

# COMMENTS ON ECONOMIC REFORMS PACKAGE 2018

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On April 5, 2018, Prime Minister of Pakistan, Mr. Shahid Khaqan Abbasi announced an Economic Reforms Package to widen the tax net. Primarily, the Package seeks reduction in current income tax rates and introduction of an amnesty scheme aimed at broadening the government's revenue base. During the announcement it was revealed that out of 1.2 million registered taxpayers only 700,000 people pay income tax from across the country and about 500,000 people file Nil returns. Therefore, it has been decided to take radical reforms.

The key features of the Economic Reforms Package are as follows:

### **Use of technology**

Modern technology will be used for identification of taxpayers and their financial transactions like travelling, utility payments etc. The current databases of various entities and governmental bodies are in isolation and the effort is underway to merge them. By doing do, the government will have visibility of every transaction a citizen makes and therefore will be able to tell every detail of transactions including payment of bills, school fee, shopping and foreign trips etc.

### **CNIC is the NTN**

Any citizen who holds a valid computerized national identity card will be allotted the same tax number i.e. the CNIC will be the tax number. There are 120 million CNIC holders in the country; all can become the tax payers by simply filling a form.

### **Income tax rates reduction**

It has been decided to reduce the income tax rate substantially. Previously, 12 tax brackets were used for salaried individuals and 8 for self-employed individuals to calculate their income tax liabilities. These have now been simplified to 4 brackets. Those earning Rs 1.2 million a year will be exempted from the income tax and the maximum percentage of 15% to be levied on income above Rs 4.8 million per annum. The rates are tabulated below;

<i>Income</i>	<i>Tax rate</i>
Up to Rs 1,200,000	Exempt
Rs 1,200,000 – 2,400,000	5%
Rs 2,400,000 – 4,800,000	10%
Above Rs 4,800,000	15%

### **Property tax reforms**

- On any property that a citizen purchases, he/she will have to pay a 1% 'presumptive tax'. That tax will be adjusted in the annual taxes.
- Maximum 1% tax (local and provincial) for registration of property will be levied.
- FBR rates on property will be abolished from July 1, 2018 and the provinces are being requested to abolish DC rates.
- Non-filers will not be allowed to purchase a property valuing over Rs. 4 million from July 1, 2018.

- To avoid under-invoicing (in property sale and purchase deeds), the federal government now holds the right to buy any property that a citizen holds by paying;
  - 100% over declared value of the property registered in FY 2018-19;
  - 75% over declared value of the property registered in FY 2019-20;
  - 50% over declared value of the property registered in FY 2020-21.

### **One-time amnesty scheme**

#### *Domestic assets declaration:*

- All undeclared incomes earned before June 30, 2017 on all local assets (gold, bonds, property etc) can be regularized by paying 5% tax.

#### *Foreign assets declaration:*

- Foreign exchange could be brought back to the country by paying a 2% tax.
- Foreign fixed assets declared shall be taxed @ 3%, to be evaluated at the market value of the asset, which cannot be less than the cost of its acquisition.
- Foreign liquid assets like cash, securities and bonds held abroad may be declared by paying 5% tax.
- Dollar account holders in Pakistan who have purchased dollars with undeclared funds can also regularise them on 2% payment.

The amnesty scheme will be effective till June 30, 2018. The scheme is not applicable to public office holders/ people in service of Pakistan including their spouses and dependent children. Furthermore, People who take part in the amnesty scheme will be given a one-time exemption from accountability and other laws.

### **Other salient features**

- All remittances less than \$100,000 per year per person will continue without any questions about the source and enjoy tax exemptions. All remittances greater than \$100,000 per year per person will enjoy tax exemptions however may be scrutinized by the FBR.
- Any new foreign exchange accounts can only be opened by tax filers.

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