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Pakistan Suspends Digital Tax to Aid US Deal

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– Categories: Economics



ISLAMABAD – Pakistan has withdrawn a 5% digital tax imposed on foreign tech companies, a move seen as part of ongoing negotiations for a trade agreement with the United States. The decision was formally announced by the Federal Board of Revenue (FBR) on Wednesday.

The exemption applies to all foreign vendors supplying digitally ordered goods and services in Pakistan. The waiver was enacted through the Digital Presence Proceeds Tax Act, 2025, and is effective retroactively from July 1, 2025, the start of the new fiscal year.

While the relief is broad-based, it comes in response to concerns raised by the United States government, particularly regarding its major tech firms. Pakistan's Finance Minister Muhammad Aurangzeb was in Washington when the announcement was made, leading a delegation focused on resolving trade barriers with the US.

According to FBR officials, the digital tax had been introduced due to longstanding gaps in taxing foreign businesses operating online in Pakistan. These entities often lacked a permanent physical presence in the country, making it difficult for authorities to enforce taxation.

However, the removal of the tax is expected to cause a significant drop in revenue, with estimates running into billions of rupees. Government sources suggest that the United States, as the largest stakeholder in the International Monetary Fund (IMF), may engage directly with the Fund to address any concerns about the tax loss.

The law had originally targeted companies with a significant digital footprint in Pakistan but no physical or registered base. Firms such as Google, Meta, Amazon, Microsoft, and Netflix will benefit from the exemption. The FBR had previously stated that companies like Google were not the specific target of the legislation, despite its broad scope.

The Digital Presence Proceeds Tax Act required financial institutions to deduct taxes on digital payments to foreign suppliers and report such transactions quarterly. The aim was to broaden the tax net for services like cloud computing, streaming platforms, online software, and digital consultancy.

The reversal marks a shift in Pakistan's strategy amid efforts to secure a favourable trade agreement with the US. Officials have not confirmed whether the exemption is permanent or subject to renegotiation, but it reflects the growing importance of digital commerce in international trade relations.

The US has expressed concerns that digital taxes can unfairly target American companies, an issue also raised during recent bilateral talks in Washington. The current Pakistani delegation's visit marks the second round of discussions in less than two weeks.

The move may ease tensions and facilitate progress on the pending trade deal, though domestic concerns over revenue loss and policy consistency remain.