

Economy

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Prime Minister Khan announces special package for the Construction Sector

- ✓ The Prime Minister of Pakistan Mr. Imran Khan on Friday announced a special package for the construction sector amid the emerged threat of COVID-19 on the economy.
- ✓ The proposed framework intends to provide amnesty to holders of undocumented assets, the third of its nature in the last two years, it also brings in relaxed tax measures to prop up investment in the real estate sector and induce construction activities
- ✓ The success of the package will primarily benefit the Cement & Engineering sector in the shape of enhanced demand and improved volumetric sales. Moreover, the called reduction in Sales Tax and Federal Excise Duties (FED) will also provide breather to product prices and improve retention prices of these manufacturers
- ✓ Commercial Banks will also emerge as beneficiaries of the package given formulation of mortgage policy will provide new avenues of advances.

PM's Special Package for the Construction Sector

The Prime Minister of Pakistan Mr. Imran Khan on Friday announced a special package for the construction sector amid the emerged threat of COVID-19 on the economy. Granting the construction sector status of an Industry, the PM highlighted that the sector is the second largest provider of employment in the country and stressed that the government wants to create a balance between maintaining a lockdown and keeping the construction sector running to save people from hunger and poverty.

While the proposed framework intends to provide amnesty to holders of undocumented assets, the third of its nature in the last two years, it also brings in relaxed tax measures to prop up investment in the real estate sector and induce construction activities to support employment and circulation of money in the economy.

From a market standpoint, the success of the package will primarily benefit the Cement & Engineering sector in the shape of enhanced demand and improved volumetric sales. Moreover, the called reduction in Sales Tax and Federal Excise Duties (FED) will also provide breather to product prices and improve retention prices of these manufacturers who are already strained with high input costs and heavy debt servicing costs amid a double-digit interest rate environment in a heavily geared financial position.

Commercial Banks will also emerge as beneficiaries of the package given formulation of mortgage policy will provide new avenues of advances.

Based on the above, a document is being circulated on media titled "Proposed Special Incentive Package for Construction Industry (Package)" by Naya Pakistan Housing and Development Authority (NAPHDA) containing different tax measures and economic incentives proposed for the construction and development sector, salient provisions of which are stated below:

Source: Bloomberg, PSX & IGI Research

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Exhibit: Key Highlights of Prime Minister's Proposed Special Package for the Construction Sector		
S. No	Provision	Comment
TAX MEASURES & INCENTIVES BY FEDERAL BOARD OF REVENUE		
1	<p>Tax Regime for builders and developers will be changed from normal to a fixed tax regime. Tax will be levied on per square foot basis for builders and on per square yard basis for developers.</p> <p>Builders and Developers shall not be required to withhold tax (under section 153) on purchase of building material except for steel and cement and on services (such as plumbing and shuttering etc.), other than those provided by companies</p> <p>While declaring their net wealth, builders and developers will be eligible to take credit/ impute income equal to 10 times of tax paid under this schedule</p> <p>In case of low cost housing scheme and / or projects developed by NAPHDA the laid down tax rates will be reduced by 90%</p>	<p>The fixed regime was also implemented earlier under section 7C and 7D of Income tax Ordinance, 2001 ("ITO") for projects undertaken and approved during tax year 2017 only. It is expected that these sections will be amended to continue the fixed tax regime for upcoming projects also.</p> <p>Payments made to builders and developers will not be subject to tax deduction under section 153 of ITO. However, this exemption will not be applicable to cement & steel providers and companies. Example: A sole proprietor providing cements & steel to B&D won't be exempted from this tax whereas a sole proprietor furnishing wood planks will be exempt, however, a Company providing the same wood plank won't be exempt.</p> <p>10 multiples of tax paid allowed as eligible net wealth of a builder and / or developer.</p> <p>For builders and developers operating under NAPHDA, the levied tax rates shall be reduced by 90%.</p>
2	Exemption from Provision of Section 111 of Income Tax Ordinance 2001, on Construction Activity till 30th June 2022	<p>Source of any amount declared in wealth statement will not be inquired if invested in the following:</p> <p>1) Purchase of Land and Construction of any structure on such land (Not on purchase of land alone, construction is necessary to avail incentive)</p> <p>2) Construction of any structure on already owned land</p> <p>3) First purchase of newly constructed property (Not on subsequent selling).</p>
3	Rationalization of Capital Gains Tax	<p>Holding period of constructed property will be reduced to 3 years as against 4 years (as was the case prior to 2019)</p> <p>Holding period of open plots to remain same at 8 years, however, rate of CGT will be scaled down from fourth year onwards.</p> <p>Rates of CGT to be reduced in proportion to increase in valuation table.</p>
4	Valuation of Real Estate / Plots	Fresh revaluation process will be expedited.
5	Rationalization/ Reduction in Sales Tax on Construction Material	Sales Tax and Federal Excise Duty (FED) will be suitably reduced (direct relief to cement manufacturers and consumers).
6	Exemption of Taxes on First House	Construction, purchase and sale of first house will be exempted from all taxes, including capital gain tax
7	Establishment of Special Circles	FBR to establish special circles for construction industry to ensure easy and transparent tax collection
TAX MEASURES BY PROVINCIAL REVENUE AUTHORITIES		
1	Uniform sales tax rates across all provinces and ICT at fixed rates. Sales tax on Construction services exempted.	<p>Fixed Sales Tax at the time of sale of property as per following:</p> <p>For Builders: PKR 50/Square Foot</p> <p>For Developers: PKR 100/Square Yard.</p> <p>If Builders and Developers are charged to sales tax as above, sales tax on construction services provided will be exempt.</p>
2	Low Cost housing by NAPHDA or provincial housing authorities completely exempt from sales tax.	None.
3	All Provincial and Municipal taxes, duties, fees, levies, charges on transfer and registration of urban properties to be clubbed under one head and charged at the rate of 2 percent of valuation	None.
OTHER MEASURES		
1	Housing / Mortgage Financing	Preferably a 6% interest rate to be offered for housing mortgage of 100,000 low cost housing units under NAPHDA.
2	Status of Industry	PM has granted status of industry to construction sector
3	Ease of Doing Business Measures	Various measures to be adopted relating to project approvals to make it efficient and transparent.

Source: IGI Research

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