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Govt urged to bring property valuation at par with market rates

KARACHI: Businessmen on Wednesday urged the government to ensure that property valuation reflects market rates to check tax evasion in the Rs7 trillion real estate sector, as the apex tax authority is weighing new valuation tables for the tax year 2018.

Shakeel Dhingrah of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) told The News that the existing valuation tables of properties don't mirror the open market rates.

"The valuation will remain lower even after increasing 100 percent in FBR's valuations," said Dhingrah, who heads FPCCI standing committee on Federal Board of Revenue (FBR) affairs. Currently, FBR is revisiting valuation of properties and considering to double the valuations for the tax year 2018 for collection of withholding tax and capital gains tax.

Industry estimate showed that around Rs7 trillion – close to a quarter of the country's of Rs33.5 trillion GDP – has been invested in the real estate sector. Last year, FBR issued valuation table for about 20 major cities of the country to boost tax revenue collection from this sector.

In December 2016, the government, through Income Tax (Amendment) Bill 2016, announced an amnesty scheme to bring undisclosed property investments into the mainstream on certain tax payment. Under the law, an investor needs to pay three percent tax on the amount of difference between declared cost and actual cost.

And, that would be so only if a property is sold within five years. "Such amnesty discouraged industrialisation," Dhingrah said. "Around 90 percent of investments are moving towards real estate and stock businesses for easy return."

"FBR should stop unproductive investment in real estate business and take measure for industrial growth," he added. Presently, three different valuations of properties, including provincial deputy collector (DC) rate, FBR tables and open market rates, exist in the country.

A property buyer opts to register its property at DC rates, which are the lowest. The buyer, however, declares transaction before tax authorities at different FBR valuations, which are little higher, in order to pay withholding tax and capital gains tax. Dhingrah said DC rates and FBR valuation table should be equal to open market prices. He advised the FBR to evaluate the prices of properties advertised through media before finalising the new valuation table.

FPCCI official said annual imports rose to alarming $53 billion and exports came down to $19 billion. "We need to improve the manufacturing in the country and in this regard the government should reduce electricity and gas prices to make export competitive in the international markets," Dhingrah said.

"The prime minister's incentive package of Rs180 billion should also be utilised for export growth." He said FPCCI will soon present its proposals before the finance minister to revive the industry on war footing basis.

Govt postpones planned increase in property valuation

In a first sign of political weakness, the government has postponed the planned 30% increase in property valuation rates for federal tax collection purposes, which underlines adverse implications of a politically unstable environment.

The average 25% to 30% increase in the property valuation rates for collection of federal taxes under the second phase had to be implemented from July 1, as announced by Finance Minister Ishaq Dar last year. The decision has been deferred until political normalcy returns, said sources in the Federal Board of Revenue (FBR).

Authorities had estimated collecting an additional Rs10 billion due to up to 30% increase in valuation rates during fiscal year 2017-18 that began on July 1. The exchequer will take a hit of about Rs850 million per month due to delay in implementing the decision. The government missed the opportunity when Finance Minister Ishaq Dar decided to postpone the increase in valuation rates from July 1 in order to avoid any backlash from realty investors after the announcement of the budget, said the sources.

They said Dar had indicated implementing the new rates from July 15. The deadline was again missed due to unfavourable circumstances caused by the joint investigation team (JIT) report in the Panama Papers case, they added.

The Supreme Court disqualified former prime minister Nawaz Sharif on July 28, resulting in political uncertainty.

After holding a series of meetings with the realty sector stakeholders, the federal government had decided to bring the deputy collector-determined property rates on a par with the prevailing market rates for enhancing tax collection in three phases.

The FBR had notified fresh property valuation rates for 21 major cities, which provided a new base for the collection of withholding and capital gains tax (CGT). Withholding tax rates range from 1% to 4% while the CGT rates are in the range of 5% to 10%.

These rates were higher than the prevailing deputy collector rates, but were still only 30% to 40% of the actual market rates.

The FBR had notified rates for major cities including Lahore, Multan, Gujranwala, Faisalabad, Sialkot, Islamabad, Karachi, Hyderabad, Sukkur, Sargodha, Mardan, Abbottabad, Peshawar, Quetta and Gwadar. The increase in rates resulted in over 125% enhancement in revenues in the first phase.

Under the constitution, the immovable property is a provincial subject, but the federal government has the right to collect income tax. It collects income tax through withholding taxes and capital gains tax.

At a time when the ruling party has decided to seek the support of masses against the Sharif's disqualification decision, it will be a politically unwise move to further increase the property valuation rates, said the sources.

The federal government of Prime Minister Shahid Khaqan Abbasi would try to avoid any politically unpopular decision, they added.

"Work is under process and we will notify the new rates by the end of this month," claimed Dr Mohammad Iqbal, the FBR spokesman while talking to The Express Tribune on Monday.

He said field formations had sent property valuations, but the FBR headquarters had not yet evaluated the valuations.

FBR's former chairman Dr Mohammad Irshad had told The Express Tribune in early June that the exercise to further enhance the rates had been completed and new rates would be notified from July 1. He said the rates would go up by another 30% on average, but these would still be lower than the actual prevailing market rates.

In addition to the existing 21 cities, the federal government had a plan to bring Okara, Larkana, Khairpur and Shaheed Benazirabad under the ambit of the new property valuation regime.