EDITORIAL

Lock It In: The Case for a 10-Year Stable Tax Regime for Pakistan's Tech Sector

Pakistan's IT sector has compounded at 17–21 percent annually for a decade — not because of generous tax rates, but despite a tax environment that changes every June. Imagine what it could do with ten years of certainty.

By **Ayesha Farooqi** | Policy & Opinion Desk | Published: July 2026
Position: Chief Financial Officer, Mid-Sized IT Services Firm

Introduction

Every June, Pakistan's IT sector holds its breath. Not for a product launch, not for a talent shortage, not for a slowdown in global outsourcing demand — but for the federal budget. Will the export income exemption survive another year? Will the Federal Board of Revenue introduce a new withholding mechanism that nobody in the industry was consulted on? Will the provincial sales tax rules in Sindh and Punjab collide again with the FBR's framework in ways that take months and expensive counsel to untangle? The uncertainty is not a minor administrative inconvenience. For a sector the government itself is counting on to deliver $5 billion this fiscal year and an implausible $25 billion within three, it is a strategic liability of the first order.

Pakistan's IT and IT-enabled services sector has compounded its export earnings at roughly 17–21 percent annually for a decade, reaching a record $3.8 billion in FY2024–25 and crossing $400 million in a single month for the first time in December 2025. It has achieved all of this in spite of a tax environment that changes shape every budget cycle, not because of any coherent long-term policy framework. The question this editorial poses is a simple one: what could this sector achieve with ten consecutive years of tax certainty? And why, given the stakes, has no government managed to provide it?

> ***"A software house cannot sign a five-year contract with a client in Amsterdam if it cannot predict its own tax bill next June. Policy instability is not a footnote to Pakistan's IT story — it is the central plot obstacle."***

The Problem with Annual Budgets as Tech Policy

The pattern is well-documented and deeply frustrating to anyone who has tried to run a technology business in Pakistan. In 2021, a blanket freelancer tax exemption was introduced at 1 percent — a welcome move, but without a statutory definition of "freelancer," it immediately began to be applied inconsistently. By 2024, income tax slabs for salaried IT professionals were restructured upward sharply enough that industry leaders warned of accelerated brain drain. The GST on IT hardware was doubled from 5 to 10 percent in a single budget. A Digital Presence Proceeds Tax was legislated, then suspended the same day it was to take effect after protests from the U.S. Chamber of Commerce. The 100 percent export income exemption — perhaps the single most important policy lever for attracting and retaining IT exporters — exists only until June 2026, leaving companies to wonder, once again, what comes after.

The costs of this volatility are not abstract. A software house cannot sign a five-year delivery contract with a client in Amsterdam if it cannot predict its own effective tax rate next June. A startup founder cannot make a rational decision between incorporating in Pakistan versus the UAE or Estonia when the Pakistani tax code for technology companies rewrites itself annually. And a senior developer weighing a local software house against a remote role for a foreign employer — already tempted by a pay gap of 22 to 44 percent — has one more reason to choose the path that does not depend on Islamabad's budget arithmetic. Uncertainty, in this context, is not a neutral inconvenience. It is a structural tax on ambition.

What a Decade of Stability Would Actually Unlock

The Pakistan Software Houses Association (P@SHA) put the number plainly in its budget recommendations ahead of the FY2026–27 federal budget: it called for the existing 0.25 percent final tax regime for IT exporters and genuine freelancers to be locked in for the next ten years. The language was unambiguous — "policy continuity is deemed essential to attract global business, secure foreign exchange inflows, and empower the registered corporate entities that serve as the primary engines of Pakistan's technological and economic advancement." This is not industry lobbying dressed up as principle. It is a straightforward reading of how technology investment decisions are actually made. Global companies choosing an outsourcing destination, or investors considering a technology park, do not evaluate the current year's tax rate in isolation. They evaluate the probability that it will still exist in three, five, and ten years. On that measure, Pakistan has consistently underperformed its potential.

A statutory ten-year tax commitment — not an annual extension, not an ordinance, but a legislated multi-year framework — would do several things at once. It would make Pakistan legible to foreign investors who currently view our annual budget cycle as a risk premium to be priced into every contract. It would allow local software houses to plan hiring, infrastructure, and capability investment on timelines longer than eleven months. It would give freelancers and remote workers the confidence to formalise their earnings through official banking channels rather than routing through third-party payment processors — which is where the real informal economy lives. And it would allow the FBR itself to shift from crisis-managing a sector it barely understands to building a relationship with one that is already bringing in more foreign exchange than most of Pakistan's traditional export industries.

The Counterarguments, Addressed Honestly

The counterarguments are predictable and deserve a fair hearing. First: the FBR needs revenue, and exempting a growing high-income sector is fiscally irresponsible. The answer is that Pakistan's IT sector today generates far more in foreign exchange than the taxes forgone, and that an informal, export-averse, offshore-incorporated version of the same sector generates nothing for the exchequer at all. The choice is not between taxing the IT sector and not taxing it — it is between taxing a sector that stays and grows in Pakistan, or watching it migrate structurally to Dubai, Tallinn, and London. Second: a ten-year commitment ties the hands of future governments. This is a feature, not a bug. The whole point is to make the commitment credible. A promise any government can repeal the following June is not a promise at all — it is an annual negotiation in which the sector is always the weaker party.

The government's own export targets — $5 billion this year, $10 billion by 2030, $25 billion within three years — are not achievable through talent alone or through broadband expansion alone or through Special Technology Zones alone. They require Pakistan to become a predictable place to do technology business. That means a clear, statutory, multi-year tax framework that does not require the IT sector to send delegations to Islamabad every spring to defend its right to exist. It means a government that treats the formal registration of a freelancer or a software house not as a compliance trap, but as a relationship worth protecting. And it means, above all, a recognition that the trust deficit between Pakistan's tech economy and its policymakers is costing the country more than any budget headline savings ever could. Lock in the regime. For ten years. And then get out of the way.