



TAX REFORMS PACKAGES

By Prime minister

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Introduction

The Prime Minister of Pakistan announced salient features of the Tax Reforms Package on April 6, 2018 in a press conference claiming a relief package.

As announced by the Prime Minister, these measures have now been incorporated in four Ordinances promulgated by the President of Pakistan which will be effective at once, except reduction in tax slab rates.

These four Independent Ordinances represent interdependent status for an overall tax reforms package. Hopefully these provisions should be a one-time opportunity being provided for compliance with appropriate deterrents against non-disclosure in future.

Under Foreign and Domestic Assets Declaration Ordinances, every citizens of Pakistan wherever they may be, except holders of public office, their spouses and dependent children, may make declaration for undisclosed income and assets except where proceedings are pending in any court of law in respect of such assets.

The State Bank of Pakistan is yet to notify the mode and manner of repatriation of liquid assets in Pakistan and deposit of USD and Pak Rupee in income tax account.

The government is hoping to recover substantial amount of revenue under these voluntary disclosure of assets reforms. However, history of recovery of expected revenues from these amnesty schemes in Pakistan is not very promising. One thing from such amnesty schemes is abundant that lawful taxpayers are always at loss while the mafia of black money accumulations gets their turn to make hay while the sun shines under such schemes.

Let's pray and hope that it turns out to be a fruitful exercise in longer run for betterment of Pakistan and our future

“Foreign Assets Declaration and Repatriation Ordinance 2018”

The scope of the ordinance extends to all citizens of Pakistan wherever they may be except holders of public office, their spouse and dependent children and all foreign assets held by such persons. The declaration and repatriation of such foreign assets shall be made on or after the tenth day of April, 2018 but on or before the thirtieth day of June, 2018. Chargeability of tax is as follows:

S.No.	Foreign assets	Rate*
1	Liquid assets not repatriated	5%
2	Immovable assets outside Pakistan	3%
3	Liquid assets repatriated and invested in Government securities**	2%
4	Liquid assets repatriated	

**as a percentage of the value of foreign assets*

***2 upto 5 years in US dollars denominated bonds with six-monthly profit payment in equivalent Rupees (rate of return 3%) and payable on maturity in equivalent Rupees*

The other salient features of the Ordinance include:

- 1 The foreign assets shall be declared at fair value as declared by the declarant but not less than the cost of acquisition.
- 2 The value of foreign assets to be declared shall be in Rupees.
- 3 The tax payable under this Ordinance shall be in US Dollars (convertible at Pak Rupees on the date of declaration at State bank’s rate)
- 4 The value of foreign assets shall be converted (valued) in Pak rupees as per SBP rates (Dollar to Rupee) applicable on the date of declaration of such assets.
- 5 Mode and manner of repatriation of foreign assets in Pakistan shall be notified by SBP.
- 6 After payment of tax on such assets, taxpayer would be entitled to incorporate such assets in the books o accounts.
- 7 Investment in Government securities shall be made in accordance with a scheme to be introduced by the Government of Pakistan through the State Bank of Pakistan, by notification in the official Gazette
- 8 Nothing declared shall be admissible in evidence against the taxpayer for the purpose of any proceedings relating to imposition of penalty or for the purposes of prosecution under any law including Income Tax Ordinance, 2001
- 9 Any misrepresentation under such declaration shall be void and shall be treated as never been declared under this ordinance.

“Protection of Economic Reforms (Amendment) Ordinance, 2018”

With the intent to further promote the documentation of economy in the country, suitable legislative changes have been made in Economic Reforms Act, 1992 (XII of 1992) by this Ordinance

The provisions of this Ordinance shall have effect notwithstanding anything contained in Foreign Currency Accounts (Protection) Ordinance, 2001(L of 2001) or any other law for the time being in force.

The salient features are as follows:

- 1 No cash shall be allowed to be deposited in any foreign currency account of a citizen of Pakistan and resident in Pakistan unless he is a filer as defined in Income Tax Ordinance, 2001

Filer means a person who has submitted his income tax return under Income Tax Ordinance and his name appears under ATL (Active Taxpayer List) of FBR.

This provision is applicable from April 9, 2018.

“Voluntary declaration of Domestic Assets Ordinance 2018”

The scope of the ordinance extends to every resident company, resident association of persons and all citizens of Pakistan wherever they may be except holders of public office, their spouses and dependent children and undisclosed income and assets held in Pakistan such as gold, bonds, motor vehicles, plots etc.

The declaration under this Ordinance shall be made after the tenth day of April, 2018 but on or before the thirtieth day of June, 2018. The chargeability of tax is as follows:

S.No	Assets	Rate*
1	Foreign currency held in a foreign currency account in Pakistan as on the 31st March, 2018 and encashed in equivalent Rupees	2%
	Foreign currency held in a foreign currency account in Pakistan as on the 31st March, 2018 which is invested in Government securities.**	
2	Other assets	5%

**as a percentage of the value of foreign assets*

*** upto 5 years in US dollars denominated bonds with six-monthly profit payment in equivalent Rupees (rate of return 3%) and payable on maturity in equivalent Rupees*

The other salient features of this ordinance are as follows:

- 1 Due date for tax payment shall be the date of declaration of such assets.
- 2 After payment of tax, taxpayer shall be entitled to incorporate such assets in the books of accounts.
- 3 Value of assets shall be as described in the ordinance given in the appended schedule.
- 4 Nothing declared shall be admissible in evidence against the taxpayer for the purpose of any proceedings relating to imposition of penalty or for the purposes of prosecution under any law including Income Tax Ordinance, 2001.
- 5 Any misrepresentation under such declaration shall be void and shall be treated as never been declared under this ordinance
- 6 The declaration shall be made as per specified form on online FBR portal along with evidence of tax payment.

S.No.	Undisclosed income and assets	Value for the purpose of section 5(2)
1	Undisclosed income	As declared.
2	Open plots and land	Cost of acquisition or FBR rates, whichever is higher.
3	Super structure.	Rs 400 per square feet
4	Apartments and flats.	Cost of acquisition or Provincial stamp duty rates, whichever is higher.
5	Imported motor vehicles.	A-B A= CIF value plus the amount of all charges, customs-duty, sales tax, levies, octroi, fees and other duties and taxes leviable thereon and the costs incurred till their registration. B= a sum equal to 10% of the said value for each successive year upto a maximum of five years.
6	Motor vehicles purchased from a manufacturer or assembler or dealer in Pakistan	A-B A= The price paid by the purchaser, including the amount of all charges, customs duty, sales tax and other taxes, levies, octroi, fees and all other duties and taxes leviable thereon and the costs incurred till their registration. B= a sum equal to 10% of the said value for each successive year upto a maximum of five years

S.No.	Undisclosed income and assets	Value for the purpose of section 5(2)
7	Used motor vehicles purchased locally.	Value determined in the manner specified in S.N. 5 or 6, as the case may be, as reduced by an amount equal to 10% for every year following the year in which it was imported or purchased from a manufacturer.
8	Securities and shares traded on stock exchange.	Day-end price of the share or security quoted on registered stock exchange as on the 9th April, 2018 and where no day-end price of such share or security is quoted on stock exchange on the 9th April, 2018 day-end price of the share or security quoted on a date nearest to the 9th April, 2018.
9	Securities and shares not traded on stock exchange	Break-up value or face value, whichever is higher. Breakup value shall be the sum of paid-up capital, reserves and balance as per profit and loss account as reduced by the value of preference shares and divided by the amount of the paid up ordinary share
10	National saving schemes, postal certificates, bonds, securities and other similar investments in capital instruments not traded or quoted on stock exchange	Face value.
11	Gold.	Rupees 4000 per gram.
12	Other precious stones and metals.	Market rate as on the 9th April, 2018 or cost of acquisition, whichever is higher
13	Stock-in-trade.	Market rate as on the 9th April, 2018.
14	Plant and machinery.	Actual cost of acquisition with no depreciation
15	Accounts receivable.	Actual cost of acquisition
16	Other assets	
17	Prize bonds, cash and bank accounts including foreign currency accounts	Face value.

“Income Tax Amendment Ordinance, 2018”

Amendments have been made in the Income Tax Ordinance, 2001 by promulgating of this Ordinance

The salient features of this ordinance which are effective from April 9, 2018 are as follows:

“UNEXPLAINED INCOME OR ASSETS”

- 1 Any amount representing investment, valuable property or expenditure incurred or held in Pakistan shall be chargeable to tax in the tax year in which it is discovered
- 2 Any amount representing investment, valuable property or expenditure incurred or held outside Pakistan shall be chargeable to tax in preceding tax year in which it is discovered
- 3 Exemption of foreign remittance through proper banking channel is now limited to Rs.10 million in a tax year.

RETURN OF INCOME

- 1 Every resident person being an individual who is required to file foreign income and assets statement under section 116A shall also be required to file the income tax return.
- 2 Return of income shall also be accompanied with statement of foreign assets and incomes filed u/s 116A of the Income Tax Ordinance, 2001.
- 3 Time limitation to require to furnish the return under section 114(4) by the Commissioner shall not apply if the Commissioner is satisfied on the basis of reasons that the non filer of return has foreign assets or income.

FOREIGN INCOME AND ASSETS STATEMENT

A new section 116A has been introduced:

- 1 A statement of foreign assets and incomes to be filed u/s 116A by the resident individual having foreign income of more than 10,000 US Dollars and foreign assets of more than 100,000 US Dollars.
- 2 The Commissioner may require any person to file the foreign income and assets statement.
- 3 In case of non-filing of statement under Section 116A, penalty equal to 2% of foreign income or 2% of foreign assets shall be imposed.

TAX RATES FOR INDIVIDUALS

With effect from July 1, 2018, following tax rates have been prescribed:

S.No	Taxable income	Rate of tax
1	Where the taxable income does not exceed Rs. 1,200,000	0%
2	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	5% of the amount exceeding Rs 1,200,000
3	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 4,800,000	Rs. 60,000 + 10% of the amount exceeding Rs. 2,400,000
4	Where the taxable income exceeds Rs. 4,800,000	Rs. 180,000 + 15% of the amount exceeding Rs. 48,000,000

TAX RATES FOR ASSOCIATION OF PERSONS

With effect from July 1, 2018, following tax rates have been prescribed:

S.No	Taxable Income	Rate of Tax
1	Where the taxable income does not exceed Rs. 400,000	0%
2	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 500,000	7% of the amount exceeding Rs. 400,000
3	Where the taxable income exceeds Rs. 500,000 but does not exceed Rs. 750,000	Rs. 7,000 + 10% of the amount exceeding Rs. 500,000
4	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000	Rs. 32,000 + 15% of the amount exceeding Rs. 750,000
5	Where the taxable income exceeds Rs.1,500,000 but does not exceed	Rs.144,500 + 20% of the amount exceeding Rs.1,500,000
6	Where the taxable income exceeds Rs.2,500,000 but does not exceed	Rs.344,500 + 25% of the amount exceeding Rs.2,500,000
7	Where the taxable income exceeds Rs.4,000,000 but does not exceed	Rs.719,500 + 30% of the amount exceeding Rs.4 M
8	Where the taxable income exceeds Rs.6,000,000	Rs.1,319,500 + 35% of the amount exceeding Rs.6 M