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ADB Calls for Overhaul of Digital Tax Policy in Pakistan to Boost Investment and E-Commerce

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The Asian Development Bank (ADB) has recommended a sweeping reform of Pakistan's digital tax framework, warning that the country's inconsistent and high taxes on digital services are stifling growth, deterring foreign investment, and widening the digital divide. The ADB's proposal includes implementing a flat 5% general sales tax (GST) nationwide on all digital transactions to streamline e-commerce, improve transparency, and strengthen the formal economy.

In its latest report on Pakistan's digital ecosystem, the ADB highlights the challenges that arise from Pakistan's fractured tax system, where provinces levy varying rates, including a 19.5% sales tax on internet services, among the highest globally. According to the report, this uneven tax environment has discouraged private sector investment, particularly in the telecom and information and communications technology (ICT) sectors, which have already experienced shrinking revenues and a drop in foreign capital inflows.

The ADB stated that "Pakistan's digital infrastructure faces a major challenge from high taxation," and stressed that the country's tax policies lack the stability and competitiveness needed to attract global investors. These high costs hit consumers too, especially women and marginalized communities, exacerbating the existing digital divide due to both economic and cultural barriers.

The report lays out a detailed roadmap to revitalize Pakistan's digital economy, starting with the simplification and rationalization of tax structures. Among the key recommendations are a reduction of corporate income tax rates and lowering the cost of doing business for small and medium-sized enterprises (SMEs) by 10% for the next decade, provided these businesses go digital. The ADB also called for easing foreign exchange rules for ICT exporters, capping employee income tax at 15% for such firms, and offering tax credits to support women-led digital startups.

ADB's report makes it clear that a more predictable regulatory environment is essential. It proposed locking in sector-specific tax rates for 10 years and aligning Pakistan's tax regime with a benchmark group of regional competitors to restore investor confidence.

Additionally, the ADB recommended addressing infrastructure bottlenecks by mandating a standardized right-of-way (RoW) fee across the country, which would simplify the process for telecom firms to install critical infrastructure like fiber optic cables and towers. The report stressed that Pakistan's current RoW practices are cumbersome and financially burdensome, which delays deployment and raises service costs.

On broadband connectivity, while the country has achieved a 56.5% penetration rate with over 137 million subscriptions, the ADB emphasized that further expansion is being hindered by outdated policies and underinvestment. The report also noted that Pakistan has one of the lowest average revenues per user (ARPU) in the world, a result of intense competition and unsustainable pricing models in the telecom sector.

To reverse this trend, the ADB urged early-stage public and private sector investments in digital infrastructure, local smartphone production, and targeted support for research and development. It suggested a 3% R&D allowance on exports of domestically manufactured smartphones as a potential incentive.

A particularly urgent appeal was made for the creation of a strong legal framework to support public–private partnerships (PPPs), especially in underserved areas. This includes facilitating easier access to internet-enabled devices and expanding broadband through collaborative programs with local and international partners.

With the current government seen as ineffective in addressing investor concerns or fostering a pro-business climate, the report indirectly calls for a shift in direction—away from heavy-handed taxation and toward market-driven reforms that prioritize innovation, private investment, and accessibility.

If Pakistan is to remain competitive in the global digital economy, ADB’s message is clear: simplify taxes, cut red tape, and let enterprise lead the way.