Assessing the Impact of Fiscal Decentralization on Taxpayers' Inconvenience in Khyber Pakhtunkhwa

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Abstract

The tax structure has been improved by the adoption of fiscal decentralisation policies by many countries. Taxpayers in Pakistan, however, had difficulties as a result of poor implementation of the devolution plan. This raises questions regarding Pakistan's devolution strategy's effectiveness. For the purpose, the present research was conducted to investigate inconvenience being confronted by the taxpayers after decentralization in Khyber Pakhtunkhwa province. The subject under study is a deficient area of research. The study offers firsthand data on the challenges taxpayers encountered as a result of decentralization. It is the first to document taxpayers' firsthand experiences. The primary data through designed questionnaire were collected from all four categories of 400 taxpayers belonging to ten major services sectors. The Ordinal Logistic model's result showed that every independent variable, including complex tax laws, trust deficit and haphazard taxation system, had a negative effect on the inconvenience that taxpayers faced following devolution. However, tax laws complexities is more likely to cause inconvenience than haphazardness and mistrust. This leads to the conclusion that Khyber Pakhtunkhwa province was unable to set up a framework that would have made the services sector convenient to operate after fiscal decentralisation. Therefore, Pakistan's tax system needs to be simplified and integrated in light of the post-decentralization circumstances.

Keywords: Decentralization, Inconvenience, Complexities, Services Tax, Taxpayers

JEL Classification: H20, H21, K34

Introduction

Fiscal decentralization is currently a key policy tool used throughout the world, particularly in Asia to increase economic efficiency. It can aid in more precise targeting and cutting down on the central government's needless involvement (Faridi, Chaudhry, Hanif & Ansari, 2012). In Pakistan, there has been a lot of discussion over fiscal decentralisation. The 18th amendment to Pakistan's constitution made it possible to collect taxes on services using a decentralised method (Mustafa, 2011). Although the adoption of the 18th Amendment and the National Finance Commission (NFC) Award are being hailed as victories for provincial autonomy, there are still important challenges for the taxpayers.

Following the devolution of power and the introduction of provincial revenue authorities, such as Khyber Pakhtunkhwa Revenue Authority (KPRA), the provinces encountered significant difficulties that endanger the nation's budgetary stability. Each province has created laws that maximize their collection, regardless of the effects on other government revenue agencies and taxpayers alike, due to a lack of coordination, inability, and lack of trust between provincial governments (and the federal government as well) (Kharl, Abbass, & Oghai, 2018). However,

because businesses now have to deal with multiple revenue bodies in Pakistan for tax payments, taxpayers' difficulties have grown. After devolution, this has led to haphazardness and increased taxpayers' time commitment, red tape, and bureaucracy. According to Bukhari and Haq (2020), nearly every chamber of commerce in Pakistan voiced their worries over these difficulties faced by enterprises. An integrated system was necessary because the dispersed collection was unwelcomed. As a result, the difficulties brought on by a disorganized tax system following decentralisation eroded the dependability of taxpayers in the form of complex tax legislation. A complicated tax system may make it more difficult for a taxpayer to comply with tax laws by raising the inconveniences and costs of doing so. Furthermore, it undermines the credibility of taxpayers since, as Richardson (2006) notes, one of the key elements affecting taxpayer compliance and conduct is legal complexity. Decentralisation therefore resulted in the creation of multiple revenue agencies, each with its own set of regulations, further complicating tax rules for taxpayers.

Furthermore, communications with the devolved tax authority in Khyber Pakhtunkhwa and other decentralised tax authorities in Pakistan suffer from a lack of trust in the Federal Board of Revenue (FBR), the former tax body in charge of collecting services tax. A lack of faith in the FBR may be caused by a number of things, including a history of inefficient tax collection, claims of wrongdoing or corruption, or taxpayers' perceptions of unfair treatment. Taxpayers may become distrustful and reluctant to communicate with the tax authorities when such problems occur, including the devolved tax agency in Khyber Pakhtunkhwa (Amjad, 2021; Ahmad, 2010). In addition, the post-devolution scenario shows that because of the provincial tax authority's incompetence and ineffective management, people have less trust in the new tax authority. Taxpayer inconvenience is inevitably encouraged if such a trust imbalance continues.

Literature shows that tax systems have a significant impact on how businesses and individuals behave within a nation's economy (Engida & Baisa, 2014). The devolution of taxes from the federal government to municipal authorities has raised serious concerns about the intricacies of tax arrangements. This review of the literature aims to look into the challenges that complexity in tax structures poses to taxpayers' convenience, particularly in the post-devolution era.

Tax devolution frequently results in a fragmented tax environment, with different tax rates, legislation, and compliance requirements among distinct areas or jurisdictions within a nation. Because of the complexity of the tax system caused by this fragmentation, it is difficult for taxpayers to understand and abide by the law (Bird, 2018). Taxpayers' cost of complying with several levels of complexity is increased by the emergence of regional taxes in addition to federal taxes (Sawyer, 2016). In a similar vein, taxpayers' degrees of convenience are significantly impacted by the post-devolution increase in tax structure complexity. Individuals and corporations alike struggle to comprehend their tax responsibilities, compute taxes correctly, and adhere to a variety of requirements (Cui, 2015). Confusion is exacerbated by regional variations in tax rules, which makes it more difficult for taxpayers to successfully plan and manage their money (Dhungana & Acharya, 2021). Eiser (2020) concurred and assessed that taxpayers incur expenses associated with diseconomies of scale and complexity as a result of fiscal devolution in Scotland. Similarly, Animashaun & Chitimira (2020) noted that there is a clear divide and jurisdictional litigation concern for the taxpayer in Nigeria as a result of the absence of planning between the federal and local levels.

Oates (1999), however, emphasized that fiscal devolution might pay off in a number of ways, such as improved public service delivery that better accommodates individual preferences and more transparent and representative political structures that support policy innovations. Sawyer (2016) agreed, pointing out that the tax structure in New Zealand is rather straightforward, clear-cut, and easy to understand. This is because, over the past 20 years, New Zealand has implemented several programs that have helped it reduce complexity on a number of different levels. However, there is still need to improve tax system simplification and lower various levels of tax compliance costs as after devolution, complicated tax systems place a heavy administrative and compliance burden on taxpayers. Particularly small and medium-sized businesses (SMEs) find it difficult to manage various tax regimes, and they frequently need expert's help to assure compliance (Battisti & Deakins, 2018). Taxpayers lose important time and resources to the administrative burden of comprehending and complying with a variety of tax regulations, which takes their attention away from more profitable endeavors (Cui, 2015).

Following the 18th Amendment, which profoundly altered the status quo and is therefore expected to have large and varied ramifications, the same issue surfaced in Pakistan. The 18th amendment has the ability to alter Pakistan's governmental structure, but because of how it was put into force, meaningful decentralization has been largely delayed or at the very least partially reversed in some regions. The finance and provision of devolved services at the provincial level in Pakistan must be efficiently planned and managed for devolution to be successful.

According to Mukherjee (2016), policy interventions aiming at simplifying and harmonizing tax regimes across regions are crucial in India due to the intricacies of tax arrangements following devolution. The main goals of policy improvements should be to improve taxpayer education and support programs, lower compliance costs, and simplify tax legislation. In order to improve taxpayer convenience and promote economic progress, greater coherence and consistency in tax policy must be achieved through cooperation between central and regional authorities (Taddesse, 2023).

In conclusion, taxpayers have a great deal of difficulty as a result of complicated tax structures, especially in the post-devolution environment. Taxpayer convenience and economic efficiency are hampered by the fragmentation of tax regimes between areas, which raises compliance requirements and administrative expenses. To tackle these obstacles, legislators must work together to simplify tax legislation, improve taxpayer awareness, and encourage cooperation between national and local government agencies. Policymakers can encourage a more favorable climate for economic development and increase taxpayer convenience by simplifying tax arrangements.

With this background, the present research is designed to address the question of what issues taxpayers are facing following devolution, particularly concerning the payment and compliance of devolved taxes on services to the Provincial Revenue Agency.

The purpose of the current study is to assess the inconvenience experienced by taxpayers in Khyber Pakhtunkhwa when paying decentralized services tax, with the objective of identifying the specific issues encountered by taxpayers in regards to paying decentralized GST on services in the region. The study is first to document taxpayers' firsthand data of the challenges they

encountered as a result of decentralisation. The study guides to offer policymakers and tax authorities' evidence-based recommendations for improving the framework for the devolved services tax on services, ensuring that tax rules and procedures are streamlined, and enhancing administrative processes.

Methodology

Sample Size Selection

Collecting data on taxes in a country like Pakistan presents a formidable challenge due to a variety of reasons. Given the scope of the study, it was crucial to encompass all filing categories of the understudied tax as well as the major sectors contributing to tax revenue. The sampling procedure was conducted in 2022 utilizing the dataset of KPRA. However, obtaining primary information from a sizable sample proved to be time-consuming. Taxpayers typically exhibit reluctance to share their tax information, making the task particularly challenging. In this context, inducing and convincing taxpayers to divulge the required information posed significant difficulties for the researchers. The data were collected in 2023 from taxpayers registered with the KPRA in the capital district of Peshawar.

As per data available with Khyber Pakhtunkhwa Revenue Authority, there were 7689 registered businesses that were paying or intended to pay devolved services tax to provincial revenue agency. The data of registered taxpayers is categorized in the following manner:

Table 1. Categorization of Return Filing of Decentralized Tax in Khyber Pakhtunkhwa

Filing Categories	Category wise filing status (in Numbers)	Filing status (in %)
Paid Filing	845	10.99
Nil Filing	311	4.045
Null Filing	2516	32.71
Non-Filing	4017	52.24
Total	7689	100

Source: Khyber Pakhtunkhwa Revenue Authority (2021)

Table 1 presents the categorization of return filing for decentralized tax in Khyber Pakhtunkhwa, demonstrating the distribution of filing statuses in terms of both numbers and percentages. Paid filing status accounts for 10.99% of the total filings, indicating a relatively small portion of taxpayers who have filed their returns and fulfilled their tax obligations. Nil filing status represents 4.045% of the total, indicating a minor proportion of taxpayers with no tax liabilities' due on taxable activity carried out during the period. Null filing status constitutes the largest portion at 32.71%, suggesting a significant number of taxpayers who file a tax return with zero taxable transactions and therefore no tax dues. Non-filing status comprises the majority at 52.24%, reflecting a concerning proportion of taxpayers who have not fulfilled their tax obligations or submitted their returns, highlighting potential challenges in tax enforcement and compliance efforts.

The available data were categorized using the table stated above. Taxpayers of all categories listed in Table 1 were surveyed using a designed questionnaire to gather data. In order to choose an appropriate sample size there are several statistical methods. However, Yamane's method (1967) was applied to determine reasonable sample size that represents accurate known population. In order to calculate the sample size, Slovin developed the approach in 1960 which is under as:

$$n = \frac{N}{1 + Ne^2}$$

Where:
n = Required Sample size
N = Population size
And e = Margin of Error

The error margin is taken at 5 % as an acceptable level (Bell, Bryman and Harley, 2018).

$$n = \frac{7689}{1 + 7689(0.0025)}$$

n = 399.94 rounded to 400
Hence, the required sample for taxpayers is 400 in this case.

The sample of taxpayers for services is further divided by sectors, as shown below:

Table 2. Sector-wise Classification of Devolved Services Tax in Khyber Pakhtunkhwa

S. No	Sector Wise Classification
1	Telecommunication services sector
2	Hospitality sector including Hotel and Restaurants
3	Construction and Consultants
4	Land and Property dealing
5	Laboratories and Testing sector
6	Withholding Agents
7	Franchise sector
8	Rent a car
9	Workshops
10	Other services

Source: Khyber Pakhtunkhwa Revenue Authority (2021)

Data Source and Analytical Method

The questionnaire utilized for data collection comprised four sections with a total of twenty-two questions, excluding sections dedicated to gathering business and personal information. These twenty-two questions were specifically designed to address the study's objectives (see Appendix A). Respondents provided their responses using a 5-point Likert scale, where intermediate ratings ranged between 'Strongly Disagree' (1 point) and 'Strongly Agree' (5 points). The study investigated several significant factors expected to influence taxpayer convenience, including

taxpayer type, business category, and filing status. Additionally, where necessary, variables were recoded into alternative formats.

Model Specification

Since all the selected variables are of qualitative nature and ranked, Wooldridge (2015) suggested the Ordinal Logistic regression model, which is used when the outcome variable is ordinal and ranked (Areo, Gershon & Osabuohien, 2020; Saffari, Love, Fredrikson & Smedby, 2015). The multinomial logistic regression model cannot be applied when the dependent variable is categorized according to the order of magnitude (Fullerton & Xu, 2012). In order to determine the effect of certain independent variables on the inconvenience that taxpayers experience as a result of Khyber Pakhtunkhwa's fiscal devolution, the Ordered Logistic Regression model is developed. This study's model is the following one:

$$\text{Logit(p)} = \left[\frac{Pi(y=1)}{1-(Pi=1)}\right] = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \ldots\ldots + \beta_n X_n + \mu_i \qquad (1)$$

Where Pi = Probability of happening of an event.

$1-Pi$ = Probability of not happening of an event.

$X_1, X_2, \ldots X_3$ are independent variables

$\beta_1, \beta_2 \ldots \beta_n$ are regression coefficients

α denotes constant (Intercept) and μ_i is the error term.

The model equation is as follows:

$$\text{Logit(p)} = \left[\frac{p(y=TPIC)}{1-(p=TPIC)}\right] = \alpha_o + \alpha_1 Sc.TS + \alpha_2 TD + \alpha_3 Cp.L + \mu_i \qquad (2)$$

TPIC represents Taxpayers' Inconvenience

Sc. TS stands for scattered and haphazard taxation system

TD means trust deficit on new tax administration

Cp. L stands for complicated tax Law

Directly interpreting the model parameters is not simple. Odds Ratios make it simpler to interpret the coefficients in logistic regression (Norton & Dowd, 2018). To get odds ratios, the coefficients are exponentiated. It is a measurement of the degree and direction of correlation between two variables in a logistic regression Huang and Moon (2013).

Thus, the formula for obtaining the odds ratio is:

Odds Ratio = $e^{\text{Coefficient Estimate}}$

The value of "e" is a mathematical constant approximately equal to 2.71828

Results and Discussion

Two sets of results are offered in this study, both of which offer insightful information about the inconvenience to taxpayers in Khyber Pakhtunkhwa. The first set of results employs cross-tabulation to provide a thorough investigation of demographic data and how it relates to taxpayer inconvenience. This method enables a thorough analysis of the ways in which taxpayer annoyance differs for various taxpayer kinds, taxpayer demographics, business types, and filing statuses.

The study then uses an ordinal logistic regression model to go further into the analysis. This sophisticated statistical method seeks to assess the effects of a number of problems that have become more prevalent since decentralisation, such as haphazardness, mistrust, and legal complexity. The study uses this methodology to try and identify the particular causes of taxpayer inconvenience in Khyber Pakhtunkhwa.

The study's results are presented in detail to guarantee the dataset's validity and dependability, giving the conclusions transparency and authority. By taking a thorough approach, the study clarifies the intricate nature of taxpayer inconvenience in the area and provides insightful information to stakeholders and policymakers alike. Below are details:

Demographic Statistics

Based on their filing status and the services they provide in the province, the taxpayers were split into groups. The results are shown in Table 3 below:

Table 3. Profile of Taxpayers

Type	Category	Frequency	Percent (%)
Type of Taxpayer (Gender)	Male	309	77.3
	Female	10	2.5
	Partnership firm	81	20.3
Filing Status	Nil Filing	26	6.5
	Null Filing	213	53.3
	Paid Filing	65	16.3
	Non-Filing	96	24.0
Types of Services	Taxable	386	96.5
	Exempt	14	3.5

Source: Authors' Computation, 2023

A thorough profile of taxpayers is given in Table 3, which includes information on their gender, filing status, and the services they used. According to the data, there is a notable gender gap among taxpayers, with men making up the vast majority (77.3%) and women making up a far lower percentage (2.5%). Partnership firms make up a notable portion of the taxpayer profile, accounting for 20.3% of the total. In terms of filing status, the majority of taxpayers fall under null filing status (53.3%), followed by non-filers (24.0%), indicating a substantial portion of taxpayers either not filing their taxes or having no taxable income. Paid filing status is observed in 16.3% of taxpayers, whereas only a minority (6.5%) has nil filing status. Regarding the types of services, taxable services dominate the landscape, constituting 96.5% of the total, while exempt services make up a smaller portion at 3.5%.

Taxpayer Inconvenience and Type of Taxpayer

Table 4 below displays the survey tabulation results between the dependent variable Taxpayer Inconvenience and the type of Taxpayer. By combining male and female, the variable type of taxpayer (i.e., gender) was re-coded to become Individual business. The following is the cross-output tabulation for the two research variables:

Table 4. Cross tabulation of Taxpayer Inconvenience and Taxpayer type

Tax-payer' Type	Taxpayer Inconvenience (TIC)					
	SD	D	N	A	SA	Total
• Partnership firm	0	9	24	27	21	81
• Individual Business	78	144	84	12	1	319
Total	78	153	108	39	22	400
	19.5%	38.3%	27.0%	9.8%	5.5%	100%

Source: Authors' Computation (SPSS version 22)

According to the aforementioned findings, both types of taxpayers experienced inconvenience as a result of decentralization. The results showed that around 69.6% of respondents either disagree or strongly disagree with what individual firms faced when the taxation system was delegated to Khyber Pakhtunkhwa. While just a small percentage of taxpayers (4.1%), as shown by agree and strongly agree, were comfortable with the new devolved tax administration. However, around 58% partnership businesses or companies, as opposed to individual taxpayers, found the decentralised system to be more convenient. Due to the fact that many partnership firms handled their decentralised services tax concerns through qualified tax advisors or consultants prior to devolution, as same after devolution. As a result, firms experienced less inconvenience from the decentralization of the tax system than individual taxpayers. Yet, 11.1% of service tax corporations continued to express concerns about the decentralised system. Contrary to partnership firms, the bulk of entrepreneurs handle their tax concerns with various revenue agencies either independently or with help from someone. As a result, this chaotic scenario following devolution impairs their business operations and increases compliance costs.

Taxpayer Inconvenience and Nature of Business

The taxpayers in Khyber Pakhtunkhwa were divided into 10 major services sectors with the telecommunication as a largest service sector in terms of collection. A cross-tabulation is done to determine the relationship between the nature of business and taxpayers' inconvenience as given in table below. The results are as follows:

Table 5. Intersection of Taxpayer Inconvenience and Nature of Business

Nature of Business	Taxpayer Inconvenience (TIC)					
	SD	D	N	A	SA	Total
Telecom	0	2	3	7	9	21
Hospitality	2	6	7	17	13	45
Construction	1	17	20	4	0	42
Property Con.	5	23	14	0	0	42
Franchise	3	17	20	2	0	42
Workshop	11	25	6	0	0	42
Rent a Car	22	16	2	2	0	42
Lab & Testing	3	14	15	7	0	39
Agents	1	20	21	0	0	42
Other Services	30	13	0	0	0	43

Total	78	153	108	39	22	400
	19.5%	38.3%	27.0%	9.8%	5.5%	100%

Source: Authors' Computation (SPSS version 22)

The results of the table above showed that, in contrast to large services sectors like telecommunication and the hospitality industry, minor services such as the rent-a-car, workshop, and other services sectors were severely and badly affected after decentralization. More than 90% of respondents noted that, on average, small sectors either disapprove or strongly disapprove the fiscal devolution plan. This is witnessed by the fact that Small service enterprises in the province almost often comply with tax laws on their own without hiring tax specialists. They dealt with a single revenue agency before devolution for all types of taxes. But, following devolution, they are now complying with various revenue agencies based on their purview.

Decentralization's dispersed and scattered taxing structure was therefore inconvenient for them. Hence, after decentralization, many small taxpayers in Khyber Pakhtunkhwa were in hardship. Unlike the tiny industries, which contribute the majority of the services tax to the province, the large services sectors responded to the decentralised system in a highly satisfactory manner. Ara, Sabir and Khalid (2010) pointed out that Khyber Pakhtunkhwa has a very small number of businesses operating in large sectors like the telecommunications services sector. They maintain digital records and have full details about how their services are used, how much is billed, and how taxes are paid. As a result, telecommunication taxes only need a small amount of capacity to deal with new devolved agency, and with these few computerised communications enterprises, provincial governments can easily collect tax.

Taxpayer Inconvenience and Filing Status

According to the outcomes below, the taxpayers have been divided into groups based on their status as filers. Based on their filing position, four different categories of taxpayers had their data collected. The intersection in the table below was created with the intention of analysing taxpayer convenience based on their filing status. The study's findings are listed as follows:

Table 6. Association between Taxpayer Inconvenience and Filing Status

		Taxpayer Inconvenience (TIC)					
		SD	D	N	A	SA	Total
	Nil Filing	8	7	9	1	1	26
Filing Status	Null Filing	45	74	64	26	4	213
	Paid Filing	5	20	15	12	13	65
	Non-filing	20	52	20	0	4	96
Total		78	153	108	39	22	400
		19.5%	38.3%	27.0%	9.8%	5.5%	100%

Source: Authors' Computation (SPSS version 22)

The outcome showed that, with the exception of paid filers, all groups of taxpayers did not find the decentralised taxation system to be convenient. While 74% of taxpayers in Khyber Pakhtunkhwa disagreed or strongly disagreed with the new tax structure, the non-filers were even more inconvenient. Non-filers are people who do not consistently file their services sales tax returns as a result of the complicated tax framework that resulted from fiscal devolution. In Khyber Pakhtunkhwa, compliance with the new revenue authority is seen as an additional burden

for their businesses. Non-filers taxpayers acknowledge this fact and consent to pay additional tax as penalty or otherwise, but they do not feel convenient to submit provincial services tax reports to the KP revenue authority.

In contrast, paid filers appeared to be the most satisfied, with 38% agreeing or strongly agreeing with decentralization. Even while this number is not promising, it is still higher than those of other tax brackets. The paid filers, who mostly include the telecom and hospitality sectors, are on average large businesses that consistently paid their services tax through consultants or chartered accounting firms. These industries consented to pay services tax to the federal or provincial revenue agency as a result of the computerization of the tax system.

Ordinal Logistic Regression Results

The estimation is carried out by using Ordinal Logistic Regression model to evaluate the impact of issues, such as, haphazardness, distrust and laws complications that elevate after decentralization on taxpayers' inconvenience in the province. To prove that the dataset is valid and reliable, the outcome of this study is presented in the following table:

Table 7. Ordinal Logistic Regression Model Results

		Estimate	Std. Error	Sig.
Threshold	TPIC = 1	3.639	.461	.000
	TPIC = 2	5.868	.503	.000
	TPIC = 3	7.899	.574	.000
	TPIC = 4	9.630	.670	.000
Location	Sc.TS	.565	.125	.000
	TD	.229	.149	.125
	Cp. L	1.333	.133	.000
Model Adequacy	-	-	-	.000

Log Odds Ratios:

Variables	Values
Sc. TS	1.761
TD	1.257
Cp. L	3.791

Source: Author's Computation (SPSS version 22)

The results from the ordinal logistic regression model, as presented in Table 7, provide following information about the factors influencing taxpayers' inconvenience (TPIC) and about the model's overall fitness.

Threshold Estimates:

The threshold estimates represent the cutoff points between adjacent categories of taxpayers' inconvenience (TPIC). For each threshold, the estimate indicates the predicted value of the

independent variable (location) at which the odds of moving to the next higher level of inconvenience increase. The estimates show a positive trend, with higher values of the location variable associated with increased odds of experiencing higher levels of taxpayers' inconvenience.

Location Coefficients:

The location coefficients represent the effects of the independent variable (location) on the likelihood of experiencing higher levels of taxpayer inconvenience. A positive coefficient indicates that higher values of the location variable are associated with increased odds of experiencing higher levels of inconvenience. The coefficients for Sc. TS, and Cp. L suggest that these locations have a significant impact on taxpayers' inconvenience, as indicated by the statistically significant p-values (Sig. = .000). While TD have statistically insignificant impact on the taxpayers' inconvenience as its p-value is more than 0.05, i.e. 0.125.

Model Adequacy:

The Model fitness aspect indicates the overall fitness of the ordinal logistic regression model. The statistically significant p-value (Sig. = .000) suggests that the model adequately fits the data, indicating that the included variables (location) significantly contribute to explaining the variation in taxpayer inconvenience levels.

The standard error associated with the coefficient estimate for the Sc.TS location variable being 0.125 suggests a relatively precise estimate of the effect of Sc.TS on inconvenience level of taxpayers. This indicates that the variability or uncertainty in the estimated effect of Sc.TS on taxpayer inconvenience is relatively low, allowing for greater confidence in the accuracy of this estimate. Similarly, the standard errors associated with the threshold estimates (TPIC = 1, TPIC = 2, etc.) provide valuable information about the precision of the estimated cutoff points between adjacent categories of taxpayer inconvenience. A lower standard error for these threshold estimations would suggest a more accurate assessment of the transition points between lower and higher degrees of inconvenience for taxpayers.

The results of the ordinal logistic regression model study provide valuable information on how different variables affect the degree of discomfort experienced by taxpayers. First, the Sc.TS variable estimate indicates that there is a 0.565 increase in the log odds of taxpayers experiencing higher levels of inconvenience for every unit increase in Sc.TS. This suggests that locations with higher Sc.TS values typically show higher levels of inconvenience. On the other hand, although the TD variable's estimate indicates a 0.229 rise in log odds for every unit increment, its lack of statistical significance at $p = .125$ indicates that, based on the available data, TD may not statistically significantly affect taxpayer inconvenience levels. On the other hand, the Cp. L variable's estimate shows a significant 1.33 rise in log odds for every unit increase, indicating a strong correlation between higher Cp. L values and higher levels of taxpayer inconvenience. Moreover, the statistical significance of Cp. L at $p < .001$ highlights its significance in forecasting the inconvenience experienced by taxpayers. The ordinal logistic regression model's overall findings indicate that location factors like Sc.TS and Cp. L have a major impact on taxpayer levels of inconvenience. Additionally, the model adequately fits the data, indicating that the included variables effectively explain the variation in taxpayer inconvenience levels.

The value of the odds-ratio greater than one shows a positive effect on the dependent variable. Since all the odds-ratio values exceed one, which means that all the selected variables have positive impact on taxpayers' inconvenience.

The above information shows that significant challenges exist in tax compliance and enforcement, evident from high percentages of null filing (32.71%) and non-filing (52.24%) categories.

The outcome of the study on the haphazard and scattered tax system indicates a decrease in taxpayer convenience due to dealing with various revenue agencies following decentralization, leading to increased communication costs. Data gathered for the current study reveals that more than 70% of taxpayers agree that filing monthly returns separately to the provinces and the federal revenue department after devolution is disorderly, while over 60% believe it increases their tax burden. Haq and Bukhari (2020) also assert that Pakistan's taxation system became more haphazard post-decentralization, negatively impacting taxpayers' businesses, a finding consistent with the current study. Consequently, taxpayers remain uncertain about which tax body is responsible for accepting filings, payments, and correspondence post-devolution, affecting their comfort level. These findings align with studies by Claus, Martinez-Vazquez, and Vulovic (2014) and Cui (2015), which highlight that a decentralized tax administration model may burden taxpayers with increased compliance costs due to varying forms, regulations, and processes across jurisdictions. Importantly, the statistical significance of this research variable is evidenced by a probability value of less than 0.05.

Furthermore, the complexity of Pakistan's tax regulations resulting from fiscal devolution exacerbates the challenges for taxpayers in complying with tax laws, understanding them, and determining the appropriate amount of services tax to pay. Taxpayers face inconvenience due to their difficulty in comprehending tax legislation and lacking clarity on tax rates and fundamental principles. Current statistics revealing that 70.7% of taxpayers were unaware of the most recent services tax rates enforced by the Provincial services tax body further substantiate this notion. Regarding the ease of understanding rules, the research indicated that 71% of taxpayers agreed that the new devolved taxation regulations lack rationality or practicality. Consequently, it is widely acknowledged by more than 66% of taxpayers that managing various tax laws and regulations has incurred costs for their firms. However, there was a positive observation from taxpayers regarding the payment procedure. As a result, following fiscal decentralisation, the taxpayers are remarkably misled and perplexed. According to Niemirowski, Wearing, and Baldwin (2003), whereas insufficient knowledge might lead to mistrust and unfavorable attitudes about taxes, adequate understanding is correlated with favourable sentiments. According to Fauziati, Minovia, Muslim and Nasrah (2020), individuals and businesses adjust their behaviour in reaction to tax laws, and this is supported by the fact that the more complicated a tax system is, the more inconvenient it will be. According to Kirchler, Hoelzl, and Wahl (2008), tax complexity creates a negative mindset about present tax law and makes people less motivated to carry out their tax-paying obligations. When it comes to the complicated tax system that the nation has since undergone devolution, tax understanding is a crucial component of taxpayer convenience. The statistical evidence for significance finally showed that the result is significant because the probability value is less than 0.05.

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determining the appropriate amount of services tax to pay. Taxpayers face inconvenience due to their difficulty in comprehending tax legislation and lacking clarity on tax rates and fundamental principles. Current statistics revealing that 70.7% of taxpayers were unaware of the most recent services tax rates enforced by the Provincial services tax body further substantiate this notion. Regarding the ease of understanding rules, the research indicated that 71% of taxpayers agreed that the new devolved taxation regulations lack rationality or practicality. Consequently, it is widely acknowledged by more than 66% of taxpayers that managing various tax laws and regulations has incurred costs for their firms. However, there was a positive observation from taxpayers regarding the payment procedure.

Future trust issues with the new tax authority following the devolution of the services sector will likely pose a barrier to taxpayer ease. Data indicates that 76% of taxpayers believe that the decentralization of the services tax system has diminished tax morale and fairness. Despite technological advancements in Pakistan's tax system, over 56% of taxpayers perceive that their interaction with the decentralized tax collection agency lacks technological integration. Rakhmawati, Sutrisno, and Khoirurusydi (2020) highlight common problems such as poor managerial support and inadequate government policies in emerging nations like Pakistan. Similarly, Perveen and Ahmad (2022) agree that a lack of citizen trust in the tax authority poses a significant obstacle to compliance, a claim supported by Alm (2019) and Nurkholis, Dularif, and Rustiarini (2020), who suggest that the trust deficit is a major hindrance to tax compliance worldwide. To foster tax compliance, tax authorities globally are striving to enhance trust between them and taxpayers (Batrancea et al., 2019). However, approximately 68% of taxpayers expressed satisfaction with the performance of the Khyber Pakhtunkhwa revenue authority concerning raids and physical inspections.

Furthermore, the finding for trust deficit is statistically insignificant, while the study is practically significant. Practical significance is a key concept that transcends statistical significance, as noted by Peeters (2016). Additionally, low statistical capabilities are underscored in the research norm, according to Andres and Kasy (2019) and Camerer et al. (2016). Field research has demonstrated that the impact of mistrust between tax collectors and taxpayers on inconvenience is significant enough to be meaningful in the real world, albeit with a smaller effect on taxpayer convenience than haphazardness and tax law complexity.

The overall significance of the logistic model revealed that the model is significant with a p-value less than 0.00 at a 5% confidence level. Thus, it is determined that the main elements impacting taxpayers' convenience are the sets of independent variables (haphazard taxation system, trust deficit, and convoluted tax law after devolution). Compared to the baseline intercept-only model, the final model shows a significant improvement, indicating better predictions than the null model.

Finally, the present research establishes that haphazardness, distrust, and complication in the tax structure were further exacerbated after decentralization, adversely affecting taxpayers' convenience. However, the influence of haphazardness on taxpayer inconvenience is higher than other factors. This suggests that following fiscal decentralization, the province of Khyber Pakhtunkhwa failed to establish a system to facilitate the services industry, specifically small businesses. Due to the lack of such a system, the province is unable to efficiently leverage the decentralized GST on services despite constitutional amendments.

Conclusion and Policy Recommendations

An inconvenient and complex devolved tax structure inclined the taxpayers towards less compliance to the system and hence low tax collection than actual. Decentralization of services sales tax in Pakistan was meant to increase taxpayers' convenience and hence effective tax collection. However, the present study concluded that the government's fiscal devolution program indicated to be insufficient to improve taxpayers' convenience instead it arises due to haphazardness, distrust and complicated tax structure emerged after decentralization. Khyber Pakhtunkhwa, in particular, is having trouble re-organizing the revenue authority after decentralization to meet the demands of contemporary tax management. The decentralisation of sales tax collection and its administration do not seem to considering the inherent tax administrative challenges and flaws in its administration, particularly at the provincial government level, which cause problems for taxpayers. However, still in a puzzled situation, the new tax authorities' efforts to develop and improve decentralised institutions since their inception cannot be understated.

To make convenient tax system for taxpayers, following are the recommendations:

- The Federal Revenue agency and provinces should collectively develop an integrated tax system (single-window-system) where all types of taxes are handled through one window to minimize inconvenience.
- Simplify the online tax return process and moving the deadline for filing services tax returns from monthly to annually or quarterly in order to ensure successful compliance.
- Tax laws' language needed to be simplified for clarity. For this, tax awareness seminars will help individuals to comprehend tax terminology.
- Establish a strong accountability system at decentralized level to foster a relationship of trust between taxpayers and the new tax collection authority. E-Hearing system to avoid face-to-face interactions with tax office staff can be instrumental to end mistrust.

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Appendix A: Questionnaire

Personal Information:

Business Name (optional):_____

Nature/type of Business (Tick one):

Telecom	Hospitality	Construction & Consultants	Property	Franchise
Workshop	Rent a Car	Laboratories & Testing	WH Agents	Other

Registration No (optional):_____Date of registration (optional):_____

Education of business owner:_____ Gender:_____

Business Address:_____

Business Filing Information:

Have your business registered before decentralization in Khyber Pakhtunkhwa?

　　1. Yes　　2. No

What type of services you provide in Khyber Pakhtunkhwa?

1. Taxable   2.   Exempt   3.   Zero Rated

Please tick monthly filing status of sales tax return in Khyber Pakhtunkhwa (on Average basis).

1. Nil filing   2. Null filing   3. Paid filing   4. Non-filing

How do you file monthly services sales tax returns?

1. Personally   2. Through Tax Consultant/Consultancy firm   3. Others

S	Statement	Strongly Disagree	Disagree	Neither disagree nor agree	Agree	Strongly Agree
	Taxpayer Convenience					
				Scales		
1	Tax filing return form for decentralized taxes is very simple	1	2	3	4	5
2	I can file decentralized tax return without assistance from anyone					
3	I don't need to visit Tax Office, physically					
4	Provincial Tax Officers are cooperative, whenever I need their assistance					
5	Tax Compliance does not waste my time and money					

S	Statement	Strongly Disagree	Disagree	Neither disagree nor agree	Agree	Strongly Agree
	Scattered and Haphazard Taxation System					
				Scales		
1	Filing separate monthly return for decentralized services tax in KP is not haphazard					
2	Filing monthly return in other provinces is not difficult					
3	Annual Income Tax and Quarterly Withholding Tax Statements is simplified					

| 4 | Compliance cost raises after decentralization | | | | | |
| 5 | Tax compliance to different revenue authorities does not affect my business activity | | | | | |

Please suggest measures to make the taxation system more systematic, if it is not convenient for you?

a. An Integrated Tax System or one window system for all taxes.

b. Quarterly or Annual Tax Returns system instead monthly to save time and money.

c. Simplification of online tax returns system.

d. If any other, please describe:_____

e. Taxation system is already systematic.

Trust Deficit on new Tax Administration						
		Scales				
S	Statement	Strongly Disagree	Disagree	Neither disagree nor agree	Agree	Strongly Agree
1	Provincial Tax Officer/Official does not call me for hearing					
2	Provincial Tax Officer/Official never raid my Business premises					
3	Tax department never ask me for financial or any other personal benefit					
4	Refund payment procedure of services tax is satisfactorily					
5	All tax correspondence with tax officials is online					
6	Tax morale and fairness increases after decentralization					

If you feel Harass, Please suggest way to deal with this issue?

a. Effective Accountability system for Tax Collectors

b. E-hearing system instead personal interaction with taxpayers'

c. Avoid abuse of powers to harass taxpayers

d. If any other, please describe:_____

e. No, I don't feel harass.

S	Statement	Strongly Disagree	Disagree	Neither disagree nor agree	Agree	Strongly Agree
**Complicated Tax Law**						
1	Provincial Taxation Language for decentralized services tax is understandable					
2	New tax amendments regarding devolved taxes is convenient					
3	I am familiar with latest services tax in KP					
4	Payment procedure of services tax is simplified					
5	Tax awareness program by Tax Authority is effective in understanding tax laws					
6	Federal and Provincial tax laws does not cost to my business					

What you suggest to simplify taxation regulations regarding GST on Services?

a. Simplifying Taxation laws terminology to understand it easily

b. Tax awareness campaign and educate taxpayers'

c. If any other, please describe:_____

d. Already simplified.