



ECONOMIC REFORMS PACKAGE

Date: April 10, 2018



INTRODUCTION

The Finance Minister announced the Economic Reforms Package which included an Amnesty Scheme and Tax Reforms.

The following Ordinances have been enacted by the President of Pakistan:

- Protection of Economic Reforms (Amendment) Ordinance, 2018
- The Foreign Assets (Declaration and Repatriation Ordinance, 2018
- Voluntary Declaration of Domestic Assets Ordinance, 2018
- The Income Tax (Amendment) Ordinance, 2018

The salient features of the above enactments are explained in this publication.

The comments in this document are for general information of our clients only.

CONTENT

Page-1

▶ **PROTECTION OF ECONOMIC REFORMS (AMENDMENT) ORDINANCE, 2018**

Page-1

▶ **THE FOREIGN ASSETS (DECLARATION AND REPATRIATION) ORDINANCE, 2018**

Page-3

▶ **VOLUNTARY DECLARATION OF DOMESTIC ASSETS ORDINANCE, 2018**

Page-5

▶ **THE INCOME TAX (AMENDMENT) ORDINANCE, 2018**

▶ **RATES OF TAX FOR INDIVIDUALS**

▶ **IMPACT OF NEW INDIVIDUAL TAX RATES**

PROTECTION OF ECONOMIC REFORMS (AMENDMENT) ORDINANCE, 2018

Under section 5 of the Protection of Economic Reforms Act, 1992 (PERA) immunity is available for foreign currency accounts in Pakistan from enquiries by tax authorities with respect to the source of the capital. The foreign currency accounts also enjoy exemption from levy of any tax and complete confidentiality.

A new proviso has been added to section 5 of the Protection of Economic Reforms Act, 1992 by virtue of which the immunity under this law for new deposits will only be available to "filers" as per definition in the Income Tax Ordinance, 2001 which reads as follows:

"Filer" means a taxpayer whose name appears in the active taxpayers' list issued by the Federal Board of Revenue from time to time or is a holder of a taxpayer's card.

As a result non-filers will not be able to deposit funds in foreign currency accounts in Pakistan.

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

THE FOREIGN ASSETS (DECLARATION AND REPATRIATION) ORDINANCE, 2018

This Ordinance has been enacted because of large scale non-reporting and under-reporting of assets and income held outside Pakistan by Pakistani citizens. This Ordinance is intended to provide an opportunity for declaring the foreign assets.

The Ordinance lays down the following definitions:

Term	Definition
Declarant	Person making the declaration under the Ordinance
Foreign assets	Any movable or immovable assets held outside Pakistan and includes real estate, mortgaged assets, stock and shares, bank accounts, bullion, cash, jewels, paintings, accounts and loan receivables, beneficial ownership or beneficial interests or contribution in offshore entities and trusts
Liquid assets	Cash or an asset that can be readily converted into cash with a minimal impact on the assets' value and includes bank notes, marketable securities, stocks, promissory notes, Government bonds, deposit certificates and other similar instruments
Cost of acquisition of the mortgaged asset	The sum of mortgaged payments and other mortgaged cost of acquisition
Fair market value	Price of foreign assets determined and declared by declarant himself, but in no case less than the cost of acquisition of the foreign assets
Holder of public office	Person who has since January 1, 2000 been the holder of public office including all positions from the President of Pakistan down to a naib Nazim of a Tehsil – Detailed list given in the Ordinance

A Declarant can make a declaration before the expiry of the due date of information regarding foreign assets as follows:

Term	Definition										
Declaration under section 5	<p>Electronically on FBR's portal as per format prescribed in Form A and Form B of the Schedule to this Ordinance. The declaration shall only be valid if accompanied by the evidence of payment of tax</p> <p>The Declarant may also repatriate the foreign assets as per the procedure prescribed</p>										
Declaration timing	The declaration and repatriation under section 5 shall be made on or after the 10th day of April, 2018 but on or before 30th day of June 2018										
Charge of tax	<p>The foreign assets declared and repatriated into Pakistan within the due date shall be chargeable to tax at the rates specified in the chart below:</p> <table border="1"> <thead> <tr> <th>ASSETS</th> <th>TAX RATE</th> </tr> </thead> <tbody> <tr> <td>Liquid assets not repatriated</td> <td>5%</td> </tr> <tr> <td>Immovable assets outside Pakistan</td> <td>3%</td> </tr> <tr> <td>Liquid assets repatriated and invested in Government securities</td> <td>2%</td> </tr> <tr> <td>Liquid assets repatriated</td> <td>2%</td> </tr> </tbody> </table>	ASSETS	TAX RATE	Liquid assets not repatriated	5%	Immovable assets outside Pakistan	3%	Liquid assets repatriated and invested in Government securities	2%	Liquid assets repatriated	2%
ASSETS	TAX RATE										
Liquid assets not repatriated	5%										
Immovable assets outside Pakistan	3%										
Liquid assets repatriated and invested in Government securities	2%										
Liquid assets repatriated	2%										
Declaration value	The value of declaration shall be in Pakistan Rupees at amounts to be determined by Declarant but not less than the cost of acquisition										
Currency for payment of tax	US dollars										
Mode and manner	The State Bank of Pakistan shall notify the Mode and Manner for repatriation of liquid assets in Pakistan and for deposit of tax in US dollars										
Consequences of declaration	<p>No tax shall be payable by the Declarant under any law for the time being in force including the Income Tax Ordinance, 2001 where tax has been paid under this Ordinance</p> <p>Where the Declarant has paid tax under this Ordinance the Declarant shall be entitled to incorporate the information of foreign assets in his books of account</p> <p>Notwithstanding the provisions Income Tax Ordinance, 2001 and Right of Access to Information Act, 2017 and any other law for the time being in force, particulars of any person making the declaration under this Ordinance or any information received in any declaration made under this Ordinance shall be confidential</p>										

This Ordinance shall apply to all citizens of Pakistan wherever they may be, except holders of public office, their spouses and dependent children. This Ordinance shall not apply to foreign assets where proceedings are pending in Court.

This Ordinance shall not apply to any proceeds or assets that are involved in or derived from the commission of a criminal offence.

VOLUNTARY DECLARATION OF DOMESTIC ASSETS ORDINANCE, 2018

This Ordinance has been enacted because of large scale non-reporting and under-reporting of assets held in Pakistan by Pakistani citizens. This Ordinance is intended to provide an opportunity for declaring the domestic assets.

The Ordinance lays down the following definitions:

TERM	DEFINITION
Declarant	Person making the declaration under the Ordinance
Domestic assets	Assets of every kind other than Foreign Assets as defined in Foreign Assets (Declaration and Repatriation) Ordinance, 2018
Holder of public office	Person who has since January 1, 2000 been the holder of public office including all positions from the President of Pakistan down to a naib Nazim of a Tehsil – Detailed list given in the Ordinance
Cost of acquisition of the mortgaged asset	The sum of mortgaged payments and other mortgaged cost of acquisition

A Declarant can make a declaration before the expiry of the due date of information regarding domestic assets as follows:

TERM	DEFINITION								
Declaration under section 5	Electronically on FBR's portal as per format prescribed in Form A and Form B of the Schedule to this Ordinance. The declaration shall only be valid if accompanied by the evidence of payment of tax								
Declaration timing	The declaration and repatriation under section 5 shall be made on or after the 10th day of April, 2018 but on or before 30th day of June 2018								
Charge of tax	<p>The foreign assets declared and repatriated into Pakistan within the due date shall bechargeable to tax at the rates specified in the chart below:</p> <table border="1"> <thead> <tr> <th>ASSETS</th> <th>TAX RATE</th> </tr> </thead> <tbody> <tr> <td>Foreign currency held in foreign currency accounts in Pakistan as at March 31, 2018 and encashed in equivalent Pakistan Rupees</td> <td>2%</td> </tr> <tr> <td>Foreign currency held in foreign currency accounts as at March 31, 2018 and converted to Government dollar denominated bonds</td> <td>2%</td> </tr> <tr> <td>Other assets</td> <td>5%</td> </tr> </tbody> </table>	ASSETS	TAX RATE	Foreign currency held in foreign currency accounts in Pakistan as at March 31, 2018 and encashed in equivalent Pakistan Rupees	2%	Foreign currency held in foreign currency accounts as at March 31, 2018 and converted to Government dollar denominated bonds	2%	Other assets	5%
ASSETS	TAX RATE								
Foreign currency held in foreign currency accounts in Pakistan as at March 31, 2018 and encashed in equivalent Pakistan Rupees	2%								
Foreign currency held in foreign currency accounts as at March 31, 2018 and converted to Government dollar denominated bonds	2%								
Other assets	5%								
Declaration value	The value of declaration shall be in Pakistan Rupees as per detailed in Annexure								
Payment of tax	Tax shall be paid at the time of making the declaration								
Consequences of declaration	<p>No tax shall be payable by the Declarant under any law for the time being in force including the Income Tax Ordinance, 2001 where tax has been paid under this Ordinance</p> <p>Where the Declarant has paid tax under this Ordinance the Declarant shall be entitled to incorporate the information of foreign assets in his books of account</p> <p>Notwithstanding the provisions Income Tax Ordinance, 2001 and Right of Access to Information Act, 2017 and any other law for the time being in force, particulars of any person making the declaration under this Ordinance or any information received in any declaration made under this Ordinance shall be confidential</p>								

This Ordinance shall apply to every company, association of persons and all citizens of Pakistan wherever they may be, except holders of public office, their spouses and dependent children. This Ordinance shall not apply to undisclosed income and domestic assets where proceedings are pending in Court.

This Ordinance shall not apply to any proceeds or assets that are involved in or derived from the commission of a criminal offence.

Rates of Valuation

UNDISCLOSED INCOME AND ASSETS	VALUE
Undisclosed income	As declared
Open plots and land	Cost of acquisition or FBR rates, whichever is higher
Super structure	Rs 400 per square feet
Apartments and flats	Cost of acquisition or Provincial stamp duty rates, whichever is higher
Imported motor vehicles	A-B Where: 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
Motor vehicles purchased from a manufacturer or assembler or dealer in Pakistan	A-B Where: 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
Used motor vehicles purchased locally	Value determined in the manner specified in Serial No. 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 manufacture
Securities and shares traded on stock exchange	Day-end price of the share or security quoted on registered stock exchange as on April 9, 2018 and where no day-end price of such share or security is quoted on stock exchange on April 9, 2018 day-end price of the share or security quoted on a date nearest to April 9, 2018
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 capital
National saving schemes, postal certificates, bonds, securities and other similar investments in capital instruments not traded or quoted on stock exchange	Face value
Gold	Rs. 4,000 per gram
Other precious stones and metals	Market rate as on the April 9, 2018 or cost of acquisition, whichever is higher
Stock-in-trade	Market rate as on the April 9, 2018
Plant and machinery	Actual cost of acquisition with no depreciation
Accounts receivable	Actual cost of acquisition
Other assets Prize bonds, cash and bank accounts including foreign currency accounts.	Face value

THE INCOME TAX (AMENDMENT) ORDINANCE, 2018

The Income Tax Ordinance, 2001 has been amended in the context of the Ordinances promulgated in the context of the Economic Reforms Package.

The amendments are as follows:

SECTION	SUBJECT	AMENDMENT
111(2)	Unexplained income or assets Prior to the amendment the tax law provided for undisclosed income to be treated as income chargeable to tax in the year to which the income relates.	As a result of the amendment the amount representing investment, money, valuable article or expenditure if situated in Pakistan or concealed income is Pakistan Source income than the amount is to be treated as income in the tax year to which the amount relates If the investment, money, valuable articles or expenditure is discovered by Commissioner and is situated or incurred outside Pakistan and concealed income is foreign source than the amount will be treated as income in the tax year immediately preceding the year of discovery
111(4)	Exemption available to any amount remitted from outside Pakistan through normal banking channels	As a result of the amendment the exemption is now available only for Rs 10 million per person per year
114(1)(x)	Return of income This section deals with circumstances under which return of income is to be filed by every resident person	New category has been added as a result of which a return of income is required to be filed if the person is required to file a statement of foreign income and assets under section 116A
114(2)(f)	This sub section identifies the documents accompanying the return of income	The amendment now requires the filing of statement of foreign income and assets under section 116A
114(5)	This sub section provides time limit for issue of notice for non-filing of return of income	The amendment empowers the Commissioner to issue a notice to a taxpayer who has foreign income and assets but has not filed a return of income - there is no time limit in this case provided the reasons are recorded in writing by the Commissioner
116A	Foreign income and assets statement	This new section requires every resident taxpayer being an individual to furnish a statement of foreign income and assets if he has: Foreign income in excess of US\$ 10,000 or foreign assets in excess of US\$ 100,000
182	Penalties	The amendment provides for penalties for non-furnishing of the statement of foreign income and foreign assets at 2% of the amount of foreign income or asset for each year of default
Schedule I of Part I for Division I	Rates of tax for individuals	The amendment has introduced new rates of tax on income of individuals with effect from July 1, 2018 The new slab below together with the effect on net salary is shown

RATES OF TAX FOR INDIVIDUALS

With effect from 1st day of July 2018, the rates of tax imposed on the taxable income of every individual (salaried and non-salaried) shall be as set out in the following Table, namely:-

S. NO.	TAXABLE INCOME	RATE OF TAX
(1)	(2)	(3)
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. 4,800,000

IMPACT OF NEW INDIVIDUAL TAX RATES

ANNUAL SALARY (Rs.)	EXISTING TAX LIABILITY (RS.)	NEW TAX LIABILITY (RS.)	CURRENT EFFECTIVE TAX RATE	NEW EFFECTIVE TAX RATE	ANNUAL TAX SAVINGS (RS.)
1,200,000	59,500	-	5.00%	0.00%	59,500
1,300,000	69,500	5,000	5.30%	0.40%	64,500
1,400,000	79,500	10,000	5.70%	0.70%	69,500
1,500,000	92,000	15,000	6.10%	1.00%	77,000
1,800,000	124,500	30,000	6.90%	1.70%	94,500
2,500,000	259,500	70,000	10.40%	2.80%	189,500
3,000,000	359,500	120,000	12.00%	4.00%	239,500
3,500,000	472,000	170,000	13.50%	4.90%	302,000
4,000,000	597,000	220,000	14.90%	5.50%	377,000
5,000,000	872,000	210,000	17.40%	4.20%	662,000
6,000,000	1,147,000	480,000	19.10%	8.00%	667,000
7,000,000	1,422,000	630,000	20.30%	9.00%	792,000
8,000,000	1,722,000	780,000	21.50%	9.70%	942,000
9,000,000	2,022,000	930,000	22.50%	10.30%	1,092,000
10,000,000	2,322,000	1,080,000	23.20%	10.80%	1,242,000

CONTACT

BDO Ebrahim & Co. Chartered Accountants
Audit | Tax | Advisory | Business Services & Outsourcing
Karachi | Lahore | Islamabad | Kabul

www.bdo.com.pk

BDO Ebrahim & Co., a Pakistan registered partnership firm, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.