Recommendations of SDPI’s Study Group on IT and Telecom

Agenda – Pakistan’s Highly Taxed Telecom Market: Fall out and Impact

Pakistan is considered to be among the highly taxed telecom markets in the world. It ranks second highest in the region. There are federal taxes and also the provincial taxes. Compared to other sectors of the economy, telecom taxes are on the much higher side and are discriminatory. Telecom subscribers who even fall below the threshold of tax payers are also charged advance income tax on the usage of telecom services. Non-uniformity of taxation among the federation and provinces further aggravates the situation. This state of affairs not only lowers the consumption abilities of consumers, it also adversely affects the growth of telecom sector. It will also impact on forthcoming Spectrum Auction and further investment in telecom sector. Operators have approached at the highest level of Government forums for rationalization of telecom taxes. However, the Government remains indifferent to these requests. Resultantly, the telecom operators and service providers are shy of expanding the telecom market. Eventually, it’s the government which suffers from lower tax collection.

To deliberate on this vital issue, SDPI’s Study Group on IT and Telecom met on March 3, 2016 and made the following recommendations:

a. Government is collecting WHT from those who are not even liable to pay their Income Tax (as per law), which is illegal as per Government’s own tax law. A mechanism should be formulated to charge withholding tax from only those subscribers who are otherwise taxable and are liable to file a tax return. Furthermore, rate of WHT be reduced from 14% to 10% to make it at par with other sectors and peer economies.

b. GST on telecom services (ranging from 18-19.5%) should be reduced to the average GST rates (i.e. 16%) as in other sectors.

c. Telecom sector be classified and given “Industrial Undertaking” under clause (b) of section 2(29C) of the Income Tax Ordinance 2001 as earlier promised by Government during NGMS auction in 2014.

d. FBR should revert the increase in custom duty from 2-15% to 0-5% for facilitating telecom operators to expedite infrastructure roll out hence encouraging them to provide quality broadband services to consumers.

e. SIM Activation Tax must be removed as this tax was levied in lieu of tax on import of handsets. Now when another tax on import of mobile phone handsets (ranging from Rs.300 to 1000) has been imposed, tax on SIM activation/supply is unjustified.
f. Due to fear of immediate loss, government is not taking any bold step in rationalizing the tax rates. Use of ICT for easy collection of taxes can be one way of overcoming this fear.

g. We are not addressing the right audience; we should also engage officials from Ministry of Finance and FBR to have an impact in rationalization of taxes.

h. Government should collect taxes but on lower rates. It will ensure higher collection.

i. Use of media, judiciary, and consumer groups to highlight the issue should be undertaken.

j. A focused effort be made to convince provincial governments to withdraw sales tax on broadband services.

k. The revenues collected from consumers by Government must be audited by some professional body.

l. To reduce reliance on taxes, we should also explore other revenue streams such as exporting our services to foreign countries.

m. A detailed incidence analysis of telecom taxes should be independently conducted to assess the burden on various segments of the society.

n. A macroeconomic assessment is required to assess how current tax and regulatory regime has reduced the competition in the telecom sector. This may be undertaken by Competition Commission of Pakistan.