

Tax collection on rental properties increases 26pc to Rs13 billion in July-February

KARACHI: Tax collection of the Federal Board of Revenue (FBR) on rental properties rose 26 percent to Rs13 billion during the first eight months of the current fiscal year of 2018/19, officials said on Monday.

The FBR collected Rs10.29 billion during the corresponding period a year earlier. The growth in tax collection was because of effective monitoring of various businesses. FBR officials said the tax offices initiated monitoring of various businesses, including banks, private educational institutions, hospitals and boutiques generating incomes through rental properties.

In 2016, the FBR issued fresh valuations of properties and started monitoring of transactions of sales and purchase of real estate, the officials said.

“It was discovered that a large number of properties in urban areas were rented out and agreements were made on the lower rents to evade taxes,” an official said.

The official said the FBR, during the same year, increased withholding tax rates on rental properties to raise the revenue collection. As per the existing withholding tax rates, income tax is not applicable on rental income of Rs200,000 a year.

The officials said there are various categories of rental income on which withholding tax is applicable. The tax rate on corporate unit in case of filers is 15 percent and 17.5 percent on the gross amount of rent for non-filers.

There are four categories other than companies where the FBR is collecting around Rs210,000 with additional 20 percent of the gross amount of annual rent exceeding two million rupees.

The official said the monitoring of withholding tax also resulted in discovery of a large number of non-compliant taxpayers.

The official said if an individual is deriving salary income or business income then he should be required to mention the rental income separately for calculating annual income while filing his income tax return under the law.

The official said the FBR also invoked penal provisions on the individuals who collected the tax on rental properties but failed to deposit it to the national exchequer.

If an individual fails to deposit the tax amount collected from rental property then he is liable to pay penalty of Rs25,000 or 10 percent of the amount of tax whichever is higher under the Income Tax Ordinance 2001.

The business community previously urged the FBR to soften the rates on rental properties as such high rates resulted in increasing cost of production. The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) said the FBR might have different categories for their tax working/accounting purpose.

“To be fair, the income is income and tax is payable on the income, and not on the category,” the FPCCI said in a statement. “So, whichever category it falls the tax slab should be the same as of AOP (association of persons) for all categories.”

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