

Bank levy raised; exemptions for public servants withdrawn

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ISLAMABAD: The government has increased withholding tax rate from 0.4 percent to 0.6 percent on banking transactions of non-filers, withdrawn exemptions for public-office holders including provincial governors/federal ministers, abolished requirement for filing return for acquisition of real estate (exceeding Rs 5 million) and motor vehicles, rationalized tax rates for individuals and proposed tax concessions for Diamer-Bhasha and Mohmand Dams Fund.

While downward revising revenue collection target of the Federal Board of Revenue (FBR) from Rs 4,435 billion to Rs 4,390 billion for 2018-19, the government Tuesday introduced Finance Supplementary (Amendment) Bill, 2018 to amend the Finance Act 2018.

According to the Federal Board of Revenue (FBR), a new section 227C was introduced through the Finance Act, 2018 whereby a bar was placed upon purchase of immovable property of value exceeding Rs 5 million in the name of a non-filer. Furthermore, purchase of a new locally manufactured vehicle or first registration of an imported vehicle could not be made in the name of a non-filer whose name was not appearing on the Active Taxpayers List issued by FBR. These restrictions have dampened the economic activity in these two sectors and have posed difficulties for non-resident Pakistanis, thereby negatively impacting the inflow of foreign investment by non-resident Pakistanis in the real estate sector.

In order to encourage economic activity in these sectors and to mitigate the hardship being encountered by various persons owing to the restriction on purchase of immovable property (exceeding Rs 5 million), purchase and registration of new locally manufactured motor vehicles and first registration of imported vehicles, section 227C introduced through the Finance Act, 2018 is proposed to be omitted.

Through Finance Supplementary (Amendment) Bill, 2018, in view of government's aim of adopting austerity measures and making endeavors for the implementation of a fair and equitable taxation system, various exemptions available to provincial governors and ministers of the federal government have been withdrawn.

These included perquisites representing free of rent accommodation provided by the government to the provincial governors [Clause (51), Part-I of Second Schedule to the

Income Tax Ordinance]; perquisite representing free conveyance provided and entertainment allowance granted by the government to [Clause (52), Part-I of Second Schedule to the Income Tax Ordinance] and perquisites representing rent free accommodation (if value exceeds 10% of basic salary), house rent allowance (exceeding Rs 550,000 per month), free conveyance and sumptuary allowance granted by the government to the ministers of the federal government [Clause (53), Part-I of the Second Schedule to the Income Tax Ordinance].

The Federal Board of Revenue has consistently espoused the policy of increasing the cost of doing business for non-filers who are non-compliant taxpayers. Prior to the Finance Act, 2018 every banking company was obliged to collect advance adjustable tax @ 0.6% from non-filers upon sale of instruments such as demand draft, pay order, special deposit receipt, cash deposit receipt, short-term deposit receipt, call deposit receipt, rupee traveler's cheques, etc, in excess of Rs 50,000 per day (in aggregate) from all bank accounts.

Similarly, collection of such adjustable advance tax @ 0.6% from non-filers by banks was also mandated upon transfer of funds through cheque/clearing, inter/intra-bank transfers through cheques, online/telegraphic/mail transfers, direct debits, payments through internet, mobile phones and transfer of funds through various modes as delineated under section 236P of the Ordinance in case such transfers exceeded Rs 50,000 per day (in aggregate) from all bank accounts. The rate of tax under section 236P of the Ordinance was temporarily reduced to 0.4% and was extended periodically pursuant to the recommendation of the Economic Coordination Committee of the Cabinet. However, through the Finance Act, 2018 the rate of tax under section 236P of the Ordinance was reduced from 0.6% to 0.4%.

Instead of increasing the cost of doing business for non-filers, reduction of tax rate under section 236P of the Ordinance to 0.4% has resulted in facilitation of non-filers who are non-compliant taxpayers and has also reduced the cost of business for non-filers, therefore, the tax rate under section 236P of the Ordinance has been rationalized and increased from 0.4% to 0.6% as was the case prior to the Finance Act, 2018. This measure shall also encourage non-compliant taxpayers to join the tax net and supplement efforts targeted towards broadening of the tax base, the FBR added.

Under the Finance Supplementary (Amendment) Bill, 2018, in view of the imminent need for building of dams various tax concessions have been extended to the Supreme Court of Pakistan Diamer Bhasha & Mohmand Dam Fund. Exemption has been accorded to any income of Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund and any amount paid as donation to the Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund has also been exempted from income tax. Moreover, exemption has also been accorded to the aforementioned fund from levy of minimum tax on turnover under section 113 of the Ordinance. Payments received by the fund shall also be exempt from various withholding taxes. Furthermore, any person making donations to the fund shall not be subjected to any inquiry under the Income Tax Ordinance, 2001 with regard to the source of such donations. Lastly, advance tax on

banking transactions otherwise than through cash under section 236P of the Ordinance shall not apply in the case of donations made by non-filers to the Supreme Court of Pakistan Diamer Bhasha & Mohmand Dams Fund.