

PROPOSED INCENTIVE PLAN TO UPLIFT CONSTRUCTION AND REAL ESTATE SECTORS IN PAKISTAN

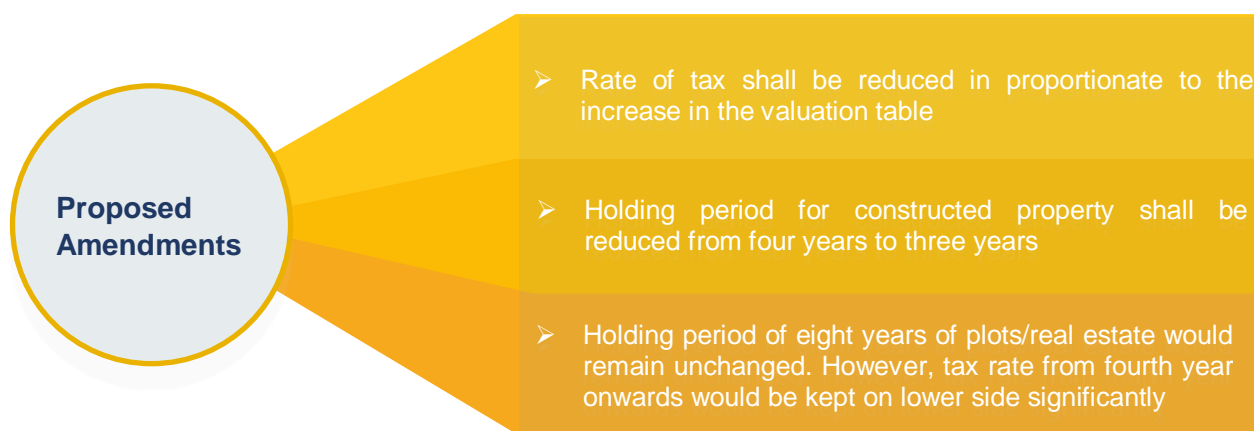
1. Proposed Fixed Tax Regime for Builders and Developers

Description	Existing Law	Proposed Amendments
Tax Regime for Builders and Developers	According to Section 7C and 7D of the Income Tax Ordinance, 2001, the tax shall be imposed on the profits and gains of builders and developers deriving income from the business of construction and sale of residential, commercial or other buildings and the business of development and sale of residential, commercial or other plots.	A fixed tax regime has been proposed to incentivize the builders and developers. Income under this proposed regime shall be treated as a separate block. The tax liability for builders shall be computed based upon the per square foot construction while the tax liability for developers shall be based upon per square yard land development.
Withholding Tax	Builders and developers, irrespective of their legal status are required to withhold tax under section 153 of the Income Tax Ordinance, 2001.	It is proposed that the builders and developers will be exempt from withholding taxes on the purchase of building material except vendors dealing in steel and cement and providing services (like plumbing, shuttering etc.), other than such services provided by the companies.
Mechanism for Imputable Income to be incorporated in the Wealth Statement	Currently under the fixed tax regime, the taxpayer is allowed to incorporate an amount equal to the income which would have resulted in the same tax, had this amount not been subject to final tax.	It is proposed that the builders and developers are allowed to incorporate a deemed income in their wealth statement equal to ten times of tax paid worked out on an imputable basis.
Special Incentive for NAPHDA	Currently, no special incentive is available for investment in Naya Pakistan Housing And Development Authority (NAPHDA).	The tax rates will be reduced by 90% for low-cost housing and projects developed by Naya Pakistan Housing And Development Authority (NAPHDA).

2. Tax Cuts on Capital Gains

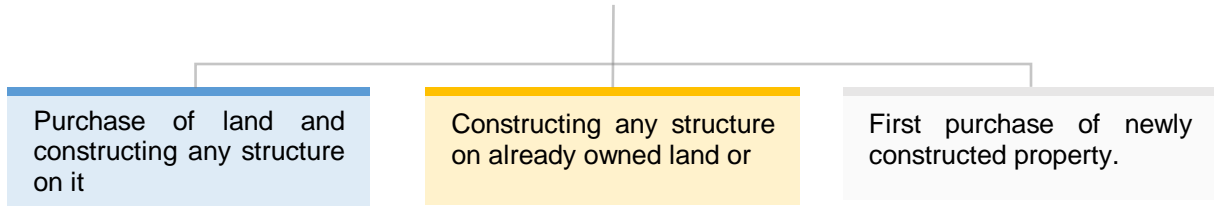
Some tax concessions and relief measures have been proposed in the existing taxation scheme for capital gains arising on the disposal of immovable property. Following is a detailed dilation of the existing taxation scheme and the proposed amendments:

Existing Tax Regime for Capital Gains on Immovable Property	
Gain on Disposal of an Open Plot	
Category	Taxable Gain
Where the holding period of an open plot does not exceed one year	100%
Where the holding period of open plot exceeds one year but does not exceed eight years	75%
Where the holding period of open plot exceeds eight years	0%
Gain on Disposal of a Constructed Property	
Category	Taxable Gain
Where the holding period of a constructed property does not exceed one year	100%
Where the holding period of the constructed property exceeds one year, but does not exceed four years	75%
Where the holding period of a constructed property exceeds four years	0%
Existing Tax Rate on Capital Gains	
Amount of Gain	Rate of tax
Where the gain does not exceed PKR 5 million	5%
Where the gain exceeds PKR 5 million, but does not exceed PKR 10 million	10%
Where the gain exceeds PKR 10 million, but does not exceed PKR 15 million	15%
Where the gain exceeds PKR 15 million	20%



3. Immunity from Probe into Unexplained Source of Investment

This proposed incentive plan suggests to give protection from probe under Section 111, unexplained income or assets, of ITO, 2001 on any investment made for constructing any structure on land from the date of enactment of this plan till June 2022. It has explicitly been stated that where an investment is made by any person in the following, source of any such amount declared in the wealth statement will not be inquired:

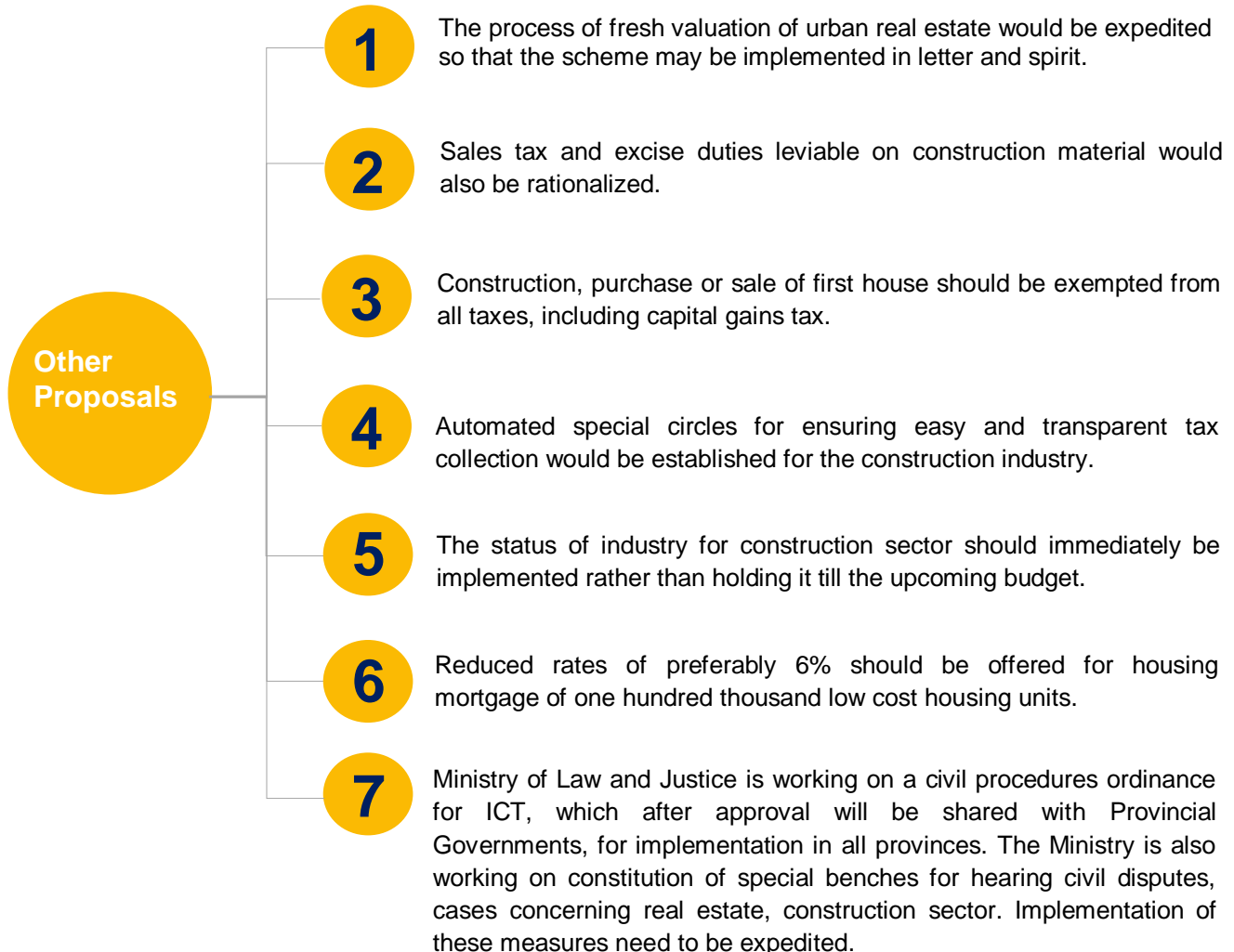


Such an amount of investment would be eligible to be incorporated in the wealth statement during the aforesaid period.

This is also pertinent to note that investment in open plots does not qualify for this scheme unless any structure is built on such land.


4. Other Proposals

Some other proposals have also been made in the incentive plan as mentioned below:



5. Tax Incentives by Provincial Revenue Authorities

The following incentives and facilitation have been proposed to be in place by all the respective provinces:



01	Sales tax on builders and developers at the time of sale of property shall be levied by all Provincial Revenue Authorities and ICT at fixed rates of PKR 50 per square foot for builders and PKR 100 per square yard for developers.
02	Sales tax on construction services shall be exempted by all provinces provided the builders and developers are chargeable to sales tax at fixed rates mentioned above.
03	Low cost housing shall be completely exempted from provincial sales taxes by all provinces.
04	All Provincial and Municipal taxes including duties, fee, levies, charges on transfer and registration of urban properties shall be clubbed under one head and charged at the rate of 2% of valuation.
05	E-stamping system would also be introduced by all provinces.

6. Additional Steps Ensuring Ease of Doing Business at Provincial Level

Following further steps would be taken by the provinces to ensure ease of doing business for the status of the industry for the construction sector:

- Speedy development of master planning and zoning
- Significant reduction in project approval time by the provincial governments; NOC regime may be replaced with compliance of the bylaws regime to be efficient, wherever possible.
- Swift introduction of fully automated one window portals for processing approvals and other facilitation by the provinces
- Notification of policy on high rise construction already approved by PM needs to be issued forthwith.

7. Tax Cuts Implemented by the Punjab Government to Combat the COVID-19 Crisis

The Punjab Government has already announced some of the tax incentives for the construction-related services w.e.f. April 01, 2020, till June 30, 2020, under the current ongoing COVID-19 crisis as per the followings:

Description	Previous Tax Rate	Amended Tax Rate
Construction services and services provided by contractors of the building (including water supply, gas supply, and sanitary works), roads and bridges, electrical and mechanical works (including air conditioning), horticultural works, multi-discipline works (including turnkey projects) and other similar works. Excluding: i. Where the tax is otherwise paid by registered persons as	5% - without input tax credit/ adjustment in respect of Government civil works 16% - with input	0% - without input tax adjustment

<p>property developers, builders or promoters for building construction</p> <p>ii. Where the construction work is funded under an agreement of foreign grant-in-aid or involves construction of consular buildings</p> <p>iii. Residential construction projects where the covered area does not exceed 10,000 square feet for a house and 20,000 square feet for an apartment except where construction services are provided to construct more than one house or more than one apartment building. Explanation- Notwithstanding the rate of 5% fixed in column4, the following further reduced rates shall be applicable:</p> <p>a) 1% for all services specified at S.No.14 without input tax credit or adjustment to the extent of Government civil works including those of cantonment boards involved in the ongoing development schemes and projects launched during Financial Year 2016-17 and funded under the Annual Development Plan of the Punjab Government or funded through foreign loans where the negotiations were finalized after 1st of July 2016 or funded under Public Sector Development Program of the Federal Government or funded by Cantonment Board</p> <p>b) 0% for all services specified at S.No.14 without input tax credit/adjustment to the extent of Government civil works including those of cantonment boards involved in the ongoing development schemes and projects launched before Financial Year 2016-17 and funded under the Annual Development Plan of the Punjab Government or funded through foreign loans where the negotiations were finalized as on 1st of July 2016 or funded under Public Sector Development Program of the Federal Government or funded by Cantonment Boards</p>	<p>tax credit / adjustment for others</p>	
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Caveat

This tax update intends to unravel the various queries forthcoming by our clients regarding the proposed incentive plan for Construction and real estate sector. We have attempted to acquaint them with a comprehensive explanation of the implications and an upshot that this Plan has proposed. It encompasses the proposed amendments to the Income Tax Ordinance, 2001 as well as some measures adopted by the Punjab Government by making the amendments in the Punjab Sales Tax on Services Act, 2012. The proposed amendments to the Income Tax Ordinance, 2001 would become applicable only after the enactment in the relevant laws. The commentary should be read in conjunction with the applicable sections of respective Ordinances, Acts and Rules along with the text of the proposed incentive plan. This commentary aims to provide a general guideline and thus should not be considered as a conclusive and enforceable document. Professional advice should be sought before acting on any proposed amendment in this update or on our comments.