affecting compliance behaviour and providing policy recommendations for enhancing regulatory oversight.

1.3. Research Motivation

The study is motivated by the detrimental economic impacts of tax evasion. Strengthening tax compliance can improve public revenue, which in turn supports social and infrastructural development. With Pakistan's tax-to-GDP ratio lagging behind regional averages, there is an urgent need to understand and address compliance barriers in key economic sectors.

1.4. Research Gap

While prior research has examined tax compliance in other industries, sectors like the retail and manufacturing industries have shown improved compliance through digital invoicing and

enhanced audit systems. These successful strategies may offer valuable insights for improving compliance within the freight transport sector. Little attention has been paid to the freight transport sector in Islamabad. Existing studies also rely heavily on quantitative analyses, lacking qualitative insights into the motivations and experiences of business operators.

1.5. Research Questions

1. What tax regulations apply to the freight transport sector in Islamabad?
2. How knowledgeable are freight transport operators about these regulations?
3. What role do tax authorities play in enforcing compliance within this sector?
4. How do education levels and business practices impact tax compliance?
5. Transaction Methods that are used to settle payment of services in this sector.

1.6. Research Objectives

The following are the research objectives of the current study:

Phase 1: Current Policies that reveal the following:

- Applicable taxation regime specific to freight transport sector of Pakistan.
- Obligations and duties of FBR in Ensuring Compliance.

Phase 2: Survey questionnaires to gather following data:

- To assess the level of tax knowledge among business entities in the freight transport sector in Islamabad.
- To evaluate the effectiveness of transaction processes (the way consumers interact with the business entities in order to complete a transaction) in facilitating tax compliance within the freight transport sector in Islamabad.

- To examine the role of tax authorities in enforcing tax compliance within the freight transport sector in Islamabad.
- To explore any other factors, such as corruption and informal practices that influence tax compliance in the freight transport sector in Islamabad.
- To assess the willingness to pay and the current tax potential of this sector.

Locale

Islamabad, Pakistan, serves as the primary location for this research study primary data collection. Islamabad is the capital city of Pakistan and fills in as a significant center point for different enterprises, including the road transport sector. By zeroing in on Islamabad, the review expects to catch the particular setting and elements of expense consistency inside the road transport sector in this specific region. Choosing Islamabad as the region for essential Data collection considers an engaged analysis concerning tax compliance in the road transport sector inside a particular geological setting in Pakistan. The study can help to improve tax compliance in the road transport sector in Islamabad and possibly other similar sectors in Pakistan by examining compliance behavior and transaction processes in this location. It can also help to develop specific policy recommendations for improving tax compliance.

1.7 Policy Contribution

This research offers evidence-based policy recommendations to improve tax compliance in the freight transport sector. By identifying gaps in tax knowledge and enforcement, the study discusses strategies for policy makers to increase revenue and ensure equitable tax collection.

Chapter 2

Literature Review

2.1. Literature Analysis

This chapter synthesizes prior research on tax compliance, highlighting theoretical frameworks and empirical findings relevant to the freight transport sector.

Theoretical Frameworks

Tax Morale Theory: Suggests that intrinsic motivations and social norms influence compliance behaviour (Allingham, 1972).

Deterrence Theory: Proposes that the likelihood of detection and the severity of penalties directly impact tax compliance (Sandmo, 1972).

Empirical Studies

Research indicates that education, transaction transparency, and active enforcement are key drivers of compliance. Studies by Waseem (2022) and Kamal (2019) emphasize the role of audit probability and penalty severity in deterring non-compliance.

Relevant literature

Tax compliance has received critical consideration in the literature because of its effect on the duration of payback⁴, monetary turn of events⁵ and fair contest. Tax compliance is crucial in order to upkeep the public infrastructure⁶, as more tax money means, more public spending. For

⁴ Increasing tax compliance has a cost to the government, so it is important to have an estimate based on evidence that how long it will take to recover what has been spent.

⁵ High compliance means better economic indicators.

effective policies and strategies to be developed, it is essential to comprehend the factors that influence tax compliance behavior. The following literature highlights the importance of compliance and the factors that influence it.

Koumpias et al, (2019) explains that tax knowledge⁷ influences compliance behavior. The researchers highlight that businesses are more likely to comply with tax laws and obligations when they have a better understanding of them. This stipulates the importance of increasing business entities' tax knowledge in the commercial trade transportation industry. In addition, a research conducted by Waseem (2022) describes the importance of trust⁸ in tax authorities and the perception of tax fairness⁹ as influential compliance factors. Businesses are more likely to comply with tax obligations when people believe that tax authorities are trustworthy and the overall tax system is fair. This assertion suggests that the commercial trade and transportation industry's tax compliance behavior can be positively impacted by building trust and ensuring fairness in the tax system. Exchange processes play a huge part in working with tax compliance in the freight transport sector.

Kamal (2019), stresses upon that having effective reporting mechanisms, transparent billing, and accurate record-keeping are crucial for promoting compliance behavior. Similarly, Ullah & Ullah (2022) identify the importance of transaction procedures in reducing tax evasion. These studies signify that for any sector of the economy, transparent and efficient processes to conduct transactions are vital in order to increase tax compliance. Hassan et al (2021) discuss how tax

⁶ The revenue from tax generation is deposited in government's kitty which can then be spent on social welfare and benefit of the people. These spending are not limited to public infrastructure only but to other sectors as well such health, entertainment etc.

⁷ Tax knowledge is one of the key variables of this research. Tax knowledge is defined as the information public/business possess about the applicable taxes on them.

⁸ Trust is defined as perception of the public about how fairly it is being utilised by the government.

⁹ Tax fairness is the principle that a tax system should be equitable, meaning it distributes tax burdens in a way that aligns with the ability to pay and ensures fair treatment across all income levels (IMF, 2014).

audits, penalties, and monitoring activities deter individuals from violating tax laws, shedding light on the proactive role necessary by the authorities in order to achieve higher tax compliance.

Additionally, Ullah et al (2021) stress the need for industry specific measures between the stakeholders and the tax authorities. This study identifies the need of a proactive role and focuses on the enforcement strategies that must be adopted by the authorities. Similarly, informal and corrupt practices in play, can have a major impact of tax compliance behaviors. Razzaq et al (2020) emphasize that the element of corruption included in implemented practices erodes the trust in the tax system and reduces the compliance rates.

Madni et al (2019) mention that cultural norms along with informal practices present in an industry can have an effect on compliance behavior. In order to increase tax compliance, effective policies and strategies must be devised based on evidence to encourage tax compliance in the freight transport sector.

Another factor that can influence compliance levels is the knowledge about applicable taxes and how the taxation system works. Batrancea et al (2019) point out towards an interesting dimension. They suggest that if an individual or a business does not have knowledge about applicable obligations then it is only fair to expect low compliance. They emphasize that efforts aimed at increasing the tax knowledge of industry operators is the first step towards increasing compliance levels. Businesses can only be empowered and expected to adhere to their tax obligations by providing education and training programs on tax regulations and compliance requirements.

The Theory of Planned Behavior (TPB) is frequently utilized to understand compliance behavior.

The TPB states that mentalities, abstract standards, and social control affect tax compliance.

Waseem (2020), while examining tax compliance behavior in various contexts, utilized this model.

Transaction procedures in the freight transport industry can significantly impact compliance behavior, as well as tax knowledge and trust. Khan et al. (2022) identify that precise record-keeping, clear invoicing, and effective reporting mechanisms are essential for promoting compliance behavior. This acts as one of the variables that is studied in this research. The transaction process is of utmost importance. Without the correct and monitorable transaction procedures, it is impossible for the authorities to know how much tax an individual or a business is liable to.

Shahryar (2021) writes about how streamlined transaction processes can reduce overall risk of tax evasion. If transparent and efficient transactional procedures are implemented the businesses can fulfill their obligations non-voluntarily which and enhance overall compliance within the sector.

Saeed et al (2020) explain how the threat of tax audits, penalties, and monitoring activities help in keeping people from breaking the law. They put emphasis on the significance of proactive role played by the authorities in transport sector.

Naveed et al (2019) talk about co-operation between tax-specialists and industry operators in order to come up with a structure of policy and implementation that can improve and ensure compliance. Tax authorities have the power and the duty to positively influence compliance behavior which can be enhanced by in place efficient enforcement and monitoring mechanisms.

Lastly, corruption and informal practices can also affect the compliance practices. Ahmad et al (2022) discover a strong negative correlation between tax compliance and corruption.

2.2. Thematic Analysis

Theme 1: Factors Influencing Tax Compliance: In various contexts, the factors that influence tax compliance behavior have been the subject of numerous empirical studies. Younus et al (2021) found that tax compliance is significantly influenced by people's perceptions of fairness, trust in the tax authorities, and the severity of penalties. In a similar vein, Ahmed (2019) recognized the job of normal practices, ethical commitments, and saw location risk as persuasive variables in consistency conduct. In the larger literature on tax compliance, these studies shed light on the psychological and social factors that influence compliance behavior.

Theme 2: Compliance and procedures for transactions: Effective record-keeping systems, clear invoicing practices, and the integration of advanced technology can significantly improve compliance levels. Dom et al. (2022) found that timely reporting and accurate bookkeeping are essential for businesses to meet tax regulations. Furthermore, technological advancements like electronic invoicing and automated reporting have enhanced compliance and minimized errors. These insights highlight the vital importance of transaction processes in promoting tax compliance.

Theme 3: Enforcement: The Tax Authorities' Role. It is essential for tax authorities to enforce compliance. Waseem (2022) emphasizes the significance of tax audits as a strategy for preventing noncompliance and detecting it. According to Kamal (2019) penalties and fines are also effective deterrents. The seriousness and steady utilization of punishments make a feeling of chance, impacting consistency conduct. Additionally, targeted inspections and data analysis by tax authorities play a significant role in identifying non-compliance and taking appropriate enforcement actions.

Theme 4: Probability of Detection: The probability of detection is simply how likely it is that tax authorities will catch and punish someone for not paying their taxes. According to Allingham and Sandmo (1972), this likelihood plays a big role in whether people choose to follow tax laws or evade them. When people believe there's a high chance of being audited and caught, they're less likely to take the risk of hiding their income. On the other hand, if they think the chances of getting caught are low, they may feel it's worth the risk to avoid paying their full share. In short, the more likely people think they'll be detected and penalized, the more likely they are to play by the rules.

Theme 5: Increase in Business Costs due to Taxation: Fairchild (1921) writes that sales tax is a consumption tax, therefore it is an added cost to the business. Either the producer or the consumer bears this added cost in the end. The current applicable rate of 16 percent GST on freight transport business must have a perception in mind of both the consumers and the service providers that this charge has to be paid by either service provider or the customer which will of course increase the cost of the service. This willingness to pay in the mind of service providers and/or consumers will be taken as a variable that can also have an effect on compliance in the freight transport sector. The willingness to pay and the percentage tax can act as a major deterrent in ensuring compliance.

Chapter 3

Conceptual Framework and Methodology

For the purpose of current research theories which focus on the causes of tax evasion in the freight transport sector of Pakistan and the relevant concepts from those theories are included in the conceptual framework. To comprehend the phenomenon of tax evasion in the freight transport sector of the locale, several theories and concepts from the field of tax compliance can be applied. One such theory is the deterrence theory. It states that people or businesses will be hesitant and reticent towards paying taxes if they know they could be caught and punished. This theory suggests that effective enforcement measures, defined along the axis of targeted audits and penalties, can deter tax evasion in the commercial trade transportation industries and sectors. There is another theory; The tax morale theory, which emphasizes the role of social norms and attitudes toward taxation in influencing compliance behavior. This theory reiterates that the level of tax evasion in the commercial trade transportation industry may be influenced by social norms regarding tax compliance, trust in tax authorities, and perceived fairness of the tax system. The current research has used both theories and has included concepts from the both to develop variables/indicators that were included in the survey for analysis.

Furthermore, empirical studies on tax evasion within the transportation sector highlight particular aspects that may contribute to non-compliance. The examples can include cash-based transactions, informal practices, complex tax legislation, insufficient monitoring measures, and the presence of corruption networks. This study offers a thorough examination of tax compliance behavior and identifies factors contributing to tax evasion in the sector by integrating theoretical

perspectives through a questionnaire and understanding the specific challenges and dynamics of Islamabad's freight transport sector.

There are a number of theories that talk about tax compliance. These are mentioned below.

1. Political Legitimacy Theory
2. Expected Utility Theory
3. Game Theory
4. Prospect Theory
- 5. Tax Morale Theory**
- 6. Deterrence theory**

This study uses the last two theories in order to categorize the results and analysis.

Each theory looks at different aspects of why people pay taxes, and using both gives a fuller picture of the motivations behind tax compliance.

Holistic Understanding:

Tax compliance isn't just about rules and penalties—it's also about people's values, ethics, and how they view their role in society. By using both theories, this research explores both intrinsic factors (like personal beliefs or a sense of duty) and extrinsic factors (such as the fear of fines or audits) that drive individuals to pay their taxes. This helps paint a more complete picture of what influences behavior.

Real-World Applicability:

The two theories are useful in real-world scenarios because different places have different tax environments. In some countries, strict enforcement with heavy penalties might be enough to

keep people compliant. In others, where enforcement is less consistent or penalties are softer, the social pressure or civic pride of paying taxes might matter more. Tax morale theory helps explain this by focusing on social norms, trust in government, and a person's sense of civic duty.

Interconnected Factors:

These theories aren't isolated from one another—they can influence each other. For example, when people trust that the government is using tax money wisely and enforcing laws fairly, it can boost their tax morale and make them more willing to pay taxes. On the flip side, if someone doesn't feel a strong moral obligation, they might be more likely to respond to deterrence measures like audits or higher penalties.

By looking at both tax morale and tax deterrence, it is intended to understand the various forces at play in tax compliance. This not only helps understand *why* people pay their taxes but also gives us insights into how governments can design better policies—policies that balance the moral and psychological aspects of compliance with practical enforcement tools. It's a more comprehensive way to approach the issue, which leads to more effective solutions.

3.1. Research Strategy

This research was done in two phases. In the first phase desk research was done which to establish the applicable sales tax on freight transport and authority's role in ensuring compliance. This is where this research originates from by reading statutes in government published documents.

In the second phase data was gathered from several businesses in the freight transport sector of Islamabad. Socio-demographic data, tax compliance behavior, transaction method, authority's role in ensuring compliance, and business' knowledge toward tax authorities was also collected

by completing 124 survey questionnaires. A total of 43 questions were asked from the participants. 24 Respondents were from the formal sector that were reached out by cold calling. 100 responses were gathered by conducting field research. The results are shared in the subsequent chapters. Only the most relevant results are discussed in the later part.

A mixed-methods approach was chosen for this study's research strategy. To provide a detailed insight on tax compliance in the commercial trade transportation sector, this strategy combines purposive sampling and random sampling. The results are produced in the form of descriptive statistics. These statistics are then used to understand the underlying issues prevalent in the sector for quality output.

3.2. Analysis

Thematic analysis was chosen as the method of analysis for the qualitative data that were gathered through questionnaires. Identifying, analyzing, and interpreting data patterns or themes are the basis of thematic analysis. It categorizes survey results into two. The factors that are prevalent are either attributed contributing towards tax morale theory or tax deterrence theory. The data was collected through on ground surveys and the results are interpreted by using descriptive analysis.

The data was cleaned and arranged using spreadsheet software. This helped organize and present data in a manner that could be of use to the reader. This research uses percentages, frequency and estimation techniques in order to present the findings.

3.3. Data Collection

Survey Questionnaire

Survey questionnaire was designed to tailor it to the specific goals of the research and aimed at businesses in Islamabad that are involved in the road transportation industry. The survey questionnaire was divided into different themes which were used to categorize data. These themes were made after conducting the literature review. In order to categorize data in accordance with the deterrence theory and tax morale theory these themes were used to identify intrinsic motivations to pay tax and to reveal the threat perception of tax authorities in the minds of operators. These surveys were then conducted with 124 logistics providers including transport companies and local daily operators. The survey questionnaire included both close-ended and open-ended questions and is attached below as Annexure A.

Sampling

The companies chosen for the survey stands at 24, these were selected by taking out a list of companies that operate in freight transport sector from the internet, then these companies were approached through a phone call for an interview. A total 550 companies were contacted, out of those only 24 agreed for participation. 100 on field surveys were done making a total of 124 surveys conducted.

A multi-stage approach to sampling was adopted for this survey. The first stage was purposive sampling in which main 7 business centers were identified as locations for data collection. In the second stage, the survey participants were selected at a random basis at these locations by randomizing the time frames at which surveys were conducted. 3 locations were surveyed between 12 – 4 pm, 3 locations were surveyed between 4-8 pm and 1 was done after 8 pm. The selection of participants was done on a convenience basis. Those who were present in a location and were agreeing to be a part of the survey were used as participants until the total limit of

surveys that had to be conducted in the particular area was reached. A total of 124 surveys were conducted spread equally over these locations. The combination of purposive sampling in the first phase and random sampling in the second phase is a well-recognized approach in research as it allows to capture both in-depth insights and broader generalizability, strengthening the overall quality of the study. This approach can be found in various literature. Ramanujan, Bhattacharjea, and Alcott (2022) first used purposive sampling to identify 400 potential villages suitable for research with the help of expert opinion. In the second stage, the researchers randomly chose four case-study villages for detailed investigation. This step helped reduce selection bias and allowed their findings to apply to a wider population, increasing the study's generalizability.

In their 2017 paper, Etikan and Bala explore how combining purposive and random sampling can strengthen research outcomes. They point out that purposive sampling allows researchers to deliberately choose participants who have specific characteristics that are directly relevant to the study. This approach ensures the data collected is rich and focused.

At the same time, random sampling introduces chance into the selection process, giving everyone in the population an equal opportunity to be included. This reduces selection bias and makes the study's findings more generalizable to a broader audience.

Purposive Sampling:

This method involves selecting individuals who possess particular attributes or experiences pertinent to the research question. For instance, this study aims to understand the current tax practices prevalent in freight transport sector. This research has purposively selected 7 business

centers which are at least 5 Kms away from each other with the aim to factor in for a geographically spread sample. This targeted approach was adopted to ensure that the data collected is rich and directly applicable to the research objectives.

Random Sampling:

On the other hand, random sampling ensures that every individual within the defined population has an equal chance of being selected. This randomness minimizes selection bias, allowing the findings to be more generalizable to the broader population. For example, the survey participants were chosen at random regardless of the category of freight they cater to.

Combining Both Methods:

Etikan and Bala highlight that integrating purposive and random sampling can be particularly beneficial. For example, a researcher might start with purposive sampling to focus on a specific subgroup and then apply random sampling within that subgroup to select participants. This combination allows for in-depth exploration of particular phenomena while maintaining the ability to generalize findings.

Islamabad, Pakistan, serves as the primary location for this research study primary data collection. Islamabad is the capital city of Pakistan and fills in as a significant center point for different enterprises, including the road transport sector. Choosing Islamabad as the region for essential data collection considers an engaged analysis concerning tax compliance in the road transport sector inside a particular geological setting in Pakistan. The study can help to improve tax compliance in the road transport sector in Islamabad and possibly other similar sectors in

Pakistan by examining compliance behavior and transaction processes in this location. It can also help to develop specific policy recommendations for improving tax compliance.

Research limitations

As with any empirical study, this research is subject to a number of limitations which must be acknowledged to contextualize its findings and guide future inquiry. The most significant limitation of this study is its exclusive reliance on survey instruments and field-level data as the primary sources of empirical evidence. While surveys remain a widely accepted tool in tax compliance research due to their ability to capture taxpayer attitudes and self-reported behavior e.g, Kirchler, (2007); Torgler (2011), they are also inherently constrained by issues of respondent bias, non-response, and the reliability of self-reported data. In contexts involving taxation—often a socially sensitive subject—respondents may be inclined to underreport non-compliance or provide answers they perceive to be socially or legally desirable Frey & Torgler, (2007). This introduces the risk of social desirability bias and threatens the internal validity of the findings.

Furthermore, the study's fieldwork was geographically and demographically bounded, focusing on a specific segment of taxpayers within a limited region. As such, the findings may not be generalizable to the broader taxpaying population, particularly across differing socio-economic, cultural, and institutional contexts. The study's conclusions are therefore best understood as context-specific, providing an in-depth but localized understanding of taxpayer behavior.

Another important limitation is the exclusion of perspectives from key institutional stakeholders—namely, tax administrators, policymakers, legal authorities, and financial auditors. These actors possess critical insights into enforcement mechanisms, administrative capacity,

policy design, and regulatory constraints that significantly influence tax compliance behavior. Their perspectives could have provided a more holistic and systemic understanding of compliance dynamics, including structural incentives or deterrents embedded within the tax administration system. The absence of such multi-stakeholder data restricts the scope of analysis to individual behavioral factors, leaving institutional and policy-level influences underexplored.

The research also does not employ triangulation—either methodological or data-based—which could have strengthened the credibility and depth of its findings. Methodological triangulation, such as the inclusion of qualitative interviews, focus groups, or analysis of administrative tax records, would have enabled a richer understanding of compliance behavior and provided a means to cross-validate the survey results Denzin (1978). The lack of such triangulation increases the study’s susceptibility to measurement error and reduces the robustness of the conclusions.

Additionally, the reliance on self-reported data raises concerns related to recall bias, comprehension variability, and question interpretation—particularly among respondents with differing levels of literacy, tax knowledge, or engagement with the formal economy. While the questionnaire was piloted and adjusted for clarity and cultural appropriateness, such risks cannot be entirely eliminated in survey-based research, particularly in contexts with complex or opaque tax systems.

Lastly, this study does not account for temporal changes in taxpayer behavior, attitudes, or policy environment. The data represent a cross-sectional snapshot, which limits the study’s ability to capture the effects of time-bound variables such as recent policy reforms, economic shocks, or enforcement campaigns. A longitudinal approach would offer a more dynamic view of compliance behavior and its evolution over time.

Future research could address these limitations by incorporating a mixed-methods design that combines quantitative survey data with qualitative interviews from both taxpayers and institutional stakeholders. Longitudinal or panel studies could also better capture causal relationships and behavioral trends over time. Moreover, greater geographic and demographic diversification of the sample would enhance generalizability and policy relevance. Including administrative data—such as audit outcomes, penalty records, or compliance histories—would further allow researchers to compare self-reported behavior with actual compliance outcomes.

While these limitations constrain the generalizability and scope of the findings, the study nonetheless offers important empirical insights into the behavioral dimensions of tax compliance. By acknowledging these methodological boundaries, this research invites a more nuanced interpretation of its results and lays a foundation for more comprehensive investigations in the future.

Chapter 4

Results and Discussion

4.1 Sample and Survey Questionnaire

For this research, data was gathered from several businesses in Islamabad's freight transport sector. Socio-demographic data, tax compliance behavior, transaction method, authority's role in ensuring compliance and business attitudes toward tax authorities were collected by completing 124 survey questionnaires. A total of 43 questions were asked from 24 companies that operated formally, and 100 questionnaires were answered by random operators working in the field. The results of the survey are discussed according to the themes and summarized at the end of this chapter.

Based on these results a recommendation is provided in the last part of this thesis that could be of utmost importance to FBR when enhancing its roles as tax authority.

The first phase was to review the applicable taxes on this sector, this was done by reading up on relevant policies. Along with the taxes, what should the role of tax authorities be in enforcing compliance was also studied. The following documents were read before creating a survey questionnaire.

1. FBR organizational KPIs
2. Income Tax Ordinance 2001
3. Sales Tax Act 1990

After reviewing the documents, a survey section was developed to study the role of authorities in achieving their role.

A theme in the survey was included based on above information to assess overall compliance.

Themes such as corruption, education, business structure, record-keeping costs, and tax knowledge and transaction method were also part of the extensive 43 question long survey.

Licensing procedure for freight transport

<u>Procedure</u>	<u>Responsible Authority</u>	<u>Requirement</u>	<u>Reference/Source</u>
<u>Vehicle</u>	Islamabad Excise & Taxation Department	Registration of commercial vehicles and a valid Certificate of Fitness	islamabadexcise.gov.pk
<u>Route Permit</u>	Islamabad Regional Transport Authority (RTA)	Route permit required for freight vehicles operating within or outside Islamabad	Motor Vehicles Ordinance, 1965 - Section 44
<u>Commercial Driver's License</u>	Islamabad Traffic Police (ITP)	Valid commercial license required for drivers of freight vehicles	islamabadpolice.gov.pk
<u>Business Registration</u>	SECP & Federal Board of Revenue (FBR)	Registration of freight companies, NTN, and sales tax registration (if applicable)	secp.gov.pk, fbr.gov.pk
<u>Customs Licensing (if intl.)</u>	Pakistan Customs & FBR	License and compliance with customs laws for international freight operators	fbr.gov.pk

<u>Pakistan Single Window (PSW)</u>	Pakistan Customs	Optional digital registration for cross-border trade and e- psw.gov.pk document submission	

Table 4 Authors Illustration

Sample demographics

This research conducted surveys among Freight Transport industry businesses in Islamabad to gather data on education, business type, and transaction procedures, which was then correlated with tax knowledge and subsequently with tax compliance. The analysis included open-ended and closed-ended questions to collect both quantitative and qualitative data. (The questionnaire is attached in the appendix.) These surveys were conducted in the 7 areas of Islamabad. A total of 43 questions were asked from 24 companies that operated formally, and 100 questionnaires were answered by random operators working in the field. The results of the survey are discussed according to the themes and summarized in the discussion sector. Based on these results a recommendation is provided in the last part of this thesis that could be of utmost importance to FBR when enhancing its roles as tax authority.

Table 5 Areas Surveyed

Area	Type of freight mover
I-10 Industrial Area	Pipes, Sanitary, Marbles
G-9 Karachi Company	Cloth, Plastic utensils
Peshawer Mor	Cement

Tarnol	Steel bars, and sheets
Murree Road/Blue Area	Electronic Appliances
Mandi area	Meat
Sultan ka Koh	Car parts.

Some operators were reluctant in answering the questions while some were unable to understand the English version of the questionnaire. Hence, the survey was translated into Urdu for better understanding of the participant.

Once all the surveys were conducted the results were translated into English and put into Microsoft Excel. These results were then cleaned and necessary coding was done in order to consolidate the data into a presentable form.

Phase 1:

According to FBR organizational key performance indicators there are 10 categories:

1. **Revenue Target Performance**
2. Level of Automation
3. Taxpayer's Facilitation
4. Integration of FBR with other revenue agencies and departments
5. Revenue Laws Simplification
6. **Risk based audits conducted by FBR**
7. Formulation of National Tax / Customs Policy
8. FBR outreach and Human Resource Development

9. Representation before legal forums
10. Implementation of Public Account Committee directives.

Revenue Target Performance

According to Islamabad tax Ordinance 2001 there are 60 services that are liable to sales tax. This ordinance sets a rate for each of these 60 category of services which is industry specific. The sales tax applicable to freight transport is set around 15 percent in section 10.

Risk Based Audits Conducted by FBR

Section 177 and 214 of Income Tax Ordinance ascertain the obligations of FBR to conduct audits on random basis. This enables FBR to maintain a threat and ensure that taxpayer perceives them to be actively monitoring their activities and operations.

Section 25 of Sales Tax Act, 1990 Anyone who is required to keep records or documents under this Act (or any other law) must provide these records when asked by the Commissioner. If the records are stored electronically, they must also allow the authorized Inland Revenue officer to access the data and the machine where it is stored.

The above two arrangements are formulated into the survey questionnaire along with other questions. Phase 1 of this research was concluded with these outcomes:

1. An applicable tax of 15 percent has to be administered in the freight transport sector.
2. FBR has a responsibility to conduct random audits.

Phase 2:

Survey Questionnaire

Themes for the questionnaire

1. Education of the operators
2. Scale/type of operations
3. Knowledge about applicable taxes among operators
4. Transaction procedure and record keeping of the operators
5. Role of tax authorities in ensuring compliance through risk-based audits

Commissions and willingness to pay tax among operators

Locale: Islamabad, Pakistan, serves as the primary location for this research study primary data collection. Choosing Islamabad as the region for essential Data collection considers an engaged analysis concerning tax compliance in the road transport sector inside a particular geological setting in Pakistan. The study can help to improve tax compliance in the road transport sector in Islamabad and possibly other similar sectors in Pakistan by examining compliance behavior and transaction processes in this location. It can also help to develop specific policy recommendations for improving tax compliance.

The results from the research are shared below.

4.1.1. Education Level of the Respondents

The education level of the respondents is depicted in the table below. The education level was divided into five categories.

Table 5 Education Level of the Respondents

Education Level	Count	Percentage of Total Responses
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Matric-Intermediate Level	48	38.7%
Primary School Level	30	24.2%
Graduate Level	18	14.5%
Post Graduate Level	15	12.1%
Uneducated	3	2.4%

Matric-FSC Level: The **Matric-FSC** education level represents the largest group of respondents, with **48**. This suggests that a substantial portion of respondents have completed secondary education, which indicates a basic level of literacy and awareness that could influence their understanding of business practices and compliance behaviors.

Primary School Level: The second-largest group, with **30** respondents, completed **Primary School**. This group is likely to have limited formal education, potentially impacting their access to information regarding tax compliance and business regulations.

Graduate and Post Graduate Levels: There are **18** respondents with a **Graduate** level education and **15** with a **Post Graduate** education. This indicates a smaller but significant proportion of the sample has advanced education, which may correlate with greater business knowledge and potentially higher tax compliance due to better awareness of regulations.

Uneducated: A small minority, with only **3** respondents, fall into the **uneducated** category. This group might face significant barriers to understanding compliance requirements, which could affect their engagement with formal tax systems.

The majority of respondents fall in the Matric-Intermediate and Primary School categories. This indicates that most business entities in the study have limited formal education. This low level

of education might influence their approach to tax compliance. Previous studies suggest that higher education levels are generally associated with greater awareness levels and adherence to regulatory requirements.

4.1.2. Ownership Type of the Respondents

The following figure displays the distribution of business ownership types among respondents. The counts for each ownership type indicate the prevalence of different business structures within the freight transport sector sample.

Table 6 Ownership Type

Ownership Type	Count	Percentage of Total Responses
Sole Proprietorship	60	55.6%
Partnership	30	27.8%
Private Limited Companies	24	22.2%

4.2. A Cross Section of Education Level-Business Type-Registered with SECP/FBR

The following table shows the education level, type of ownership, and whether the firm is registered with SECP/FBR.

Table 6 Registration with SECP

Education	Type of Ownership	Registered with SECP?	Registered with SECP?	Total
		No	Yes	

Graduate	Partnership	0	3	3
	Private Limited	3	6	9
	Sole- Proprietorship	6	0	6
Graduate Total		9	9	18
Matric-Intermediate	Partnership	5	4	9
	Private Limited	3	3	6
	Sole- Proprietorship	29	4	33
Matric-Intermediate Total		37	11	48
Post Graduate	Partnership	3	9	12
	Private Limited	0	3	3
Post Graduate Total		3	12	15
Primary School	Partnership	6	0	6
	Private Limited	6	0	6
	Sole- Proprietorship	15	3	18

Primary School Total		27	3	30
Uneducated	Sole-Proprietorship	3	0	3
Uneducated Total		3	0	3
Grand Total		79	35	114

4.2.1. Overall Registration Trends

Of the total 114 respondents, 69.3% or 79 firms are not registered with SECP and only 30.7% or 35 firms are registered, which implies that most of the businesses in this sample are not formally registered with the SECP. The overall sample was less educated and majority were operating without registering themselves as a business with SECP.

Education Level and Registration: Higher education levels, particularly postgraduate, correlate strongly with higher SECP registration rates, potentially reflecting a better understanding of formalization benefits or access to registration-supporting resources.

Ownership Type and Registration: Private Limited companies and Partnerships show higher registration rates across most education levels, while Sole Proprietorships are predominantly unregistered. This may indicate that more complex business structures favor formal compliance.

Implications for Tax Compliance: The low registration rates among less educated respondents and sole proprietorships suggest potential challenges for tax compliance in this sector, as

unregistered firms are less likely to adhere to tax regulations due to a lack of checks and balances.

4.3. Tax Knowledge and Compliance Practices

The figure below shows the survey participants' responses to the question, 'What taxes apply to your business?'

Type of Tax	Frequency
I don't know	40
Income Tax	30
Sales Tax, Income Tax	20
Income Tax, I don't know	10
Sales Tax	5
Income Tax, Other taxes	2

Figure 2 Knowledge of Applicable Tax Knowledge

The research results show that there is a knowledge gap between tax compliance, how much people feel obligated to pay taxes, and awareness of specific types of taxes.

Lack of Awareness

40 sampled respondents did not know they were unaware of the taxes that they were liable to pay. As 40 respondents responded by choosing the option of 'I do not know'. This result shows

that lack of compliance can obstruct tax compliance, given the fact that companies may evade taxes due to having no familiarity with tax regulations and obligations policies.

Income Tax Awareness

Income tax was stated as the relevant tax by 30 sampled respondents. This result implies that knowledge of income tax is known to the business owners as it is the commonly known and publicized tax type. But since the remaining respondents did not have knowledge of it, clearly indicating how lack of knowledge for commonly known tax can hinder tax compliance and obligations.

Sales Tax and Income Tax

Only 15 respondents from the sample selected this particular category which indicates that some sampling units were aware of multiple tax obligations.

4.3.1 Implications for Tax Compliance

Significant Knowledge Gap: The high count from the sampled respondents who opted for the ‘I do not know’ category, shows that a knowledge deficit exists to comply and obligate to taxes in the freight transport sector.

Need for Education and Outreach: The need for awareness, campaigning, targeted education and outreach is also mandatory to comply business owners towards tax compliance and obligations in the freight transport sector of Pakistan.

Potential for Enhanced Revenue Collection: the freight transport sector of Pakistan can generate revenues if awareness about income taxes, sale taxes and other taxes applicable to business owners is ensured.

4.4. Education Level and knowledge about applicable taxes:

The table 7 articulates the relationship between educational attainment of the respondents and the knowledge of the type of taxes which are applicable to them.

Table 7 Knowledge of Applicable Taxes

	What types of taxes apply to your business?						
Education	I don't know	Income Tax	Income Tax, I don't know	Income Tax, Other taxes	Sales Tax	Sales Tax, Income Tax	Grand Total
Graduate		6			6	6	18
Matric-Intermediate	27	15	3			3	48
Post Graduate				3		12	15
Primary School	15	12	3				30
Uneducated	3						3
Grand Total	45	33	6	3	6	21	114

Education and Tax Awareness Correlation: The data signifies a positive relationship between the awareness of the type of tax and the level of education. Postgraduate and graduate respondents, depict a stronger positive relationship and henceforth imply more compliance to tax than those with only primary education or no education.

High Levels of Uncertainty: Among the sampled respondents with low levels of education such as matric, intermediate, primary education and uneducated ones, the knowledge about the type of tax is low which implies obstruction to tax compliance and obligation.

Need for Targeted Education Initiatives: Based on the disaggregated data about the level of education of the respondents and its relationship with the knowledge of the type of tax, especially among the low-education and uneducated categories, the tax authorities must initiate targeted educational and outreach as well as campaign programs to increase knowledge about tax compliance.

Education Level and Tax Awareness

Graduate Respondents: Graduate respondents, registered or unregistered showed a higher level of tax understanding. Higher education was found to correlate with higher tax knowledge.

Matric-Intermediate Respondents: 48 respondents from this category (the highest) had no awareness of sales and income taxes. 37 unregistered matric and/or intermediate sampled respondents highlighted a gap in tax-compliance and tax responsibilities.

Post Graduate Respondents: Although fewer (15 total), they strongly understand tax obligations, with 12 responding with having knowledge about Income Tax.

Primary School and Uneducated Respondents: These categories have the least awareness, particularly among uneducated individuals, highlighting a significant knowledge gap in tax compliance.

Registration Status

Unregistered Firms: 79 respondents from the unregistered businesses were aware of income and sales taxes. However, this knowledge about these tax types does not organically ensure tax compliance. Which creates concerns about the compliance gap for unregistered companies.

Registered Firms: Only 35 responses are from registered firms, but they tend to show higher tax awareness, particularly in Income Tax. This implies that registration may be linked to better compliance practices, potentially due to the structured registration requirements.

Types of Taxes Identified

Income Tax has the highest overall awareness (45 responses), suggesting it is the most recognized tax obligation among respondents.

Sales Tax also shows significant recognition (33 responses), indicating a reasonable understanding of indirect taxes among business owners.

The category of **Other Taxes** received minimal recognition (6 responses), pointing to a potential area for further education and outreach.

4.4.1. Implications for Tax Compliance

Education as a Catalyst for Compliance: The data suggests that higher education levels contribute to greater awareness and understanding of tax obligations. Educational initiatives targeting lower-educated groups could improve compliance rates.

Focus on Unregistered Businesses: The significant number of unregistered businesses with limited tax knowledge poses a risk to overall tax compliance. Policymakers should consider

tailored outreach programs that educate unregistered companies about their tax obligations and the benefits of registration.

Enhancing Tax Literacy: The low awareness of **Other Taxes** indicates a need for comprehensive tax education initiatives that cover all aspects of tax compliance, not just the most commonly recognized taxes.

4.5. Payment Methods and Receipt Types

The figure below shows the transaction processes that the industry operators utilize.

Payment Method/Receipt Type	Frequency
Cash with a handwritten receipt	9
Cash with no receipt	18
Cash with a digital receipt, digital transaction with no receipt	6
Cash with a handwritten receipt, digital transaction with no receipt	3
Cash with no receipt, digital transaction with no receipt	3
Cash with a handwritten receipt, cash with no receipt	21
Cash with a handwritten receipt, digital	18

transaction with a digital receipt	
Cash with no receipt, digital transaction with a digital receipt	12
Cash with a handwritten receipt, digital transaction with a handwritten receipt	9

Figure 3 Transaction Process

The combination "Cash with a handwritten receipt, Cash with no receipt" appears 18 times, constituting approximately 15.8% of the total responses. This indicates a common tendency for transactions to either have informal documentation (handwritten receipts) or no receipt.

"Cash with no receipt" alone has the highest count, with 21 instances (about 18.4%), showing a prevalent lack of formal documentation in cash transactions.

Digital Transactions:

Digital transactions with receipts, both handwritten and digital, have much lower counts compared to cash transactions:

"Cash with a digital receipt, Digital transaction with a digital receipt" appears 3 times, making up just 2.6% of total responses.

"Cash with no receipt, Digital transaction with no receipt" has 9 instances (around 7.9%), showing a relatively low rate of digital adoption or use of digital receipts.

This suggests that digital transactions, documented or undocumented, are less common in the sample.

Receipt Types in Cash Transactions:

Cash transactions with no receipt appear frequently, with 21 instances (18.4%) recorded as "Cash with no receipt" alone and 18 instances (15.8%) recorded in combination with other payment methods and receipt types. This aligns with tax compliance challenges, as undocumented transactions can hinder accurate tax reporting.

When receipts are provided in cash transactions, handwritten receipts dominate over digital ones. For instance, "Cash with a handwritten receipt" appears in various combinations, totaling around 36 instances (31.6%).

4.5.1. Implications for Tax Compliance:

Informal Documentation: The high reliance on handwritten receipts or no receipts at all (around 65.8% of responses) can impact the accuracy and reliability of financial records. This practice often leads to underreporting of income and can be a significant barrier to tax compliance.

Limited Digital Usage: Digital transactions comprise only 13.1% of total responses (15 out of 114). This indicates respondents' lack of digital infrastructure or digital literacy, further complicating compliance efforts. Encouraging digital payments and formal receipts could enhance record-keeping and compliance.

Dominance of Cash Transactions: Cash-based methods with handwritten receipts or no receipts are the most prevalent across all education levels, indicating limited use of formal documentation.

Higher Education, More Digital Use: Post-graduates are more inclined toward digital receipts, especially in partnerships, showing a correlation between education level and digital adoption.

Sole-Proprietorships and Informality: Sole proprietorships are inclined to use handwritten receipts or no receipts more than other ownership types, because of lack of resources and lack of formal accounting systems.

4.6. Record Keeping/Compliance procedures

The following table tabulates the record-keeping processes used by the respondents.

Table 7 Record-Keeping Process

Record-Keeping Method	Number of Respondents	Percentage
No record-keeping	48	42.1%
Manual record-keeping	25	21.9%
Combination of manual and automated systems	4	3.5%
Automated systems (e.g., accounting software)	7	6.1%
Automated systems, manual record-keeping (combo)	3	2.6%

Not sure / not applicable	10	8.8%
Manual record-keeping, no record-keeping (combo)	2	1.8%

4.6.1 Implications for Tax Compliance

High Non-Compliance Risk: 42.1% of businesses do not keep records. This lack of documentation can lead to inaccurate tax filings or missed tax obligations.

Dependence on Manual Systems: 21.9% of businesses keep records manually which has the inherent issues of human error and inefficiency, which can be easily addressed by shifting towards digital systems through which accuracy and consistency can be enhanced.

Need for Digital Adoption: 8.7% (combined for both automated-only and combined methods) of the responses signifies a low adoption of automated systems which implies that there is a dearth of resources, awareness and trust in using digital platforms, hence potentially impacting tax-compliance accuracy.

Recommendations

1. **Promote Digital Record-Keeping Solutions:** Affordable digital accounting tools could streamline record-keeping and enhance compliance.
2. **Educational Programs:** Training/educational/outreach/awareness/campaigns on the important role of documentation and tax-compliance could reduce the "**No record keeping**" category.

3. **Incentives for Automated Systems**: Offering tax incentives for businesses that adopt automated systems could encourage a shift from manual to digital, enhancing overall tax compliance.

4.7. Record-Keeping Costs in Perception of Respondents.

The next table illustrates the perception of the cost incurred in complying with tax. The categories against which the respondents could reply about cost of tax compliance can be broken down into high cost, medium cost, very high cost and low cost.

Table 8 Record Keeping Cost for Businesses

Perception of Compliance Cost	Number of Respondents	Percentage
High cost	48	42.1%
Medium cost	45	39.5%
Very high cost	12	10.5%
Low compliance cost	6	5.3%

4.7.1. Implications for Tax Compliance

High Compliance Burden: 91.6% of respondents perceived compliance costs as high or medium which indicates that people find complying to tax is a financial burden to them. This perception could lead to lower compliance rates, as businesses might seek ways to reduce expenses by underreporting or avoiding specific documentation requirements.

Potential Non-Compliance Among Small Businesses: 10.5% who view compliance costs as "Very High" may include smaller businesses that lack the resources to manage tax obligations efficiently.

Minority with Low Cost: 5.3% reported low compliance costs which might include more extensive, well-resourced businesses or those with efficient record-keeping systems. This shows a gap in the economic impact of compliance across different business sizes and capabilities.

4.8. Internal Audit Frequency

The following table shows the frequency of internal audits by business operators in the freight transport sector of Pakistan.

Table 9 Internal Audit Frequency

Frequency of Conducting Internal Audits	Number of Respondents	Percentage
Never	69	60.5%
Rarely	18	15.8%
Occasionally	18	15.8%
Regularly	9	7.9%

4.8.1. Implications for Tax Compliance

Lack of Consistent Audits: 76.3% of respondents reported that they either never or rarely conduct audits, and there is a substantial gap in proactive compliance monitoring. This result

highlights that the lack of consistent audits could lead to higher risks of errors or non-compliance, especially among businesses without established compliance frameworks.

Need for Compliance Education: The high percentage of businesses not auditing for tax compliance shows a need for education on the importance of regular audits, mainly to prevent issues that could lead to penalties.

Resource Constraints: Smaller businesses may lack the resources to conduct audits, particularly if they do not perceive or secure immediate benefits. Offering accessible tools or support for compliance audits might encourage more regular checks.

Recommendations

1. **Promote Regular Audits:** Tax authorities or industry groups could encourage businesses to perform regular internal audits, perhaps by offering incentives or simplified audit processes.
2. **Awareness Campaigns:** Increasing awareness of the long-term benefits of regular audits, such as avoiding penalties, may motivate more businesses to adopt consistent audit practices.
3. **Support for Small Businesses:** Providing guidance, templates, or low-cost solutions for tax compliance audits could help smaller businesses maintain better compliance practices.

The data presented under this heading highlights a significant gap in audit practices, suggesting potential risks for tax compliance across businesses.

4.9. Role of Tax Authority Compliance Assessments

The following table shows the audit frequency of the Tax authorities in the freight transport sector.

Table 10 Audit Frequency by Tax Authorities

Frequency of Being Approached by Tax Authorities	Number of Respondents	Percentage
Never approached	96	84.2%
Occasionally approached	9	7.9%
Approached quarterly	3	2.6%
Approached annually	3	2.6%

4.9.1. Implications for Tax Compliance

Limited Tax Authority Engagement: 84.2% of businesses reported that they were never approached for compliance checks, which shows that there is a noticeable lack of direct engagement from tax authorities. This result suggests that limited tax authority engagement can result in a knowledge gap regarding tax obligations and best practices.

Potential for Compliance Risks: The lack of regular assessments may lead to unplanned non-compliance among businesses, notably smaller or less formal operations that may not have dedicated compliance resources.

Need for Outreach Programs: Tax authorities could consider targeted outreach programs or periodic assessments to help educate businesses on compliance, particularly those that fall below specific revenue or thresholds.

Recommendations

1. **Increase Tax Authority Visibility:** Regular, even if infrequent, engagement by tax authorities could help businesses stay informed about their compliance requirements and encourage more proactive practices.
2. **Educational Initiatives:** Tax authorities could offer workshops, online resources, or consultations to improve business owners' understanding of compliance obligations.
3. **Risk-Based Approach to Assessments:** Focusing assessment efforts on sectors with historically lower compliance or on businesses of a certain size might optimize tax authority resources while encouraging compliance in higher-risk groups.

This data and the analysis as stated in the text above suggest a need for more consistent engagement between tax authorities and businesses, which could lead to improved tax compliance across different business types and sizes.

4.10 Awareness of Non-Compliance Consequences

The table illustrates the levels of awareness among business respondents about the consequences of non-compliance with tax rules and regulations.

Table 11 Awareness of Penalty

Level of Awareness	Number of Respondents	Percentage
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Not very aware	46	40.4%
Not aware at all	36	31.6%
Moderately aware	21	18.4%
Very aware	6	5.3%

4.10.1. Implications for Tax Compliance

Widespread Lack of Awareness: Over 70% of respondents are either "not very aware" or "not aware at all" of the consequences, indicating a considerable lack of understanding regarding tax compliance penalties indicating lower level of tax compliance.

Educational Opportunity for Tax Authorities: Tax authorities may consider initiatives to educate business owners about the importance of compliance and the risks of failing to adhere to regulations.

Risk of Unintentional Non-Compliance: Low levels of awareness suggest that non-compliance, in many cases, might be unintentional. Educating businesses could not only improve compliance rates but also reduce the risk of penalties for companies that are unaware of their obligations.

Recommendations

1. **Awareness Campaigns:** Tax authorities could conduct awareness campaigns, focusing on the consequences of non-compliance, to help businesses understand the importance of adhering to tax regulations.

2. **Simplified Resources**: Providing accessible and simplified resources outlining common non-compliance consequences might encourage businesses to be more proactive in maintaining compliance.
3. **Targeted Education for Low-Awareness Groups**: Efforts could be concentrated on sectors or business types that exhibit the lowest awareness levels, ensuring that all business owners have the information needed to make informed compliance decisions.

This data suggests a pressing need for educational outreach on the potential consequences of tax non-compliance to foster a more informed business community.

4.11. Assistance or Training Received

The figure indicates responses to whether businesses have received any assistance or training from tax authorities regarding tax compliance.

Table 12 Training Received from Authorities

Response	Number of Respondents	Percentage
Did not receive assistance/training	111	97.4%
Received assistance/training	3	2.6%

4.11.1. Tax Compliance

Need for Educational Programs: The absence of assistance and training indicates a critical need for tax authorities to provide structured educational programs to help businesses understand their tax obligations, reporting requirements, and compliance benefits.

Improving Accessibility of Resources: With such a small percentage receiving assistance, making resources and training sessions more accessible—through online platforms, local workshops, or industry partnerships—could significantly improve tax compliance.

Potential for Increased Compliance through Support: By proactively offering training and assistance, tax authorities could bridge the knowledge gap and address common challenges businesses face, potentially leading to higher compliance rates.

4.12. External Factors Influencing Compliance

The table below represents any permit payments the business makes to keep operating.

Table 13 Permit Payments for Business Operations

Response	Number of Respondents	Percentage
Paid for permits/approvals	54	47.4%
Did not pay for permits/approvals	60	52.6%

4.12.1. Business Environment and Tax Compliance

Presence of Informal Practices: The substantial proportion of businesses that have paid permits or approvals suggests that informal practices may be a regular part of operating within this sector.

Need for Transparency in Permitting Processes: Ensuring a transparent and efficient permit process could reduce the need for these informal payments, fostering a more compliant and straightforward business environment.

4.13. Commission per trip

The table below shows whether businesses had to pay any commission for their trips.

Table 14 Commission per trip

Response	Number of Respondents	Percentage
Do not pay a commission per trip	87	76.3%
Pay commission per trip	27	23.7%

4.13.1. Implications for Operational Costs and Compliance

Impact on Profit Margins: For businesses that pay commissions per trip, the additional cost could reduce overall profit margins, potentially affecting their ability to meet tax obligations or reinvest in operations. Understanding these costs is essential when assessing their compliance capacity.

Potential for Digital Solutions: Encouraging digital platforms for booking and managing freight trips could reduce dependency on intermediaries, allowing businesses to keep more of their earnings and streamline compliance processes.

4.14. Willingness to Pay Tax.

The table illustrates responses to whether businesses would be willing to pay 5% of their per-trip earnings as tax if it improved road and traffic conditions.

Table 15 Willingness to Pay Tax

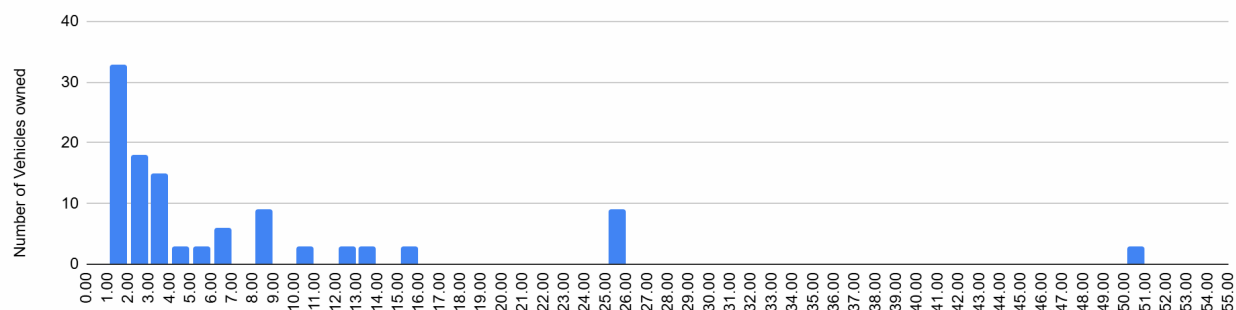
Response	Number of Respondents	Percentage
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Willing to contribute 5% as tax	60	52.6%
Not willing to contribute 5% as tax	54	47.4%

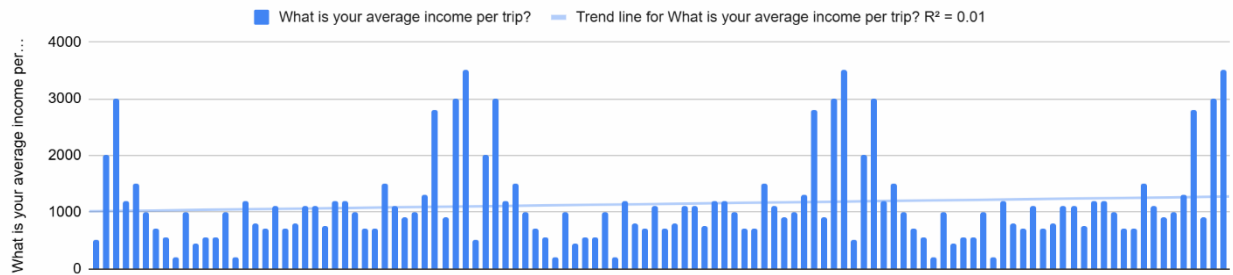
4.14.1. Implications of Willingness to Pay:

Opportunity for Conditional Tax Initiatives: Over half the respondents' willingness to contribute toward infrastructure improvements suggests potential support for targeted or conditional taxes, provided the benefits are communicated and delivered.

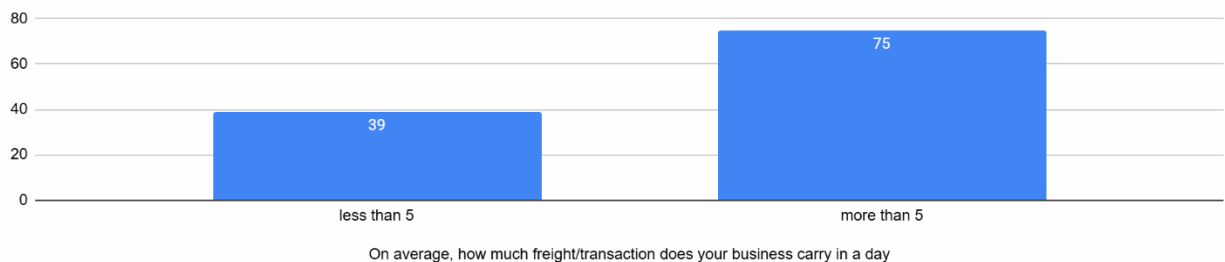
4.14.2. An estimate of Tax Potential from this sector



The analysis reveals that 774 vehicles were owned by the surveyed respondents, with single-vehicle ownership being the most common. While this segment contributes modestly to the overall total, the cumulative impact of respondents owning multiple vehicles is significant. High-ownership outliers, representing only a small portion of the population, account for a substantial share of the total vehicle count, indicating a concentrated wealth segment.



The analysis reveals an estimated average income per trip of **1,143 Rs.** highlighting a moderate earning potential among respondents. This average, while informative, is influenced by a wide distribution of income, with many trips earning below **1,000 Rs.** and several high-income outliers reaching up to **4,000 Rs.** The disparity in earnings indicates potential income inequality and suggests varied economic circumstances among respondents. For tax compliance purposes, the average income per trip can serve as a useful benchmark for initial assessments. For the estimation of tax potential the average income per trips is 1143.42



Tax potential of the surveyed audience:

Total Number of Vehicles: 774

Trip Assumptions

Vehicles with Less Than 5 Trips: Assume a minimum of **2 trips per vehicle per day.**

Vehicles with More Than 5 Trips: Assume a minimum of **6 trips per vehicle per day.**

Distribution of Trip Conduct

- **34%** of vehicles conduct **2 trips** daily.
- **66%** of vehicles conduct **6 trips** daily.

Daily Trip Calculation

Vehicles Conducting 2 Trips:

Total Vehicles:

$$774 \times 34 / 100 = 263 \text{ vehicles}$$

Total Daily Trips from this group:

$$263 \times 2 = \mathbf{526}$$

Vehicles Conducting 6 Trips:

Total Vehicles:

$$774 \times 66 / 100 = 511$$

Total Daily Trips from this group:

$$511 \times 6 = \mathbf{3,066}$$

Daily Trips:

Total Daily Trips

$$526+3,066=3,592$$

Annual Trip Calculation

Number of Working Days:

$$22 \text{ days per month} \times 12 \text{ months} = 264 \text{ working}$$

Total Yearly Trips:

$$\text{Total Yearly Trips} = 3,592 \text{ trips per day} \times 264 \text{ days} = 950,208 \text{ trips}$$

Taxable Revenue Estimation

Average Income per Trip * Total number of trips in a year

Total Taxable Revenue:

$$\text{Total Taxable Revenue} = 950,208 \text{ trips} \times 1,143 \text{ (average income per trip)} = 1,084,090,944$$

GST Revenue Calculation

GST on Freight and Transport Services: 16%

Total GST Revenue:

$$\text{Total GST Revenue} = 1,084,090,944 \times 0.16 = 173,454,551.04$$

This research provides a basis for estimating the tax potential for future research. An important figure from government agencies, the total number of registered commercial vehicles, can easily help estimate the tax potential for this sector.

Chapter 5

Conclusion and Recommendations

5.1. Background

This study was initiated to investigate the tax behavior of operators operating in Pakistan's freight transport sector. Islamabad was chosen as the locale for this research, and a questionnaire was developed with 42 questions. The questionnaire is attached as an annexure. In order to ensure a broader sample, the surveys were conducted in 7 different areas of Islamabad. Data was collected over 6 months. The purpose of this study was to examine the following:

1. Education levels and Tax knowledge among operators in the freight transport sector of Islamabad.
2. The operators' current operational structure and registration status with SECP or FBR.
3. The operator's transaction process and capacity to facilitate tax-related activities such as record keeping.
4. The role of Tax authorities in ensuring tax compliance.
5. The willingness to pay an amount of the operator's income in exchange for a promise of betterment.
6. Estimated tax potential from the sample.

5.2 Contextualizing Results According to Deterrence and Moral Theories

Two theories were applied to comprehend the phenomenon of tax evasion in the transportation industry: the deterrence theory and the tax morale theory. The deterrence theory states that people or businesses are more likely to pay taxes if they know that there is a chance of them

being caught or punished. This theory suggests that effective enforcement measures, like targeted audits and penalties, can deter tax evasion in the commercial trade transportation industry.

The tax morale theory emphasizes how social norms and attitudes toward taxation can influence compliance behavior. According to this theory, the level of tax evasion may be influenced by intrinsic motivations to pay tax that are built up by the following:

1. Social Norms
2. Trust in Tax Authorities
3. Perceived Fairness
4. Knowledge of the Tax System.

This research categorizes its survey findings according to the principles of these theories. The results are presented below.

5.2.1. Tax Morale Theory:

The following findings can be attributed to the tax morale theory.

The level of tax knowledge among operators is low. Education level correlated with tax awareness, where those with higher education exhibited a better understanding of tax obligations. Most respondents were sole proprietorships, with partnerships and private limited companies less common. This prevalence of sole proprietorships was most common in low-education respondents.

A significant portion of respondents (40%) reported a lack of knowledge about applicable taxes, while only a minority understood income and sales taxes. Only 30.7% of businesses were registered with the Securities and Exchange Commission of Pakistan (SECP). These

Unregistered businesses were found to have lower compliance and awareness, with many unregistered respondents also lacking knowledge of their tax obligations. Only 2.6% of respondents reported receiving training or assistance from tax authorities. Most respondents viewed tax compliance as financially burdensome, with 91.6% perceiving it as high or medium-cost. Smaller businesses, in particular, expressed that the compliance costs were a barrier to maintaining accurate records and meeting tax obligations. This lack of knowledge about obligations among operators results from a weak regulatory framework adopted by the authority, which causes the intrinsic motivation to pay taxes to remain very low.

5.2.2. Tax Deterrence Theory:

The following findings can be attributed with the tax deterrence theory.

Cash was the most common method; digital transactions and receipts were rare, constituting only 13.1% of responses. A large proportion (42.1%) of businesses did not keep formal records, and most respondents (76.3%) rarely or never conducted internal audits. Tax authorities had never approached an overwhelming 84.2% of businesses for compliance checks. Over 70% of respondents were either unaware or only vaguely aware of the consequences of non-compliance. These numbers are evidence that the current framework lacks an active role of the authorities along with the transaction process available that allows for undocumented operations. The unawareness of the consequences of a penalty for not paying taxes suggests that the presence of a threat is minimal. The research agrees and provides evidence to strengthen the deterrence theory by holding the absence of threat's relation with low tax compliance levels accurate.

5.3. Potential Reasons for Observed Patterns

The observed patterns of compliance behavior can be attributed to several factors based on the survey results.

5.3.1. Complex Tax Procedures:

Complex tax procedures and a slightly high cost of compliance make businesses shy away from observing the tax laws. These tax filing procedures can be simplified to reduce compliance costs and increase observance. Simplification measures must target expounding on the processes to render them more manageable and less demanding. More importantly, the tax system needs to be re-structured so that the authority has complete information about the market and is the one who does all the tax calculations for the operators. A non-voluntary model of compliance must be explored going forward.

5.3.2. Cash Transactions and Informal Practices

The methods of operation have been chiefly cash, and there have been informal practices in most of the business processes. The lack of proper documentation of accounts has attributed to the failure of business organizations carrying out cash-based business operations to adhere to tax requirements. Treating digital sales as a legitimate trend and adopting international best practices when managing contracts can aid compliance efforts (Linsley, 2021). This can be through positive reinforcement via offering rewards for embracing digital payment systems, and where negative reinforcement is used, consequences will act as punishments for not embracing the change.

5.3.3. Resistance to Digital Solutions

They include factors such as the reluctance to embrace digital approaches and the ineffectiveness of tax administration. Some strategies to support digital systems include awareness of their utility

to improve performance and assistance to organizations requiring transformation. As such, the following advantages can be derived from using these solutions: more accurate records and reports, faster, and more transparent. Nevertheless, the attitude of staying in the comfort zone can pose barriers to change since businesses can attribute costs and lack of knowledge towards change, or they do not see the need to change when current practices appear efficient.

5.3.4. Role of Tax Authorities

Tax Authorities' support level has been deemed inadequate, along with the unstable audit regime, which means taxpayers require more helpful interaction from Tax Authorities (Odkhuu, 2023). Frequent audits and effective communication expectations should also enhance cooperation. The authorities in this regard should strive to promote friendly relations with the businesses, effective and timely provision of information required in filing taxes, and satisfaction reached through acknowledgment and compliance with the set laws on taxation.

5.4. Recommendations

It is now necessary that extensive tax awareness programs are targeted toward industry operators, containing information specifically for their sector of operation, such as freight movers. Without knowledge of one's obligations towards the tax, it is impossible to expect the desired action. An approach must be adopted to ensure the presence of a threat and be punished by the authorities if found operating without paying tax. Without the threat of being caught and punished by the authorities, there is an atmosphere of lawlessness. The current detection levels of tax evasion in the sector under study are very low due to the absence of a proactive role of the authority. This, combined with no intrinsic motivation, values, or knowledge for paying tax, makes the tax compliance levels remain on the lower side.

There must be a push towards shifting businesses to digital mediums. Different digital companies are under operation to move freight. The government must seek driver data from such companies. A few participants acknowledged using digital portals to seek work; the same were found to be paying commissions to the application operators. The lowest commission paid stands at 5 percent per trip. The FBR must seek control over information about operators operating using digital mediums. So that, a minimal percentage of tax on drivers' earnings can be administered. In the long run, the FBR must aim to develop its watch over the economic activity.

Random, regular visits by tax authorities to verify licenses for business operations on and off the ground can become a threat if those caught operating without licenses or paying taxes are punished through a penalty. This can set the directions in the right manner.

For this to happen, a strong data-sharing structure between FBR and SECP must be formed so that the government can gain better insights. FBR and SECP are the backbone of documenting the economy, and steps to enhance collaboration between the two are of the utmost importance. Once a data flow between the two has been structured, artificial intelligence can help scout anomalies and provide a direction for the authorities to follow. Other organizations such as vehicle registration office can also be taken into loop for pointing out the number of commercial vehicles that are being sold.

Based on the survey results the following recommendations are made after completing the research. The recommendations are based on evidence and can help the authorities in adopting a better approach towards monitoring issues related to low tax compliance. These findings can be replicated on other sectors of economy as well as the issues in all the sectors are somewhat similar and the role of authorities in monitoring each sector has been similar.

5.4.1 Educational Programs and Awareness Campaigns

Develop targeted educational programs to increase sector-wide tax literacy. Research studies have concluded that taxpayer education provides the basis for effective tax compliance by reducing knowledge gap and building trust in the tax system (Mariam A, 2021). Industry-specific training programs, online resources, and workshops could be organized in association with industry bodies and educational institutions. These programs should be provided on general tax compliance, the need for record-keeping, and the individual risk of non-compliance.

5.4.2. Streamlined Tax Processes and Reduced Compliance Costs

Easier tax processes and reduced costs are likely to make compliance easier. Studies show high compliance costs keep small businesses from formal tax compliance, an increased participation in formal tax engagement inclusion through good processes. Streamlining processes through the genesis of user-friendly online portals and reduction of paperwork can alleviate administrative costs and promote engagement with formal tax systems.

5.4.3. Promotion of Digital Solutions

Promoting digital record-keeping and payment methods can improve transparency and help with compliance. The Making Tax Digital initiative in the UK has shown that error rates are lower with digital record-keeping and that monitoring for compliance is easier (GOV.UK, 2022). Tax authorities could explore providing incentives like tax deductions or subsidies to businesses for adopting digital accounting tools. Promoting electronic invoicing will also improve documentation practices, making it much easier for businesses to file taxes accurately.

5.4.4. Enhanced Engagement and Support from Tax Authorities

Establishing a proactive communication framework with regular interactions, such as audits and compliance check-ins, can improve compliance. Regular, supportive interactions have been shown to foster trust and accountability between businesses and tax authorities (OECD, 2021). Setting up accessible help desks and online support channels for businesses to consult tax-related queries will foster trust and collaboration. Furthermore, ensuring consistent and transparent auditing practices could reinforce a sense of accountability within the sector.

5.4.5. Anti-Corruption Measures and Transparency in Permitting.

Addressing corruption within the permitting process can enhance the tax system's integrity and reduce the burden of informal payments. Studies suggest transparent permitting processes and anti-corruption measures are critical to improving compliance rates. Transparent, standardized procedures for obtaining permits should be enforced, with penalties for illicit transactions. Increased transparency in the regulatory process will help create a more equitable environment for compliant businesses.

5.5 Key Findings

1. **Low Tax Knowledge:** Most operators lack awareness of applicable taxes.
2. **Limited Authority Oversight:** FBR rarely conducts audits, reducing perceived detection risk.
3. **Cash-Based Transactions:** Informal payment methods obscure accurate income reporting.

5.6 Policy Recommendations

1. **Enhance Digital Record-Keeping:** Implement digital transaction tracking to improve transparency.

2. Increase Tax Authority Audits: Conduct regular, randomized audits to enhance deterrence.
3. Educational Programs: Launch targeted awareness campaigns to improve operators' understanding of tax obligations.

By implementing these recommendations, the government can strengthen compliance and increase revenue from the freight transport sector.

5.6 Future Studies

This study limits itself to only studying the freight transport sector of Islamabad. It can be replicated nationwide to confirm if the findings can be applied to all areas of Pakistan.

Furthermore, the variables used in this study can and must be checked to see if the findings hold for other sectors of the economy, such as agriculture, manufacturing, and retail. There exists a vast knowledge gap between taxpayers in Pakistan. This knowledge gap must be identified in every sector that operates in the economy for a better taxation regime.

After a careful review of the applicable taxes, it was identified that the taxation structure is not lacking in depth and covers the economic activities extensively, but it is the implementation that must be questioned. There is no need to alter the amount of tax that the government has decided to levy on any particular activity. Instead, how these taxes will be administered must be questioned.

The FBR must improve its role as an implementer by setting targets in terms of the percentage of economic activity and not in terms of rupees, as achieving the target in rupees could mean increasing the current tax rates and burdening honest taxpayers more. Instead, the FBR must set a goal of achieving a specific number of taxpayers. This could be done if the sector-wise

approach is adopted. The FBR must first try to establish how many operators are operating in each sector. Once this number has been identified, the second step could be determining how many of them are aware of the taxes that apply to them. Without knowledge of taxes, it is only irrational to expect compliance. After creating awareness about the taxes and their penalties, a random audit approach must be devised to create a threat perception among the industry operators.

A future research proposal is submitted as Annexure B for review.

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Annexures

Annexure A

Consent Form:

Title: Consent to Participate in Research Study on Tax Compliance in the Freight Transport Sector.

I have read and understood the information provided above regarding the research study titled “Assessing Tax Compliance in the Freight Transport Sector: A Study of Business Entities and Transaction Processes in Islamabad, Pakistan.” I understand that the study aims to investigate tax Compliance practices within the Freight Transport sector.

By voluntarily participating in this survey, I agree to the following:

- I consent to participate in this research study and provide information related to tax compliance practices within my organization.
- I understand that my participation is entirely voluntary, and I have the right to withdraw from the study at any time without any consequences.
- I understand that all responses provided in the survey will be treated confidentially, and my identity will remain anonymous in any research publications or presentations.
- I understand that the data collected will be used solely for research purposes and will not be shared with any third parties.
- I understand that my participation in this study will have no impact on any business relationships or interactions with tax authorities.

● I understand that I can contact the researcher ([Your Name]) for any questions or concerns related to the study.

● I acknowledge that I have read and understood the information provided in this consent form and agree to participate in the research study on tax compliance in the Freight Transport sector.

Participant's Name: _____

Date: _____

Section 1: Introduction and General Information

Please provide some basic information about yourself and your organization (if applicable).

1. Organization (if applicable): _____
2. Name of the respondent: _____
3. Designation of the respondent: _____
4. Education of the respondent: _____
5. Contact Information: Phone: _____ Address: _____
6. Type of ownership:
 1. Sole proprietorship:
 2. Partnership:
 3. Private limited:
7. Years in business: _____
8. Is your firm registered with the Securities and Exchange Commission of Pakistan (SECP):
 - a. Yes
 - b. No
9. Is your firm registered with the Federal Board of Revenue:
 - a. Yes
 - b. No

Section 2: Business Operations

10. Number of vehicles owned by your organization:
11. Capacity of vehicles (e.g., Weight): _____
12. Type of clients you cater to:
 1. Sales distributors

2. Cargo merchants
 3. Firms contracts
 4. Retail supplies
 5. Industrial transportation
 6. Other (Please Specify): _____
13. Number of workers:
1. Drivers
 2. Administrative
 3. Others (Please Specify):

Section 3: Tax Knowledge

14. What type of taxes apply to your business?

- 1.
- 2.
- 3.

15. Is every transaction you make liable to tax?

1. Yes
2. No

16. Are you aware of what a general sales tax is?

1. Yes
2. No

17. Are you aware of what income tax is?

18. Which sources do you rely on to stay informed about tax laws and changes in the Freight Transport sector? (Select all that apply)

1. Government websites
2. Tax consultants/advisors
3. Industry publications
4. Fellow businessmen
5. Other (Please specify): _____

19. Are tax regulations different for the freight transport sector than other sectors?

1. Yes
2. No

20. If yes, are you familiar with the tax laws and regulations specific to the freight transport sector in Islamabad?

1. Yes
2. No

21. If no, would your business be interested in participating in tax compliance training programs, websites, advertisements and other material specifically tailored to the Freight Transport sector?

- a. Yes
- b. No

22. On a scale of 1 to 5, how would you rate your level of understanding of tax laws and compliance requirements in the freight transport sector?

1. Very limited	2. Limited	3. Average	4. Above Average	5. Excellent

23. How would you rate the overall compliance cost of procedures (e.g., time, resources, money) for your business in adhering to tax regulations?

1. No Compliance cost	2. Low Compliance cost	3. Medium Cost	4. High cost	5. Very High cost

24. How aware are you of the consequences of non-compliance with tax regulations?

1. Very Aware	2. Moderately Aware	3. Not very aware	4. Not aware at all

25. Have you been approached by tax authorities or representatives to assess your business for tax compliance?

1. Never	2. Occasionally	3. Every Quarter	4. Annually

Section 4: Tax Processes and Tax Compliance

26. How do you ensure that all relevant transactions within your business are appropriately documented for tax compliance purposes?

1. Automated systems (e.g., accounting software)
2. Manual record-keeping
3. Combination of both
4. Not sure/Not applicable

27. How frequently do you conduct internal audits to assess tax compliance within your business?

1. Regularly		3. Rarely	4. Never

	Occasionall y		

28. Have you received any assistance or training from tax authorities regarding tax compliance?

- a. Yes
- b. No

29. How do you pay your taxes?

- c. I have hired an agent to file taxes for me
- d. I file them myself
- e. I do not file taxes

30. If option 3 is selected in Question 29, please state the reason:

- f. High tax rates
- g. Complex tax calculations
- h. Record-keeping costs
- i. Difficulty in accessing tax incentives Other (Please specify):

Section 5: Transaction process

31. How do you charge your customers?

- j. Cash with a handwritten receipt
- k. Digital Transaction with a handwritten receipt
- l. Cash with a digital receipt
- m. Digital transaction with a digital receipt
- n. Cash with no receipt
- o. Digital transaction with no receipt

32. On average, how much freight/transactions does your business carry in a day?

33. Are you satisfied with your earnings?

- i. Yes
- ii. No

34. What is your average earning per trip?

Section 6: Role of Tax Authorities in Enforcing Tax Compliance

35. How satisfied are you with the responsiveness and support provided by tax authorities when seeking clarifications or assistance regarding tax compliance?

1. Very Satisfied	2. Satisfied	3. Neutral	4. Dissatisfied	5. Very dissatisfied

36. Have you experienced any audits or inspections by tax authorities in the past?

37. How frequently does your business interact with tax authorities?

1. Frequentl y	2. Ocassional y	3. Rarely	4. Never

Section 7: External Factors Influencing Tax Compliance

38. Have you ever paid someone for a permit or approval to keep operating your business?

- a. yes
- b. no

39. Have you ever used a digital portal to find work?

- c. Yes____commission paid to the portal?_____
- d. no

40. How would you rate your willingness to operate using digital mediums to interact with your clients?

1. Willing	2. Unwilling	3. Indifferent

41. Have you ever paid commissions to anyone to ensure continuity in work?

- a. Yes____how much
- b. No

Section 8: Willingness to Pay

42. Are you satisfied with the current road conditions?

43. Would you be willing to contribute xyz percent of your per trip if better roads are delivered?

44. Are you satisfied with the traffic conditions? Would you be willing to pay xyz percent of per trip if better traffic conditions are delivered?

45. How much time is spent waiting?

46. Would you be willing to pay xyz percent of per trip if wait time is eliminated?

Annexure B

Title: Governance and Policy Implementation in Urban Freight Transport: A Case Study of Islamabad, Pakistan

1. Introduction Freight transport is a backbone of economic growth, enabling the movement of goods within and across regions. In urban contexts like Islamabad, an efficient and well-regulated freight system is essential for reducing logistics costs, minimizing congestion, and ensuring equitable access to markets. Despite the introduction of national policies such as the National Freight and Logistics Policy (NFLP), operational inefficiencies persist. Licensing and regulatory procedures remain opaque, particularly affecting small and medium-sized enterprises (SMEs) in the freight transport sector. This research seeks to explore these issues through a governance and policy implementation lens, focusing on the experiences of freight operators and regulatory institutions in Islamabad.

2. Problem Statement Although Islamabad benefits from being a centrally administered territory with access to federal institutions, the city's freight transport sector continues to face challenges related to policy implementation, bureaucratic inertia, and institutional inefficiencies. Operators report inconsistent enforcement, procedural delays, and a lack of digital infrastructure. These issues not only undermine policy goals but also discourage formalization among small freight businesses. This research aims to investigate the causes and consequences of these implementation challenges and propose evidence-based recommendations for improving governance in urban freight transport.

3. Research Questions

1. How do freight operators in Islamabad experience and navigate the licensing and regulatory environment?

2. What institutional factors hinder the effective implementation of freight transport policies in Islamabad?
3. How do perceptions of regulatory institutions affect compliance behavior in the sector?
4. What interventions can enhance policy implementation and institutional efficiency in freight transport governance?

4. Objectives

- To map the current licensing and regulatory framework for freight transport in Islamabad.
- To assess the institutional capacity and effectiveness of regulatory authorities.
- To examine the lived experiences of freight operators, especially SMEs, in dealing with compliance and licensing.
- To develop policy recommendations for improving institutional performance and regulatory governance.

5. Literature Review (Overview) The literature will draw from fields including public policy, transport governance, institutional theory, and regulatory compliance. Previous studies on urban transport governance in developing countries will be reviewed, along with existing evaluations of the NFLP. Gaps in understanding how localized regulatory processes affect sectoral outcomes will be identified to situate the contribution of this research.

6. Methodology

- **Research Design:** Qualitative case study approach focusing on Islamabad.
- **Data Collection:**
 - Semi-structured interviews with freight operators, policymakers, licensing officers, and experts.
 - Document analysis (e.g., route permit policies, licensing forms, national policies).

- **Data Analysis:** Thematic analysis using qualitative coding.

7. Significance of the Study This study aims to contribute to the academic discourse on policy implementation and urban governance in Pakistan. By focusing on a key sector and a strategically important city, the research will provide actionable insights for policymakers and regulatory agencies. It will also help bridge the gap between national freight policy and local-level practice.