

Govt toughens Greenfield tax incentives regime

KARACHI: The government has imposed stringent conditions on incentives granted under the Greenfield investment to prevent misuse of tax exemptions, official sources said on Tuesday.

The sources said the incentive was grossly exploited by the industrial concerns in the absence of conditions related to this specific investment. Through Tax Laws (Second Amendment) Ordinance, 2019, promulgated through presidential order last week, the definition has been introduced related to such investment.

One of the conditions is that the income tax exemption will be allowed to those undertakings that use any process or technology, which has not earlier been used in Pakistan and is also approved by Engineering Development Board (EDB).

The sources said the incentive to Greenfield investment was introduced on December 20, 2013 through an SRO (statutory regulatory order). Under this incentive scheme an amnesty was also granted where the source of money was not to be asked on investment made till June 30, 2019.

The exemption from income tax, however, remained available for next five years to such industrial undertakings. "The actual quantum of money documented under this scheme is not available but to some estimates it is in billions of rupees," a Federal Board of Revenue (FBR) official said on the condition of anonymity.

The official said through this SRO the FBR had provided a permanent route to whiten the money; however, due to obligation under International Monetary Fund (IMF) loan programme and condition of Financial Action Task Force (FATF) this amnesty was not further extended.

Now the tax authorities have been empowered to question the source of money invested from July 01, 2019 in Greenfield industrial undertaking.

The official said despite availing the immunity from disclosing the concealed money such investors would also be granted income tax exemption for further five years from the aforementioned date.

However, in order to prevent further misuse of exemption, tough conditions have been introduced for new investment from July 01, 2019. As per the conditions, the exemption from income tax shall be available on Greenfield investment in projects, which are setup on land and use technologies that have not been previously utilised for any commercial, industrial or manufacturing activity and are free from constraints imposed by any prior work.

Further, the exemption shall only be available on those industrial undertakings that are built without demolishing, revamping, renovating, upgrading, remodeling, or modifying any existing structure, facility or plant.

Also, the incentive shall not be available to those entities that are formed by splitting up or reconstruction of an undertaking already in existence or by transfer of machinery.