Telecom Sector Issues in Proposed Finance Bill 2024-25.

Impact and Impracticality of proposed fiscal measures in Finance Bill 2024-25.

Executive Summary

Telecom industry have been at the digital forefront of all the technological advancements that has taken place over a span of 3 decades. With FDI of over US$ 20 billion, telecom industry by far exceeds its expectations by contributing towards national development.

However, with proposed Finance Bill 2024-24, we humbly believe that all these proposed measures would badly hamper the positive changes of digital economy which are been witnessed and would also drive out foreign direct investment in the already challenged market competitive and high inflation driven business model.

1. 75% Advance Tax collection on Mobile services to Non-filers

At present, non-filers are subjected to higher tax rates to make their cost of doing business higher as well as to compel them to file their returns. The authorities have proposed 75% W.H.T tax for late tax filers. Please note that Telecom operators do not have any system provisioning to cater for this new development as currently at large W.H.T is charged 15% across all individuals irrespective of filer or non-filer. In the light of recent Income Tax General Order 1 of 2024 where government has directed to block sims, first line of defense will be to charge 75% W.H.T and then proceed towards blocking of sims and disconnection of their utility connections. Furthermore, it is proposed to ban travel of individuals which will be communicated by the relevant Authorities. The telecom infrastructure is not equipped to handle multiple tax rates, leading to operational inefficiencies and increased consumer costs.

2. Penalizing the enablers (Telecom Sector) of the Income Tax General Orders

In case of the Income Tax General Order, where implementing agencies do not block SIMS or mobile phones or fail to disconnect utility connections or comply with the newly introduced bar on foreign travel, a penalty of Rs.100 million will be imposed upon the implementing agency for first default and Rs.200 million for each subsequent default. Penalties and prosecutions are proposed for entities failing to fully disclose relevant particulars or submitting incomplete information in their tax returns or failure to file return on discontinuation of their business. They cannot and must not be imposed to penalize compliant taxpayers who are mere instruments in enabling the Authorities to achieve its compliance targets.

Such punitive measures will only breed more litigation in the courts and ultimately compromise any objective of increasing the tax to GDP ratio. We recommend collaborative efforts to raise tax compliance awareness and a gradual implementation of new policies.

3. Imposition of Sales tax at 18% on handsets below US$ 500 & @ 25% on more than US$ 500

Imposing an 18% sales tax on handsets below $500 will impede broadband penetration and digitalization in Pakistan. Affordable mobile handsets are crucial for increasing digital access, especially in a country where mobile phones are the primary means of accessing the internet for a large portion of the population. A significant tax hike on these handsets will make them less affordable, particularly for low-income households, thereby limiting their ability to access digital services. This could slow down the adoption of digital technologies and services, further widening the digital divide and the gender gap therein. In contrast, countries with higher digital penetration rates, such as South Korea (96%) and the United States (89%), have made significant strides in ensuring affordable access to digital devices and services. To foster digital inclusion and economic growth, it is essential to keep entry-level handsets affordable for the wider population in Pakistan.

4. Business of Foreign Direct Investors is at risk

The telecom industry has been instrumental in attracting Foreign Direct Investment (FDI) exceeding US$ 15 billion into Pakistan and continues to do so amidst rapid technological advancements. We proudly assert that the telecom sector operates with full tax compliance, thereby solidifying our position as a cornerstone of the economy.

While the Government of Pakistan (GoP) expresses its commitment to boosting exports in the Information Technology (IT) sector, it is crucial to recognize that the telecom industry plays a vital enabling role, with stable telecom and data services being indispensable for the growth of IT exports. However, recent budget announcements and the implementation of ITGO No. 1 of 2024, have left foreign investors in the telecom sector in total shock, feeling further marginalized. The GoP's recent move to block SIMs of non-filers, is tantamount to the delegation of enforcement of tax compliance measures to unrelated private foreign-owned entities—a practice that has no comparable example across the civilized world where telecommunication services are instead treated as basic constitutional rights of citizens—rather than utilizing its own executing agencies such as the providers of electricity and gas connections, is highly unjustifiable and calls into question the edifice of legality of the related income tax provision. This approach exacerbates the challenges already faced by the telecom industry and is being seen as another veiled message by the GoP to drive out rather than attract foreign direct investment.