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Finance Bill 2019-20: Major changes in income tax laws suggested

ISLAMABAD: The Federal Board of Revenue (FBR) has proposed major changes in the income tax laws through Finance Bill 2019-20 for documentation of economy, bringing real estate sector into tax system, increasing the number of new taxpayers/return filers, registration of high net worth individuals and substantially raising cost of businesses operating out of the taxation system.

Sources told Business Recorder here on Saturday that the FBR is considering different proposals in this regard. A number of new administrative measures have been proposed to the government for bringing potential persons into the tax system in budget (2019-20).

Under the ongoing recovery drive against tax defaulters and high net worth individuals, the FBR has so far recovered around Rs 13.5 billion during July-March 2018-19. At the same time, the total tax demand created against these persons stood at nearly Rs 31 billion.

As a result on successful FBR's drive of documentation, the total number of income tax returns reached 1.92 million for the tax year 2018 as compared to 1.38 million during the same period of previous tax year.

Following taxation proposals are being seriously examined by the budget markers for 2019-20:

Firstly, for unregistered industrial/commercial entities (not having sales tax registration numbers-STRN) having electricity/gas bill amount in excess of Rs 20,000 per month, extra sales tax should be increased from 5 percent to 20 percent.

Secondly, the residential consumers be made liable to provide National Tax Number (NTN) in case electricity bill amount exceeds Rs 1.2 million per year, otherwise levy advance income tax (withholding) at the rate of 20 percent.

Thirdly, all exemptions (like exemption on agricultural income) under the Income Tax Law should only be made available to filers so that exempt income is also reported and wealth is reconciled with income reported in the return.

Fourthly, the withholding tax on international business class tickets under section 236L is same - Rs 16,000 - for filer and non-filer, it should be increased to Rs 50,000 for non-filers.

Fifthly, the withholding income tax on interest income u/s 151 is 10 percent for filer and 17.5 percent for non-filer. Rate should be increased to 30 percent for non-filers.

Sixthly, the annual private motor vehicle tax u/s 234 for non-filers is Rs 30,000 for 2000 cc and above. Rate for non-filers should be increased to Rs 200,000 for 2,000 cc and above.

, the rate of income tax on filer as well as non-filer commercial/industrial connections of electricity is 12 percent and 5 percent respectively. Rate of tax for non-filer commercial/industrial connections be increased to 25 percent.

Eighth, at present, 12 percent WHT is being collected from owners of marriage halls on their electricity bills, which does not represent actual tax on their income. Moreover, the same is somehow minimised through use of generators. In order to avoid this, capacity tax should be imposed on marriage halls on the basis of square feet coverage area.

Ninth, the list of registered marriage halls paying capacity tax on square feet basis should be on internet and accessible to all so that it can easily be identified who is not on the list thereby forcing them to get themselves registered and pay tax.

Tenth, the tax on capital gain on disposal of shares of listed company is 15 percent for filers and 20 percent for non-filers. Rate of tax for non-filers be increased to 30 percent.

Eleventh, the list of top 100 restaurants registered in federal/provincial sales tax with the amount of tax paid, should be on internet accessible to all so that famous busy restaurants that are not on this list or on bottom of the list are induced not to embarrass themselves by declaring low sales.

Twelfth, lottery system be introduced for invoice collected by customers of restaurants and uploaded on designated website. Moreover, invoices submitted by customers should be cross-checked with invoices reported by restaurants in their monthly sales tax return.

Thirteenth, the advance tax @ 1 percent and 2 percent is collected from filer and non-filers respectively on sale or immovable property. For sale of land above 250 square yards, rate of advance tax should be increased to 10 percent.

In addition to above referred tax, the real estate constructors should pay additional w/h tax when they get the constructed property registered in the name of buyers of their constructed property. This would be in line with withholding taxes imposed on industries on transactions executed by them.

Fourteenth, purchase of land (above specified limit) is only allowed by filers, however, holding of land and its sale by non-filers is still allowed. Holding of land by non-filers should be made more expensive by asking authorities collecting property tax (cantonment boards/societies/registrar) to collect adjustable advance income tax, from non-filers, on behalf of the federal government as follows: (i) Rs 500,000 per year for 800 yards or more but less than 1800 yards and (ii) Rs 1 million per year for 1,800 yards and above.

Fifteenth, mobile phone connection should only be available to filers in case annual bill amount exceeds Rs 75,000 per annum per CNIC.

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