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Property Tax and Assessment News from Around the World

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Taxes on Property in Pakistan

The Different Kinds of Taxes

Following are the most important taxes that are applicable to property in Pakistan:

- Property Tax
- Capital Value Tax
- Stamp Duty
- Withholding Tax (or Advance Tax)
- Capital Gains Tax

1. Property Tax

Property tax is a provincial tax levied on the annual rental value of the property, based on Urban Immovable Property Tax Acts of the different provinces. The tax rates differ between provinces. However, it is either a flat rate, or a percentage of the annual rental value. The rental value does not imply that the property has to be rented out. It simply means an estimation by the government of how much rent the building could have yielded had it been rented out. The rate of taxation can differ depending on whether the property is rented or self-occupied.

According to the property tax valuation tables on the official Excise, Taxation & Narcotics Control Department website, in Punjab, for example, the annual rental value is higher if the property is rented out. In any case, 5% of the annual rental value is levied as tax.

Conversely, according to the Excise, Taxation & Narcotics Department Sindh, it doesn't matter whether the property is rented out or not. The tax is levied at a rate of 25% of the annual rental value of the property.

2. Capital Value Tax (CVT)

The Capital Value Tax (CVT) is also a provincial tax and is paid by the buyer at the time of acquisition of property. As the name suggests, it is payable on the capital value of an acquired asset. It is paid when the said asset – in this case, immovable property – is acquired.

According to Waqas Chaudhary, a property agent and an expert on the subject, in case of property, it is levied at 2% of the value recorded in the sale deed. However, even if the acquisition is by any means other than purchase, such as in the form of a gift or exchange, CVT has to be paid. Nadeem Butt in his book "Conceptual Approach to Taxes" explains that in the case of inheritance or a gift from spouse, parents, grandparents or siblings, CVT will not be levied. In cases where it is a gift or exchange, or where property value is not mentioned in the transaction, the value of the property is going to be calculated according to DC Rates.

It must be noted that while previously the CVT was levied only in urban areas, according to a news report, it will now also be levied on rural areas that have been developed.

3. Stamp Duty

Stamp Duty is another tax that is levied by the provincial government and is paid by the buyer at the time of acquisition of property. It is basically a tax required on most legal documents under the Stamp Act 1899. Stamp duty is levied at:

- 5% of the DC rate of the property if it is located in an urban area. This might give the impression that the Stamp Duty has been increased by 2%. However, that is not the case. The 5% is in fact a merger of CVT (2%) and Stamp Duty (3%) carried out this year according to a notification issued by the Board of Revenue on June 22 to facilitate taxpayers.
- 3% of the DC rate of the property in any other case.

4. Withholding Tax (WHT)

According to a notice issued by the FBR, Withholding Tax is a federal tax payable by both buyers and sellers – by the seller only in case he is selling the property within five years of buying it. Similarly, according to the amendments made through the Finance Act 2017, WHT is only payable if the value of property is greater than PKR 4 million.

It basically acts as an advance on other taxes and, hence, is also adjustable into the tax liabilities of the buyer and against the CGT of the seller. It has to be paid at the time of registration of the sales deed. Following are the rates of WHT:

<u>By Buyers</u>

For non-filers, 4% of the FBR rates.

For filers, 2% of the FBR rates.

<u>By Sellers</u>

For filers, 1% of the FBR rates and none if sold after five years of purchase.

For non-filers, 2% of the FBR rates.

5. Capital Gains Tax (CGT)

The Capital Gains Tax (CGT) is a federal tax payable by the seller. When the seller makes profits on selling property (capital asset), it is the profit (capital gain) which is taxed, hence the name. According to the Finance Act 2017, CGT is levied only when the property is sold within three years of its purchase. For non-filers, the rate equals 20% of the gains, while in the case of filers the tax levied is 15% of the gains. These gains are to be calculated according to the fair market value, based on FBR's valuation table. Any property held for more than three years will not make the seller liable for payment of CGT.