

Policy Brief # **57**

**Pakistan's Highly Taxed Telecom
Market: Fall out and Impact**

Brig (Retd) Mohammad Yasin

All rights reserved. No part of this paper may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or information storage and retrieval system, without prior written permission of the publisher.

A publication of the Sustainable Development Policy Institute (SDPI).

The opinions expressed in the papers are solely those of the authors, and publishing them does not in any way constitute an endorsement of the opinion by the SDPI.

Sustainable Development Policy Institute is an independent, non-profit research institute on sustainable development.

First edition: June 2017

© 2016 by the Sustainable Development Policy Institute

Mailing Address: PO Box 2342, Islamabad, Pakistan.

Telephone ++ (92-51) 2278134, 2278136, 2277146, 2270674-76

Fax ++(92-51) 2278135, URL: www.sdpi.org

Table of Contents

1. Introduction	2
2. Methodology.....	2
3. Discussion.....	3
4. Recommendations	4
Annexure A.....	5

1. Introduction

Pakistan is considered to be among the highly taxed telecommunication (telecom) markets in the world. It ranks second highest in telecom taxation in South Asia. There are several taxes which have to be paid by an ordinary person, who uses a mobile phone. These include sales tax on mobile handset ranging from Rs300-1000, International Mobile Equipment Identity (IMEI) tax on mobile handset ranging from Rs300-1000, Subscriber's Identity Module (SIM) issuance tax of Rs250 and With Holding Tax (WHT) of 14 percent (%) have to be paid by the customer before they actually avail any telecom services. Federal Excise Duty (FED)/General Sales Tax (GST) ranges from 18-19.5%, and 16% FED on financial services is also paid by the consumers.

Total National Tax Number (NTN) holders are 3.5 million while active taxpayers are 0.8 million. In this manner, only 0.6% of mobile subscribers could be actual taxpayers. Taxing majority of Information Communication Technology (ICT) users is unfair. Out of 127 million active mobile users, only one million (0.8 %) are active taxpayers, so remaining 126 million users have no means to adjust their advance tax.

The re-introduction of SIM Activation Tax as the Supply of SIM Tax at Rs250 per SIM is burdensome after investing around US\$ 25 million in the Biometric Verification System (BVS) exercise in 2014-15 and investing in the purchase of US\$ 1.2 billion worth of 3G and 4G spectrum.

Objectives

The study aims to create awareness among both the public and private sectors about the importance of exploiting useful information resources, address existing difficulties in this respect, foresee future developments which might have an impact on the national economy and provide appropriate recommendations to relevant agencies.

2. Methodology

To deliberate on this vital issue, SDPI's Study Group* on Information Technology (IT) and Telecom held a group discussion on March 3, 2016. The group comprised consultants, scientists, educationists and economists. Apart from the regular members of the Study Group, outside specialists and professionals also participated in the discussion. The group serves to devise policy and planning recommendations as well that may subsequently be pursued with relevant agencies. Some achievements of the study group have been given at the end (Annexure-A).

* SDPI's Study Group on Information Technology and Telecommunications is an informal gathering of consultants, scientists, educationists and economists which meets periodically to discuss and evaluate current developments in the rapidly evolving fields of telecommunications, computers, data processing, networking, mass media, and other issues related to the generation, processing, management, and use of information. Apart from the regular members of the Study Group, outside specialists and professionals are also invited to these meetings to present their views on particular topics. The purpose of these meetings is to create awareness amongst both the public and private sectors of the importance of exploiting useful information resources, address existing difficulties in this respect, and foresee future developments which might have an impact on the national economy and society at large. Where appropriate, the Group serves to devise policy and planning recommendations that may subsequently be pursued with relevant agencies.

3. Discussion

In Pakistan, there are federal and 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 taxpayers 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, but also adversely affects the growth of telecom sector. It has also impacted the Spectrum Auction and further investment in telecom sector. Officials have been approached at the highest level of government forums for the 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.

During the discussion of the study group, speakers shared their observations with the participants about telecom taxation as given below:

SDPI's Executive Director Dr Abid Qaiyum Suleri said:

"Heavy taxation not only discourages new investors intending to enter the market but also hurt the business interests of existing players in the sector. "

Telenor Vice-President (Corporate Affairs) Muhammad Aslam Hayat said:

"Contribution made by the telecom sector towards Pakistan's economy was Rs26 billion in 2014-15 and generation of Rs449 billion in terms of revenues contributed towards GDP. There are unforeseen taxes, i.e. imposition of 10% Advance Tax on Broadband Spectrum Fee and increase in import duty on telecom equipment from 5% to 20-25% immediately after spectrum auction."

Pakistan Telecom Authority (PTA) Director-General (Commercial Affairs) Dr Muhammad Saleem said:

"Majority of the subscribers are non-tax filers due to income below the minimum tax limit, hence, cannot get adjustment in their annual tax returns. Federal Board of Revenue (FBR) should either abolish/rationalize WHT or devise a mechanism to charge withholding tax from only those subscribers who are otherwise taxable and are liable to file a tax return."

International Consultant on IT and Telecom Pervez Iftikhar said:

"Developing countries need ICTs more because basic things like transport systems and service delivery mechanisms are not much developed. ICTs can facilitate in tax collection from consumers. Increase in taxes on importing user devices increases barriers and hence encourage smuggling. Raising taxes on ICT service also raise entry barriers, which give rise to bad practices such as grey traffic termination."

4. Recommendations

A number of policy recommendations of stakeholders are given below:

- a. Withholding tax (WHT) is collected from those who are not even liable to pay their Income Tax (as per law), which is illegal as per tax laws. 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 per cent to 10 per cent to make it at par with other sectors and peer economies.
- b. General Sales Tax (GST) on telecom services (ranging from 18-19.5 per cent) should be reduced to the average GST rates (i.e. 16 per cent) 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 next generation mobile services (NGMS) auction in 2014.
- d. Federal Bureau of Revenue (FBR) should reduce increase in customs duty from 2-15 per cent to 0-5 per cent for facilitating telecom operators to expedite infrastructure roll-out hence encouraging them to provide quality broadband services to consumers.
- e. Subscriber's Identity Module (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 Pak Rs300 to 1000) has been imposed, tax on SIM activation/supply is unjustified.
- f. Owing to fear of immediate loss, government is reluctant to take any bold step in rationalizing the tax rates. Use of information and communication technologies (ICTs) for easy collection of taxes can be one way of overcoming this fear.
- g. Government should collect taxes but on lower rates. It will ensure higher collection.
- h. A focused effort be made to convince provincial governments to withdraw sales tax on broadband services.
- i. The revenues collected from consumers must be audited by some professional body.
- j. To reduce reliance on taxes, we should also explore other revenue streams such as exporting our services to foreign countries.
- k. A detailed incidence analysis of telecom taxes should be independently conducted to assess the burden on various segments of the society.
- l. 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.

Annexure A

Some Important Achievements of the Study Group on IT and Telecom

1. During the last 24 years (August 1993 – to date) the Study Group held 60 meetings. The emphasis in the deliberations has been on the efficiency and efficacy of the information and communications services and infrastructure in Pakistan, the higher tariffs and duty structure, regulatory issues, the software industry, inadequate Internet connectivity, support to academics and researchers, and institutional development. The Study Groups has brought to bear the experience, opinions, and ideas of important scientists, businessmen, academics and technical experts knowledgeable in computers, telecommunications, data networks and satellites.
2. **Early 1993 the Study Group formulated some important recommendations for the Federal Government for an overall improvement in the Information and Communications sectors.** The Group felt that data networks in Pakistan needed urgent enhancement and improvement to enable Pakistan to reap the fruits of information revolution particularly the Internet. Accordingly the Study Group sent the *following recommendation to the Government:-*
 - a. The country is in dire need of establishing "ELECTRONIC HIGHWAYS" with zeal comparable to the interest in building modern motor ways and road networks.
 - b. The private sector should be allowed free participation in the establishment and operation of private and public data networks to cater to a potentially very large demand for such services which is presently suppressed due to the poor service in this area.
 - c. Rationalize existing data tariffs of the Pakistan Telecom Corporation (PTC) for data transfer, which are extremely exorbitant by international standards and improve its service which is unreliable at best.
 - d. Encourage the use of electronic information interchange by government agencies and facilitate the use of these services by the private sector, banks, travel and hotel businesses, and traders. Establishing network links between universities, research establishments, and libraries would be an important step in strengthening our abysmal educational facilities and is a prerequisite for supporting first-rate academic and scientific research.
 - e. Government policies on computer and communication equipment must be further rationalized. The present surcharges on equipment and duties on spares should be removed in order for the country to truly benefit from the electronic revolution which can immediately open up enormous economic and employment opportunities.
3. The Government's response was positive which is discernable from the various steps it has taken in the direction of privatization and liberalization of this sector.
4. The Study Group agitated for the establishment of Regulatory body to respond to the changing needs of the society. The Government established the **Pakistan Telecommunications Authority**.
5. We have been endeavoring to meet the Parliamentary Committees for Information and Communications to explain to them the requirements of the changing times in the context of information and communications and suggest various policy actions to catch up with the time.

6. **In 1995, Study Group sent a memorandum to the President of Pakistan depicting the prevalent scenario and making important recommendations.**
7. The Study Group has provided a platform for face to face meetings between the data network operators, service providers and officials of the Pakistan Telecommunications Corporation and Pakistan Telecommunications Authority. These meetings have helped understand each other's problems, criteria for government policies and future planning etc. These meetings have also helped in the solution of some problems.
8. As a result of in-depth deliberations, the Study Group has framed policy recommendations which are submitted to the Government after further discussions.

Some of these recommendations appear below:

8.1. Recommendations

Access to international networks of information and knowledge must become one of the top priorities of the nation. It is an essential prerequisite for moving into the 21st century with dignity. This goal needs urgent attention from the highest levels in the country. In view of this, the following actions are recommended:

8.1.1. President's task force on electronic communications

The task force should be constituted to frame policy on electronic communications, with the following mandate:

- a. To take stock of the current status of the telecommunications infrastructure in Pakistan and other related issues, including the relevant policies and plans.
- b. To formulate a course of action, taking into account the market forces and with a view to making rapid acquisition of new technologies in the field of telecommunications.
- c. To recommend an appropriate legislative framework to regulate future telecommunications services.

8.1.2. Creation of a regulatory body

A regulatory body i.e. the Pakistan Telecommunications Authority (PTA) has been created. However, its membership and mandate is not as yet clear. It should be an independent body, consisting of eminent professionals in telecommunications, engineering, law, finance, economics and other related disciplines, which could respond to the changing needs and requirements of society.

8.1.3. Full INTERNET connectivity

Full INTERNET connectivity should be provided immediately.

a. Establishment of a high speed international link

The planned link between Karachi and the submarine cable at Fujairah should be installed at the earliest possible opportunity. This should be followed up by the establishment of the link to the Trans Asia Europe terrestrial cable.

b. Lowering of data transmission tariffs

The entire PTC tariff structure, and in particular the tariffs on international data transmission and cost of leased lines, should be lowered and brought in line with other countries. Access to the international networks by academics should be free. The cost for this should be met by the universities who should be given liberal grants for this purpose.

8.1.4. Free or subsidized access for universities, research organizations, libraries and public institutions to international databases and on-line information services should be provided.

8.1.5. Elimination of import tariffs on computers and communications equipment

Although computers are subject to lower tariffs, they are still liable to various surcharges amounting to 30 per cent of the value. Besides this, computer software, computer peripherals (such devices as printers, data storage units and modems), and up gradation accessories are subject to higher tariff duties. These duties and surcharges should be eliminated to encourage the information industry.

8.1.6. Rationalization of licensing agreements for private data networks

Present licensing agreements have too many flaws and impose harsh conditions which would hinder rather than facilitate the progress towards the establishment of information and communications infrastructure in the country. The standard agreements should be reviewed to produce more balanced arrangements.

8.1.7. Support for the software development industry

Such support can take the following forms:

- a. Declaring software development to be an industry, in order to enable it to access financial support from the financial sector.
- b. Providing software industry with fiscal incentives.
- c. Establishment of technology parks, with high quality services at low cost.
- d. Support for training of professionals in this area.

8.1.8. Removal of restrictions on use of data communication equipment

Unless directed otherwise, all equipment approved by the US FCC should automatically be considered approved for use on PTC lines.

8.1.9. Removal of restrictions on public information sources

Many public information sources are subject to restrictions, mainly obsolete, on grounds of security. These sources include satellite and aerial photographs, detailed maps, and even statistical information on electronic format (e.g., government statistical, meteorological, and financial data). Since these data are available from many sources, they do not prevent any large organization from accessing or converting them for its own use. They only obstruct research scholars, analysts, and others who may be interested in these sources.

References:

- 60th Meeting of the SDPI's Study Group on IT and Telecom, March 3, 2016
- Data Networks, Note to the Prime Minister on the Development of the Information and Communications Sector in Pakistan, 1993
- A Memorandum, April 1995, Agenda for a Dignified Entry into the Twenty First Century, Access to International Information Networks