TELECOMMUNICATION SECTOR - ITS ROLE, CONTRIBUTION TO FBR REVENUE, PROBLEMS AND ISSUES

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TELECOMMUNICATION SECTOR- ITS ROLE, CONTRIBUTION TO FBR REVENUE, PROBLEMS AND ISSUES
Abstract

Telecommunication has emerged as one of the fastest growing sectors of the economy ever since the sector was opened to private concerns. In 2007 the sector grew by 80 percent while average growth rate in last four years has been more than 100 percent.

By April 2010, there were 97.6 million mobile phone consumers in Pakistan. Currently there are about 3.5 million internet subscribers all across in Pakistan whereas total users crossed 17 million marks. Currently around 3,002 cities are connected to internet.

Telecom sector revenue grew by 20 percent in 2009 and generated Rs 327.8 billion in the economy. During 2008-2009 total revenue collected by the Government from telecommunication sector was more than Rs. 100 billion. It is the most documented sector of the economy and a heavily taxed sector as compared to others. Pakistan mobile phone sector continued to be one of the main contributors to national exchequer in terms of taxes. At the end of the year, total tax collection by mobile sector was Rs 71.95 billion.

It may also be noted that Pakistan’s Telecommunication sector is one of the most heavily taxed in comparison to regional and comparable economies, second only to Bangladesh. Around 63% of general population believes that the Telecommunication sector is being taxed rather heavily.

Telecommunication sector has attracted substantial amount of Foreign Direct Investment in the country. It has produced a very healthy and strong impact on the economy and society. Role of telecommunication sector is indispensable for economic development. Telecommunication infrastructural investment can lead to economic growth in several ways: transaction costs of data collection, placing and receiving orders have greatly reduced due to the availability of advanced telecommunication infrastructure.

Telecom facilities have become an essential part of our life and people feel an ease in their life with these facilities. Of course main purpose of these facilities is connectivity and information.

However telecommunication sector is also suffering from its share of problems and issues such as the problem of double tax domain where both the federation and provinces are bent upon taxing the sector. Another issue is heavy taxation with high rates of Federal Excise Duty. Issues such as terrorism and a recent decline in foreign investment is also taking its toll on the sector.

The government should realize the enormous growth the telecom sector has shown in the country. This is the time for the decision makers to lead this sector to further expansion and progress. The government should reduce the taxation on the Telecom services and its related equipments that will help in reduction of the cost of the service, which ultimately will encourage more telecom usage.
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1. PURPOSE AND DESIGN OF STUDY

1.1. Significance of the Study

The research is intended to analyze the booming Telecommunication Sector in the country and its potential of productivity and investment and more specifically the capacity to generate revenue for the Government of Pakistan in the form of Taxes. The study highlights the economic effects of the telecommunication industry in the country as a whole. The transformation brought about by the telecommunication sector in the social fabric of the nation has also been studied in detail. The impact of prevailing socio-economic condition and law and order situation has also been highlighted. The performance of telecommunication sector vis-à-vis production and revenue generation has been compared with that of the neighboring countries. Finally the study also tries to bring out the problems and issues faced by the telecommunication industry particularly with reference to taxation and revenue contribution. A consumer’s perspective has also been acknowledged in the study.

1.2. Research Methodology

Both Primary and Secondary Data collection tools have been employed. The different books, researches and articles relevant to the subject have been perused and an analysis has been carried out. A survey based on questionnaire relating to the subject has also been conducted. Data from other countries has also been analyzed in comparison to the situation in Pakistan. Field study has also been carried out with visits to Large Taxpayer Unit (LTU) Lahore, offices of Telenor and Zong and different businesses to gauge their perceptions and opinions on the subject under study.

Literature Review

Literature review stands out as the main tool of the research study. Data related to the Telecommunication Sector was meticulously collected. Sources of data include books, newspapers, journals, tax journals, economic magazines, research reports of various educational institutes and internet. A wide range of research reports on the Telecommunication sector of the economy have been examined. Research papers and articles from different leading institutions of the country have been thoroughly studied. Articles in the newspapers and journals relevant to the subject have also been examined in detail. In addition, studies conducted by market and business institutions have been analyzed. Important literature available on internet has also been surfed.
Survey

A survey based on a questionnaire has also been conducted. The survey was aimed at analyzing the opinion of businesses and common people regarding the taxation of telecommunication sector in the country as it affects each and every individual in the country and also it affects the input costs of virtually every business. The questionnaire was distributed among a sample of 100 professionals, businessmen, government employees and students. Care was taken to ensure the representation of a variety of sectors from the society and economy of Pakistan.

Field Visits

Field visits were also carried out but were limited by time and resource constraints. Large Taxpayers Unit (LTU) Lahore which deals with the taxation of telecommunication sector was visited. The offices of two mobile phone service providers i.e. Telenor and Zong were visited to take industry’s perspective. Different businesses and markets were also visited to receive input from businesses. The field visits were very informative and helpful in the analysis of subject under study.
2. INTRODUCTION

Telecommunication is the exchange of information over significant distances by electronic means. The simplest form of telecommunications takes place between two stations. However, it is common for multiple transmitting and receiving stations to exchange data among them. Such an arrangement is called a telecommunications network. The Internet is the largest example.

Telecommunication sector comprises of six major segments; Mobile Sector, Fixed Line Sector, Wireless Local Loop Sector, Payphone Services, Internet Services, Voice over IP.

2.1. History

Telecommunication started from the humble beginnings of Posts & Telegraph Department in 1947 and establishment of Pakistan Telephone & Telegraph Department in 1962.

Pakistan Telecommunication Corporation (PTC) took over operations and functions from Pakistan Telephone and Telegraph Department under Pakistan Telecommunication Corporation Act 1991. This coincided with the Government's competitive policy, encouraging private sector participation and resulting in award of licenses for cellular, card-operated pay-phones, paging and, lately, data communication services. Pursuing a progressive policy, the Government in 1991, announced its plans to privatize PTCL.

PTCL launched its mobile and data services subsidiaries in 2001 by the name of Ufone and PakNet respectively. In the middle of 2006 Government of Pakistan had decided to sell at least 26 percent of this company to some private agency. Etisalat, a Dubai based company was able to get the shares with a large margin in the bet.

In Pakistan, the Pakistan Mobile communications Ltd (“Mobilink”) started its operations in 1994. Mobilink, a subsidiary of the Orascom Telecom Holding, is Pakistan’s leading cellular and Blackberry service provider with more than 31.6 million subscribers. Other major competitors are Telenor 23.4 million, and Warid (Abu Dhabi Group) 16.38 million, Ufone 18.93 million and Zong (China Mobile Company) 6.76 million. By April 2010, there were 97.6 million mobile phone consumers in Pakistan.

Wireless Local Loop services were introduced in Pakistan after deregulation of local loop sector in 2004. Recently re-branded Vfone service by PTCL is the market leader and recently there have been many interesting marketing and pricing moves. Other major licensees include World Call, Telecard, Great Bear, Burraq and Wateen. WLL customer base has shown rapid growth since 2003 and according to industry estimates there are around 2.5 million.
Payphone services are companies provided license by PTA, to provide PCO sets to the retailers. Growth of fixed line PCO’s remained impressive till 2004-05 where it was going at an outstanding pace. PTA allowed mobile companies to establish their PCO’s. After 2004-05 growth trend of fixed line PCO declined but wireless PCO services flourished in Pakistan. In 2003 there were 127,910 subscribers but it grows and reaches at 471,410 subscribers in Dec 2007.

According to estimates of ISPAK (Association of Pakistani ISPs), currently there are about 3.5 million internet subscribers all across in Pakistan whereas total users crossed 17 million marks. Currently around 3,002 cities are connected to internet.

Pakistan’s Broadband market has been slow despite the fact that services have been available since almost five years. Broadband services can be offered with the help of various technologies such as DSL, Cable Modem, Fiber to the Home (FTTH), Wimax (worldwide interoperability for microwave access).

**2.2. Boom in the Telecommunication Sector**

- Telecom sector is booming throughout the country as two million mobile subscribers were added every month throughout the last year.
- In 2007 the sector grew by 80 percent while average growth rate in last four years has been more than 100 percent.
- As per March 2008 quarter report all companies in total added about 5.7 million subscribers to mobile networks but PTCL dropped in Dec 2007 bringing to a mere 4.8 million by 5.24 million across Pakistan, 2.1 million subscribers of WLL services. Payphone services had 471,410 subscribers in Dec 2007; currently there are about 3.5 million internet subscribers all across in Pakistan.
- Network coverage of almost 90 percent of the total population of Pakistan has made the industry even more attractive and there is still a great margin of growth in this industry. By 2006-07 the industry had generated 1,366,698 employment opportunities.
- An intense competition is seen in the telecom sector and all the companies are trying to take edge on each other, which is helping the subscribers as they are getting advanced and new packages at low prices.
- According to the Pakistan Telecommunication Authority (PTA) Industry Analysis Report 2007, out of 376 tehsils across Pakistan, almost 77 percent are covered with mobile networks, bringing the figure to 290.
- If we look at subscribers’ data of 2009, we end up concluding that growth has been hindered but it hasn’t vanished yet.
- If we look at growth rate over the year, two dips are because of 668 system introduced by PTA in January and Ufone’s massive churn in year mid, otherwise there has been a fairly straight upward trend for addition of mobile subscribers by all cellular companies.
This indicates that mobile companies will keep adding mobile subscribers for another two years at least, taking the mobile subscriber base to projected 130 million mark by year 2012 (as per research companies).

2.3. Revenue Contribution

Telecom sector revenue grew by 20 percent in 2009 and generated Rs 327.8 billion as revenue. During 2008-2009 total revenue collected by the Government was Rs. 112 billion. It is the most documented sector of the economy and a major contributor of all the three Inland taxes in the country i.e. Sales Tax, FED and Income tax. It is also one of the most heavily taxed sectors of the economy.

Since the study’s main focus is on revenue contribution of the telecom sector to FBR revenues, an in-depth analysis of the subject is undertaken and the study tries to answer following questions:

- What are the telecom-specific taxation laws and policies currently underway in Pakistan?
- What has been the contribution of telecom sector to Government taxes over the last few years?
- What is the contribution of this sector to taxes as compared to its contribution to the GDP?
- How is the tax contribution of Pakistan’s telecom sector compared with tax contribution of telecom sector in other regional economies?
- How can the revenue collection from telecom sector be enhanced?
- What improvements can be made in the taxation laws and policies regarding the telecom sector?

2.4. Social and Economic Impact

2.4.1. Impact on Economy

The impact of telecom deregulation on overall economy is quite obvious. After the deregulation of the telecommunication sector, the sector has seen an exponential growth. The mobile telephone market has exploded fourteen-fold since 2000 to reach a subscriber base of 91 million users in 2008, one of the highest mobile tele-densities in the entire world. In addition, there are over 6 million landlines in the country with 100% fibre-optic network and coverage via WLL in even the remotest areas. Pakistan is on the verge of a telecom revolution and is by far the most attractive sector in Pakistan in terms of Foreign Direct Investment coming into the country. Since liberalization, over the past four years, the Pakistani telecom sector has attracted more than $9 billion in foreign investments.
2.4.1.1. Contribution to GDP

A total of Rs. 235,613 million revenue was generated by telecom sector in 2007. This contribution has major impact on economy of Pakistan. The sector is currently contributing 2% GDP out of 7% to the Government of Pakistan.

2.4.1.2. Investment

In the last 2-3 years the telecom sector has attracted record inflows of FDI. It is expected that the trend of investment may continue in the next 5 years because large potential market still exists in Pakistan and all operators intend to grab their share.

During 2009 Foreign Direct Investment (FDI) stood at 815 million dollar. Total investments in the sector stood at 1.7 billion dollar and Telecom imports grew by 20 percent and reached 1.6 billion dollar.

This research is aimed at answering questions like:

- What is the trend of telecom’s contribution to growth and investment in the economy for the past few years?
- What role has the telecom sector played in employment generation?
- What has been the impact of boom in telecom sector on the cost of doing business in Pakistan?
- How has telecom sector enhanced the efficiency and productivity of the economy?

2.4.2. Impact on Society

Telecommunication sector has also had a remarkable impact on Pakistan’s social society. It has increased the access to communication and information for general public by a formidable proportion. It has also played a very important part in social integration, rural uplift and public awareness. It has reduced distances and belittled the disparities.

This study aims at answering questions like:

- How has telecom sector penetrated so deeply into the social fabric?
- What are the major positive and negative impacts of telecom sector on the society?
- How can society best benefit from the boom in telecom sector?
2.5. **Problems and Issues**

Even though it is the fastest growing sector of the economy yet telecom sector faces many challenges like rising operational and maintenance cost, increasing tariff cost, cut throat competition and increase in government taxes. The purpose of this study is to high light these challenges and issues.

This study tries to answer the following questions:

- What are the most glaring issues and problems faced by the telecom sector in the current economic situation?
- What are the industry’s woes and concerns regarding the taxation laws in the country and the telecom-specific policies of Government particularly FBR?
- How the sector wants to be governed in terms of taxation?
3. REVENUE CONTRIBUTION

3.1. Relevant Legal Provisions

It is pertinent to start by an overview of relevant legal provisions vis-à-vis taxation in Pakistan. Following are the statutory provisions regarding taxation of Telecommunication sector as provided in existing tax laws of the country.

3.1.1. Federal Excise

The following is provided in the Federal Excise Act 2005.

S. 3. Duties specified in the First Schedule to be levied:-

(1) Subject to the provisions of this Act and rules made there under, there shall be levied and collected in such manner as may be prescribed duties of excise on,—

a) goods produced or manufactured in Pakistan;
b) goods imported into Pakistan;
c) such goods as the Federal Government may, by notification in the official Gazette, specify, as are produced or manufactured in the non-tariff areas and are brought to the tariff areas for sale or consumption therein; and
d) services, provided or rendered in Pakistan;

at the rate of [fifteen] per cent ad valorem except the goods and services specified in the First Schedule, which shall be charged to Federal excise duty as, and at the rates, set-forth therein.
3.1.2. Income Tax

3.1.2.1 Advance Income Tax

S. 236. Telephone users

1) Advance tax at the rates specified in Part IV of the First Schedule shall be collected on the amount of –
   a. Telephone bill of a subscriber; and
   b. prepaid cards for telephones.

2) The person preparing the telephone bill shall charge advance tax under sub-section (1) in the manner telephone charges are charged.

3) The person issuing or selling prepaid cards for telephones shall [collect] advance tax under sub-section (1) from the purchasers at the time of issuance or sale of cards.

4) Advance tax under this section shall not be collected from Government, a foreign diplomat, a diplomatic mission in Pakistan, or a person who produces a certificate from the Commissioner that his income during the tax year is exempt from tax.
FIRST SCHEDULE

PART IV

Division V

Telephone users

Rates of collection of tax under section 236,--

a) In the case of a telephone subscriber 10% of the (other than mobile phone subscriber) exceeding where the amount of monthly bill amount of bill exceeds Rs.1000.

b) In the case of subscriber of mobile 10% of the amount telephone and pre-paid telephone card of bill or sales price of pre-paid or telephone card sale of units through CD or whatever form

3.1.2.2 Routine Income Tax

S. 4. Tax on taxable income.-

1) Subject to this Ordinance, income tax shall be imposed for each tax year, at the rate or rates specified in Division I or II of Part I of the First Schedule, as the case may be, on every person who has taxable income for the year.

Division II

Rates of Tax for Companies

(i) The rate of tax imposed on the taxable income of a company for the tax year 2007 and onward shall be 35%.

3.1.2.3 Withholding Tax

The Telecommunication sector is also subject to With-holding taxes on Imports U/S 148, Payment of Salaries U/S 149 and Payments for Goods and Services U/S 153 of Income Tax Ordinance 2001
3.1.3. Sales Tax

As per the constitution of Pakistan, the sales tax on services is a provincial subject. However only the Punjab Sales Tax Ordinance 2000 provides for levy and collection of sales tax on telecommunication services, while there is no such provision in the other three provincial Sales Tax Ordinances and Islamabad Sales Tax Act.

Punjab Sales Tax Ordinance 2000

S. 3. Scope of tax:–

1) Subject to the provisions of this Ordinance, there shall be charged, levied and paid a tax on services known as sales tax on services at the rate of sixteen percent of the value of the taxable services rendered or provided in the Province of the Punjab.

2) The tax shall be charged and levied on the services specified in the Schedule to this Ordinance, in the same manner and at the same time, as if it were a sales tax levable under sections 3, 3A or 3AA, as the case may be, of the Sales Tax Act, 1990.

THE SCHEDULE

7. Telecommunication Services-

3.2. Data Analysis

As mentioned previously, telecommunication is the most documented sector of the economy and a major contributor of all the three Inland taxes in the country i.e. Sales Tax, FED and Income tax. It is also one of the most heavily taxed sectors of the economy. Here is statistical evidence of the contribution of telecommunication sector to the tax revenues.
3.2.1. Revenue Contribution of Telecom Industry

Telecommunication sector has been a very significant source of taxes for the Government of Pakistan over the past ten years. Following table shows the year wise contribution of Telecommunication sector to the Government revenues.

(Rs. Billion)

<table>
<thead>
<tr>
<th>Period</th>
<th>GST</th>
<th>Activation Tax</th>
<th>Others (Direct taxes)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>12.1</td>
<td>4.02</td>
<td>21.59</td>
<td>37.71</td>
</tr>
<tr>
<td>2004-05</td>
<td>20.5</td>
<td>7.53</td>
<td>21.38</td>
<td>49.41</td>
</tr>
<tr>
<td>2005-06</td>
<td>26.8</td>
<td>11.4</td>
<td>21.55</td>
<td>59.75</td>
</tr>
<tr>
<td>2006-07</td>
<td>36.28</td>
<td>17.6</td>
<td>36.95</td>
<td>90.83</td>
</tr>
<tr>
<td>2007-08</td>
<td>44.61</td>
<td>19.2</td>
<td>36.96</td>
<td>100.77</td>
</tr>
<tr>
<td>2008-09</td>
<td>49.35</td>
<td>14.2</td>
<td>39.3</td>
<td>102.85</td>
</tr>
<tr>
<td>2009-10</td>
<td>43.97</td>
<td>6.61</td>
<td>44.91</td>
<td>95.49</td>
</tr>
</tbody>
</table>

Source: PAKISTAN TELECOMMUNICATION AUTHORITY

Following chart shows the trend of tax collection from Telecommunication sector. It is clear that tax collection has shown an upward trend for the past six years with the exception of 2009-2010 which is surprising because the volume of sector registered growth during that year.
The Federal Board of Revenue (FBR) collected Rs 44 billion as sales tax and federal excise duty (FED) from the Telecom sector during 2009-10 as compared to Rs 49 billion in the corresponding period of previous fiscal year, reflecting a major decrease of Rs 5 billion.

The annual report for 2009-10 of Pakistan Telecommunication Authority (PTA) showed that telecom sector contributed about Rs 44 billion as FED/GST during fiscal year 2009-10 whereas the sector also contributes in other tax heads like withholding, income taxes and duties, etc.

The decline in FED/GST collection has been attributed to increase in its rate, low tariffs and decline in service use due to high inflation in the country, the report says. According to the PTA annual report, the Authority kept on reminding the tax authorities about the fact that telecom sector is over-burdened with taxes, and requested for relief so that more tax collections could be achieved from the sector.

Pakistan mobile phone industry continued to be one of the main contributors to national exchequer in terms of taxes. At the end of the year, total tax collection by mobile sector was Rs 71.95 billion, which was Rs 82.3 billion in 2008-09. Therefore, a dip of 13 percent in total tax collection from mobile sector was witnessed during the reported year. Similarly, a dip of 10 percent was observed in total FED/GST collection from mobile sector where Rs 36 billion had been deposited in national exchequer by all mobile operators during 2009-10. Activation tax was another area where collection declined by about 53 percent in 2009-10.
3.2.2. Telecommunication Contribution to GDP

Telecommunication sector has been a healthy contributor to country’s GDP. Following table describes the sector wise growth in the Telecom sector.

<table>
<thead>
<tr>
<th>Period</th>
<th>Cellular</th>
<th>Local Loop</th>
<th>LDI</th>
<th>WLL</th>
<th>VAS (Estimated)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>27</td>
<td>76</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td>116</td>
</tr>
<tr>
<td>2004-05</td>
<td>48</td>
<td>78</td>
<td>3</td>
<td>0.2</td>
<td>12</td>
<td>144</td>
</tr>
<tr>
<td>2005-06</td>
<td>89</td>
<td>71</td>
<td>7</td>
<td>12</td>
<td>13</td>
<td>194</td>
</tr>
<tr>
<td>2006-07</td>
<td>133</td>
<td>68</td>
<td>15</td>
<td>2</td>
<td>15</td>
<td>235</td>
</tr>
<tr>
<td>2007-08</td>
<td>182</td>
<td>63</td>
<td>21</td>
<td>2</td>
<td>8</td>
<td>278</td>
</tr>
<tr>
<td>2008-09</td>
<td>212</td>
<td>62</td>
<td>47</td>
<td>2</td>
<td>8</td>
<td>333</td>
</tr>
<tr>
<td>2009-10</td>
<td>236</td>
<td>61</td>
<td>47</td>
<td>2</td>
<td>10</td>
<td>357</td>
</tr>
</tbody>
</table>

Source: PAKISTAN TELECOMMUNICATION AUTHORITY
Volume of Telecommunication industry

Following chart shows the trend in the volumes of Telecommunication industry. The boom in the Telecom sector is evident from the fact that volume of industry has almost tripled in the past six years.

![Volume of Telecom Industry Chart]

Following pie chart shows the relative share of different entities in the total sector volume for the year 2009-2010.
It is apparent from the pie-chart that the portion of Cellular/Mobile phone Service by far out-weighs the other services. This is due to the tremendous size and growth of the cell phone market. However, this is not to undermine the fact that other portions of sector are also rapidly growing and their future is very bright.
3.2.3. FDI in Telecommunication Sector

Telecommunication sector has attracted substantial amount of Foreign Direct Investment in the country. Following table describes the share of FDI in Telecom sector relative to total FDI in the country.

<table>
<thead>
<tr>
<th>Period</th>
<th>FDI in Telecom</th>
<th>Total FDI</th>
<th>Telecom (%) Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003-04</td>
<td>207.1</td>
<td>949.4</td>
<td>21.8</td>
</tr>
<tr>
<td>2004-05</td>
<td>494.4</td>
<td>1,524.00</td>
<td>32.4</td>
</tr>
<tr>
<td>2005-06</td>
<td>1,905.10</td>
<td>3,521.00</td>
<td>54.1</td>
</tr>
<tr>
<td>2006-07</td>
<td>1,824.20</td>
<td>5,140.00</td>
<td>35.5</td>
</tr>
<tr>
<td>2007-08</td>
<td>1,438.60</td>
<td>5,410.00</td>
<td>26.6</td>
</tr>
<tr>
<td>2008-09</td>
<td>815.00</td>
<td>3,720.00</td>
<td>21.9</td>
</tr>
<tr>
<td>2009-10</td>
<td>374</td>
<td>2,199.00</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: PAKISTAN TELECOMMUNICATION AUTHORITY

The data reveals that Telecommunication sector has attracted a substantial amount of Foreign Direct Investment ever since its inception. The figures of over 30 percent and even over 50 percent in one instance give ample evidence that Telecommunication sector did wonders for the economy in the last 10 years as far as the investment is concerned.
Following chart shows the trends in FDI in Telecom sector. The investment rose uniformly in the early years of industry and reached its peak in 2005-2006 where it accounted for more than half the FDI. However as the sector has moved towards saturation, the FDI has declined from 2006 onwards.
3.2.4. Comparison with Regional economies

Following is a comparison of the figures and statistics with special reference to Telecommunication sector from the three South Asian countries i.e. India, Pakistan and Bangladesh.

<table>
<thead>
<tr>
<th>Country</th>
<th>Total GDP (US $)</th>
<th>GDP of Telecom industry (US $)</th>
<th>Share of Telecommunication in GDP (%)</th>
<th>Total Tax Revenue (US $)</th>
<th>Tax collection from Telecom industry (US $)</th>
<th>Share of Telecommunication in Tax revenue (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>1430 b</td>
<td>27 b</td>
<td>1.8</td>
<td>117 b</td>
<td>3.8 b</td>
<td>3.24</td>
</tr>
<tr>
<td>Pakistan</td>
<td>162 b</td>
<td>4.3 b</td>
<td>2.7</td>
<td>19.6 b</td>
<td>1.28 b</td>
<td>6.54</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>105 b</td>
<td>2.52 b</td>
<td>2.4</td>
<td>8.9 b</td>
<td>0.87 b</td>
<td>9.7</td>
</tr>
</tbody>
</table>

The data reveals that in case of India, Telecommunication’s contribution to GDP is 1.8% while its contribution to Tax Revenues is 3.2%. In case of Pakistan the contribution to GDP is 2.7% but the contribution to Tax Revenues is almost double i.e. 6.5%. This means that Telecommunication sector is being taxed more heavily in Pakistan as compared to India. However the situation is better than Bangladesh where the Telecommunication sector is being taxed even more heavily at around 9.7% of total tax revenues.

Source:
1. FEDERAL BOARD OF REVENUE, GOVT OF PAKISTAN (www.fbr.gov.pk)
2. UNION BUDGET OF INDIA 2009-2010 (www.indiabudget.nic.in)
3. NATIONAL BOARD OF REVENUE, GOVT OF BANGLADESH (www nbr-bd.org)
Following is a comparison of different countries from the consumer’s perspective. It describes the percentage of tax in the total cost of mobile phone ownership i.e. the amount of expense that goes as tax in relation to the total phone expense. It is clearly evident from these figures that Pakistani consumers are facing very heavy burden of tax as part of total cost of using mobile phone services second only to Bangladesh. It may be noted that the figure in case of India is much lower than Pakistan. It is also another clear indication that Telecommunication is being subjected to heavy taxation in Pakistan.

Source: “Global tax review 2006-07 by Deloitte”
4. SOCIAL AND ECONOMIC IMPACT

World has become a global village and this is due to prompt, easy and accessible communication. Telecom segment has changed the shape of communication everywhere and this is a hot issue in Pakistan now a days. Telecom sector has emerged as a fast growing industry during past few years and now Pakistan is promising as one of the most progressive country where the number of mobile phone subscribers has reached 40 million. For the reason different companies are being attracted to invest heavily in this division.

4.1. Role of Telecommunication Sector in Economic Development

Role of telecommunication sector is indispensable for economic development. Telecommunication infrastructural investment can lead to economic growth in several ways: transaction costs of data collection, placing and receiving orders have greatly reduced due to the availability of advanced telecommunication infrastructure. It has put a positive effect on the output of individual firms and in aggregate overall economy.

Communication tools such as internet and telephone are progressively more important for the economic development. No one can ignore the importance of internet for the society. The internet provides all types of information related to the business, health, education, culture, weather etc as needed by the different users. Distance learning is only possible through advanced telecommunication tools. It has also allowed educational institutions to deliver online lectures.

It is widely accepted that mobile phones have made a tremendous impact on Pakistan’s economy. Telecom services sector is Pakistan’s fastest growing sector among others like electronic media, banking sector, etc. However, the telecommunication sector has taken a lead, the matter of fact can be recognized by the combined teledensity figure which has already reached 53.41\% compared to only 4\% in 2003. The number of subscribers has tremendously increased 4.04 million in 2003 to 4.86 m (+2.2 m WLL subscribers) 2007 and Cellular Mobile from 2.4 million in 2003 to 78.8 million. Current coverage of telecommunication services is around 70\% of the population which is intended to be increased to at least 85\% within next three years. Mobile sector exhibited growth of over 170\% in 2006 & 80\% in 2007 with fierce competition.
The economic benefits of telecommunication can be better analyzed under the following heads;

4.1.1. Contribution to GDP:

Direct contribution of Telecom Sector to GDP increased from almost negligible to more than 2% (2007). In 2006 the sector contributed a total of PKR312 billion to the economy, over 5% of GDP. Mobile sector employed 210,000 Pakistanis in 2006. The gain in productivity can be realized by the fact that PKR94 billion of value had added to domestic economy in 2006. Consumer surplus increased by PKR42 billion between 2003 and 2006. Pakistan has one of the highest tax burdens on mobile services in Asia Pacific.
4.1.2. Influx of FDI:

FDI in Pakistan is increasing year by year and have reached to US$ 5,124.9 million in 2006-07 as compare to US$ 484.7 million in 2001-02. However, it declined in 2007-08 i.e. US$ 3,038.8 million. From negligible Foreign Direct Investment (FDI) a few years back, the telecom sector has attracted foreign investment on license and infrastructure of over US$ 8 billion and another US$ 4 billion is expected on Roll-out by 2010. Similarly rising trend in FDI in telecom sector was also observed from 2001-02 (US$ 6.1 million) to 2005-06 (US$1,905.1 million). As a percentage of total FDI, Telecom Sector contributed more than 54% in 2005-06 and more than 35% in 2006-07. However, decline in investment in telecom sector from foreign side was observed in 2006-07(USS 1,824.3 million) and further in 2007-08 (US$ 811.6 million). The main reason of this decline in FDI is the overall disturb Political situation of the country, which has discouraged the foreign investors. Details of overall FDI and FDI in telecom sector of Pakistan are given in table below;
4.1.2.1. FDI IN PAKISTAN (US $ MILLION)

<table>
<thead>
<tr>
<th>Years</th>
<th>Total FDI</th>
<th>FDI in Telecom Sector</th>
<th>Telecom Share (%)</th>
<th>Overall FDI Growth (%)</th>
<th>Telecom FDI Growth (%)</th>
<th>Telecom share in GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>484.7</td>
<td>6.1</td>
<td>1.3</td>
<td>-</td>
<td>-</td>
<td>1.6</td>
</tr>
<tr>
<td>2002-03</td>
<td>798</td>
<td>13.5</td>
<td>1.7</td>
<td>64.6</td>
<td>121.3</td>
<td>1.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>979.9</td>
<td>207.1</td>
<td>21.1</td>
<td>22.8</td>
<td>1,434.1</td>
<td>1.7</td>
</tr>
<tr>
<td>2004-05</td>
<td>1,524.0</td>
<td>494.4</td>
<td>32.4</td>
<td>55.5</td>
<td>138.70</td>
<td>1.8</td>
</tr>
<tr>
<td>2005-06</td>
<td>3,521.0</td>
<td>1905.1</td>
<td>54.10</td>
<td>131.03</td>
<td>285.33</td>
<td>2.0</td>
</tr>
<tr>
<td>2006-07</td>
<td>5,139.6</td>
<td>1,824.3</td>
<td>35.66</td>
<td>45.96</td>
<td>(4.24)</td>
<td>-</td>
</tr>
<tr>
<td>2007-08</td>
<td>3,038.8</td>
<td>811.6</td>
<td>26.70</td>
<td>(40.87)</td>
<td>(55.51)</td>
<td>-</td>
</tr>
</tbody>
</table>


Major FDI in telecommunication sector of Pakistan has been come from cellular companies like Mobilink, Paktel, PakCom, Warid and Telenor. Paktel and PakCom, (Malaysian based) entered in Pakistan in 1990, Mobilink (Egypt based) in 1994, Telenor (Norway based) and Warid both in 2005.

4.1.3. Sector Revenues:

The Telecommunication sector is deriving great source of income through its service. The Revenues of Telecom Sector has increased from Rs.115 billion to Rs.235 billion in last three years. This is expected to increase @ 20%- 25% per annum.

4.1.4. Contribution to the Exchequer:

The contribution of Telecom sector to the General Sales Tax (GST) and Customs and Excise Duty (CED) is Rs. 36,282 million per annum (2006-07). Total Government receipts from telecom sector through tax, deposits & other sources were more than Rs. 100 billion (2006-07).
4.2. Social Aspects of Telecommunication in Pakistan

4.2.1. Telecom and alleviation of Poverty:

The economic as well as social benefits from access can, in theory enable people to graduate from poverty and also contribute more widely to development. Thus it can be argued that inequality in access to telecom services can lead to limitations in fighting poverty.

The monopoly in Pakistan's telecom industry ended in the year 2002 and the economic indicators showed positive signs within three years. Analysts believe that high Foreign Direct Investment (FDI) and economic pace are outcomes of good policies by Government of Pakistan and also deregulation of telecom sector. Future of Pakistan's telecom sector seems very exciting but the good old past should also be kept in mind for learning and formulating fruitful future strategies. The foundation of this boom was led by the government and the private sector acted swiftly in the right direction towards the voyage of a wired Pakistan. The country is moving with a very high pace towards a teledense country. It is praiseworthy to notice special interest of Ministry of IT and strong support from Government of Pakistan to make the industry more competitive and beneficial for both consumers and telecom companies.

Internet usage is also being promoted widely in the country and more real world services are now shifting to Internet day by day. Government has established about 50 IT centers for awareness in villages and 800 centers are to be established before the end of 2006. Establishment of Virtual University for distance learning is also a futuristic move as centers of this university have also been set up all over the country, which are interconnected via broadband. Besides this, 200 acres land for Internet City in Karachi has also been allocated.

Pakistan is heading towards automation as government departments and ministries have started adopting computerized systems for processing of different everyday jobs. An E-government department with the name of 'Electronic Government Directorate (EGD)' is also there to facilitate automation. This department aims to make all government departments online; all ministries now have their websites online. The government has also set a target to train 16,000 employees for computer use in coming months. IT Parks in metropolitan cities like Islamabad, Lahore and Karachi serve as platforms for buying and selling of IT services. All this is not only helping in the promotion of IT in an effective manner but is also contributing towards the economic growth of Pakistan.

The Telecom sector remained the hottest of all in last 2 years and is still playing a key role in the country's economic growth. From Europe to Middle East, investment
inflow is coming up while the days pass by. This is not just because of the telecom operators that came to Pakistan but also because of vendors which provide the basic infrastructure, technical support and equipment etc. for telecom companies. We can see this sector is acting as a catalyst for future economic development as the share of telecom sector in provision of employment and development in rural sector is on the rise.

The country which had only 1500 Internet subscribers in 1995 now has the figure in millions. Currently, over 1900 cities and towns have Internet access in Pakistan. Similarly, last year the teledensity graph rose to such a high level that it had touched 13.7% which was at that time 3% higher than India despite of the fact that India ended the telecom monopoly before Pakistan. Currently, the teledensity has touched the 17% mark and is increasing rapidly.

4.2.2. Penetration in Culture

The impact of boom of Telecom Sector has also been substantial on Pakistani culture. It is well known that when something becomes a part of our life, obviously it affects our living style, our ways of performing daily routine works or in other words it affects our Culture and Society. We have conducted the study keeping in mind the interlink between culture and marketing that how these social and cultural values affect the consumer’s behavior. A few surprising things came in our notice during our study that how people from different communities are perceiving these services and how these services are being thought as Blessings of God by some people and on the other hand some people have an opinion like “Cell phones or Hell phones”.

In Pakistan people of a family live very connected with each other and there is a very strong joint family system there. We have a lot of traditional and religious events when members of a family get together or send greetings to each other. Especially some of the biggest and happiest events for Pakistani Muslim population are “Eid- UL-Fitar”, “Eid-UL-Ezha” and “Eid Milad-Un-Nabbi (PBUH)”. On these occasions people used to send special cards addressing the specific greetings to their beloved ones through ordinary post system. According to our religion, this thing has a great value that we must live in contact with our all family members and keep on meeting with each other. So, people were using the very most traditional way i.e. “Letter Writing” for living in contact from remote locations and sending these letters through ordinary mail system. Then with the passage of time and development of technology, a few people were having access to fixed telephone systems and they used this service for short and important talk as it was very expensive. Then gradually time changed it all and people started to use E-mails for these purposes. And it’s the time that Boom of telecom services in Pakistan has facilitated to maximum people with cellular services and people have started to use SMS (short messaging service) for greetings and sending other messages as well.
4.2.3. Connectivity made Fast and Easy

Telecom facilities have become an essential part of our life and people feel an ease in their life with these facilities. Of course main purpose of these facilities is connectivity, but now these facilities are playing more role than only connectivity in our lives. Telecom services are playing role in many ways like now it has become easy to pay for charity through an SMS. Recently, in Pakistan many people denoted money for the relief fund to help the people affected by “earth quake”. Many people have responded us in our survey that it has become easy to denote a charity just through an SMS. Major situation of using cellular facility by people is in emergency. A few of people also use it for weather information and news updates. So, we see that these telecom facilities are assisting people in different parts of routine life like business, leisure, emergency and others.

Overseas Pakistanis were having problems to contact with their back-home earlier. Mostly communication was being carried out through letters and it was a time consuming task and services were also not reliable. Now overseas Pakistanis are also enjoying the fruits of telecom sectors. The total dependence on landlines before the mobile era restricted somewhat the traceability of an individual in a given environment. If a person is in a transit or travel, it would have been a difficult task before but not now. A person with a cell phone can be contacted at will provided the said mobile service coverage is there. Recent strides in the handsets as well as the services have enabled the user to even for his respective geographical location. Without naming the said service, it is not impossible for a person sitting in a train waiting for a pass in a desolate railway station anywhere in Pakistan to know where he actually is. He need not look for the landmarks around the train to know which city or town he is approaching. All he needs is the cell phone and the requisite mobile service. So, the ways of communication has been very fast, cheap and easy with SMS (short messaging service) and in our survey we came to know that maximum people now prefer SMS for correspondence and greetings etc. over ordinary post system and even voice calls.

We found that the respondents of our study who are below the age of 30, well educated and near about all young females prefer SMS over voice calls, ordinary mail system and E-mails. But on the other hand people who are not well educated, or who are engaged in businesses or who are elder than the age of 30, they prefer voice calls and the traditional ways of sending greeting cards through courier services. One reason behind this is also this that they do not know the usage of cellular services fully and a few people like to remain stuck with the old ways. There was a time when having a mobile connection was thought to be a luxurious item but with the passage of time it became the necessity of people. Of course for having a mobile connection, you need a hand set as well and this purpose can be fulfilled by a simple and cheaper set.
4.2.4. Source of Social Ill and Crime

It has been observed that all the mobile phone manufacturer companies are on the trot to build and present new models in the market as it is the demand of their customers as well. So, we asked our respondents in our survey that “has the mobile set become a status symbol in our society and what kind of handsets they prefer i.e. new fleshly or old complex ones?” Almost all of our respondents are of the opinion that mobile set has become a status symbol in our society and people prefer new and latest models over old and practical ones. Cell phones have become status symbol in Pakistani society and this is the reason that people rush behind new and glitzy models. Although many of them even do not know how to use the features of these latest sets. They just know how to make a call or receive a call. This thing is creating problem in a sense that many people who do not have well income sources, they are also participating in this race by compromising with their other important necessities of life.

It has caused many problems one of which is mobile snatching and theft. If you own a mobile, you are always at the risk of your life. Street crimes especially the incidents of mobile snatching are becoming a routine in our country. These stolen and snatched mobile phones are then sold to shopkeepers who buy them at low prices and then sell them with minimum of Rs 500 to Rs 1,000 profit. A lawyer, Aslam Yasir, said that such crimes were committed by unemployed people who wanted to earn money by hook or by crook.
5. Problems and Issues

The Telecom sector is the most vital part of any economy. Economic activities today revolve around information technology especially the Telecom sector. The rapid increase in the Telecom sector not only generates jobs but income as well for all the segments of the society, namely: Salaried individuals, businessmen, companies and governments from taxation. Individuals living in one country are acquiring services or delivering services to other individuals or companies online, via the internet or telephone etc. All governments want to promote and facilitate this sector; the same was done by the Pakistani government, which resulted in public and private investment in this sector from within and outside the country. New Companies propped up and came into Pakistan from abroad, new employment opportunities were created in the form of jobs and businesses, however our growth hasn’t been as much as compared to India, who is expected to contribute 15% to its Gross Domestic Product by 2014 from the Telecom sector alone.1

The growth in the Telecom sector in Pakistan has been extensive and complex. We say complex because imagine how a call centre in Pakistan giving services to companies in the West would be regulated? And very importantly how and where would this call centre be taxed? Tax officials are unclear whether this is a Pakistan source income or foreign source income. In both cases the treatment would be different depending on the taxpayer. Surely, the government does want to tax the income being generated out of this emerging sector, but has to be careful not to hinder it by excessive or double taxation.

Upon searching literature it was notable that issues and problems are being discussed and highlighted by various researchers for other countries but not much could be found for the same purposes for Pakistan. We would like to state the problems identified from various sources and in the last would discuss the consumers’ perspective with the help of a survey conducted by our syndicate team. The issues identified include:

i. Tax Domain
ii. Heavy Taxation
iii. Ambiguity in Tax Law
iv. 3G Spectrum and Pakistan Telecommunication
v. Terrorism
vi. Rates And Exemptions In Pakistani Tax Laws:
vii. Low Investment
viii. Consumers’ Perspective
5.1. **Tax Domain:**

By Tax domain it is meant that which government would be charging tax on this sector within a country, whether would it be done by the federal government or the provincial governments or local governments, or by all? To confront such problems and issues many research works have been carried out by scholars and academicians, for example, one such case study was done by Johan Deperez by the name ‘**The Telecommunication Sector in the Information Age: A Case Study in Globalization, Deregulation, and Tax Competition**’, which highlights that the recent growth in this sector has created complications in the Tax domain. If one is to analyze this situation, immediately it would be clear that this problem is not only related to tax domain in the country only but also related to the form of taxations i.e. should direct or indirect taxes be placed and by which government in a country i.e. the Federal government or the provincial government etc.

This problem has been subject of debate within the US Congress as well. Legislators have quarreled whether to allow Federal government, State governments or local governments to tax this sector and to which extent. While in India the Telecom sector is taxed by the Federal and state governments, while further reforms are taking place. But we have to analyse our country’s situation and choose the most beneficial system of taxation, and not replicate any country even our neighboring countries.

This is a task that needs to be resolved as it would create manifold problems as the two provinces of Pakistan i.e. Punjab and Khyber Pakhtunkhwa are placing their own taxes while the other two provinces are not. Until this issue is resolved the federal government should keep this domain to itself only to avoid complexities.

5.2. **Heavy Taxation:**

The growing amount of taxation in various modes on this sector has been highlighted in Pakistan by representatives of the Telecom sector in a meeting with the federal secretary Investment of Pakistan, while officials from Federal Board of Revenue and Pakistan Telecommunication Authority were also present. According to the Telecommunication sector representatives these taxations are in the form of activation tax, sales tax and duties on mobile sets which has raised the cost of acquiring a mobile phone the highest in the world. They specifically mentioned 21 percent general sales tax, import duty amounting Rs.500 and handset duty of Rs.250.

There is constant pressure on the government to maintain low taxation on the Telecom sector but the government wishes to generate revenue as well, but not wanting to discourage this sector. Working out something which would be agreeable to all parties is somewhat a difficult task.
The current taxation on this sector might be considered heavy taxation by the private sector but there already ample exemptions on this sector in other areas besides the handsets, see paragraph “Rates and Exemptions in Pakistani Tax Laws” in this document.

5.3. **Ambiguity in Tax Law:**

Income Tax Ordinance in Pakistan is not explicit on various cases which have arisen due to the growth in Telecom sector, for example:

i. How entities in Pakistan would be taxed if they are operating a call centre business in Pakistan that is providing services abroad via telephone or internet. Would the income of such individuals be taxed as foreign source or Pakistan source income? Or would this income be exempt?

ii. Computer programmers are running software houses from their homes or single rooms etc, the above mentioned problems are applicable here as well.

Besides the above mentioned there are other challenges for the revenue collectors as well, e.g.

I. How would FBR bring into the tax net the individuals, association of persons or companies that are developing software for clients abroad and need only small place and an internet connection to start work?

II. Would the government tap into private email accounts or online messages to detect such businesses? Would the courts allow such a violation of privacy? Or would this be catered by introducing further laws or ordinances?

5.4. **3G Spectrum and Pakistan Telecommunication:**

3G technology would allow the consumer not only to read messages and hear calls, it would allow video picture of the other person on the handsets as well. In the aforementioned meeting between the Pakistani government officials and the Telecom sector representatives, the issue of auctioning 3G spectrum was also raised by the Telecom sector representatives. They were of the view that the Telecommunication sector in Pakistan is capable of handling this technology and its process be simplified for benefit. The future of the sector is in 3G technology, and by acquiring this technology the Pakistani sector can achieve great strides. The government should allow all technologies to be used unhindered but regulated.
5.5. **Terrorism:**

Terrorism is a growing global phenomenon, which has adversely affected everyone everywhere including Pakistan. Scholars have struggled to give a universally acceptable definition to terrorism but nonetheless agree that the killing of innocent people is an abhorrent act, and there is no justification for it. Pakistan after becoming the frontline state in the NATO’s war on terror led by the US in Afghanistan, has suffered enormously from various attacks by terrorists, and terrorists have resorted to bombing, executing and kidnapping innocent people inside the urban centers of the country. It has been much of a debate that who is responsible for these attacks and what should be the policy to tackle this issue, but nonetheless it is quite evident that these inhumane activities have adversely affected the entire Pakistani society including business activities in Pakistan. Terrorists have deliberately resorted to sabotage and bombings of infrastructure of the public and private sector as well, all of this mayhem is resulting in low investment as well, as the investors are being scared off from Pakistan.

The Telecom sector naturally can’t be aloof from all these problems and is struggling. According to an estimate, the Telecom sector has suffered a loss of Rs.330 million in the province of Khyber Pakhtunkhwa and FATA (Federally Administered Tribal Area) due to terrorism. The infrastructure destroyed is 127 buildings, 51 mobile towers and 87 PTCL exchanges in all of this.vii

To add fuel to fire the Telecom sector is and has been suffering from the government’s counter-terrorism measures occasionally. Pakistan has faced terrorism since its inception, due to regional complexities the government has struggled to curb this menace. The government in the past and the present has taken measures to curb terrorism by banning cell phones. For example to counter criminal and terrorist activities there was a ban for 17 months in Karachi during the 1990s.viii Perhaps at that time this measure wouldn’t have been counterproductive to an extensive extend as all businesses were yet to adopt to cell phones and wirelesses then, but similar actions were taken presently in Dera Ismail Khan to fight the surge in terrorist activities throughout Pakistan.ix

Terrorists have detonated bombs in mosques, Imam Bargahs and religious processions. They have also have resorted to kidnapping for ransom, to get their accomplices released and for making political statements. In all of these terrorist activities, cell phones, internet and wirelesses are being extensively used for contacting their terror outfits and for informing their high ups. While the terrorists have also used cell phones for detonating self made bombs by affixing another cell phone on the explosive devices as well. Since Dera Ismail Khan has been adversely affected by sectarian terrorism in recent years, the government of Pakistan has banned the use of mobiles and all wireless technologies for the past one year in the south of the province Khyber Pakhtunkhawa which includes areas such as Dera Ismail Khan and Tank to curb terrorism.
Such situations are clearly unwanted as such measures in the past and present have adversely affected the Telecom sector and of course are source of revenue loss for the government. To fight this war the government has to resort to drastic measures which are adverse to businesses and definitely all of this would inevitably cause harm to the collection of revenue. If the ban on mobiles are used as precedents and extended to other parts of the country then this would be a serious crisis. However, it is but inevitable that to save human lives any measure can be taken by the government, but it would be appropriate that the government takes some other measures instead of banning of cell phones and wirelesses etc, otherwise these measures would adversely affect the Telecom sector and businesses, and inevitably result in revenue loss for the government.

5.6. **Rates and Exemptions in Pakistani Tax Laws:**

Income from exports of computer software and IT services have been exempt under the Pakistani Income Tax Ordinance 2001, furthermore tax collected on import of telephone sets is at 1% on the import value as increased by other taxes, while the sale of computer software has also been exempted in the Sales Tax Act 1991.

The government is concerned with the collection of revenue while on the other hand it is clearly manifested in the relevant tax laws that either government has exempted the lucrative portion of the Telecommunication sector or has placed a very minimum amount of tax on it. This attitude of tax exemption is clearly a policy of the government which is harmful to the revenue collection.

The exact wordings of the relevant provisions are:

“(133) Income from exports of computer software or IT services or IT enabled services up to the period ending on 30th day of June, 2016.

*Explanation.* For the purpose of this clause –

(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 centers, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers, data entry operations [locally produced television programs] and insurance claims processing.”

“(13G) Tax under section 148 on the following item shall be collected @ 1% of
their import value as increased by [customs-duty, sales tax and federal excise duty], if any levied thereon:

4[ ]

5[ ]

6[ ]

iv. Gold;

v. Mobile telephone sets;

vi. Silver;\textsuperscript{xii}

The government has to decide whether it still wants to exempt such sectors from tax for promotion or whether it is high time that they should be brought in the tax ambit.

5.7. **Recent Decline in Investment:**

There is recently a shortage of investment in the Telecommunication sector due to manifold reasons, such as, the global financial crisis in the banking sector worldwide, deteriorating law and order situation in Pakistan, energy crisis in Pakistan and the devaluing Pak rupee. Such problems have altogether adversely affected the Telecom sector in Pakistan and hamper its further expansion and permanence. The major problem for the low investment in the sector is due to energy problem, which has compelled the Telecom operators to use alternative power sources for providing of uninterrupted services. Increased investment on alternate power resources has brought extra cost on the operators’ business plans and the result is either the investor suffers low profit margins and low return on investment or there is quality of service issues. The law and order situation also had not been very optimistic in relation to investments further prevent the investors to invest in the businesses and the investors think twice about future investments.\textsuperscript{xii} If these crises are not overcome even though some might not be of Pakistan’s making then there will be an acute shortage of funds for all sectors including the Telecom sector.

The government is already facilitating this sector with low rates of taxations and exemptions, but circumstances are discouraging this sector because of other reasons.
5.8. **Consumers’ Perspective:**

Telephones, Cell phones and wireless phone sets etc are necessary to facilitate businesses and there is a constant desire by people to be available for contact at least most of the day if not 24 hours. From their perspective, these taxes are burdensome, furthermore these forms of taxes are charged indiscriminately without taking into account the consumer’s income. Indirect taxes’ burden is usually shifted to the consumers while that may have not been the intention of the government, hence the consumers find themselves over burdened. All of this increases the cost of living and cost of businesses. While many consumers consider that Pakistan Telecommunication Authority is only protecting vested interests not of the consumers.\(^\text{xiii}\)

The government is pressured to consider that the consumers are suffering from various tiers of taxation which result in economic burden, however, this segment is a luxury for many who have no compulsion to keep them, and hence the government is right to charge tax on this segment of the sector. To get an accurate picture of the consumers’ perspective, we conducted a survey to include in our research.

Due to constraints in time and location we sought a sample of 100 consumers in Lahore to survey. The sampling was random and consisted of a heterogeneous group from all ages, professions and classes. The consumers were asked five questions each and they were required to answer in a ‘yes’ or ‘No’.\(^\text{xiv}\)

The questions asked were as follows:

1. Do you think that Telecommunication is taxed heavily?
2. Does the tax on Telecom increase your daily expenses?
3. Do you believe only the federal government should tax the Telecom sector?
4. Do you think heavy tax increases the cost of doing business?
5. Is the government justified in taxing the Telecom at current rates?

The results for the survey were as follows:

<table>
<thead>
<tr>
<th>Questions</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Do you think that Telecommunication is taxed heavily?</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>2. Does the tax on Telecom increase your daily expenses?</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>3. Do you believe only the federal government should tax the Telecom sector?</td>
<td>64</td>
<td>36</td>
</tr>
<tr>
<td>4. Do you think heavy tax increases the cost of doing business?</td>
<td>71</td>
<td>29</td>
</tr>
<tr>
<td>5. Is the government justified in taxing the Telecom at current rates?</td>
<td>69</td>
<td>31</td>
</tr>
</tbody>
</table>
The result can be better understood by the following pie chart:

1. Do you think that Telecommunication is taxed heavily?

- Yes: 63%
- No: 37%

2. Does the tax on Telecom increase your daily expenses?

- Yes: 71%
- No: 29%
3. Do you believe only the federal government should tax the Telecom sector?

- Yes, 64
- No, 36

4. Do you think heavy tax increases the cost of doing business?

- Yes, 71
- No, 29
According to the survey conducted, it is clearly indicated that the consumers are highly critical of the heavy taxes on the Telecom sector. They have reservations that the taxation on the Telecom sector does increases their cost of living and the cost of businesses. Furthermore most of them are satisfied with the collection of taxes by the federal government and are not in favor of the involvement of the provincial or local government. This is also an indicator that the people are more apprehensive about the collection of taxes by the provinces and have a level of confidence on the Federal Board of Revenue.

5. Is the government justified in taxing the Telecom at current rates?

Yes, 69
No, 31
Conclusions and Recommendations

After highlighting the problems identified by various sources, the syndicate has reached some conclusions and would like to give some recommendations to enhance revenue contribution from this sector which would be beneficial for all, i.e. the government, the Telecom sector and the consumers.

I. The Telecom sector should remain the exclusive domain of the Federal government as sharing this regulation with the provincial or local governments would create complications, as for example the jurisdiction of a mobile number registered in Karachi and being used in Lahore cannot be clarified. If it is inevitable that the provinces would charge tax on this sector, then there should be uniformity of tax laws in all provinces and the Federal government should ensure that there is an equal rate of tax being charged by all provinces including Azad Kashmir.

II. The tax burden on the telecom sector should be lessened particularly for the consumers. The rate of FED which is very high currently standing at 19.5% can be significantly lowered. As the burden of FED directly falls on the consumers.

III. The rate of corporate income tax for Telecommunication sector may be increased from 35% to 45%. This can benefit in two-fold; firstly it will generate more revenue for the state and have a direct positive impact on the exchequer, secondly it will discourage the flight of dollars remitted abroad in the form of profits of these companies and come to rescue of the balance of payment deficit of the economy.

IV. The areas in which exemptions are being given, e.g. Call Centers and Software Development houses etc, there should be taxation to increase the revenue of the government. However the rate of tax should be minimum.

   - The government should take measures to bring into the tax net all such services which are providing services abroad while physically being in Pakistan. Pakistan Telecommunication Authority should be empowered to screen calls and online messages coming in and out of the country to identify business transactions taking place. The government should also request the countries who are acquiring such services to provide information to the Pakistani government that would identify the service providers here.

V. Further amendments should be introduced in the Income Tax Ordinance which should address the areas identified in the paragraph of the problems and issues, named “Ambiguity in Tax Law”.
VI. There should be no restriction on the use of any technology in Pakistan until and unless it is harmful to the interests of the country.

VII. Cell phones and wirelesses shouldn’t be banned in any area of Pakistan; further screening of its usage should be introduced instead.

VIII. The government should focus on the providing finance to the non-cellular/mobile component of Telecom sector in the form of loans instead of providing exemptions in tax laws.

IX. The government should embark on an awareness campaign in the public to highlight that taxes are inevitable on consumers for personal and business uses, otherwise the government wouldn’t be able to facilitate the public and telecom sector in the form of loans or civic facilities, which would result in low investment in this sector and the quality plus competition would be affected adversely.

X. The government should realize the enormous growth the telecom sector has shown in the country. This is the time for the decision makers to lead this sector to further expansion and progress. The government should reduce the taxation on the Telecom services and its related equipments that will help in reduction of the cost of the service, which ultimately will encourage more telecom usage. This approach on the part of the government will help in more revenue collection in respect of more taxes on these services. The telecom operators should be given tax concessions especially in the rural areas of the country for more investment there which will help link the digital divide as well between urban and rural areas. The more investments; the more promotion of telecom sector and the more revenue collection will be there, if these concession are given to the telecom operators in the country.

XI. A detailed survey should be conducted by FBR so that a satisfactory sample should be taken to determine the consumer’s perspective. Because after having known the consumer’s views, more prudent steps can be taken for more revenue collection. The syndicate conducted a survey on the basis of questionnaire, annexed, as to how taxation of telecommunication affect the consumer and what are their views and perspectives on these issues.
XII. Due to law and order situation in the country, there has been extensive damage to the infrastructure of the country, which has also affected the infrastructure of telecom sector. The terrorist activities have brought down the foreign direct investment which has ultimately caused loss in respect of investment in this sector. The lower the investment the lesser revenue collection. Keeping in view the misuse of information through mobile phones, the government banned or jammed the mobile phones in various areas of the country in order to prevent any mishap or which could bring any tragedy in shape of terrorism. No doubt this measure is in the interest of our nation but on the other side of the picture, if we realize, this measure has caused much revenue loss. Our county is now going through a hard time which needs an injection of revenue to run the affairs of nation. Without revenue, it will be very difficult for our beloved nation to survive. That is why, if viable, government should take some other measures, instead of blocking the mobile phones, to curb terrorism which should bring peace in the county as well as more revenue.
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The survey questionnaire has been attached.

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