



KPMG Taseer Hadi & Co.  
Chartered Accountants

# Comments on Special Incentive Package for Construction Industry

# Preamble

A Special Incentive Package for Construction Industry has been announced by the Prime Minister of Pakistan on 03 April 2020.

This publication contains our comments on the salient features of the proposed incentives package. The proposed measures would require incorporation in relevant fiscal statutes to take effect, as such, more details are expected moving forward and the actual amendments in the relevant laws may need to be looked into before ascertaining the real impact of proposed incentives.

We recommend that while considering the application of proposed incentives to any case, reference be made to the specific wordings of the relevant statutes which are expected to be introduced shortly.

05 April 2020

# Comments on Special Incentive Package for Construction Industry

The world is in midst of unprecedented times and Pakistan is no exception. The COVID-19 pandemic has forced the world leaders to come up with relief packages to boost faltering economies and announce measures to mitigate the effect of lockdowns and shutdowns on industries and workers directly affected. A special incentive package was unveiled by the Prime Minister on 03 April 2020 for construction industry, given its importance as driver of growth and jobs in many allied sectors.

In his televised speech to the nation, the Prime Minister indicated that appropriate amendments will be made in the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005 and in respective provincial sales tax laws to give effect to this proposition. It is therefore important to note that the package as announced will come into force after suitable amendments in the fiscal laws have been approved by the parliament or an ordinance is promulgated for giving immediate effect to any specific measure announced.

The salient features of the package are as follows:

## 1. *Establishment of Construction Industry Development Board*

Construction industry development Board is proposed to be established for development of construction industry.

## 2. *Amnesty for Investment in Real Estate Sector*

Complete amnesty has been proposed and no question will be asked about the source of investment made till 30 June 2022:

Accordingly, the provisions of Section 111 shall not apply on investments made till 30 June 2022:

- On purchase of land and on construction of any structure (house, commercial building), including building/construction on any land already owned; or
- On first purchase of newly constructed property.

The amount of such investment, within the said period, will be allowed to be incorporated in wealth statement.

It is however not clear as to whether incorporation in wealth statement implies exemption from tax as prima facie no tax exemption has been proposed and the relief is restricted to immunity from section 111 of the Income Tax Ordinance, 2001 only. Nevertheless, clarity on this matter could be expected as the amendments are announced through the finance bill.

## 3. *Fixed Tax Regime for Real Estate Sector (Builders and Developers) and Other Incentives*

A fixed tax regime is proposed for builders and developers. Its salient provisions are summarized hereunder;

- a. Income under this regime will be treated as a separate class of income, wherein, tax shall be computed based on land area (square foot or square yard).
- b. Builders and developers shall not be required to withhold tax (under section 153) on purchase of building material from non-corporate vendors except for steel and cement and on services (such as plumbing and shuttering etc.)
- c. While declaring their net wealth, builders and developers will be eligible to impute income equal to 10 times of tax paid under the fixed tax regime.

- d. In case of low-cost housing and/or projects developed by Naya Pakistan Housing and Development Authority [NAPHDA], the tax rates laid down in the Income Tax Ordinance, 2001 will be reduced by 90 percent.

It is however not clear whether it refers to withholding tax rates or rates applicable on income. The term 'low-cost housing' also needs a clear definition in the fiscal laws.

#### 4. *Fresh Valuation of Real Estate/Plots*

FBR has already initiated the process of fresh valuation of urban real estate in consultation with the real estate organizations of respective cities. While this may get delayed in wake of current situation, it is expected to be completed before announcement of next budget.

#### 5. *Exemption/Rationalization of Capital Gain Tax*

- Rate of tax be reduced proportionate to the increase in the valuation table.
- CGT holding period for constructed property to be reduced from 4 years to 3 years (as was the case prior to 2019).
- CGT holding period for real estate/plots may remain 8 years, however the rate of tax may be significantly reduced on sliding scale from fourth year onwards.

#### 6. *Rationalization/Reduction in Sales Tax on Construction Material*

In order to bring down the cost of construction, sales tax and excise duties levied on construction material (such as cement) are proposed to be reduced.

#### 7. *Exemption of Taxes on First House*

Construction, purchase/sale of first house proposed to be exempted from all taxes, including capital gains tax.

#### 8. *Establishment of Special Circles*

FBR to expedite establishment of already approved automated special circles for construction industry to ensure easy and transparent tax collection.

#### 9. *Incentive by Provincial Revenue Authorities*

Incentive proposed by provincial revenue authorities with respect to sales tax are summarized hereunder;

- Sales tax at the time of sale of property will be levied at a fixed rate of Rs. 50/ square foot for builders and Rs. 100/ square yard for developers;
- Construction services will be exempted from sales tax, since sales tax will be levied at the time of sale of property. Punjab Revenue Authority [PRA] has already reduced sales tax on services to zero for construction services till 30 June 2020 through notification no SO(Tax)1-110/2020(COVID-19) dated 02 April 2020;
- Low cost housing by NAPHDA/provincial housing authorities will be completely exempted from sales tax;
- Standard rate of 2% of valuation will be charged instead of Provincial and Municipal taxes/duties/fees/levies/charges on transfer /registration of urban properties;
- E-stamp system will be introduced by all provinces in line with already introduced by Punjab Government.

#### 10. *Measures for creating Ease of Doing Business by all Provinces*

- Measures proposed for creating ease of doing business are summarized hereunder;
- New master planning/updating existing master plans and zoning;
- Introduction of new zoning by-laws;
- Reduction of project approval time preferably to 45 days;
- Fully automated one window portals for processing approvals;
- Approval of policy on high rise construction.

#### 11. *Status of Industry for Construction Sector*

The Prime Minister has already approved the status of 'industry' for construction sector. A suitable amendment in the tax laws will entitle the sector to certain tax credits and reliefs provided therein for industrial undertakings.

#### 12. *Lower Interest Rate for Housing Mortgage/Financing*

Interest rate for Greenfield Projects is 7%. A lower interest rate (preferably 6%) is proposed for housing mortgage of one hundred thousand low cost housing units.

#### 13. *Legal issues - Civil Procedures Ordinance/Special Benches*

Ministry of Law and Justice is working on a civil procedures ordinance for ICT, which after approval will be shared with provincial governments for implementation in all provinces.

The Ministry is also working on constitution of special benches for hearing civil disputes/cases concerning real estate/construction sector.

#### 14. *Real Estate Investment Trusts*

Real Estate Investment Trusts (REITs) have been pursuing the government for a very long time to remove the irritants in tax laws for this sector to develop to its full potential as it has done in other countries. We understand that this is the right time to consider the recommendations of the stakeholders from this sector and introduce the relevant amendments in tax laws for development of this sector which is generally organized.



## Offices in Pakistan

### **Karachi Office**

Sheikh Sultan Trust Building No. 2  
Beaumont Road  
Karachi 75530  
Phone +92 (21) 3568 5847  
Fax +92 (21) 3568 5095  
email [karachi@kpmg.com](mailto:karachi@kpmg.com)

### **Lahore Office**

351-Shadman-1, Main Jail Road,  
Lahore Pakistan  
Phone +92 (42) 111-KPMGTH (576484)  
Fax +92 (42) 3742 9907  
email [lahore@kpmg.com](mailto:lahore@kpmg.com)

### **Islamabad Office**

Sixth Floor, State Life Building  
Blue Area  
Islamabad  
Phone +92 (51) 282 3558  
Fax +92 (51) 282 2671  
email [islamabad@kpmg.com](mailto:islamabad@kpmg.com)

**[www.kpmg.com.pk](http://www.kpmg.com.pk)**

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