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A. IT Start-up: 100% Tax credit (no change from last year)

1. Start-up Definition:
   - Start-up means business of resident individual, AOP or company commenced on or after 1st July, 2012.
   - Person is engaged in technology driven products or services.
   - Person is registered with PSEB.
   - Annual turnover is less than Rs.100 million during each of the last five years.

2. Start-up Conditions for 100% Tax Credit:
   - 100% tax credit is available in the year in which start-up is certified by PSEB and following two years subject to following conditions:
     - Return has been filed.
     - Withholding statements have been filed if person is a withholding agent.
     - Sales tax return has been filed if person is required under relevant Federal & Provincial sales tax laws.

3. Start-up Exemption Certificate:
   - If start-up is engaged in export of technology driven products or services, start-up can obtain exemption certificate from tax deduction under section 154 or 154A as the case may be.
   - If start-up is engaged in local supply of products or services or both, start-up can obtain exemption certificate from tax deduction under section 153.
   - Start-up has exemption on both export proceeds and local income.
B. Export proceeds of Computer Software or IT Services or IT enabled services by persons (Individual, AOP, Company):

1. Definitions
   - Information Technology (IT) services include [but not limited to] software development, software maintenance, system integration, web design, web development, web hosting and network design; and
   - IT enabled services include [but not limited to] inbound or outbound call centres, medical transcription, remote monitoring, graphics 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.

2. PSEB registered Businesses & Freelancers: Final Tax Regime (FTR) with tax rate of 0.25% of export proceeds
   - 0.25% tax will be deducted by banks on receipt of export proceeds in Pakistan which shall be FTR subject to following conditions:
     - Return has been filed.
     - Withholding statements have been filed if person is a withholding agent.
     - Sales tax return has been filed if person is required under relevant Federal & Provincial sales tax laws.
     - No credit of foreign taxes paid is allowed.

3. Not registered with PSEB: FTR with Tax Rate of 1% of Export Proceeds
   - 1% tax will be deducted by banks on receipt of export proceeds in Pakistan which shall be FTR subject to following conditions:
     - Return has been filed.
     - Withholding statements have been filed if person is withholding agent.
     - Sales tax return has been filed if person is required under relevant Federal & Provincial sales tax laws.
     - No credit of foreign taxes paid is allowed.
4. Local IT & IT enabled service provider or exporter who does not fulfill applicable conditions:
Business income will be taxed based on the status of person i.e. Individual, AOP or Company

<table>
<thead>
<tr>
<th>Small Company</th>
<th>Other than company</th>
<th>Individual/ AOP with more than Rs.100 million turnover in any year after tax year 2017</th>
<th>Individual/ AOP with less than Rs.100 million turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax liability is higher of following:</td>
<td>Tax liability is higher of following:</td>
<td>Tax liability is higher of following:</td>
<td>i. % of taxable income as per slab rates</td>
</tr>
<tr>
<td>i. 20% of taxable income</td>
<td>ii. 29% of taxable income</td>
<td>iii. % of taxable income as per slab rates</td>
<td>ii. Minimum tax paid under section 153</td>
</tr>
<tr>
<td>iii. 17% of accounting income</td>
<td>iv. Minimum tax paid under section 153</td>
<td>iii. 1.25% of turnover</td>
<td>iii. Minimum tax paid under section 153</td>
</tr>
<tr>
<td>iv. 1.25% of turnover</td>
<td>iv. Minimum tax paid under section 153</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum tax paid under section 153</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FAQs
C. Frequently Ask Questions (FAQs):

Q1. What is Final Tax Regime (FTR)?
**Answer:** FTR means that the tax deducted by banks on export proceeds is final tax and no more tax is required to be paid on the income.

Q2. Is a certificate or application required for opting FTR?
**Answer:** No certificate or application is required for opting FTR. Every year the person just needs to file the return showing income under FTR. However, a person can opt out of FTR and offer income under Normal Tax Regime (NTR).

Q3. Why would a person opt for Normal Tax Regime (NTR)?
**Answer:** A person may opt for NTR if a person has losses or tax credits available due to which expected to pay lesser tax than FTR. The option to offer tax under NTR is required to be filed along with return every year otherwise the return will be treated under FTR.

Q4. When filing of withholding statements become necessary?
**Answer:** when a person is withholding agent, common examples are:
- Salary – Every employer whose employee has taxable salary
- Rent – Every company while for Individual/ AOP – generally when rent is more than Rs.1.5 million per annum
- Goods & Services – Every company while for individual/ AOP when turnover is more than Rs.100 million

Q5. What about super tax for start-ups?
**Answer:** For start-ups the income level of start-ups is too low to attract super tax.

Q6. What about super tax for exporters with 0.25% FTR?
**Answer:** The concept of imputable income applies. A company with gross turnover of approximately Rs.17.5 billion would attract first slab of super tax i.e. 1%.

Q7. What about super tax for exporters with 1% FTR?
**Answer:** The concept of imputable income applies. A company with gross turnover of approximately Rs.4.4 billion would attract first slab of super tax i.e. 1%.
Q8. When filing of sales tax return is necessary for exporter of IT services?

**Answer:** For exporters in Islamabad jurisdiction, it is mandatory and all revenue is to be reported as zero rated. For others it is advisable to file sales tax return in whichever jurisdiction you are operating and report exempted exports.

Q9. What is taxation of freelancer?

**Answer:** Freelancer:
- Can claim 100% tax credit if all of the start-up conditions are met
- Can fall under 0.25% if registered with PSEB and FTR conditions are met
- Can fall under 1% FTR if not registered with PSEB but FTR conditions are met
- Otherwise, tax is to be paid as normal business income

Q10. How do you see remote workers verses freelancers verses salaried persons?

**Answer:** There is currently nothing in law to distinguish between remote workers and freelancers. A remote worker/freelancer is hence at an advantage as compared to salaried persons because he/she can claim 100% tax credit or 0.25% FTR or 1% FTR depending on the conditions he/she meets (most likely 1% FTR) hence still at an advantage compared to salaried persons.

Q11. Remote workers are a problem for local companies?

**Answer:** Remote workers pose a challenge for local companies. Local company either finds it difficult to retain good employees because foreign competitors offer them tax free salary (reduced tax salary) as a remote worker, or the local company has to increase its cost of doing business by increasing salaries which again impacts competitiveness of billing charges to clients.

Q12. Are double rates for non-filers applicable?

**Answer:** No, double rates for non-filers are not applicable on IT sector FTR.

Q13. Is there any other way I can have zero income tax for my IT services?

**Answer:** Yes, get a special technology zone enterprise license for 10 years exemption.
Q14. Any incentive for venture capital firm/fund?

Answer: Yes, profits & gains during July 01, 2022 to June 30, 2025 are exempt for venture capital company and fund registered under relevant Venture Capital Companies and Funds Management Rules issued by Securities and Exchange Commission of Pakistan.

Q15. What about super tax for local IT service providers with 1% FTR?

Answer: For local service providers only, super tax is applicable as follows:

<table>
<thead>
<tr>
<th>Income as defined in section 4C</th>
<th>Rate of super tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than Rs. 150 million up to Rs.200 million</td>
<td>1% of income</td>
</tr>
<tr>
<td>More than Rs. 200 million up to Rs.250 million</td>
<td>2% of income</td>
</tr>
<tr>
<td>More than Rs. 250 million up to Rs.300 million</td>
<td>3% of income</td>
</tr>
<tr>
<td>More than Rs. 300 million</td>
<td>4% of income</td>
</tr>
</tbody>
</table>

Q16. What are slab rates of salaried persons?

<table>
<thead>
<tr>
<th>Slab</th>
<th>Applicable rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 600,000</td>
<td>0%</td>
</tr>
<tr>
<td>600,001-1,200,000</td>
<td>2.5% of the amount above 600,000</td>
</tr>
<tr>
<td>1,200,001-2,400,000</td>
<td>15,000+12.5% of the amount above 1,200,000</td>
</tr>
<tr>
<td>2,400,001-3,600,000</td>
<td>165,000 + 20% of the amount above 2,400,000</td>
</tr>
<tr>
<td>3,600,001-6,000,000</td>
<td>405,000 + 25% of the amount above 3,600,000</td>
</tr>
<tr>
<td>6,000,001-12,000,000</td>
<td>1,005,000 + 32.5% of the amount above 6,000,000</td>
</tr>
<tr>
<td>Above 12,000,000</td>
<td>2,955,000+35% of the amount above 12,000,000</td>
</tr>
</tbody>
</table>

Q17. What are slab rates for Non-Salaried Persons and AOPs?

<table>
<thead>
<tr>
<th>Slabs</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-600,000</td>
<td>0%</td>
</tr>
<tr>
<td>600,001-800,000</td>
<td>5% of the amount above 600,000</td>
</tr>
<tr>
<td>800,001-1,200,000</td>
<td>10,000 + 12.5% of the amount above 800,000</td>
</tr>
<tr>
<td>1,200,001-2,400,000</td>
<td>60,000 + 17.5% of the amount above 1,200,000</td>
</tr>
<tr>
<td>2,400,001-3,000,000</td>
<td>270,000 + 22.5% of the amount above 2,400,000</td>
</tr>
<tr>
<td>3,000,001-4,000,000</td>
<td>405,000 + 27.5% of the amount above 3,000,000</td>
</tr>
<tr>
<td>4,000,001-6,000,000</td>
<td>680,000 + 32.5% of the amount above 4,000,000</td>
</tr>
<tr>
<td>Above 6,000,000</td>
<td>1,330,000+35% of the amount above 6,000,000</td>
</tr>
</tbody>
</table>
II. Sales Tax in Islamabad

- Previously sales tax in Islamabad for IT & IT enabled services was 5%.
- Now, 5% is applicable only for “software or IT based system development consultants”.
- Rest of the IT sector to be charged 15%, while software (intangible goods) sellers are to be charged 17%.
- Input adjustment is allowed against all rates.
- Definition of IT & IT enabled services has also been deleted, which was as under:
  a) “IT services” include software development, software maintenance, system integration, web design, web development, web hosting and network design; and
  b) “IT enabled services” include inbound or outbound call center, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers, data entry operations, locally produced television programs and insurance claims processing.
III. Provincial Sales Tax

1. Sindh Sales Tax:
   - The software or IT based system development consultants have been given the option to pay 13% sales tax with input adjustment or 3% sales tax without input adjustment.
   - To exercise the option of 3% sales tax Form S must be filed on or before July 31, 2022.
   - For call centers, same option is available upon filing of Form L while due date is same i.e. July 31, 2022.
   - No change in the status of export of services i.e. previously exempt services are still exempt.

2. Punjab Sales Tax:
   No change in rate of sales tax in Punjab i.e. exports are still exempted while local services are subject to 5% (without input adjustment) for IT sector falling under serial # 22 of the table for taxable services.

3. Khyber Pakhtunkhwa Sales Tax:
   No change in rate of sales tax and previously applicable rates will remain intact:
   - 2% (without input adjustment) for IT service providers falling under serial # 15 of table for taxable services
   - 5% (without input adjustment) for IT service providers falling under serial # 19 of table for taxable services

4. Balochistan Sales Tax
   No change in rate of sales tax and previously applicable rates will remain intact:
   - 6% (without input adjustment) for IT service providers falling under tariff heading 9868