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This blog is written by **Mr. Ahmad Yar Khan**. Please read this blog and provide your valued comments

WITHDRAWAL OF INCOME TAX EXEMPTIONS AND PAKISTAN'S IT SECTOR

The Government through the promulgation of Tax Laws (Amendment) Ordinance, 2021 approved the withdrawal of around 80 income tax exemptions. One of the industries impacted by this withdrawal is the IT and IT enabled services sector.

It is thought that the revenue impact may be minimal as the exemption is being converted to a 100% tax credit but the IT industry has shown strong concerns regarding the many conditions to which the tax credit is subject to. The tax credit regime will allow documentation of software export; IT and IT enabled services revenue as availing a tax credit are subject to certain conditions. The tax credit will only be allowed if the taxpayer files its tax return, tax required to be deducted or collected has been deducted or collected and paid, withholding tax statements for the preceding tax year and sales tax returns for relevant tax year are filed.

The withdrawal of tax exemption and the conversion to a tax credit regime is applicable on exports of computer software or IT services or IT enabled services, up to the period ending June 30, 2025.

The IT industry has been showing an impressive growth pattern – 40% in FY 2019-2020 – and is expected to exceed \$2 billion by the end of this financial year. It was revealed that the Payoneer has paid an amount of Rs 60 billion to 70,000 Pakistani citizens over the last few years. The growth was a result of several supporting initiatives by the government like 100% repatriation of profits to foreign IT & ITeS investors, no income tax on IT & ITeS exports and 100% foreign ownership of IT & ITeS companies.

Covid-19 also has proved to be a blessing in disguise as it has helped Pakistan to propel the growth in IT exports. The sector's growth attracted foreign investors and improved Pakistan's competitiveness in the IT industry. Withdrawing these support mechanisms and replacing them with tax credit programs can negatively affect this growth trajectory and scare away investors as well as new entrants from IT industry. IT sector experts feel that the additional compliance requirements are likely to affect the growth of industry negatively.

The experts believe that the sector is entitled to such tax exemptions support from the government as it has never availed any subsidies like reduced electricity or gas rates, rebates or refunds.

The change in policy is being cited as a damaging factor for investor confidence. Pakistani freelancers have just started earning well and are developing a strong reputation on international platforms, experts feel that the withdrawal of tax exemptions will discourage individuals and companies from rendering their services abroad.

The P@SHA (Pakistan Software Houses Association) is urging the government to take into account the concerns of the IT and ITeS sector and devise the right policy framework to facilitate ease of doing business. The IT sector is confident that given right regulatory framework, it can exceed the Government's export growth expectations and create additional employment opportunities.

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