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Foreign loans: MoF seeks tax exemption on interest payment

The Ministry of Finance (MoF) has sought exemption from tax on interest payment on billions of dollars foreign commercial loans, including the recently disbursed RMB 15 billion (over $ 2 billion) from Chinese banks, sources close to Prime Minister"s Advisor on Finance, Revenue and Economic Affairs told Business Recorder.

Under the Rules of Business, 1973, the Finance Division is responsible for arranging finances, including foreign exchange, to meet the current and development expenditure needs of the country and to maintain a sustainable balance of payments position. Raising foreign exchange on commercial terms from the international market is an important avenue for this purpose.

The sources said, since the start of current financial year, the Finance Division has executed the following commercial financing agreements with foreign commercial banks: (i) additional Murabaha commitment accession agreement - Noor Bank - $ 20 million; (ii) facilities agreement and accordion agreements - Credit Suisse - $ 245 million;(iii) accession agreement- Credit Suisse - $ 50 million;(iv) Master Murabaha Agreement- Dubai Islamic Bank/Noor Bank - $ 185 million; (v) trade facility agreement - ECO Trade & Development Bank - $ 40 million;(vi) Master Murabaha Agreement - Ajman Bank - $ 300 million;(vii) facilities agreement - Industrial & Commercial Bank of China - $ 300 million; (viii) trade facility agreement- Standard Chartered- $ 200 million and ;(ix) facilities agreement - China Development Bank/ Bank of China & Industrial & Commercial Bank of China - RMB 15 billion.

Additionally, Finance Division is negotiating a financing facility of $ 200 million with Credit Suisse which is expected to be finalised in the coming weeks.

Rule 16(1)(d) of the Rules of Business, 1973 requires placing of loan agreements before the federal cabinet for approval. Further these foreign commercial loans are offered with the condition that taxes applicable in Pakistan will not be borne by the lenders. The option available with the government is to either bear the cost of these taxes or grant exemption. Clause 75 of part 1 of the second schedule to the Income Tax Ordinance, 2001 empowers the federal government to grant tax exemption on interest payments on money borrowed under a loan agreement.

The sources said, financing facilities were executed after clearance of the agreement by the Ministry of Law and Justice. The financing facility of $ 200 million which is yet to be finalised, will be executed after clearance of the agreement from the Ministry of Law and Justice and completion of due processes.

The Federal Board of Revenue (FBR) has no objection to the proposal for granting tax exemption in respect of interest payments on these foreign facilities.

Ministry of Law and Justice, in its comments has stated that it has examined financing facilities agreements with foreign banks from legal point of view and cleared it subject to fulfillment of all codal formalities. However, the Finance Division has been advised to examine the financial aspects and dispute settlement at their own end.

According to sources, the Federal Cabinet in its meeting to be held next week, will accord ex-post factor approval under Rule 16(1) 9d) of the Rules of Business, 1973 for foreign exchange facilities. In addition tax exemption would be granted under clause 75 of part 1 of the second schedule to the Income Tax Ordinance, 2001 on interest payments accrued on these financing facilities.

Pakistan has borrowed the following amount from friendly countries: a total of $ 6 billion from Saudi Arabia and United Arab Emirates (UAE), of which $ 4 billion ($ 3 billion from Saudi Arabia and $ 1 billion from UAE) has already been deposited in State Bank of Pakistan.

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