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Pakistan – Budget for 2014-2015 Features Some Measures Affecting Individuals

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The 2014 Pakistan budget proposals contained tax measures affecting bonus shares received by shareholders, directors' fees, as well as the rates of capital gains taxation. Moreover, the Income Support Levy has been repealed.

Pakistan's Finance Minister Ishaq Dar delivered his budget speech in Parliament on 3 June 2014.[1] The budget measures have now been enacted into law with effect from 1 July 2014.

Why This Matters

With the withholding tax at 20 percent imposed on Directors' fees, international assignment programs that deal with members of boards of directors or other board officers may see the tax-related costs of these assignees rise.

Global mobility program managers with employees flying out of and into Pakistan will need to be aware of the higher costs of air travel for their employees due to the imposition of advance tax on the purchase of business-class and first-class airline tickets.

The changes made to the capital gains tax rates should be welcome by investors and help support Pakistan's capital markets.

The Income Support Levy Act, 2013 (discussed below) has been repealed, which should help ease some taxpayers' burdens, both administrative and fiscal.

We highlight the measures impacting individuals and their employers below.

Main Budget Measures for Individuals and Employers

- Personal income tax rates and thresholds for 2014-2015 are the same as for 2013-2014, and are shown in the table in footnote 2 on page 3 of this newsletter.
- The government has abolished the Income Support Levy (promulgated through the Finance Act, 2013) that had been imposed at a rate of 0.5 percent of an individual's net moveable wealth exceeding PKR 1 million, as declared in a wealth statement.
- Withholding tax at 20 percent introduced on directors' fees and/or fees for attending board meetings, etc. – such income has now been classified as "income from salary." This tax will be adjustable against the final tax liability of the director(s).
- Income of sports-persons tied to signed contracts will be taxed at 10 percent under the final tax regime.
- Advance tax on the purchase or transfer of immoveable property will be collected from the purchaser or transferee at 1 percent in the case of filers and at 2 percent in the case of non-filers, if the value of the property is more than PKR 3 million.

- The Advance tax on the purchase of international air tickets is to be collected on other-than-economy-class travel, i.e., on first class, business class, etc. Airlines will collect the advance tax at the rate of 4 percent.

- The capital gain on the sale of listed securities is taxable at varying rates corresponding to the holding period of the security. If the holding period of the securities is under 12 months, the final tax liability on capital gains will be 12.5 percent for fiscal year 2015. (Had this change not been made, the rate for securities held for less than 6 months would have increased to 17.5 percent and that for a holding period of more than 6 months but less than 12 months would have been 9.5 percent.) If a security is held for more than 12 months but less than 24 months, the gains will be taxed at 10 percent (as against 0 percent previously). Securities held for more than 2 years will continue to be exempt from tax.

- Bonus shares issued by a company and received by a shareholder are to be treated as income and a tax rate of 5 percent is to be applied. In the case of companies quoted on a stock exchange, tax is to be applied on the value of the bonus shares determined on the basis of day-end price on the first day of closure of the books, whereas in the case of other companies, the value will be determined as per rules to be prescribed. Tax is to be collected at source by the company declaring the bonus shares and this shall also be considered as final discharge of a person's tax liability on such income.

Next Steps

The Finance Bill 2014, which embodied most of the measures announced by the Finance Minister on 3 June, was debated in Parliament and was signed by President Mamnoon Hussain on 25 June, thereby becoming Finance Act, 2014. The Act gives effect to the above measures as from 1 July 2014, except where otherwise noted.

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For a full analysis of the budget, see "Budget Brief 2014: An Economic and Tax Commentary" published by KPMG Taseer Hadi & Co., Chartered Accountants, the KPMG International member firm in Pakistan (http://www.kpmg.com.pk/).

Footnotes:

1 For the budget speech (in English), see:
http://www.finance.gov.pk/budget/Budget_in_Brief_2014_15.pdf .

Also, go to: http://www.finance.gov.pk/fb_2014_15.html .

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Income	Rate (%)
Up to PKR 400,000	Nil
PKR 400,001 to PKR 750,000	5% of the amount exceeding Rs 400,000
PKR 750,001 to PKR 1,400,000	PKR 17,500 + 10% of the amount exceeding PKR 750,000
PKR 1,400,001 to PKR 1,500,000	PKR 82,500 + 12.5% of the amount exceeding PKR 1,400,000
PKR 1,500,001 to PKR 1,800,000	PKR 95,000 + 15% of the amount exceeding PKR 1,500,000.
PKR 1,800,001 to PKR 2,500,000	PKR 140,000 + 17.5% of the amount exceeding PKR 1,800,000.
PKR 2,500,001 to PKR 3,000,000	PKR 262,500 + 20% of the amount exceeding PKR 2,500,000.
PKR 3,000,001 to PKR 3,500,000	PKR 362,500 + 22.5% of the amount exceeding PKR 3,000,000.
PKR 3,500,001 to PKR 4,000,000	PKR 475,000 + 25% of the amount exceeding PKR 3,500,000
PKR 4,000,001 to PKR 7,000,000	PKR 600,000 + 27.5% of the amount exceeding PKR 4,000,000
Over PKR 7,000,000	PKR 1,425,000 + 30% of the amount exceeding PKR 7,000,000

[PKR 1 = EUR 0.0076 | PKR 1 = USD 0.0101 | PKR 1 = GBP 0.006 | PKR 1 = INR 0.612]

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The information contained in this newsletter was submitted by the KPMG International member firm in Pakistan. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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