



Tax Policies for Salaried Class: A Comparative Analysis

Tax collection is the major source of public revenues for countries which enables the governments to finance investments in human capital and infrastructure. However, economic shocks in various countries have affected their revenues and increased the budget deficit. The countries that have revenue collection less than 15% of GDP in taxes are in dire need to increase their tax collection to overcome the gap between government expenditures and its revenues. During FY 2023, Pakistan's tax collection was merely 9.6% of GDP where direct taxes contribute 40.7% in total tax collection.

Income tax policies for the salaried class vary considerably across countries in Asian region. These policies are being influenced by factors including economic circumstances, fiscal policies, and socio-economic conditions of population. This comparative analysis provides assessment of income tax structures for salaried employees in countries including Bangladesh, Indonesia, India, Malaysia, and Pakistan. The analysis identifies the key aspects of tax policies in these countries.

Table 1 indicates the tax rates and slabs in Bangladesh, India, and Indonesia. India has provided relief to low-income group as people earning upto \$ 3,587 yearly are exempted from paying income tax. Besides, lower tax rates (5%) are applicable in India to salaried persons earning



Dr. Vaqar Ahmed
Joint Executive
Director, SDPI



Asif Javed
Associate Research
Fellow, SDPI

between \$ 3,587 to \$ 7,174. India and Bangladesh have taken various measures regarding taxation of salaried persons and provided specific benefits to mitigate their financial strain. Income tax structure of India is progressive having multiple tax slabs and ensures that those earning higher income have to pay higher proportion of their earnings in taxes. The government of Bangladesh provided reliefs such as tax rebates on government bond investments and life insurance premiums.

Table 1: Tax Rates and Slabs in Bangladesh, India, and Indonesia

Income Tax Rate (%)	Tax slabs		
	Bangladesh Taka	Indian Rupee	Indonesian Rupiah
Nil	Up to 350,000 (\$ 2,979)	0-300,000 (\$ 3,587)	—
5%	350,000(\$ 2,979) 450,000 (\$ 3,830)	300,000 (\$ 3,587) 700,000 (\$ 8,370)	Up to 6,000,000 (\$ 371)
10%	450,000(\$ 3,830) 850,000 (\$ 7,234)	700,000 (\$ 8,370) 1,000,000 (\$ 11,957)	—
15%	850,000 (\$ 7,234) 1,350,000 (\$ 11,489)	900,000 (\$ 11,957) 1,200,000 (\$ 14,349)	6,000,000 (\$ 371) 250,000,000 (\$ 5,469)
20%	1,350,000 (\$ 11,489) 1,850,000 (\$ 15,745)	1,200,000 (\$ 14,349) 1,500,000 (\$ 17,936)	—
25%	1,850,000 (\$ 15,745) 3,850,000 (\$ 32,766)	—	250,000,000 (\$ 15,469) 500,000,000 (\$ 30,937)
30%	3,850,000 (\$ 32,766) and above	1,500,000 (\$ 17,936) and above	500,000,000 (\$ 30,937) 5,000,000,000 (\$ 309,373)
35%	—	—	Above 5,000,000,000 (\$ 309,373)

Table 2: Tax Rates and Slabs in Pakistan

Income Tax Rate (%)	Tax slab (Pakistani rupee)	Amount in USD
Nil	Upto 600,000	2,157
5% of the amount exceeding Rs. 600,000	600,000-1,200,000	2,157-4,313
30,000 (\$108) + 15% of the amount exceeding Rs. 800,000	1,200,000-2,200,000	4,313-7,907
Rs. 180,000 (647) + 25% of the amount exceeding Rs. 1,200,000 (4,313)	2,200,000-3,200,000	7,907-11,502
Rs. 430,000 (1,545) + 30% of the amount exceeding Rs. 2,400,000 (8,626)	3,200,000-4,100,000	11,502-14,736
Rs. 700,000 (2,516) + 35% of the amount exceeding Rs. 4,100,000 (1,7356)	Above 4,100,000	Above 14,736

Although the Government of Pakistan has exempted the income tax for people earning PKR 50,000 (\$ 180) per month, but those that are earning between PKR 51,000- PKR 100,000 will have to pay 5% income tax plus the amount exceeding the limit (Table 2). Now a person who is earning PKR 100,000 a month will have to pay PKR 2,500 a month, while this amount was PKR 1,250 before the budget 2024-25. This will adversely impact the lower- and middle-income groups as their purchasing power is already being affected by double-digit inflation. People who are earning a monthly income between PKR 100,000 and PKR 200,000 will now have to pay 15% instead of 12.5% on earnings above PKR 100,000 and a fixed tax of PKR 30,000 instead of PKR 15,000 a year previously.

Besides direct taxation, indirect taxation and other levies is also a major concern for the salaried class as the government has decided to increase the petrol levy by PKR 20 (from PKR 60 to PKR 80 per liter). The petroleum levy is a substantial source of revenue for the government, with PKR 720 billion collected in the first 9 months of the outgoing fiscal year. The government expects to collect PKR 869 billion through fuel levy in the current fiscal year.

When the burden of taxes is disproportionately high on the salaried class or wage-employed individuals, several significant implications can arise. Firstly, a high tax burden on the salaried class means that individuals have less disposable income after taxes. This reduction in disposable income can lead to decreased consumer spending, which is a critical driver of economic growth. When people spend less on goods and services, businesses may experience lower revenues, potentially leading to reduced investment and slower economic expansion.

High taxes on salaried individuals can also lead to increased financial stress and lower savings rates. This financial strain can affect individuals' ability to save for future needs, such as education, healthcare, and retirement. The lack of savings can make households more vulnerable to financial emergencies and economic downturns. Excessive taxation can diminish the incentive to work harder or pursue additional income. If individuals perceive that a significant portion of their earnings will be taken away by taxes, they

may feel discouraged from seeking higher-paying jobs, working overtime, or investing in further education and skills development. This can result in reduced productivity and a less motivated workforce.

Moreover, when the tax burden falls heavily on the salaried class while other income groups, such as businesses or the wealthy, are taxed less, it can exacerbate income inequality. The middle and lower-income groups may feel unfairly targeted, leading to social discontent and a perception of an inequitable tax system. This perception can undermine trust in government institutions and policies. Highly skilled professionals may seek opportunities in countries with more favorable tax regimes. If the tax burden is perceived as too high, talented individuals might emigrate to other countries where they can retain a larger share of their income. This brain drain can deplete the country of its skilled workforce, hindering economic growth and innovation.

Additionally, a high tax burden can incentivize tax evasion and the growth of the shadow economy. Individuals and businesses may resort to informal or illegal means to avoid taxes, such as underreporting income or engaging in cash transactions. This can reduce the overall tax revenue for the government and undermine the formal economy. High taxes on the salaried class can lead to political discontent and social unrest. Taxpayers may demand more transparency and accountability in how their tax dollars are spent. If the government fails to address these concerns, it could face protests, reduced public support, and challenges in implementing future tax policies.

Examples from various countries illustrate these points. In the United States, high taxes on the middle class have been a topic of political debate, with policymakers arguing that reducing the tax burden on this group can stimulate economic growth and increase consumer spending. Some EU countries with high tax rates on salaried individuals have seen public protests and calls for tax reforms to create a more equitable system. In Pakistan, the salaried class often bears a disproportionate tax burden compared to businesses and wealthy individuals, leading to demands for tax reforms to broaden the tax base and reduce the burden on wage earners.

In conclusion, balancing the tax burden is crucial for economic stability, social equity, and overall growth. Policymakers need to ensure that the tax system is fair, encourages economic participation, and provides sufficient revenue for public services without overburdening any particular group. Tax reforms aimed at broadening the tax base, reducing evasion, and ensuring progressive taxation can help achieve these goals.

About the Authors: **Dr. Vaqar Ahmed** is working as Joint Executive Director, Social Development Policy Institute (SDPI). He serves in an advisory capacity at many national, regional and international institutions and forums. He has earlier worked as an advisor to the United Nations Development Program and as the head of macroeconomics section at the Ministry of Planning, Development and Special Initiatives. He holds a PhD in economics.

Asif Javed is working as an Associate Research Fellow in Social Development Policy Institute (SDPI). He is a PhD (Economics) scholar at the School of Economics, Quaid-I-Azam University, Islamabad. Before joining SDPI, he worked with the World Bank, British Council, South Asian Network for Development and Environmental Economics (SANDEE), and International Alert.