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Property valuation rates, market rates to be equal

ISLAMABAD: The Federal Board of Revenue (FBR) has decided to jack up the valuation rates of properties for different cities in the upcoming budget for 2019-20 to bring it at par with the market rates, The News has learnt.

Tax authorities involved in budget making process have witnessed through official records that the collection on sale and purchase of property remained almost stagnant during the outgoing fiscal year keeping in view of the data under section 236C and 236K of Income Tax Ordinance 2001. Now the government is considering jacking up the valuation rates but is also abolishing advance tax of 2 percent for filers and 4 percent for non-filers on purchase of property valuing more than Rs4 million in the coming budget.

Tax experts believe that the transactions of real estate slowed down during the outgoing fiscal year mainly because of variety of reasons including imposition of ban on purchasing of plots for non-filers for overseas Pakistanis which was later withdrawn. But the differential valuation rates also created hurdles for genuine buyers to undertake transactions that had resulted into reduced tax collection. The govt is also considering to increase the rate of capital gains tax on property and they may increase the period of land holding from 3 to 5 years for charging gains tax. The registration authorities are authorised to collect advance tax under Section 236C from seller of the property and advance tax under section 236K from buyer of the property. Hence, the capital gain tax on the sale of immovable property is to be paid by the taxpayer himself while filing the income tax return. Under section 236C, the tax collection on sale of immoveable property stands at Rs4.8 billion so far in the outgoing fiscal year till May 2019 against Rs4.77 billion in the same period of the last financial year 2017-18, registering a growth of just 1 percent. On purchase of immoveable property under 236K of Income Tax Ordinance 2001, the tax collection stands at Rs11.49 billion from July to May 2018-19 against Rs11.9 billion in the same period of the last financial year 2017-18, witnessing a negative growth of 3 percent in revenue collection.

Now the FBR has devised a strategy to jack up the rates of valuation tables and reduce the tax rates. After jacking up rates of valuation tables of properties in different cities in order to bring close to the market value, the tax authorities are considering to reduce tax rates in the next budget to jump start sluggish economic activities and lure wealthy people to undertake transactions in real estate sector "We want to remove distortions in such a way that encourages transactions because it is the way forward for maximising revenue collection in the next fiscal year," top official of FBR confirmed to The News here on Saturday.

When contacted renowned tax expert and former member FBR Shahid Hussain Asad, he said the investment in property is a non development investment. The government should fix valuation rates notified by the FBR close to market rate and reduce stamp duty to 1 percent. CVT may be abolished. In this way, he suggested that the government could achieve major objectives including people having only white money will invest in property, secondly as property will be registered at market value, even reduction rate of stamp duty increase revenue of provincial governments, the rates of property will come reasonably down and common man can also afford to make his own house and fourthly more money will be invested in business and industry resulting in providing jobs opportunities and GDP growth. He said since yield on sale of immoveable property held for more than three years is exempted from gains tax, people would prefer to make investment in this sector.

It is an open secret that maximum amount of black money is parked in real estate. There are three types of valuation of real estate.

(1) DC rate, which is used for stamp duty purposes and at this rate property is registered with Property Registration Authorities.

(2) FBR Rate; at which Withholding Tax is charged according to their “filer” and “non filer”, status and FBR requires explanation of sources at least to the extent of this valuation.

(3) The actual market rate, which is usually 5 to 10 time more than DC rate and 2 to 4 time of FBR rate.

Pakistan may be the only example of its kind to have three type of valuation for property. Since property can be registered and owned at a value much below the market rate it results in parking of maximum wealth in this sector. Even people who do not have much know-how of business feel it easy and safe to make investment in the real estate as this investment is usually easy, safe and results in substantial profit, Shahid Hussain Asad added. However, he said the lower DC rate or even FBR rates if help an investor to explain lower amount of funds in high value property, also cause problem, when one sells his property in open market and the registered value is much lower than what he actually receives.

In this way untaxed, black money is created in his hands. To justify acquisition of this wealth, and save himself from taxation under section 111 of Income Tax Ordinance 2001, one has to take recourse to purchasing on some premium, encashment certificates of foreign remittances or avail himself of amnesty schemes issued by the government from time to time, he concluded.

Mehtab Haider