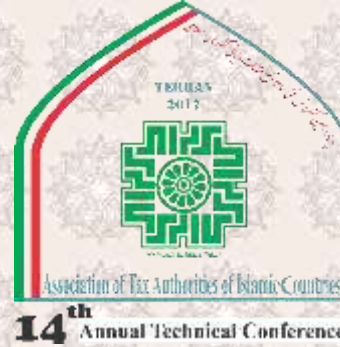




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Pakistan National Tax Administration



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# 14<sup>th</sup> ATAIC Technical Conference

## Taxation of Digital Economy and Services

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# Sequence of Presentation

- Introduction
  - International Framework
- Issues/Challenges and Policy Options
  - Direct Taxes
  - VAT
- Global Responses
- Pakistan: Business Models of Digital Players
- Flow of Funds and Possible Policy Options
- Conclusion

# International Framework

- OECD BEPS Report (Action 1)
- OECD International VAT/GST guidelines
- Task Force on Digital Economy

# Issues /Challenges and Policy Options

- Direct Taxes
- VAT



# Issues /Challenges and Policy Options (Contd.)

## Direct Taxes-Issues

- Out-dated definition of PE
  - (\$1.27 b French Tax on Google overturned by French Court for want of PE)
- No Physical presence
- Enforcement of tax laws
  - Blocking such URLs is not an option due to globalization

# Issues /Challenges and Policy Options (Contd.)

- **Direct Taxes-Policy Options**

- Taxation on the basis of Significant Economic Presence (SEP)
  - Significant Sales/Revenues from that jurisdiction (threshold)
  - Local Domain Name
  - Local Platform
  - Local Payment options
  - Monthly Active Users
  - Contracts concluded

# Issues /Challenges and Policy Options (Contd.)

- **Direct Taxes-Policy Options (contd.)**
  - Withholding Tax
    - Collected/Deducted/Remitted by e-intermediaries/ Financial Institutions
  - Equalization Levy
    - Under a separate regime (Excise) different from Income Tax
    - Collected/Deducted/Remitted by e-intermediaries/ Financial Institutions

# Issues /Challenges and Policy Options (Contd.)

- **VAT-Issues**

- No Physical Presence
- How to enforce Registration for VAT
- How to Collect Taxes

# Issues /Challenges and Policy Options (Contd.)

- **VAT-Possible Policy Options**

- B2B
  - Reverse Charge
- B2C (Real issue)
  - Simplified Registration Regime (SRR) for off-shore suppliers (minimum information)
  - Minimum Threshold
  - Quarterly Reporting
  - No Input Tax Credit
  - Data available to tax authorities on request

## Direct Taxes

### India

- Equalization levy @ of 6% of gross sales/revenues
- B2B
- Applies only to online advertisements
- Transactions above INR 100,000
- Local businesses as withholding agents

## Direct Taxes

### UK and Australia

- Diverted Profit Tax
  - UK Tax on Google
- Targeted at multinational with significant economic transactions in the local market which only maintains customer service office in a jurisdiction but concludes contract remotely

## VAT/GST on Offshore Businesses

### **Australia/ New Zealand/Japan/Taiwan**

- SRR (Simplified Registration Regime)
- Japan/Taiwan/Australia: Encouraging response from offshore-suppliers
- Taiwan: Informally discussed the new SRR with big players making off-shore supplies before implementation

# Digital Economy in Pakistan

## Categories of Digital Businesses

	Types	Services/ products	Primary Revenues
1	<b>Online Markets</b>	<b>Selling/ Search of products and services</b>	<b>Advertisement/ featured listings and special products</b>
2.	<b>E-commerce</b>	<b>Brick/ mortar stores, online selling, Market place for third party sellers</b>	<b>Selling, trading platform</b>
3.	<b>Services</b>	<b>Transport/ Delivery/ Travel bookings/ Employment</b>	<b>Service fee/ Special products</b>
4.	<b>Others</b>	<b>Digital advertising, web development/ warehousing/ order management, Blogging</b>	<b>Fee for services</b>

# Digital Economy in Pakistan

## Off-Shore Players

S#	Business Name/Website	Types of Services/Products	Revenues
1	Google	Advertisement, SEO, Mail Domain, Hosting, Tracking	Fees
2	Facebook, LinkedIn etc	Advertisement, Paid services	Fees
3	Youtube	Advertisements	Fees
4	Microsoft	Softwares	Fees
5	Amazon	Tangible and intangible products, Advertisements	multiple
6	E-bay	online wholesaler, Advertisements	Commission
7	Alibaba	Online trading platforms	Service fee/ commission, featured listings, micro lending, payment system
8	Apple itunes	Music	
10	Netflix	Movies	Fees

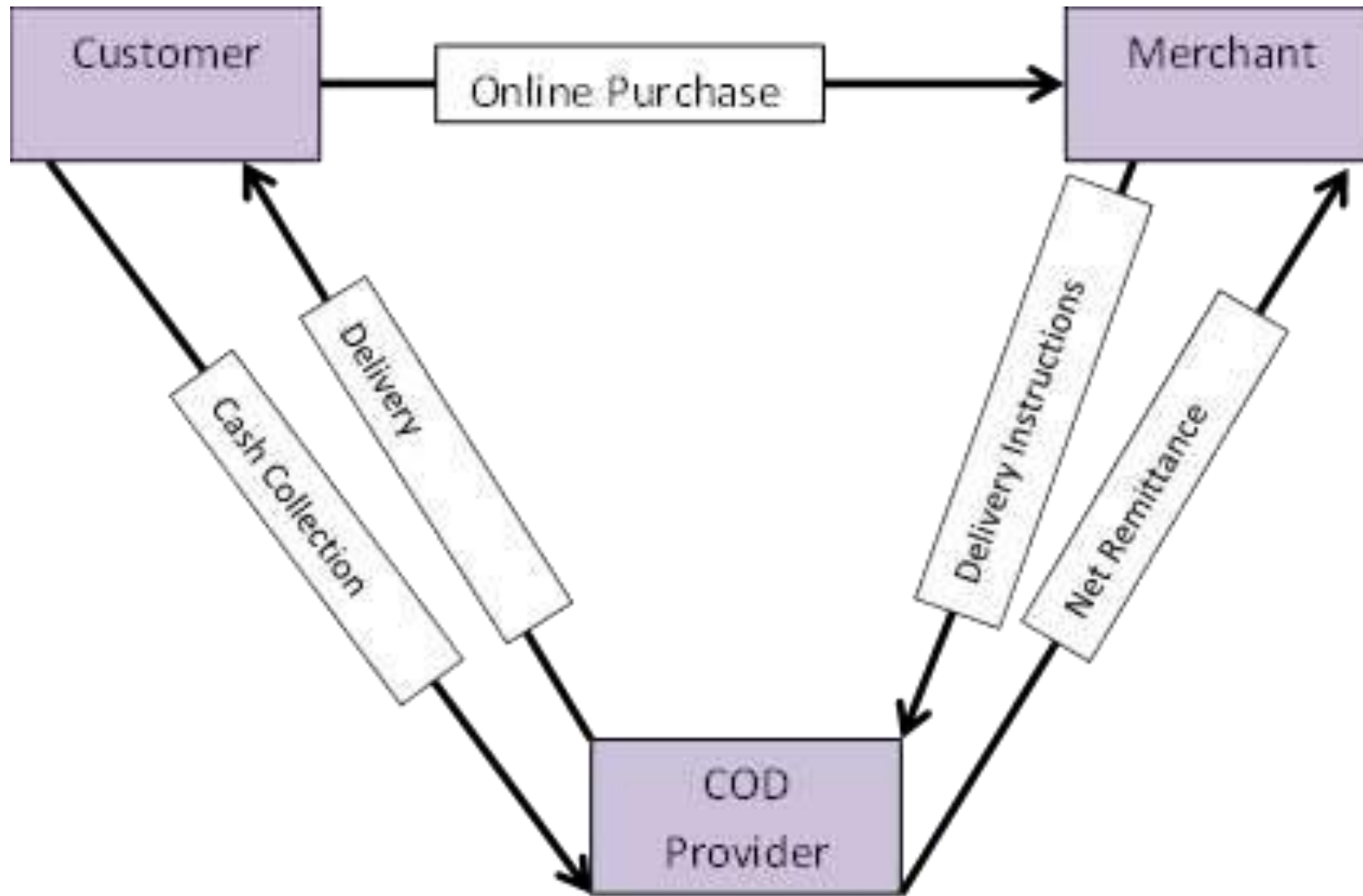


# Payment Channels

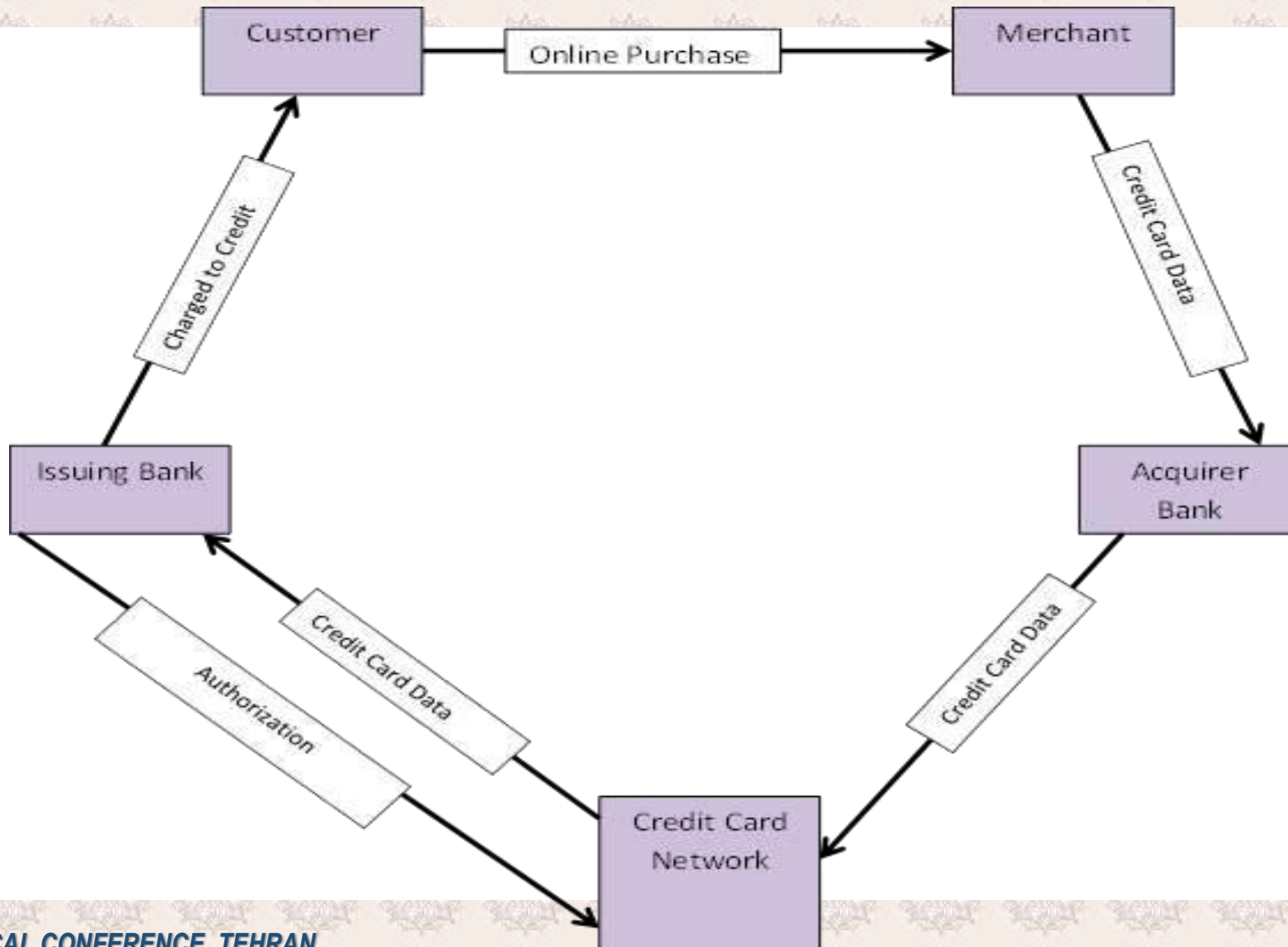
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	Payment Channel	Remarks
1	Cash on Delivery	Most popular (about 95% of online B to C payments)
2	Credit Card	Flow of funds different for Domestic and International Credit cards (online payments)
3	Branch less Banking	Growing mode of payment. Online wallet
4.	e-Wallet/ Mobile wallet (Fintechs)	Potential to grow

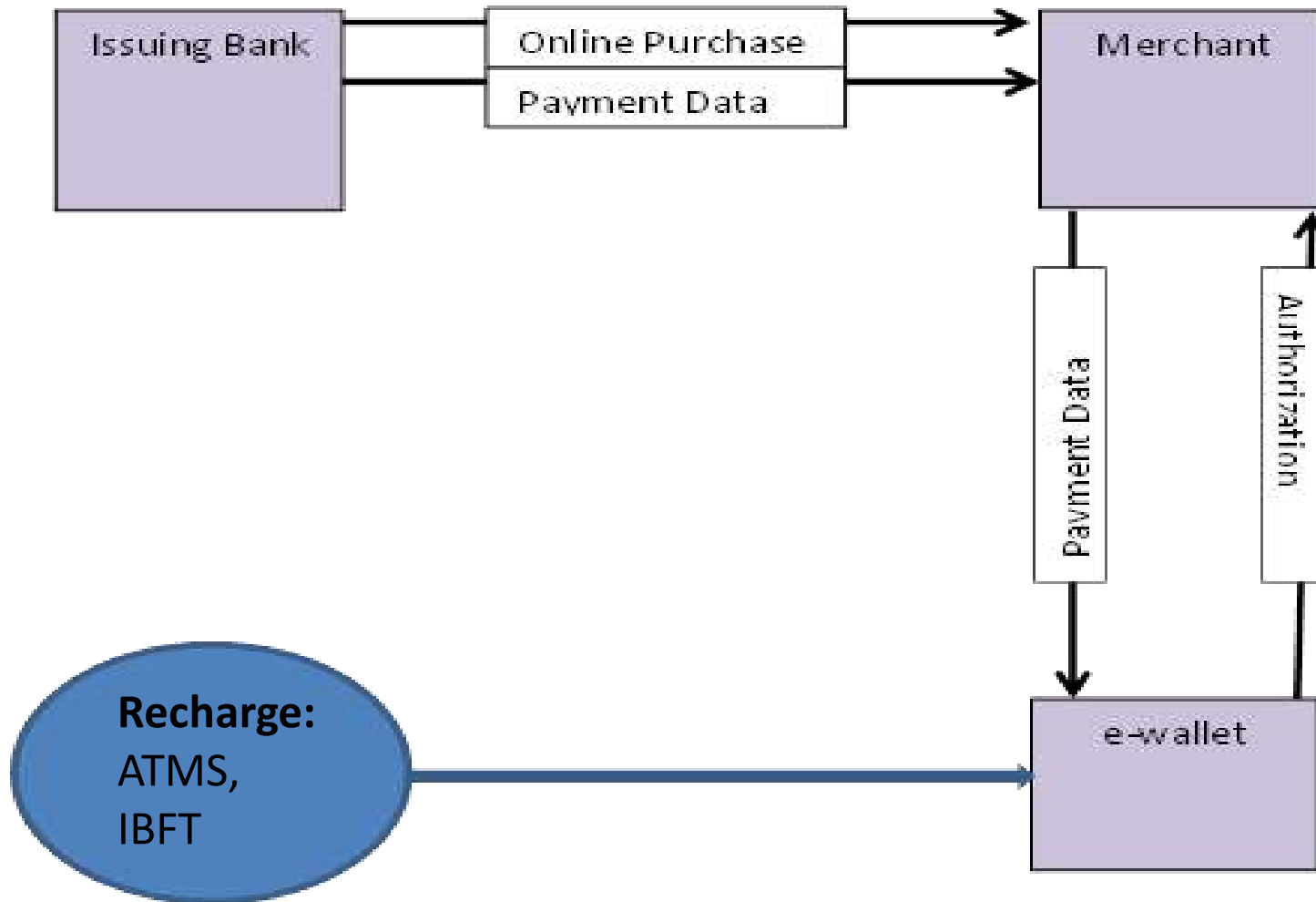
# Flow of Funds- Cash On Delivery



# Flow of Funds- Credit Card



# Flow of Funds- E-Wallet



# Conclusion



## Direct Taxes

- It is an issue with off-shore players in the digital industry
  - Intangibles and services
- Need a globally unanimous policy response
- Need to amend definition of PE or
  - Devise a new matrix for taxing profits of offshore players

## VAT

- Simplified VAT Regime successfully implemented by various jurisdictions



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