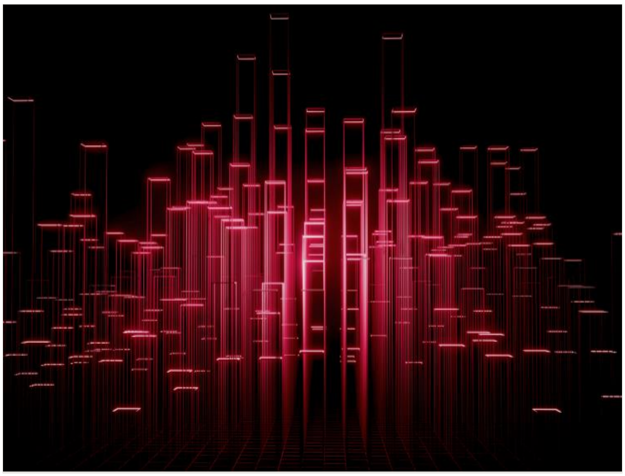
Digital Presence Proceeds Tax Act, 2025

This update provides comprehensive insights into the provisions and framework established by the Digital Presence Proceeds Tax Act, 2025 (hereinafter referred to as "DPPTA'), recently introduced through the Finance Act, 2025. This legislation officially came into force on the 1st day of July, 2025, thereby establishing mandatory tax obligations and compliance requirements concerning digital presence proceeds tax.



1. Introduction

The DPPTA represents a new and distinct legislative measure aimed at taxing transactions within the digital economy. It is noteworthy that the DPPTA is not the only initiative taken by Pakistan to tax the digital economy. Before this, Pakistan introduced several direct tax measures, including: (a) a withholding tax on fees paid for offshore digital services provided by non-residents without a permanent establishment ("PE") (b) the amendment in definition of PE to introduce the concept of virtual PE; and (c) the nexus rules based on the Significant Economic Presence of non-resident. What distinguishes the Digital Presence Proceeds Tax from previous measures is its enactment outside the direct tax code, as a standalone legislation.

The preamble of the DPPTA emphasises that rapid digitalisation has transformed business models, enabling multinational digital companies to generate significant revenues in jurisdictions where they lack a physical presence. It criticises the current international tax framework—based on physical presence and permanent establishment—for failing to recognise the value created through digital interactions, user data, and intangible assets. The preamble highlights concern about the erosion of domestic tax bases, as profits are shifted to low-tax jurisdictions, compromising fiscal sovereignty and the principle of 'value creation' as the basis of fair taxation. It further notes that opposition to Digital Service Tax stems from the inadequacy of existing rules to address digital economy challenges and the legitimate rights of nations to safeguard their revenue until a multilateral solution is implemented. It justifies the Digital Presence Proceeds Tax Act, 2025, as a necessary and appropriate measure to promote tax fairness and protect public revenue.

2. Charge of Tax

DPTTA levies a Digital Presence Proceeds Tax ("DPPT") on the gross proceeds realised by any foreign vendor with a significant digital presence ("SDP") in Pakistan. DPPT applies to the supply of goods or services digitally ordered from outside Pakistan, regardless of the mode of delivery, whether digital or physical.

For the purpose of tax charge, the proceeds shall be deemed attributable to the SDP of a foreign vendor if the following conditions are met: (a) the transaction is conducted via a foreign online marketplace or e-store; (b) the transaction is related to digitally ordered goods or services; and (b) a Pakistani user is a party to the transaction. "Pakistani user" shall include any user who reasonably appears to be (a) an individual ordinarily residing in Pakistan; (b) a company which is established or has a PE in Pakistan; or (c) the payment for digital goods or services has been made electronically from within Pakistan.

SDP employs a de minimis exemption of One Million Pak Rupees for the financial year. For foreign vendors providing digitally ordered goods and services from outside Pakistan to users within Pakistan, the SDP is established based on any one of the following criteria: (a) existence of a user base and associated data input; (b) conducting billing or collection activities in the local currency or with a local form of payment; (c) being responsible for the final delivery of goods and services to Pakistani consumers; (d) bearing responsibility for the provision of support services by the foreign vendor, including after-sales services, repairs, and maintenance; and (e) continued marketing and sales promotion activities, whether online or offline, to attract customers.

"Digitally delivered services" are defined as internet-delivered automated services that require minimal or no human intervention including music, audio and video streaming services, cloud services, online software application services, services delivered through online inter-personal interaction i.e., tele-medicine, e-learning etc., online banking services, architectural design services, research and consultancy reports, accounting services in the form of digital files or any other online facility. Although the charge of tax is based on supply from outside of digitally ordered services, it is understood that this definition is relevant for the scope of services subject to DPPT.

3. Tax Rate

As per the Schedule to the DPPTA, the tax rate for chargeable transactions is 5% of the total gross payment, applicable to both goods and services, including advertisements on social media platforms.

4. Responsibility for the Tax Collection

a) Payments to foreign vendors

The responsibility for collecting and depositing DPPT has been assigned to the payment intermediaries, including banks, financial institutions, licensed exchange companies or payment gateways, who make payments to foreign vendors. Such intermediaries are prohibited from maintaining a bank account for a foreign vendor and remitting funds outside Pakistan unless the tax has been deducted and deposited.

b) Payments to social media / online Platforms advertising in Pakistan

Foreign vendors with a digital presence in Pakistan are responsible for deducting tax from payments to social media platforms and online platforms for online advertising in Pakistan, which are taxable under the charging provision.

The tax deducted by payment intermediaries or foreign vendors must be transferred to the government treasury before the 7th day of the month following the payment. In case of default in collecting or depositing tax, the payment intermediary ***or*** official foreign vendor (the official statute uses the word "of" instead of "or"; which appears a typographical error), as the case may be, is personally liable for tax payment along with a default surcharge calculated at the rate of KIBOR +3% p.a.

The tax recovery provisions of Part IV of Chapter X of the Income Tax Ordinance, 2001 ("ITO") are adopted for matters concerning the recovery of DPPT.

5. Filing Requirements

a) Quarterly statement by Payment intermediaries in respect of E-commerce transactions

Payment intermediaries are required to file a quarterly statement to the Commissioner Inland Revenue in prescribed manner containing foreign vendor wise information regarding all payments related to e-commerce transactions of sale of digitally ordered services and goods including name of the purchaser, its identification number (CNIC), address of the foreign vendor; transaction date, unique identifier (invoice number), total transaction value from which tax has been collected and total amount of tax deducted from the seller.

Moreover, payment intermediaries maintaining bank accounts for foreign vendors with a digital presence in Pakistan are required to file quarterly statements in the prescribed manner, containing information regarding the total credit amount in the bank account for the foreign vendor and the amount remitted outside Pakistan.

b) Quarterly statements by social media/online platform for Advertisement Services

Social media and online platforms with a digital presence in Pakistan are required to file quarterly statement in the prescribed manner, providing client-wise information of local and foreign vendors with or without a permanent establishment, whose advertisements are relayed in Pakistan through their platform.

6. Penalties

DPPTA also includes a provision for imposing a penalty of One million Pak Rupees for each default in filing the statements mentioned above. Moreover, the payment intermediary is required to suspend the remittances of such foreign vendors if it is reported to them by the Commissioner that these vendors have continuously advertised for one hundred and twenty days without paying this tax.

Also, DPPTA requires that the Customs ensure that no courier delivery is made unless the evidence of payment of this tax is provided.

7. Exclusions

Payments to non-residents listed below are excluded from the chargeability of DPPT:

a) Payments effectively connected with a branch office of the foreign vendor in Pakistan, where goods are supplied from within Pakistan; and

b) Digitally delivered services, rendered through a branch office of the foreign vendor in Pakistan.

8. Authorities

The overall administration of the DPPTA has been entrusted to the Inland Revenue Department of the Federal Board of Revenue. FBR is also authorised to issue rules for implementing the provisions of the DPPTA, or for resolving any difficulties or related matters. These rules are expected to specify forms for quarterly statements.

The Commissioner Inland Revenue ("CIR"), assigned jurisdiction by the FBR, is designated as the "authority" under the DPPTA.

Orders for tax recovery can be appealed by an aggrieved person before the Appellate Tribunal Inland Revenue ("ATIR") within thirty (30) days of the order. The party aggrieved with the decision of ATIR can file a reference before the High Court concerning any question of law arising from the Order of ATIR.

9. Exemptions

The Federal Government is empowered to exempt any country, any class of goods or services or class of persons from the chargeability of DPPT.

10. DPPTA and income tax withholding provisions

Parallel amendments in the ITO have been introduced, providing exemption from the deduction/collection of income tax in the following cases where DPPT has been deducted:

a) Tax collectable at the time of import under section 148; if the recipient of the goods is also liable under the DPPTA, and the tax has already been collected by the payment intermediary.

b) Tax deductible under section 152(1C) by banking companies or financial institutions from the payment of fees for offshore digital services payable to non-residents without PE, where the payee is also liable under DPPTA and the tax has already been collected.

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