P@SHA

Pakistan Software Houses Association for IT & ITES

2022

Budget

Recommendations for IT/ITeS Industry

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P@SHA Budget Recommendations 2022

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IT & ITeS Industry

Pillar	Challenge Category	Relevant Ministry/Department
01 IT & ITeS / BPO / Startups	Flawed & Inefficient Tax Credit Regime	MoITT FBR MoF

Policy Recommendation

Reverse Tax Credit Regime and immediately reinstate Income Tax Exemption for IT and ITeS companies till 2025

Rationale

While the overall growth in IT/ITeS industry is still there, a closer look at data shows that growth rate trend has declined during this year. The only change in this year from last year is the change of tax regime, which has affected the potential growth. During 2021, there was 47% growth in IT/ITeS industry. Continuing same growth trend, IT industry would have crossed USD 3.5 billion however, the change in regime has affected the growth rate. Tax exemption was the **only incentive** given to IT/ITeS industry and was committed till 2025. In 2021, it was suddenly changed to a controversial tax credit regime without consulting industry and relevent ministries (MoITT). In addition to that, the current tax credit regime has not been implemented as per the planned commitment.

The tax credit regime requires companies to request an exemption certificate to be considered eligible for the exemption. Currently, companies are facing automatic 1% tax deduction, until they prove that they qualify as the IT/ITeS service, whose definition is not updated and is on discretion of FBR officer. 1% is being deducted by banks, while companies have not been awarded tax exemption certificates even after 6 months. The process includes negotiations with field officers, which leads to further delays. The current regime discourages companies to bring exports to Pakistan, and also raises questions about the consistency and continuity of the policies.

02 IT & ITeS / BPO / Startups	Lack of conducive environment for export growth	SBP

Policy Recommendation

Allow at least 50% of the export remittances to be remitted out by IT & ITeS services registered with PSEB hassle-free and quickly directly through the authorized commercial banks for any legit business purpose with intimation to SBP but without any SBP approval

Rationale

Due to difficulties faced in utilizing the 35% funds for international expenses, many companies prefer to keep that money outside the country. Since these funds cannot be reliably used for timely payments outside of Pakistan, companies companies open accounts abroad and keep a safety fund outside. Often these companies are required by their head offices to repatriate their profits/dividends or make payments against invoices to their head offices or relevant vendors within the stipulated time frame. Due to the restrictions, these are often unable to comply with their corporate rules which are highlighted as noncompliance by their head offices making Pakistan an unfeasible destination to set up such operations. Allowing at least 50% of the contract value to be retained in the foreign currency and allowing unrestrictive movement of the same foreign currency amount will help companies set up offices in Pakistan.

Even the current law of 35% is not followed, and dollar accounts are a hassle to open and maintain. Software exporters are also forced to convert their proceeds at uncompetitive bank forex rates.

It is also important to note that India is allowing 50% forex retention. In 2021, India reported having reached approx. 200 billion USD. It accounts for approximately 55% market share of the USD 200-250 billion global services sourcing business in 2019-20. Hence, in order to have a competitive advantage, Pakistan needs to offer a better or at least the same ecosystem for forex retention.

IT & ITeS Industry

Pillar	Challenge Category	Relevant Ministry/Department
03 IT & ITeS / BPO / Startups / Freelancers	Reporting and Inlcusion of IT and ITeS companies/ lack of financial incentive for export growth	MoITT, PSEB, MoF

Policy Recommendation

Flat 5% Cash Reward on IT/ITeS exports, instead of growth-based strategy

Rationale

The cash reward program announced last year was based on growth rate of IT & ITeS export remittances achieved during FY2020-2021, in comparison to the previous FY2019-2020. This strategy to allocate cash reward incentive based on the growth, instead of total revenue, has discouraged a significant number of companies to apply for the scheme due to the low incentive, as evident from the applications received during this year.

The growth-based criterion is not enough to incentivize the exports-driven companies especially when it is compared with the regional countires. For example, Bangladesh offers 10% cash reward on exports as financial incentive for IT growth respectively.

Pillar	Challenge Category	Relevant Ministry/Department
04 IT & ITeS / BPO / Startups / Freelancers	Lack of skilled resources	MoITT, PSEB, MoF

Policy Recommendation

Allocate PKR 10 billion for skill development initiatives

- **Develop a 5-year roadmap of skill development initiatives**
- **Create industry-approved curriculum**
- **Create public-private training institute for reskilling and upskilling**
- **Industry-driven training programs**
- **Incentivize job creation**

Rationale

Lack of skilled resources in Pakistan is the biggest bottleneck in achieving the desired export growth. An emergency strategy needs to be developed for addressing this challenge. As per P@SHA Skill Requirement Survey 2021, there are over 40,000 job openings in just 140 companies. This represents the scale of problem, and potential of impact a strategic approach can create.

The skill development initiaves are also critical to transform unskilled and semi-skilled workforce in Pakistan into advanced high-value skilled force (hence increasing export yield per worker). By upgrading and practicing skills through trainings and courses, the IT workforce will be able to bring in the revenue for Pakistan's economy.

Pillar	Challenge Category	Relevant Ministry/Department
05 IT & ITeS / BPO / Startups / Freelancers	Ease and cost of doing business	STZA

Policy Recommendation

Enable STZA for existing IT and IT-enabled services industry

- **Existing IT and ITeS industry is not represented in the Board of Governers in STZA**
- **One-window operation should be finalized**
- **Zone eneterprise and developer licenses' issuance timelines**
- **Rent regulation on government-issued land**
- **Timelines for existing IT/ITeS industry to benefit from STZs**

Steps should be taken to enable the IT industry to become part of the STZ initiative within the next six months. Proper representation of the IT and ITeS industry should be ensured for the STZ initiative.

Rationale

90% of the IT industry consists of SMEs and their biggest challenge is ease and cost of doing business. Special Technology Zones (STZ) was approved in August 2020, and STZA was launched in January 2021. However, it's been two years that STZs have not been enabled for the existing IT/ITeS industry.

IT & ITeS Industry

Pillar	Challenge Category	Relevant Ministry/Department
06 IT & ITeS / BPO / Startups / eCommerce/ Freelancers	NPC & RDAs for #DigitalPakistanNaya Pakistan Certificate & Roshan Digital Accounts (Freelancers, Startups, IT/ITeS Exporters)	SBP, MoF

Policy Recommendation

Allow "Resident" Freelancers and IT/ITeS Exporters to park/hold their foreign income/savings in RDA/NPC for shorter tenures (3~12 months) without any additional local procedure (e.g. tax declaration, etc.). Technically, these residents should be considered "virtual expats" for this purpose.

Rationale

The initiative will not only create awareness about Pakistan's proactive steps in creating investment climate policies but will also encourage companies to bring their foreign income to Pakistan, hence inreasing exports.

Pillar	Challenge Category	Relevant Ministry/Department
07 IT & ITeS / BPO / Startups / Freelancers	Ease and cost of doing business	SBP, FBR

Policy Recommendation

Special Export Refinance Scheme for IT/ITeS Exporters with collateral-free and lower than market interest rate (2-3%). Introduce dedicated financing windows (e.g., the SME Financing Facility) to ensure access to non-collateralized loans and ensure administration of existing schemes are streamlined for IT/BPO business eligibility

Rationale

Productive assets in IT and ITeS industry consist of 1) human resources, and 2) IT hardware. While there are initiatives being taken to address the skilled HR resource gap, there is need of adequate attention to promote digital economy and affordable access to relevant hardware devices.

Compared to 100 billion finance scheme offered to textile, industry IT industry only gets 4 billion in form of cash reward program. The companies need collateral-free soft loans as good quality equipment increases services productivity, resulting in better digital transformation and thereby increasing exports.

Pillar	Challenge Category	Relevant Ministry/Department
08 IT & ITeS / BPO / Startups / Freelancers	Foster local innovation and industry development	MoITT, PPRA

Policy Recommendation

#MakeinPakistan: Take measures to promote and foster local innovation in Pakistan:

- **A special federal-provincial joint taskforce should be formed with private-sector representation (P@SHA), and all government departments (incl. law enforcement agencies) should request procurement of software to that committee. Committee decides if a local product can be used or should it be imported.**
- **Amend PPRA rules to add quota for local products/SMEs, and**
- **Funds should be allocated to develop commonly used local products in Pakistan (e.g. Zoom, secure OS, etc.) to ensure savings on the foreign exchange and develop product-based industry**

Rationale

Government is facing major deficit in imports/exports balance. While the current government policies are developed to discourage public from consuming imported goods and services and to prefer locally made products, on the contrary, government department themselves prefer to procure from international vendors and import IT products and services.

In absence of IT business opportunities, local companies find it hard to develop and mature their products and services on a sustainable basis. On the contrary, other countries are following protectionist approach towards their local companies, providing them preference in government procurement. The focus will address four key areas:

- Discourage govt organizations from importing IT/ITeS services that can be produced locally
- Discourage govt organizations from competing with private sector in business
- Encourage IT/ITeS SME sector by providing them incentives and opportunities
- Increase government spending on IT/ITeS to create a healthy eco-system for knowledge economy

This will strengthen local IT companies to develop and mature their IT products and services offerings by providing them strong references, profile and delivery capabilities. These companies will then be able to export the same to compete with rest of economies at equal footing.

IT & ITeS Industry

Pillar	Challenge Category	Relevant Ministry/Department
09 IT & ITeS / BPO / Startups / Freelancers	Lack of skilled resources	HEC

Policy Recommendation

Increase IT graduates to 100,000 per annum

- **Re-launch Outreach Rural Support Program and provide 20,000 scholarships to students from rural areas**
- **Launch awareness programs for high-potential career opportunities in IT/ITeS industry in Pakistan**
- **Offer different type of degrees of varying duration (e.g. 2-year associate degree instead of bachelors)**
- **Launch short-term conversion programs for graduates of other subjects to transition to the IT sector and obtain required skills and become employable**

Rationale

The growing demand of off-shore services and local companies in Pakistan suggests the need to have increased number of skilled workforce.

As per P@SHA Skill Requirement Survey 2021, there are over 40,000 job openings in just 140 companies. With only 25,000 graduates being produced by the universities on an annual basis, this represents a grave situation that can only be addressed by strategic planning of increasing supply for IT/ITeS industry.

Pillar	Challenge Category	Relevant Ministry/Department
10 IT & ITeS / BPO / Startups / Freelancers	Country Perception	MoITT | MoF

Policy Recommendation

Allocate PKR 5 billion on branding and market development, and promote #BrandPakistan as #TechDestination

- **Establish brand TechDestination Pakistan, and strengthen Pakistan IT industry's global market positioning and international competitiveness**
- **Develop Pakistan's USP in IT industry – a credible and unique brand positioning for all marketing activities**
- **Develop media collaterals and launch publicity campaign to promote the brand and develop marketing materials (featuring Pakistan's software capabilities, sector development initiatives and incentives, and top business profiles/case studies of success), and branding guidelines based on the above identified brand positioning, for all domestic and international industry events.**
- **Hire international PR company for improving country perception and marketing Showcase Pakistani innovations in technology at international forums, with funds drawn from public-private partnerships**
- **Appoint international ambassadors to advocate for Pakistan as the next leading hub of IT services. Train Pakistan's commercial counsellors in overseas diplomatic missions on the new brand positioning, conduct information sessions and identify priority countries to work on.**
- **Accelerate market diversification and improve commercial success in new markets: develop market-entry plans, global market research Incentivize export-driven activities**

Rationale

The image of Pakistan as an attractive tech destination has to be eastablished. Given international competivitness, Pakistan's IT industry has to be positioned globally. While Pakistan is easing business operations in Pakistan, investments are still detered due to the negavtive perception of Pakistan. Compared to India, Pakistan has more flexible processes but India has adveetised its climate investment policies much better, and hence investments are diverted towards it. To tap the revenue potential of IT industry, there is an urgent need to launch stratcomm campaigns to brand Pakistan as a techdestination.

IT & ITeS Industry

Pillar	Challenge Category	Relevant Ministry/Department
11 IT & ITeS / BPO / Startups / Freelancers	Cost of Doing business	PRA, FBR, SBP

Policy Recommendation

Zero duties and sales tax on laptop and other IT equipment. Introduce special import duty concessions on capital equipment to enable smaller IT/BPO/KPO firms to upgrade service offering, improve productivity and grow seat capacity

Rationale

Cheap availability of IT equipment including laptops and tablets are essential to training youth in the essential digital skills. The affordability of IT equipment is also a major constraint in the growth of IT-based MSMEs and freelancers. There is recorded evidence that the penetration of computers is directly attributed to the growth of innovation and the digital ecosystem.

Productive assets in IT and ITeS industry consist of 1) human resources, and 2) IT hardware. While there are initiatives being taken to address the skilled HR resource gap, there is need of adequate attention to promote digital economy and affordable access to relevant hardware devices.

Pillar	Challenge Category	Relevant Ministry/Department
12 IT & ITeS / BPO / Startups / Freelancers	Ease and cost of doing business: IT Industry Standard Definition	PRA, FBR, SBP, PSEB

Policy Recommendation

Standardize definitions for IT/ITeS industry

- **Consensus between FBR & Provincial Authorities (PRA, SRB) about software as a product/service**
- **Standardize and update services covered in IT/ITeS industry**
- **Address the corporate tax anomalies between BPO/KPO and IT (software) sectors in order to create a level playing field**

Rationale

The current lack of standardization of definitions not only results in duplication of taxes and increase in cost of business, but also unnecessary decrease in ease of doing business with harrassment of tax officers.

Pillar	Challenge Category	Relevant Ministry/Department
13 IT & ITeS / BPO / Startups / Freelancers	Tax Issue Resolution Committee	PRA, FBR, SBP, PSEB

Policy Recommendation

Introduce a issue resolution committee to overview the tax issues faced by the IT and ITeS companies. The committee would focus on the following:

- **Unify business definitions / categories related to IT & ITeS at Federal and Provincial level**
- **Resolution of the issue of recovery notices and harassment to the IT sector.**
- **Highly powered IT and ITeS Specialized mediation committee for Dispute Resolution on Tax Notices**

Rationale

Given that there is no standard definition of the IT and ITeS companies, they have to go through harrassment in the form of notices from FBR. Also, unjustified notices increase the cost of doing business, compliance activities and breach the trust of the industry. It also discourages unregistered companies to get registered.

Pillar	Challenge Category	Relevant Ministry/Department
14 IT & ITeS / BPO / Startups / Freelancers	Quality of service and infrastructure	PTA

Policy Recommendation

Ensure better internet service through:

1) Lower bandwidth cost, 2) Increase min QoS to 4 Mbps through PTA, and invest in infrastructure for wider coverage and better QoS

Rationale

Internet connection is critical for IT/ITeS industry to grow, whether for export-driven companies and freelancers from tier-2 cities or for local products to be adopted. Ensuring quality of internet service will enable Pakistan's infrastructure to be conducive for IT/ITeS growth.

IT & ITeS Industry

Pillar	Challenge Category	Relevant Ministry/Department
15 IT & ITeS / BPO / Startups / Freelancers	Refund on sales tax on input goods	PRA, FBR, SBP

Policy Recommendation

In terms of export facilitation scheme, the companies should be provided refund on sales tax on internet / electricity/ gas/ services utilized as input goods for manufacture of outputs to be exported.

Rationale

Currently, the GST on electricity is 17% for companies registered with FBR and 3% for companies registered with PRA. This is a cost for companies in the form of double taxation paid not to federal board of revenue but also to provincial revenue authorities. To evade this, a similar refund incentive was provided to textile industry in the Export facilitation Scheme 2021; under which textile companies request refund on the electricity/gas/services used for the production of goods which are exported. Parallelly, IT industry provides export services and therefore can be incentivized to avail refund on sales tax on electricity/gas used.

Pillar	Challenge Category	Relevant Ministry/Department
16 IT & ITeS / BPO / Startups / Freelancers	Cost of doing business	FBR, PRA, SRB, BRA, KPRA

Policy Recommendation

Across the provinces and federal units, tax harmonization should be encouraged. Ideally taxes on the domestic services should be reduced to 5% with adjustment

Rationale

Across the provinces and federal units, tax harmonization should be encouraged. Ideally taxes on the domestic services should be reduced to 5% with adjustment

Pillar	Challenge Category	Relevant Ministry/Department
17 IT & ITeS / BPO / Startups / Freelancers	Low Diversity and Inclusion Rate	MoITT

Policy Recommendation

Incentivize Diversity and Inclusion in the IT and ITeS industry

- **At least 20% women in government institutions related to the IT industry and offices and through regulators in private corporations**
- **Offer tax breaks to IT and ITeS companies practicing D&I quota such as companies having more than 20% women workforce**
- **Offer apprenticeship and skill development programs to promote inclusion and equip a diverse population with IT skills**

Rationale

According to the Global Gender Gap Report 2021, Pakistan ranks 153 out of 156 countries. Women make up 49% of Pakistan's population but only 22% of this is part of the labor force. According to P@SHA Salary Survey 2021, the gender diversity ratio of the IT Industry in Pakistan is only 17%, lower than standard.

The IT Industry is the fastest growing industry and a major contributor to the GDP of Pakistan. In 2021, IT Industry growth has surpassed all traditional industries with the recorded YOY IT exports. It shows the huge potential of the IT Industry in providing better opportunities for individuals' growth and the economy. The IT Industry is missing out on a rare opportunity by not utilizing the potential tech talent to contribute and be part of the IT Industry.

Hence, there is a significant need for programs to incentivize D&I. This means ensuring the implementation of, and universal access to, gender-responsive initiatives so more women and girls can contribute to achieving a promising and just future. The initiatives also need to be extended to minorities and transgender to equip them with IT skills and earn a decent livelihood.

eCommerce

Pillar	Challenge Category	Relevant Ministry/Department
18 eCommerce	Ease and cost of doing business	Ministry of Commerce

Policy Recommendation

It is proposed to remove the "Sales Tax Withholding" legislation introduced in FY2021 and replace it with a reporting/documentation mechanism whereby every marketplace provides merchants information and their sales data to FBR, via an automated manner only (manual mechanism would be cumbersome and error-prone).

Rationale

2% sales tax withholding on marketplaces has created double-taxation and a disincentive for small merchants to sell through compliant marketplaces and are observed to be shifting their business to social commerce and micro-websites, etc.
Small merchants/shopkeepers are legally not required to be registered in sales tax and are already taxed via their electricity bills therefore the current measure is contradictory and is equivalent to double taxation, therefore this regime should be rationalized.

Pillar	Challenge Category	Relevant Ministry/Department
19 eCommerce	Ease and cost of doing business / Inclusion in formal economy	Ministry of Commerce

Policy Recommendation

It is recommended to apply the same proposal w.r.t. Sales Tax as in point 1 on third-party logistics (3PL) service providers for 'Cash-on Delivery (CoD) sales' for the purpose of reporting/documenting the sales transactions by all merchants, via an automated manner only (manual mechanism would be cumbersome and error-prone).

Rationale

As per industry estimates, 90% of e-commerce orders of goods are through cash-on-delivery method. Logistics/courier service providers process the cash payments on behalf of the e-commerce merchants which may not be fully documented, therefore this business should be gradually documented.

It is imperative that no additional tax be applied for 5 years in order to avoid heavily disincentivizing sellers and encourage all courier/logistics service providers to comply rather than businesses to find ways to circumvent or continue to operate in the informal sector.

Pillar	Challenge Category	Relevant Ministry/Department
20 eCommerce	Ease and cost of doing business / Inclusion in formal economy	Ministry of Commerce

Policy Recommendation

It is proposed to introduce a cash rebate against MDR charges applicable on digital mode of payment whereby the transaction cost for the merchant/supplier is reduced for a period of 5 years, as follows:

- **A flat 50% cash rebate on MDR paid by merchant during the year**
- **A 100% cash rebate on YoY increase in MDR paid by merchant (to incentivize growth in digital payments)**

Rationale

Transactions conducted through any digital mode of payment must be encouraged in order to gradually shift e-commerce merchants and customers towards the formal sector.
Currently, transactions conducted through digital mode of payment are subject to a variety of financial frictions:

- Transaction cost in the form of Merchant Discount Rate (MDR) chargeable by financial institutions such as Banks, and Fintechs at the rate of 1-3% of the total transaction value when paid by credit/debit card or other digital means.
- General Sales Tax chargeable on the Goods or Services being supplied by the merchant and its suppliers across the value chain.
- Income Tax liabilities of the merchant, service providers and suppliers across the value chains in the form of Minimum Tax, Advance/Withholding Taxes and Normal Income Tax on Net Profit, etc.

Rationalization of GST and Income Tax rates and regulations are proposed to be implemented in concurrence as partial measures will not achieve the desired growth in digital payments and reporting/documentation of all e-commerce related transactions from retail to the back-end of the entire value chain.

eCommerce

Pillar	Challenge Category	Relevant Ministry/Department
21 eCommerce	Cost of doing business	Ministry of Commerce

Policy Recommendation

The General Sales Tax (GST) regime with reduced tax rate of 5% (instead of 17%) for a period of 5 years is proposed, to increase documentation of online and offline retail transactions, with the proviso that payments are made digitally, in line with measures taken by Punjab Revenue Authority.

Rationale

Merchants selling through websites, online marketplaces, etc. and conducting their business transactions through third-party logistics services are reluctant to get documented to high tax and compliance burden in the form of General Sales Tax, Income Tax, etc.

Any measure to document businesses and transactions must be done concurrently with comprehensive rationalization of Federal and Provincial tax rates and regulations applicable to courier companies, merchants, etc.

Pillar	Challenge Category	Relevant Ministry/Department
22 eCommerce	Cost of doing business	Ministry of Commerce

Policy Recommendation

- **For e-commerce merchants and their suppliers, the advance/withholding tax (income tax) rate, e.g. 4/4.5% on goods and 3/8/10% on services, should be eliminated for payments made through digital mode, on a permanent basis.**
- **Advance/withholding tax rate for non-digital payments is proposed to be reduced to the same rate as Minimum Tax (on turnover), i.e. 0.25% across the board for 5 years. If necessary, the withholding tax rate for payments to non-filer may be 1% at the maximum, for a period of 5 years.**
- **Online Marketplace/platform commission payments are subject to income tax withholding at the reduced rate of 5 percent. In cases where businesses are already discharging their taxes by way of advance tax under section 147 on Quarterly basis, being an active taxpayer, should not be liable for such income tax withholding to avoid heavy cost of compliance and monitoring.**
- **Similarly, to encourage third-party logistic entities to ensure full reporting and remain competitive, the withholding tax rate of payments by the merchants should be removed, or at the very least, reduced from 3% to 1% (as of print media and advertisement) for a period of 5 years.**
- **Moreover, in case of genuine business losses of more than 3 years all advance income taxes may be eliminated which otherwise further increase business loss.**

Rationale

This proposal is along the same principle of matching of minimum tax and withholding tax rates, as applicable to the FMCG value chain including integrated Tier-1 Retailers.

Advance/Withholding taxes add excessive cost burden and compliance for B2B e-Commerce merchants as suppliers/vendors pass on the withholding taxes to the cost of goods/services. Due to which, sales in this space may remain largely undocumented similar to offline businesses due high cost of operating in documented sector. Similarly, withholding agents are subject to monitoring proceedings with increase burden of compliance for businesses.

In addition to the above, Online Marketplaces/Platforms (OMPs) offer services to vendors selling products or services on their digital platform, facilitating payment collections from the customers on behalf of the seller resulting in the reverse flow of money than that of a typical brick and mortar business. OMP typically pays the sellers net of fees charged for their facilitation service, normally in the form of commission.

Third-party logistics providers (3PL) entities also provide services for the purpose of transportation of goods and payment collection. Therefore, advance/withholding taxes add to the cost of doing business and disincentivize merchants to work with those 3PL entities that are fully compliant.

eCommerce

Pillar	Challenge Category	Relevant Ministry/Department
23 eCommerce	Cost of doing business	Ministry of Commerce

Policy Recommendation

- **Minimum tax regime should be eliminated for all registered e-commerce related entities that conduct transactions on behalf of merchants and service providers for a period of 5 years. These entities report very high gross turnover with very low margins and, therefore, do not remain competitive with informal operators, due to reduced profitability.**
- **If the minimum tax regime cannot be eliminated for such entities, the current rate of 0.25% for e-commerce businesses should also apply to all e-commerce businesses and 3PL entities (on their e-commerce services) applicable on their NET revenues instead of GROSS revenues (also known as GMV), on a permanent basis.**

Rationale

Elimination of Minimum tax Regime for all e-commerce related entities that transact on behalf of merchants/service providers such as Online Platforms/Marketplaces and Third-party Logistics Service Providers

24 eCommerce	Cost of doing business	Ministry of Commerce

Policy Recommendation

- **Final income tax on E-Commerce Exports, IT Exports and Freelancers should be ZERO instead of 1% to boost growth of the sector, for a period of 5 years. This proposal has already been vetted and approved by GoP, however official notification and implementation is awaited.**
- **Excess sales revenues on top of export value of goods should also be permitted and subject to @ 0.5% Final tax to incentivize maximum inflows of E-commerce revenues against net sales on International Online Marketplaces such as Amazon, Walmart, eBay, Etsy, etc. for a period of 5 years.**

Rationale

Cross-border e-commerce B2C, B2B and freelancer transactions for goods and IT/ITeS services are already conducted through digital mode. For the purpose of growing this business, many businesses also need to make outbound payments to various service providers for services only available internationally.

Due to taxation anomalies, it has been observed that proceeds have being repatriated to Pakistan at the same quantum as the last year from Freelancers and IT/ITeS businesses.

Ad-hoc changes to tax regimes vis a vis previous tax exemptions have resulted in trust deficit in the industry, therefore policy continuity and stakeholder consultation is critical to prevent unintended outcomes.

It is not advisable to apply any taxes on cross-border e-commerce transactions in order to continue growth of B2C/B2B2C exports of goods, IT/ITeS services and freelancer remittances.

eCommerce

Pillar	Challenge Category	Relevant Ministry/Department
25 eCommerce	Cost of doing business	Ministry of Commerce

Policy Recommendation

- **Simplified one-window registration and filing is recommended for these businesses with no assessment/audit/notices whatsoever to graduate them towards documentation. Create and strengthen e-services with respect to registration of business and management of routine compliance requirements.**
- **The wordings of the laws enacted by the Sindh Revenue Board, Punjab Revenue Authority and Khyber Pakhtunkhwa Revenue Authority are observed to be overlapping.**
- **The matter being of equal relevance to all the provinces and affecting the entire Services Sector, therefore, a completely harmonized regime of jurisdictions, definitions, rate and procedures for the e-commerce sector is crucial.**
- **Tax jurisdiction to be based on the destination principle i.e. location where seller of product, service or platform is registered.**
- **Fully operational Single Sales tax return filing mechanism should be implemented at the earliest.**
- **The FBR-POS integration system and procedures applicable to online retailers should be re-designed based on the dynamics of online retail which are distinct from physical/offline retail. E.g., Sales are only realized upon completion of delivery to customers and not at the time of online order placement or order confirmation.**

Rationale

Ease of doing business is necessary to improve income tax and sales tax registration and compliance by e-commerce merchants, marketplaces, service providers and allied businesses. Current procedures are observed to be cumbersome and manual for the most part.

Harmonization required across different jurisdictions (taxes, registrations, market participant definitions, etc.).

Animations, Graphics & Games

Pillar	Challenge Category	Relevant Ministry/Department
26 AGG	International Advertising	SBP

Policy Recommendation
Allow 100% limit of utilizing export revenue to spend on game advertising with Google, Facebook, Android and other vendors.

Rationale
Games earn money as a function of how much they spend in advertising. If we do not allow these remitances, we're losing tens of millions of dollars export revenue.

Pillar	Challenge Category	Relevant Ministry/Department
27 AGG	Centers of Excellence	IGNITE

Policy Recommendation
Allocate USD 5 Million fund for creating Centers of Excellence in major cities.

Rationale
Need facilities where Virtual Production can be executed at global scale, thus Pakistan a competitive edge in this nascent but booming industry.

Pillar	Challenge Category	Relevant Ministry/Department
28 AGG	Media Fund	SBP

Policy Recommendation
Create a USD 10 Million media fund to accelerate the export revenue of Pakistani Games and Content. Opening a massive new export stream.

Rationale
Canada Media Fund is $350 million and returns 3x that to the economy. It has led to massive job creation and favors the creation of content for international export. The fund is contributed on a 50-50 basis to previously raised funds.

Pillar	Challenge Category	Relevant Ministry/Department
29 AGG	Import of Development Hardware	FBR

Policy Recommendation
Allow import of dedicated hardware at 0% duty to allow exports to grow unrestricted.

Rationale
This is no different that an manufacturing plant. Specialized game hardware, development kits, virtual reality hardware need a different HS under which they can be imported. Currently, companies are paying 100% overheads to bring in hardware which is then used to increase export revenue.

Startups & VCs

Pillar	Challenge Category	Relevant Ministry/Department
30 Startups & VC	Cost of doing business	SBP

Policy Recommendation

Exempt Capital Gains Tax on Venture Capital Funding into startups to zero percent (currently 29%) for the next 5 year

Rationale

In FY 2019-20 the total VC funding for Pakistani startups was approximately USD 75 million. Over a period of 12 months, this funding has seen nearly a fivefold increase to nearly USD 375 Million in FY 2020-21. At the onset, this seems like a positive development. However, most of this funding is done in startups which are Pakistani origined but were later incorporated into other countries. In case over the period of the next five years, this investment continues to grow two folds every year. This investment can reach up to US$ 2-3 Billion. One major reason that this funding is made into Pakistan origin startups outside of Pakistan jurisdiction is due to the capital gain tax of 29%. Venture capital investments are high-risk investments, often less than 15% of the startup's scale into profitability if the capital gain tax of 29% is implemented on such high-risk investments, it deters the investors from making such investments.

31 Startups & VC	Ease of doing business/ company registeration facilitation	SBP

Policy Recommendation

Allow all Pakistani who set up global companies in last 3 years to register them with SBP under the scope of holding company law

Rationale

Holding company law not applicable on international companies incorporated before 2021

32 Startups & VC	Investment climate	SBP

Policy Recommendation

Allow startups to have dollar accounts and keep the remitted amount in them.

Rationale

People are being advised to raise less, as 50% of funds raised from abroad until USD 10 million (on an annual basis) needs to be remitted to Pakistan.

Startups should be allowed forex retention at atleast 50% of export proceeds. Due to difficulties faced in utilizing the 35% funds for international expenses, many companies prefer to keep that money outside the country. Since these funds cannot be reliably used for timely payments outside of Pakistan, companies companies open accounts abroad and keep a safety fund outside. Often these companies are required by their head offices to repatriate their profits/dividends or make payments against invoices to their head offices or relevant vendors within the stipulated time frame. Due to the restrictions, these are often unable to comply with their corporate rules which are highlighted as noncompliance by their head offices making Pakistan an unfeasible destination to set up such operations. Allowing at least 50% of the contract value to be retained in the foreign currency and allowing unrestrictive movement of the same foreign currency amount will help companies set up offices in Pakistan.

Startups & VCs

Pillar	Challenge Category	Relevant Ministry/Department
33 Startups & VC	Startup Definition	SECP

Policy Recommendation — **Revise Startup Definition as per global standards**

Rationale

The recent startup definition by SECP does not include a few startups that have a chance of scaling. This will limit the availability of any facility or scheme the government will offer to startups. There is a need to revise and standardize definition of startups. For example, the current SECP definition has a turnover limit of 100 million PKR (565K USD). In comparison, India has 1 Billion INR (13.5 million USD).

| https://www.startupindia.gov.in/content/sih/en/startupgov/startup-recognition-page.html

| https://startups.secp.gov.pk/Startup/wp-content/uploads/2020/01/Startup-Package.pdf

34 Startups & VC	Ease of Doing Business/ Fiscal incentives	FBR

Policy Recommendation — **When the founders sell shares or when the employees sell options, put a flat tax rate of 5% to incentivize them to bring cash back**

Rationale

Companies are not incentivized to bring revneue in Pakistan but only cost of operations. Founders do not see benefit in liquidating their stocks in companies abroad and bring cash to Pakistan. Rather they park their revenue outside of Pakistan. This in trn does not help Pakistan's economy. A financial rebate program would help provide incentives to founders to bring cash back in Pakistan.

35 Startups & VC	Ease and cost of doing business	IGNITE, SBP

Policy Recommendation

Improve access-to-finance:

- **Collaborate with commercial banks to facilitate the framework for startups to secure funds**
- **Public funded VC for seed funding**

Rationale

There is an absence of early-stage startup funding, for which public-private partnership is needed.

36 Startups & VC	Research and Development	MOITT

Policy Recommendation — **To build an organised startup ecosystem in Pakistan, R&D must be incentivized. This is a support policy practiced throughout the IT economies. Such policies encourage innovation and entrepreneurship and supports entrepreneurship through guidance, mentorship, and support.**

Rationale

To build an organised startup ecosystem in Pakistan, R&D must be incentivized. This is a support policy practiced throughout the IT economies. Such policies encourage innovation and entrepreneurship and supports entrepreneurship through guidance, mentorship, and support.

37 Startups & VC	Ease and cost of doing business	

Policy Recommendation — **Rules and regulations related to bankruptcy need to be revised**

Freelancers

Pillar	Challenge Category	Relevant Ministry/Department
38 Freelancers	Tax exemption	FBR

Policy Recommendation — **Eliminate 1% tax on freelancers' remittances altogether for filers**

Rationale

The previous tax exemption for freelancers' inbound remittances was abruptly and prematurely eliminated last year, being turned into a tax credit regime that deducts withholding tax on their remittances and requiring a cumbersome process of claiming the credit or an even more cumbersome one to claim exemption. That 1% tax for filers or 2% for non-filers isn't substantial enough to make them go through all this hassle, as the amount collected would pale in comparison to the amount they would simply choose not to bring into the country at all due to this lost trust and added hassle.

Pillar	Challenge Category	Relevant Ministry/Department
39 Freelancers	Lack of condusive environment for export growth: Foreign currency account retention not allowed for individuals/freelancers	SBP

Policy Recommendation — **Allow foreign currency account retention limit in FCY account to USD 100,000/- for freelancers registered with PSEB. The current 35% USD retention is available to IT exporting companies only**

Rationale

In FY 2020-21 the IT freelancers amounted up to 17% (USD394 Million) of the total IT exports of the country (USD 2.1 Billion). In order to facilitate and incentivize freelancers, it is necessary that the foreign exchange they are bringing to the country shall be allowed to be retained as foreign currency up to a value of USD 100,000/- for the PSEB registered freelancers so that they don't lose the value of their earnings due to the volatility of the foreign exchange rates and are incentivized to bring that foreign exchange to Pakistan which is currently being parked offshore.

Pillar	Challenge Category	Relevant Ministry/Department
40 Freelancers	Freelancers definition	

Policy Challenge/ Recommendation — **Include freelancers in the standard definitions for IT and ITeS industry**

Rationale

Currently freelancers are not included in the standard defintion of IT and ITeS inudstry. Due to this they can not avail services and incentives available to the industry. For instance, foreign currency account retention is not allowed for freelancers. Also, every year freelancers contribute considerable revenue to the economy. But that revneue goes unreported.

Pillar	Challenge Category	Relevant Ministry/Department
41 Freelancers	Financial inclusion	SBP

Policy Challenge/ Recommendation — **Enable access for freelancers to financial services such as bank accounts, credit cards, home financing, car financing, personal loans, health insurance, etc.**

Rationale

As individuals who are neither formal employees nor conventional business owners, freelancers haven't been able to avail financial services such as credit cards, home financing, car financing, personal loans, health insurance, life insurance and the like.

While things have started to improve in that regard as of late due to our extensive lobbying with SBP and commercial financial institutions, the government can further encourage and even incentivize the financial sector to accellerate this process.

This will encourage freelancers to bring more of their earnings to Pakistan for purposes beyond meeting their mere expenses, such as paying installments of their home/car/personal loans, insurance premiums, credit card bills etc.

Freelancers

Pillar	Challenge Category	Relevant Ministry/Department
42 Freelancers	Incentives & rewards	MoITT

Policy Recommendation	**Like Pakistan Remittance Initiative, offer freelancers rewards against the remittances they bring into the country. Extend Cash Reward to cover freelancers as well.**

Rationale

Freelancers who keep a substantial amount of their earnings abroad could be incentivized into bringing it back to the country through rewards. This could include cash rewards in PKR against USD brought into Pakistan. They should also be enrolled into EOBI accordingly.

43 Freelancers	Business structure	SECP

Policy Recommendation	**Provide a legal business structure similar to American LLCs that offers limited liability while being a pass-through entity for taxation purposes. So it will essentially be like a Private Limited company (or a SMC Private Limited Company in case of a single owner) when it comes to limited liability, but will not be taxed as a separate entity. Instead, its income will be taxed like that of a sole proprietorship or a partnership, as the individual income of its respective owner(s).**

Rationale

While the SBP and commercial banks now recognize freelancers as their own category, to SECP, they can still either be individuals/sole-proprietors, or incorporated businesses (SMC-Private Limited would be the closest available legal business structure for them). For freelancers requiring a business entity beyond sole proprietorship, incorporation as a company (be it SMC-Private Limited or Private Limited) brings in a lot of unnecessary regulatory hassle, as well as double taxation; any remittances brought into the country as their company could be tax-exempt, but any compensation they draw from the company will be considered and taxed as their local income, discouraging them from incorporating locally even if they're successfully making a lot of money abroad and need to avail financial or business services available to legally registered businesses. As a consequence, they register their business abroad and avail these services from foreign vendors while keeping their money in their foreign accounts.
This step will provide an easy business structure without double taxation or many of the regulatory requirements of Private Limited companies that are unnecessary for someone operating as an individual independent contractor.
Note: This sort of business structure will be immensely useful for those looking to start their e-commerce business, BPO, software house, agency or startup as well.

44 Freelancers	Financial inclusion	STZA | PTA

Policy Recommendation	**Ensure availability of reliable broadband and electricity in tier 2 & tier 3 cities. If it isn't possible to provide it to each household, coworking spaces should be setup in these cities where local freelancers can come work without having to worry about internet connection issues and power outages. These coworking spaces can be established in public school/college/university campuses and other government buildings, and declared as STZs for those freelancers to fully capitalize on their benefits.**

Rationale

Immense earning potential in tier 2 and tier 3 cities, towns and villages is being wasted due to unavailability of reliable broadband and electricity. Key here is reliability, as in many areas where broadband is available, the speed experienced by end users is downright dismal and fluctuates heavily, especially when it comes to PTCL, and SCO. That coupled with frequent extended power outages is enough to keep many from those areas away from even pursuing online careers seriously.

This will have a further benefit of deurbanization, as many people from these areas who currently reside in urban areas due to lack of these facilities in their hometowns will move back to work remotely from their homes, thereby reducing population in urban centers. And such influx of population in these remote areas along with the improvement in financial status of that population due to online earning will inevitably lead to development of those areas by the locals, and influx of tourism in those areas.

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Pakistan Software Houses Association for IT & ITES

Do you have a recommendation for the growth of the IT and ITeS industry?
Share your recommendations with us!

| https://tinyurl.com/ITBudgetRec2022

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