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Cabinet approves "Digital Pakistan Policy"

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The federal cabinet on Tuesday approved the first-ever "Digital Pakistan Policy" containing several incentives for the information and technology and services, including extension of income tax holiday, 5% cash reward on export remittances, 5% sales tax on services (domestic), provision of bank loans to IT/ITeS industry, Tech SEZs (special economic zones) to create a digital ecosystem with infrastructure and institutional frameworks for the rapid delivery of innovative digital services, applications and contents.

Prime Minister Shahid Khaqan Abbasi chaired the cabinet meeting at which Ministry of Information Technology and Telecommunication presented the Digital Pakistan Policy.

The policy envisages becoming a strategic enabler for an accelerated digitization ecosystem to expand the knowledge based economy and spur socioeconomic growth. According to the approved policy, proposals for fiscal incentives for IT industry are recommended in consultation with IT industry including PASHA to boost the IT/ITeS exports. The Ministry of IT & Telecom will recommend the proposals for inclusion in the relevant documents such as Finance Bill and BOI's Special Economic Zone (SEZ) Act, etc, after due process.

In order to attract long-term investment in the IT/ITeS sector, income tax holiday under clause 133 of the Second Schedule of the Income Tax Ordinance, 2001 will be extended till 2025 to IT / ITeS companies registered with the Pakistan Software Export Board on their export revenue/income.

Improving the export remittances and the reporting of remittances in the purpose codes assigned by the State Bank of Pakistan for the IT & ITeS sector is a key to boosting the economic growth of the country. Hence, 5% cash reward shall be awarded on the net export remittances of PSEB registered IT/ITeS companies and PSEB registered call centers subject to a verifiable criteria to be agreed among the State Bank, FBR, Ministry of IT & Telecom, and Pakistan Software Houses Association (PASHA).

Profit margins in the domestic market are already low, and customers are unwilling to pay double digit sales tax which results in IT companies shouldering the cost. Hence, reduced sales tax of about 5% shall be charged on domestic revenues of IT/ITeS companies located in Islamabad Capital Territory. Additionally, the MoIT will take up the matter of rationalizing sales tax in provinces through appropriate channels.

Finance Division in consultation with Ministry of IT & Telecom will work with relevant stakeholders including State Bank on a proposal to reduce long-term financing rates to 5% for IT/ITeS companies as well as financing arrangements based on trade receivables/contracts and intellectual property such as trademarks, copyrights and patents. This will enable IT enterprises to compete for large projects locally and internationally.

The Ministry of IT & Telecom will recommend to incentivize investment in IT infrastructure in the country to Board of Investment (BOI) through the concept of technology SEZs, availing the already in place to Special Economic Zone Act 2012 of Pakistan through modifications and exceptions, extending the incentives of SEZs to IT industry.

Given the high land cost in major metropolitans such as Islamabad and Karachi, PSEB would allocate land on a long-term lease to IT/ITeS companies. Detailed terms and conditions for the leased land will be decided as part of the action plan and would include specific commitments for development, occupation and employment generation as specified by the PSEB.

Furthermore, the policy would reinforce the industry status of IT sector at all levels of the government in pursuance to previous formal notification of the government. The policy includes the ratification of World Trade Organization's Information Technology Agreement (ITA) by the government. The MoIT will work with Ministry of Commerce & other stakeholders for accession to the ITA regime to eliminate tariff barriers on imports of ICT products.

It also includes increasing the timeframe of initial registration period of call centers with PSEB to 5 years from the current 1-year period. Similarly, the renewal of call centers registrations will be for 5 years as well as opposed to yearly renewal regime currently in place. The PSEB will provide registration certificate/NOC to call centers in 3 days in both initial registration and renewal cases; call center certifications to individual/sole proprietors will be allowed; PSEB/PTA to enable telecommuting/work from home facility for the call centers to expand BPO workforce; the government of Pakistan will encourage trade delegations comprising IT/ITeS-BPO to the major international market and to launch an international branding & PR campaign projecting Pakistan as a leading outsourcing destination for IT & ITeS-BPO services.

The policy would enhance the current market size of e/m-commerce. According to some estimates, the market carries an enormous growth potential due to exponential growth in broadband subscribers from 3.7 million in 2013 to over 44.3 million in 2017, which is continuously increasing. With these growth trends projected to persist in the future, overseas investments will continue to grow in e-commerce.

Promoting e-commerce by providing and enabling an environment where payment service providers (PSPs) and payment service operators (PSOs) can operate and establish an effective e-commerce platform and take e-commerce activities in Pakistan to the next level.

Generation of sustainable innovation, entrepreneurship and employment opportunities for the country's rapidly growing technology savvy and entrepreneurial youth. To conduct digital skills programs for the human resource development in current and emerging technology domains. The policy also aims at collaboration with international partners to boost innovation and setting up venture capital funds to hold national level competitions on a regular basis in all key emerging technologies and applications.

The policy aims to establish and build a framework for setting-up incubation centers in provincial capitals & major secondary cities facilitating IT startups to get off the ground more quickly and smoothly by tapping into a vast network of business partners and mentors, including specialized innovation centers in thematic areas including FinTech, Artificial Intelligence (AI), Internet of Things (IoT) and Robotics. The policy stresses to promote and encourage entrepreneurship by providing incentives to IT sector and training for young professionals to become freelancers.

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