



PRESS RELEASE

PRESS RELEASE

(Karachi, June 24, 2013): The Taxation Committee of the Board of the Karachi Stock Exchange Limited in its emergent meeting held on June 24, 2013 discussed the implications of the Finance Bill, 2013 on the Exchange. They appreciated the efforts put in by the Ministry of Finance and praised the Federal Budget 2013 announced by the Honourable Minister for Finance on June 12, 2013. They also were highly appreciative of the acceptance of some of the proposals submitted by the Karachi Stock Exchange Limited.

Overall, Karachi Stock Exchange Limited believes that various components of the Federal Budget 2013 would have healthy impact on the capital market in Pakistan. However, the Exchange is of the view that some of the important proposals presented by the Exchange which as to date are not part of the Finance Bill, 2013 need to be reconsidered by the Federal Government in the best interest of investors and stakeholders of the capital market as well as from the macro perspective of broadening the tax base.

Pakistan's Capital Market is highly documented and every single transaction made on the Stock Exchange is not only transparent but also fully documented and routed through the banking channels. Further, the Capital Market is one of the larger contributors to the National Exchequer where during the period July 2012 to June 2013 an amount of over Rs. 1.8 Billion has been paid to the Federal Government on account of Advance Tax on sale/purchase of shares, CVT and Capital Gains Tax. Apart from these taxes, payment of F.E.D to the Federal Government was also being made by the Capital Market brokers.

At the same time the Karachi Stock Exchange Limited believes that certain critical elements in the proposed Finance Bill ought to be revisited in order to harmonize the taxation structure and make it equitable, decided to approach the Ministry of Finance for the Ministry's consideration and acceptance of the following proposals:

1. The Exchange proposes to the Federal Government to reconsider the levy of 0.5% of net moveable wealth under Income Support Levy Act, 2013 due to the following reasons:
 - i. The imposition of this levy is highly detrimental and will likely lead to immense flight of capital.
 - ii. There shall be flight of capital from not only the Capital Market but also from other moveable assets including decrease in bank deposits into immovable assets such as real estate, fuelling speculation.
 - iii. The imposition of the levy shall result in encouraging parallel economy and shift from documented economy to undocumented economy which is contrary to the Government's own public position.



PRESS RELEASE

- iv. The imposition of the levy is highly discriminatory in nature and does not support existing tax payers but in fact shall put them at a disadvantage with those not paying tax.
 - v. We also feel that expected revenue from this levy would also not be very substantial.
2. Insertion of Section 165 A in the Income Tax Ordinance, 2001 which provides a framework to banks for furnishing information about banking transactions to the tax authorities. We feel it shall result in undue harassment from Tax Authorities and tax payers/account holders shall become very vulnerable to the misuse of the powers given to the Tax Authorities. Another aspect is that the personal confidentiality of the account holders would be negatively affected thereby reducing confidence in the documented sector. Therefore, the Exchange proposes for the removal of the said section from the Income Tax Ordinance, 2001.
 3. Presently, under section 113 read with Division 1A of Part I of First Schedule Minimum Tax is levied under section 113 of ITO @ 0.5% on the turnover of the taxpayer, where no tax is payable either due to loss during the year or due to brought forward losses of previous years or if the tax payable is less than the minimum tax on the turnover. However, the rate has now been increased to 1% which shall effectively negate the provision of section 57 of ITO that allows for losses in tax year to be set off against future profits and would therefore force the taxpayer to pay more corporate tax that would otherwise have been due.

In order to maintain a level playing field, the Exchange proposes that other than those companies and sectors to whom the reduced rate or exemption is available, the general rate of minimum tax be reduced to 0.5% on the total turnover of the taxpayer.

4. Removal of exemption to Dividend in Specie under clause 103B of the Second Schedule of the Income Tax Ordinance, 2001 is considered to be a negative impact on the Capital Market. It is proposed that since the Dividend in Specie has no cash impact and tax was applicable only on disposal where as it is now taxable on announcement, the earlier mechanism for payment of tax should be brought back
5. The Exchange also proposes that the Dividend received by a company taxable under section 8 read with sub-section (3) of section 169 which has been brought to the Final Tax Regime (FTR) be revoked, because the adjustment of common expenses allocated to dividend income would not be possible under FTR. It is considered as a detrimental effect to companies and it is proposed that the dividend received by the companies should not be treated under FTR and adjustment of common expenses be allowed.