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EXPORT OF IT SERVICES & ITS TAXABILITY

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PAKISTAN'S IT EXPORT INDUSTRY:

- IT Exports reached at \$2.21bn in 2020-21 as against \$1.44bn in 2019-20.
- IT Exports target for the fiscal year 2021-22 is \$3.5bn. In the quarter for the period July-October, 2021, IT exports surged to \$830 million with promising anticipation to exceed the target.
- Platforms like Freelancer, Upwork, Fiverr etc. provide earning venues for individuals in Pakistan, attracting foreign remittances.
- Marketers of Pakistan are quite skilled in the field of expertise and offers the same quality of service on very reasonable prices in comparison to developed countries.

WHAT INCLUDES IT SERVICES & IT ENABLED SERVICES:

[Section 2(30AD) & 2(30AE)]

- **IT Services** – include software development, software maintenance, system integration, web design, web development, web hosting and network design.
- **IT Enabled Services** – include inbound or outbound call centres, medical transcription, remote monitoring, graphic design, accounting services, Human Resource (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally produced television programs and insurance claims processing.

TAXATION OF IT SERVICES BEFORE FINANCE ACT, 2021:

[Clause 133 of Part I of Second Schedule]

- **Exemption - Clause 133 of Part I of the Second Schedule:**

"Income from exports of computer software or IT services or IT enabled services up to the period ending 30th day of June, 2025.

Provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels."

- **Clause 11 (x) of Part IV of Second Schedule:**

- Exempt from application of Minimum Tax under section 113 (Turnover Tax).
- Realization of Proceeds in the Bank without any tax deduction at source.

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021:

[Section 154A and 65F]

- Omission of exemption of clause 133 of Part I of the Second Schedule [Through Tax Laws (Second Amendment) Ordinance, 2021] and sub-clause (x) of clause 11 of Part IV of the Second Schedule – IT exports, no more exempt income and no exclusion from Minimum Tax/Turnover Tax u/s 113.
- Introduction of special regime for export of services at par with export of goods regime through insertion of section 154A.
- Section 154A encompasses broader services exported from Pakistan and includes IT exports.
- Tax Credit introduced through section 65F on export of IT services/IT enabled services subject to certain conditions.

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021 [contd.]

[Section 154A and 65F]

- Through 154A, banks shall deduct 1% tax from filer and 2% tax from non-filer on proceed realization of following:
 - **Export of computer software or IT services or IT enabled services in case tax credit under section 65F is not available.**
 - Services or technical services rendered outside Pakistan or exported from Pakistan.
 - Royalty, commission or fees derived by a resident company from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise;
 - Construction contracts executed outside Pakistan; and
 - Other services rendered outside Pakistan notified by the Board.

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021 [contd.]

[Section 154A and 65F]

- Tax deducted under section 154A from Banks shall be **FINAL TAX**, upon fulfillment of following conditions:
 - Return has been filed.
 - Withholding statements u/s 165 are filed for the relevant tax year.
 - Sales tax returns under federal or provincial laws are filed, if required under the relevant law.
 - No credit of foreign taxes paid shall be allowed as mentioned under section 103.
- Any taxpayer qualifying the above conditions shall have the option to either opt to pay tax under FTR or opt to pay tax under normal tax regime.
- Any taxpayer not qualifying the above conditions shall compute tax liability under normal tax regime and the tax deducted at source shall be adjustable.

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021 [contd.]

[Section 154A and 65F]

- For qualifying taxpayer, the option to be taxed either under FTR or under NTR shall be exercised every year at the time of filing of return of income.

QUALIFYING TAXPAYER:

- Shall have the option either to opt for FTR or NTR.
- Foreign Tax Credit under section 103 shall not be allowed.
- Minimum/Turnover Tax u/s 113 shall be applicable, where it is opted for NTR.

NON-QUALIFYING TAXPAYER:

- Shall not have the option to opt for FTR.
- The tax deducted shall be adjustable and tax liability shall be computed under NTR.
- Tax credit of foreign tax paid if any shall be allowed under section 103.
- Minimum/Turnover Tax u/s 113 shall be applicable.

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021 [contd.]

[Section 154A and 65F]

- Sub-section (4):

"(4) Where a taxpayer, while explaining the nature and source of any amount, investment, money, valuable article, expenditure, referred to in section 111, takes into account any source of income which is subject to final tax in accordance with the provisions of this section, he shall not be entitled to take credit of a sum that can be reasonably attributed to the business activity or activities mentioned in sub-section (1)"

- The Board is empowered to include or exclude certain services for applicability of provisions of this section.

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021 [contd.]

[Section 154A and 65F]

- **TAX CREDIT (65F):**
- 100% Tax credit is allowable against tax payable under **ANY PROVISION OF THE ORIDNANCE, 2001** (which include Minimum Tax, Alternate Corporate Tax and Final Taxes) by insertion of **section 65F** for Income from export of computer software or IT services or IT enabled services up to 30th June, 2025.
- With same condition of 80% realization of proceeds in Pakistan.
- Conditions for eligibility of tax credit under section 65F:
 - return has been filed.
 - Withholding statements u/s 165 for the relevant tax year are filed [in respect of provisions of the Ordinance, 2001 where the person is withholding agent].
 - Sales tax returns for the tax periods of the relevant tax year have been filed [where required by Federal or Provincial Law].

TAXATION OF IT SERVICES AFTER FINANCE ACT, 2021 [contd.]

[Section 154A and 65F]

- Conditions for option to opt to be taxed under FTR have same conditions as provided for the eligibility of 100% tax credit under section 65F.

QUALIFYING TAXPAYER:

- If opted for FTR, a taxpayer can claim 100% tax credit against FTR liability (i.e. tax deducted by banks).
- If opted for NTR, a taxpayer can claim 100% tax credit against normal tax liability including minimum tax u/s 113 or Alternate Corporate Tax u/s 113C.

NON-QUALIFYING TAXPAYER:

- Shall be taxed under normal tax regime and shall not be eligible to claim 100% tax credit u/s 65F.
- Tax credit of foreign tax paid if any shall stand intact under section 103 and shall be available to be claimed.

TAX COMPUTATION FOR NON-QUALIFYING TAXPAYER:

	PKR
Receipts from IT services	30,000,000
Less: Expenses	<u>(10,000,000)</u>
Profit	20,000,000

Taxation under NTR:

Normal Tax Liability (corporate rate of 29%)	<u>5,800,000</u>	
Turnover Tax u/s 113 (1.25%)	<u>375,000</u>	
Tax Liability (whichever is higher of above)		5,800,000
Less: Tax Credit u/s 65F		<u>N/A</u>
Tax Payable		5,800,000
Less: Tax Deduction at Source by Banks		(300,000)
Less: Tax Credit u/s 103 (Rs. 2,500,000)		<u>(2,500,000)</u>
Balance Tax Payable		<u>3,000,000</u>

TAX COMPUTATION FOR QUALIFYING TAXPAYER:

	PKR
Receipts from IT services	30,000,000
Less: Expenses	<u>(10,000,000)</u>
Profit	20,000,000

Option 1 Under NTR:

Normal Tax Liability (corporate rate of 29%)	<u>5,800,000</u>	
Turnover Tax u/s 113 (1.25%)	<u>375,000</u>	
Tax Liability (whichever is higher of above)	5,800,000	
Less: Tax Credit u/s 65F	<u>(5,800,000)</u>	
Tax Payable	Nil	
Less: Tax deduction at source by Banks	(300,000)	
Less: Tax Credit u/s 103 (Rs. 2,500,000)	<u>N/A</u>	
Balance Tax Refundable	<u>(300,000)</u>	

Option 2 Under FTR

Tax liability u/s 154A (1% of receipt)	300,000	
Less: Tax Credit u/s 65F	<u>(300,000)</u>	
Tax Payable	Nil	
Less: Tax Deduction at Source by Banks	(300,000)	
Less: Tax Credit u/s 103 (Rs. 2,500,000)	<u>N/A</u>	
Balance Tax Refundable	<u>(300,000)</u>	

EXEMPTION FROM WITHHOLDING OF TAX U/S 154A:

[Section 159]

- A taxpayer qualifying for tax credit under section 65F can apply for exemption certificate from withholding of tax under clause (c) of sub-section (1) of section 159 of the Ordinance, 2001.
- Corresponding amendment has been brought under clause (c) of sub-section (1) of section 159 to allow exemption certificate where a taxpayer is subject to 100% tax credit **UNDER THIS ORDINANCE, 2001**. Before the Finance Act, 2021, the law allowed exemption certificate in case of 100% tax credit under section 100C only – i.e. for Non-Profit Organizations.
- The application to the Commissioner should include and fulfill the conditions as stipulated under section 65F for the eligibility of 100% tax credit.

THANK YOU