

20<sup>th</sup> January, 2021

Dr. Hafeez Shaikh  
Federal Minister of Finance and Revenue  
Government of Pakistan  
Islamabad

Dear Doctor Sb,

### **Framework for Promoting Export of Services**

Encouraged by your government's commitment to and success in promoting exports, the Pakistan Business Council (PBC) would like to propose a comprehensive approach to encouraging the export of services. As you have often said, continued reliance for exports on a narrow basket of goods will not sustain the positive balance on the current account that your government has achieved. Also, in a country of 220 million people, majority of whom are young, employment opportunities can be created by promoting export of services. PBC's proposal is based firstly, on creating parity on tax treatment from rendering services, whether rendered in or outside Pakistan and secondly, to achieve comparability in the provision of concessional funding of working capital and fixed assets required for rendering services, in line with what is available for export of goods:

**a. Income Tax:**

Presently there are two sets of tax provisions applicable to services, both of which apply only to services rendered outside Pakistan, leaving income from services rendered in Pakistan for the benefit of clients and businesses abroad liable to full taxation, currently at 29%:

- a. *income tax on royalty, commission and fee from technical services rendered/executed abroad is exempt from tax under Section 131, Part 1 of the Second Schedule of the ITO 2001.*
- b. *Any other income from such services rendered abroad is liable to tax at rates ranging from 1% to 5% under Clause 3, Part II of the aforementioned Second Schedule.*

It is our recommendation that Section 131, Part 1 of the Second Schedule of ITO 2001 should read as follows:

**“income tax is exempt on royalty, commission and fee from services rendered or executed in Pakistan or abroad for the benefit of clients for their projects and businesses based outside Pakistan for which payment is received in foreign currency through official banking channels. The term “services” shall deem to cover technical, managerial, consulting, testing and diagnostic, medical, architectural, structural, electronic and mechanical design, plant repair and erection, accounting, engineering, actuarial, organizational design, training or any other services that entail the use of professional expertise, experience and intellectual properties.**

**Provided further that this exemption shall not apply to services rendered by sub-contractors of clients based abroad for projects and businesses based in Pakistan.”**

As the above revision covers all types of exportable services, Clause 3, Part II of the ITO 2001 will be redundant and may be withdrawn.

**b. Duty Drawback and Rebates:**

Where the provision of technical services to clients based abroad entails domestic purchases, the exporter should be entitled to duty and tax drawback so that the export price is competitive. Additionally, we recommend that a rebate be provided to promote the export of technical services.

**c. Concessional Financing:**

Providers of services to clients based abroad should be able to obtain concessional pre- and post- export financing under EFF, similar to exporters of goods. Likewise, they should be entitled to LTFF on plant and equipment required for the execution of such services. The State Bank of Pakistan should also review and advise banks to lend against non-physical collateral such as work-in-progress and trade receivables of these service providers.

We would be happy to discuss and elaborate on the aforementioned proposal and hope that an early action can be taken to create a more supportive fiscal and financial environment for export of services.

Yours sincerely,



Ehsan Malik

cc: Mr. Razak Dawood, Advisor to the PM on Commerce and Investment  
Dr. Reza Baqir, Governor State Bank of Pakistan  
Mr. Mohammad Javed Ghani, Chairman FBR