P@SHA
Pakistan IT Industry Association

Annual Budget **Recommendations** for IT/ITeS Industry FY 2025-2026

https://www.pasha.org.pk

Table of Contents

P@SHA's Annual Budget Recommendations for **IT and ITes Sector FY 2025-2026**

Foreword by **Chairman P@SHA**

I am honoured to present P@SHA's Annual Budget Recommendations for the IT & ITeS Sector for the fiscal year 2025-26. This comprehensive document outlines strategic interventions aimed at solidifying Pakistan's position as a premier technology hub and establishing a resilient framework to promote the growth and advancement of our nation's IT industry. In the fiscal year 2023-24, Pakistan's IT export remittances reached an unprecedented $3.223 billion, marking a 24% increase from the previous year. This surge validates the sector's vitality and its significant contribution to the national economy.

The government's ambitious plan to elevate IT sector exports to more than $4 billion in fiscal year 2025 reflects a strong commitment to the industry's expansion. The IT sector currently supports the livelihoods of over 600,000 professionals and freelancers, encompassing more than 10,000 companies. This dynamic ecosystem not only addresses the current account deficit but also plays a crucial role in shaping Pakistan's financial future.

I am honored to present **P@SHA's Annual Budget Recommendations for the IT & ITeS Sector for FY 2025-26.** This document outlines strategic interventions to solidify Pakistan as a premier technology hub and foster sustainable industry growth.

In FY 2023-24, **Pakistan's IT export remittances reached $3.223 billion,** marking a **24% increase** from the previous year. The government's ambitious target of **$4 billion in IT exports for FY 2025** reflects its commitment to sector expansion. With over **600,000 professionals and freelancers and 10,000+ companies,** the IT industry is vital for economic resilience and employment.

At P@SHA, we believe sustainable growth hinges on four key pillars:

- **Market Access** – Facilitating **easier overseas travel** for Pakistani tech entrepreneurs and ensuring **a welcoming environment** for foreign investors and professionals. Promoting **Pakistan as a hospitable and attractive destination** for global business.
- **Fiscal Interventions** – Ensuring **policy consistency with a 10-year fiscal framework,** enabling **Roshan Digital Accounts for IT firms,** and simplifying capital movement.
- **Infrastructure Development** – Investing in **5G, fiberization, subsea cables, and data centers** while strengthening **cybersecurity standards.**
- **Skills Development** – Expanding **university faculty training** and **high-tech skill programs** in **AI, blockchain, and emerging technologies.**

P@SHA's **Annual Budget Recommendations** serve as a catalyst for **innovation, economic growth, and global competitiveness.** We remain steadfast in advocating policies that drive investment, employment, and industry expansion.

I extend my gratitude to **government officials, industry leaders, and P@SHA's policy team** for their commitment to shaping this framework.

Last year's Budget Recommendations can be accessed **here**

Together, we can drive Pakistan's IT industry toward sustained growth and global recognition.

Sajjad Mustafa Syed
Chairman, P@SHA

Authors

Laraib Farhat
Manager Policy and Govt Affairs
P@SHA

Sharif ud din Khilji
Tax Consultant

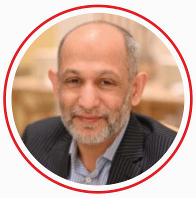
Co-authors

Kashif Hussain
Research Lead
P@SHA

Gulraiz Iqbal
Policy & Govt. Affairs Lead
P@SHA

Reviewers

Sajjad Mustafa Syed
Chairman P@SHA



Salman Dar
Member CEC

Ali Hasani
Secretary General
P@SHA

- Umair Nizam
- Raheel iqbal
- Haris Naseer
- Abdul Wahab
- Dr Sonia Saleem
- Hassan Bin Rizwan
- Mohammad Munaf
- Nadia Iqbal
- Salman Dar
- Sheikh Abdul Qadir
- Usman Akbar

Designed by

- **Arsalan Irshad**
  Design Lead, P@SHA

Ease of doing business[1]

Tax Exemption for IT/ITeS Industry

Providing tax incentives and ensuring their consistency is imperative to create a favorable business environment for the IT/ITeS industry. While there are numerous types of taxes, we recommend policy measures for the following tax categories specifically for the IT/ITeS industry.

High-impact areas

Following are the High Impact areas, requiring immediate action.

Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
Federal Direct and Indirect Taxes	
Income Tax Ordinance, 2001	
01 Restoration of Final Tax Regime	The Final Tax Regime (FTR) for IT and IT-enabled services (ITeS) export services in Pakistan is set to expire on June 30, 2026. This regime allows for a reduced withholding tax rate of 0.25% on export proceeds for entities registered with the Pakistan Software Export Board (PSEB) until the specified date.

Proposed Changes

Restore the Final Tax Regime (FTR) for IT and ITeS exports for 10 years (2025–2035) to ensure predictability and investor confidence. This measure will simplify tax structures for IT firms, and encourage reinvestment by allowing exporters to retain more revenue for business expansion and technological innovation.

Rationale

Reinstating **FTR for IT and ITeS exports** aligns Pakistan with regional competitors offering **long-term tax incentives to attract FDI**. The IT sector requires stability to maintain **global competitiveness,** increase exports, and create employment. **A 10-year tax exemption** will accelerate digital transformation, boost investor confidence, and position Pakistan as a leading IT hub.

02 Section 152 outlines the tax treatment for payments to non-residents, including fees for technical services, royalties, and other payments.	Under the current Income Tax Ordinance, 2001, payments made to non-residents for services rendered in Pakistan are subject to withholding tax. The applicable withholding tax rates vary depending on the nature of the payment and the existence of Double Taxation Agreements (DTAs) between Pakistan and the recipient's country. For instance, royalties and fees for technical services paid to non-residents without a permanent establishment in Pakistan are subject to a 15% withholding tax

Proposed Changes

It is proposed that payments made from Exporters' Special Foreign Currency Accounts (ESFCA) for services rendered be exempted from withholding tax under the Income Tax Ordinance, 2001. This exemption would apply to all categories of IT services provided, aiming to encourage the repatriation of funds into Pakistan.

Rationale

The proposed exemption would **encourage Foreign Exchange Repatriation**

[1] Regional Economies are ranked on their ease of doing business, from 1–190:
Pakistan: 108, SriLanka: 99, Nepal: 94, Vietnam: 70

Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
03 Tax Harmonization Across IT Workforce	Disparities in taxation between salaried employees **(5%–35%)** and remote workers **(0.25%–1%)** lead to talent migration and challenges for local companies in retaining skilled professionals.

Proposed Changes

Harmonize tax policies to ensure equitable treatment of salaried employees and remote workers, creating a level playing field and reducing talent attrition from corporate IT sectors. Recommended is that there should be harmonization of tax between the remote workers and the local employees.

04 Definition Harmonization	Inconsistent definitions of IT & ITeS services between federal and provincial authorities lead to double taxation and compliance burdens.

Proposed Changes

Harmonize definitions of IT & ITeS services across federal and provincial tax laws to ensure consistency and avoid overlapping jurisdictions. This would provide clarity, reduce compliance costs, and foster sector growth

Rationale

Harmonizing IT and ITeS service definitions across federal and provincial tax laws ensures consistency, eliminates jurisdictional ambiguities, and reduces compliance burdens. A unified framework enhances investor confidence, streamlines taxation, and promotes sectoral growth by fostering a predictable regulatory environment, ultimately strengthening Pakistan's digital economy and global competitiveness.

05 Expanding Startup Income Exemption	The current exemption of three years and a turnover limit of Rs. 100 million is restrictive.

Proposed Changes

Extend the exemption to five years and increase the turnover limit to **Rs. 275 million**, aligning with global definitions of startups.

In the original budget of 2017, this was equivalent to **$1M**. as the rupee now has devalued, so the turnover limit shall be adjusted accordingly.

Rationale

Extending the exemption to five years and increasing the turnover limit to Rs. 275 million aligns with global startup policies, accounts for rupee devaluation, and ensures meaningful support for early-stage businesses. This adjustment maintains parity with the 2017 policy's original intent, fostering innovation, economic growth, and foreign exchange inflows.

06 Appointment of Dedicated Commissioners for KLI region	FBR promised to appoint Commissioners for the KLI region that will solve the issues of the IT Industry. However, there is no progress on that part.

Proposed Changes

This will help prevent unnecessary tax notices and ensure that tax officers develop a better understanding of IT-specific tax matters, leading to more informed decision-making and a streamlined tax administration for the industry.

Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
07 Section 159 modification	The IT exporters are now under FTR however there are several taxes against which they are unable to obtain exemption certificates due to non-availability of appropriate enabling clauses whereby the Commissioner can issue exemption certificates.

Proposed Changes

Section 159 needs to be modified to provide for the issuance of exemption certificates in respect of all taxes for IT exporters other than section 154A.

Rationale

IT exporters under the Final Tax Regime (FTR) are still subject to multiple taxes due to the absence of enabling provisions allowing the Commissioner to issue exemption certificates. This creates unnecessary financial burdens and reduces cash flow efficiency. Amending Section 159 will ensure seamless tax exemptions, improve ease of doing business, and align Pakistan’s tax framework with global best practices to promote IT export growth.

08 236Y (Income tax)	The current policy imposes a 5% tax on corporate debit cards linked to ESFCAs on each transaction on time of payment.. However, IT companies already pay 0.25% in Final Tax Regime (FTR) on their export proceeds.

Proposed Changes

We propose exempting corporate debit card transactions from the additional 5% tax to avoid double taxation and promote the use of ESFCAs.

Rationale

The rationale of the proposition for the IT industry is two-fold: to avoid double taxation and promote the use of Export-Oriented Foreign Currency Accounts.
By exempting debit card transactions from the additional tax, the proposal aims to make ESFCAs more attractive for IT companies. This can lead to improved efficiency in managing foreign currency and potentially provide some financial benefits.

09 Exemption on Capital Gains VC (clause 103A)	

Proposed Changes

Capital gain on disposal of shares of start-up companies and export-oriented IT & ITeS companies shall be exempted through the insertion of the appropriate clause in Part I of the Second Schedule while withholding tax exemption shall also be given through the insertion of the appropriate clause in Part IV of Second Schedule.

10 Exemption on dividend	

Proposed Changes

Dividend paid by start-up companies and export-oriented IT & ITeS companies to their shareholders shall be exempted through insertion of appropriate clause in Part I of Second Schedule while withholding tax exemption shall also be given through insertion of appropriate clause in Part IV of Second Schedule.

Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
11 EXEMPTION CERTIFICATE U/S 152	**Regular payments to non-residents:** IT sector companies frequently pay non-resident entities for software, platform use, antivirus, and other IT-related services. **Withholding tax requirement:** The law mandates deduction of tax at 15% or 10% unless specific exemptions are available. **Treaty-based exemptions:** Tax treaties provide exemptions, but companies must obtain an exemption certificate under Section 152 of the Income Tax Ordinance, 2001, to claim them. **Bank processing hurdle:** Banks refuse to process payments without either: ▪ Tax deduction, or ▪ A valid exemption certificate. **Exemption certificate delay:** The Commissioner Inland Revenue (CIR) is legally required to issue exemption certificates within 30 days, but this timeline is not adhered to, causing delays.

Proposed Changes

The Federal Board of Revenue (FBR) should ensure that the **CIR issues exemption certificates within the stipulated 30-day period,** as per the law.

Streamline the process for obtaining exemption certificates, particularly for payments falling under treaty exemptions, to reduce unnecessary administrative hurdles.

Allow banks to process payments based on an undertaking or acknowledgment of exemption requests to prevent disruptions in the IT sector's operations.

Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
12 EXEMPTION CERTIFICATE U/S 159	**Final tax regime:** IT sector export companies are subject to a **final tax regime at 0.25% of their turnover.** Refunds piling up: Taxes paid under other sections (e.g., on electricity, telephones, vehicles, etc.) are not adjustable under the final tax regime, resulting in unutilized refunds that accumulate over time. **Exemption certificate delays:** While companies apply for exemption certificates to avoid excess withholding: ▪ Applications are often rejected or delayed significantly, rendering the certificates ineffective. **Section 159 provision ignored:** Under **Section 159,** exemption certificates are supposed to be **auto-issued after 15 days,** but this functionality has not been enabled on the **FBR portal,** despite being mandated by law. **FBR non-compliance:** The failure to implement Section 159 reflects a lack of willingness by the FBR to adhere to

Proposed Changes

Activate auto-issuance system: Enable the auto-issuance of exemption certificates under **Section 159** on the FBR portal, as mandated by law.

Streamline exemption processing: Address the procedural inefficiencies causing rejections and delays, ensuring that exemption certificates are issued within the 15-day timeline.

Introduce mechanisms to offset taxes paid on utilities and other expenses against the final tax liability to prevent refund accumulation.

FBR leadership should take strict measures to enforce compliance with Parliament’s decisions, ensuring transparency and accountability.

	Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
13	Charges on Foreign Currency (FC) Debit Cards	Retention account holders incur withholding tax (WHT) and other charges for using FC debit cards, discouraging legitimate usage. Foreign income is already exempt and falls under the Final Tax Regime (FTR); therefore, imposing additional taxes lacks a justifiable basis.

Proposed Changes

Remove WHT and other excessive charges for FC retention accounts to incentivize legitimate use of foreign currency earnings.

14	Sales tax return filing in Islamabad and Provinces	**Export income exemption:** Export income is not subject to sales tax. **Sales tax return filing requirement:** Despite the exemption, there is still a requirement to file sales tax returns: ▪ Under the Islamabad Sales Tax on Services (due to zero-rating). ▪ Under Section 65F and Section 154A of the Income Tax Ordinance (ITO), 2001. **Finance Act 2023 change:** The sales tax return filing requirement was deleted from Section 154A of the ITO 2001 by the Finance Act 2023, but: ▪ The deletion is not retrospective. ▪ Previous years' compliance requirements remain, creating a burden for taxpayers. **IT sector burden:** The IT sector is also required to file sales tax returns under Section 65F and ICTO 2001 (Islamabad Capital Territory Ordinance).

Proposed Changes

Retrospective deletion: Amend the law to make the deletion of the sales tax return filing requirement from Section 154A **retrospective** to eliminate liability for prior years.

Repeal other requirements: Remove the sales tax return filing requirements for the IT sector under:

- ICTO 2001.
- Section 65F of the ITO 2001.

15	Section 4C	Super tax clarification

Proposed Changes

A clarification shall be added in section 4C to identify that super tax is not applicable on exporters of IT & IT-enabled services for tax year 2022 as they were eligible for 100% tax credit under section 65F. The following is the proposed text:

Explanation: For the removal of doubt it is hereby clarified that any income eligible for 100% tax credit under any provisions of this Ordinance shall be eligible for 100% tax credit against super tax.

The super tax exemption shall also be extended to persons engaged in the rendering of IT & ITeS services locally if such persons are registered with PSEB and P@SHA. The following proviso may be added:

"Provided that the provisions of section 4C shall not be applicable to a person engaged in the rendering of Information Technology (IT) and IT enabled services as defined in section Section 2(30AD) and Section 2(30AE) where such person is duly registered with PSEB and P@SHA."

Rationale

Currently the tax officers are creating illegal demands on this issue, the clarification will help in resolving the issue.
Although a decision has been issued by the Tribunal in favor of an IT company, in order to avoid further litigation an explanation may be inserted.

Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
16 New Proposed	Currently, Pakistan's IT sector heavily relies on adapting existing technologies, limiting its potential for long-term, sustainable growth. A robust domestic innovation ecosystem is crucial for developing indigenous solutions and competing effectively in the global market.

Proposed Changes

We recommend the introduction of a tax deduction scheme specifically designed to incentivize R&D activities within IT companies. This scheme could offer deductions for a specific percentage (e.g., 30%) of qualifying R&D expenses incurred by IT companies.

Rationale

A focus on R&D creates a more attractive environment for highly skilled researchers, engineers, and scientists, fostering a talent pool for continued innovation.

17 Fourteenth Schedule	SME status

Proposed Changes

Modification shall be made in Fourteenth Schedule so that benefits provided to manufacturers are also extended to IT & ITeS businesses in the SME sector. The threshold for SME shall also be increased to Rs.800 million for IT & ITeS sector businesses.

The definition of SME under section 2(59A) may be modified to include the following:

“Provided that effective from July 01, 2024, small and medium enterprises shall also include any person registered with PSEB or PASHA where annual turnover of such person does not exceed Rs. 800 million in a tax year.”

Fourteenth Schedule shall also be amended as follows:

Rule 3 & 4 shall be modified to provide for three categories by adding a line item in tables given below rule 3 & 4.

The third category shall be for SMEs having turnover in excess of Rs.250 million but not exceeding Rs.800 million.

The rate of tax under rule 3 on taxable income of third category shall be fixed at 20%, however if they opt for final tax regime under rule 4 then the rate shall be fixed at 1% of gross turnover for third category.

A proviso shall be added to Rule 8 as follows:

Provided that the provisions of section 153 shall not apply to SMEs registered with PSEB.

Rationale

The IT sector is fast becoming the largest sector to provide white collar jobs in Pakistan and considering the need to further boost this sector and bring forex in Pakistan, it is necessary to facilitate SMEs in this sector.

Federal Direct and Indirect Taxes

Federal Direct and Indirect Taxes

Income Tax Ordinance, 2001

	Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
01	**Omission of Clause 94 of Part IV of 2nd Schedule**	Specified sectors were incentivized and reduced rate of 2% was required under second schedule, however, Finance Act 2019 has omitted the said clause and now IT and IT enabled services are taxed at increased rate of 4% under section 153B

Proposed Changes

Local IT companies are currently operating on thin margins, with some even on the brink of losses. Therefore, implementing an initial 2% tax withholding deduction could provide much-needed relief and incentivize growth within the local IT sector.

Rationale

A reduced tax rate can attract more investors and sole proprietors to establish companies, thereby bolstering overall tax revenue in the long run.

02	Reduction in useful life of Intangible Assets. Section 24	The Federal Government through Finance Act, 2019 has increased the useful life of Intangible Assets having indefinite useful life from 10 years to 25, thereby, reducing the tax amortization expense for tax payers. Intangible Assets (Intellectual properties) are main assets of IT companies, hence reduction in amortization expense would significantly impact on taxable profit and tax liability.

Proposed Changes

Intangible Assets are the main assets in the IT Sector therefore, to provide tax relief, an amortization expense should be allowed over the previously allowed 10 years.

Rationale

The relief sought will improve profitability and economic progress considerably, reduce the burden of tax on the taxpayers and attract more investment in the IT sector.

03	Payment for goods, services and contracts Section 153	The tax deducted u/s 153 of Income Tax Ordinance 2001 is levied on the amount inclusive of sales tax which is alike tax over tax.

Proposed Changes

It is proposed to substitute the word 'Inclusive' with 'Exclusive' in section 153(7)((v)(a). It will curb the FBR practice that charges tax on gross invoice.

Rationale

It will reduce the adverse effect on the IT Industry which operates on thin margins and larger scale.

04	165 (8) Statement	A statement in the prescribed form reconciling amounts mentioned in annual statement filed and amount declared in return is required to be e-filed by every prescribed person

Proposed Changes

A time period ranging 30-60 days should be specified in the law to accept/reject the reconciliation attached along with ITR. Where reconciliation has been accepted by CIR or rejection order is not issued within 60 days, proceedings under Rule 44 read with Section 161 should have been considered completed for that tax year. No separate proceeding under Rule 44 should be started subsequently for that tax year.

Rationale

It will reduce the tax compliance burden of the Taxpayers

Medium impact

Federal Direct and Indirect Taxes

Income Tax Ordinance, 2001

	Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
01	170	Refunds

Proposed Changes

The payment of refunds is a very cumbersome and long process. It is suggested that the automated issuance of refund shall be made effective immediately.

Rationale

The cash flow problems arising out of non-issuance of genuine refunds create a lot of hurdles particularly for small businesses while auto issuance of refunds will be a confidence booster for the taxpayers.

The Sales Tax Act, 1990

	Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
02	Sixth Schedule	Software sales are not exempt.

Proposed Changes

In the Sixth Schedule, in Table 1, serial # 41 shall be modified and reinstated to read as follows:

41	Computer software in any form whether supplied or installed online, through a hard drive, cloud, or any other medium	Respective headings

Rationale

The taxpayers are facing issues of double taxation by treatment of software as goods by Federal and services by Provincial tax authorities.

03	Sixth Schedule	Laptops, computers, and other IT equipment are currently taxable

Proposed Changes

A suitable entry shall be made in the Sixth Schedule to provide sales tax exemption on imports and local supply.

To support the Digitization of Pakistan, the sales tax rate on laptops, computers, and other IT equipment should be reduced from 10% to 5%

Rationale

The rates have gone too high due to dollar rate change and exemption from sales tax will help to bring the prices down for this important requirement of IT industry.

The Islamabad Capital Territory (Tax On Services) Ordinance 2001

	Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
01	Table 2	A reduced rate of 5% is to be reinstated with a retrospective effect.

Proposed Changes

Serial # 11 needs to be changed and brought back to an earlier position so that a 5% reduced rate is applicable on IT & IT-enabled services.

Rationale

To reintroduce the reduced rate facility which was withdrawn without industry consultation.

All Provincial sales tax laws

	Relevant Section / Schedule No. / Tariff Heading No. / Rule No. / Para No. Involved	Current Legislation / Issues
01	2	Definition of IT & ITeS services

Proposed Changes

The definition needs to be aligned in all Federal & Provincial tax laws. The definition may be provided in PSEB regulations and same may be referred in all tax laws instead of rewriting so that in case PSEB changes the definition in regulations, tax laws reflect the change accordingly.

The text of definition clause may be as follows:

"Information technology (IT) services and IT enabled services shall have the same meaning as defined under (refer relevant PSEB regulations)."

Rationale

Different definitions in all laws is leading to confusion and different interpretations hence hampering progress of the IT industry.

Chapter 2: The Growth of IT Industry

Human Capital & Skill Development

Despite a growing IT industry and a large pool of graduates, Pakistan faces a significant skills gap. This means many graduates lack the specific skills and knowledge required by IT companies. While graduates are abundant, a large number remain unemployed due to a mismatch between their skills and industry needs.

Allocated Budget

Allocate **PKR 11.5 billion** for all initiatives, ensuring sufficient resources to drive impactful improvements in education and skills development.

Demand-Based Nationwide Skills Development Program for Graduates:

Proposed Reforms	Responsible Department
■ Implement a scale up of Techlift Program which will be a demand based nationwide skills development program focusing on graduate-level Bootcamps training. MOITT and PSEB will collaborate with P@SHA to identify skill gaps and design training modules tailored to meet industry demands. Create Industry led training models and execute all over Pakistan to ensure graduates are well-equipped for the job market. Allocation of international curriculum and certifications to be ensured. 20,000 students will be trained through this program. **Budget: PKR 4.5 billion** ■ On job training and internship for individuals to make them job ready. Budget: **PKR 2 billion**	MoITT, PSEB

Upskilling of Existing Resources

Proposed Reforms	Responsible Department
■ Launch comprehensive upskilling programs for professionals across various industries. Offer diverse training modules using a blended learning approach, combining online resources and workshops. Provide incentives such as subsidies and tax incentives to encourage participation and enhance workforce productivity. **Budget PKR 2 Billion.**	MoITT, PSEB

Train The Trainer Program for University Faculty

Proposed Reforms	Responsible Department
■ Launch a Train the Trainer program that will include a faculty training program to overcome the challenge of lack of industrial exposure of university professors. The training will include exposure to industrial practices and introduction and familiarity to the latest trends in technology. **Budget PKR 3 Billion**	MoITT, PSEB, HEC

Incentivizing the IT Industry

Pakistan's IT exports have witnessed steady growth, reaching approximately **$3.223 Billion in FY 23-24**. However, this growth pales in comparison to regional competitors like India. To compete globally and attract foreign investment, Pakistan needs to actively incentivize rapid expansion within its IT sector. Another key purpose of financial incentive (cash reward) is to encourage export remittances through formal banking channels and to improve reporting of export remittance receipts in purpose codes assigned by the State Bank of Pakistan for IT & IT-enabled Services.

Proposed Reforms	Responsible Department
We propose a revised cash reward system with **10% cash reward** that directly incentivizes significant growth in IT/ITeS exports. This system could take two potential forms: **Option 1: Tiered Reward System** ■ Establish tiers based on percentage increase in export value compared to the previous year. ■ Higher tiers offer a progressively larger percentage cash reward on the incremental export value achieved. **Option 2: Milestone Reward System** ■ Set specific export value milestones (e.g., $5 million, $10 million) for achieving cash rewards. ■ Companies exceeding each milestone receive a predetermined cash reward.	MoITT, National Assembly, MoF

Brand Pakistan

Promoting a Soft Image of Pakistan

Despite boasting a competitive IT industry with a growth rate exceeding 10% annually, variably, Pakistan struggles to attract significant foreign investment. This can be attributed to various factors. Pakistan's international image, often associated with security concerns and political instability, deters foreign investors from exploring the IT sector's potential. Similarly, while efforts have been made to improve the ease of doing business, the positive aspects of Pakistan's IT environment, such as more flexible processes compared to India (World Bank, 2024), are not effectively communicated on a global scale. There's also a lack of strategic communication campaigns specifically targeting the tech industry to brand Pakistan as a leading tech destination.

Proposed Reforms	Responsible Department
Allocate **PKR 3 billion** to enhance the image of Pakistan by taking the following steps: ■ Work on TechDestination as a National Tech Branding Strategy, in collaboration with industry leaders and branding experts, and should craft a compelling narrative that highlights Pakistan's IT strengths, like a skilled workforce, competitive costs, and government support. ■ Actively promote success stories of established and emerging Pakistani IT companies to demonstrate the industry's potential and attract foreign investors. ■ Showcase Pakistani technological innovations at international forums and events. Funding for these initiatives can be sourced through public-private partnerships to ensure sustainability and maximize impact. Given that the USA market represents a half-million-dollar opportunity, it should be a key focus for these showcases.	MoITT PSEB MoF TDAP

STZs Initiative

Enabling STZs for IT and ITES Industry

Pakistan's IT industry faces challenges related to the ease and cost of doing business. Special Technology Zones (STZs) were established in August 2020 with the Special Technology Zones Authority (STZA) launching in January 2021. However, as of April 2024 (over three years later), existing IT/ITeS companies are still unable to leverage the benefits of STZs.This delay denies the existing IT industry crucial benefits offered by STZs, including; Tax exemptions (income tax, sales tax), simplified regulatory environment, access to subsidized infrastructure and utilities and streamlined customs procedures leading to hindering the growth and competitiveness of Pakistan's IT sector on the global stage.

Proposed Reforms	Responsible Department
▪ Establishment of Virtual Zones and their governing rules and facilitate the enablement of STZA benefits for the entire IT and ITes industry. ▪ Integration of STZs into the master plans and land development regulations across various governmental bodies (LDA, KDA, CDA, KPKDA, FDA). The establishment of a legal framework that recognizes the priority status of STZAs nationwide is critical. ▪ Implementing a rent control mechanism for the allocation of free/subsidized government land will provide a significant boost to SMEs, fostering the development of emerging IT com. ▪ Equipping the P@SHA help desk with comprehensive knowledge of STZA procedures and regulations will streamline member facilitation. ▪ Proposed adjusting the minimum required area for STZA applications from 250,000 sq. feet to 100,000 sq. feet, facilitating the inclusion of mid-tier cities in the STZ development process and promoting a more inclusive technological ecosystem. ▪ Non-encumbrances certificates clause must be relaxed in line with rental premises zone notification. Rental companies will have serious problems acquiring non-encumbrance certificates.	MoITT | STZA | PM office

P@SHA

Pakistan IT Industry Association

P@SHA Secretariat, Daftarkhwan Alpha,
Old Airport Rd, Chaklala Cantt, Rawalpindi, Pakistan

+92-51-8736624 | +92-51-8736625

policy@pasha.org.pk

https://www.pasha.org.pk