



PRESS RELEASE

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(Karachi, June 19, 2014): The Karachi Stock Exchange Board in its meeting held on June 18, 2014 reviewed the salient features of the Federal Budget. The Board appreciated the Minister's comment about the excellent performance of our capital market in last 12 months and other necessary measures taken in the budget by the Government to bolster economic growth. However, it was noted that the Capital Market, which is a documented and compliant sector, has been burdened with further taxation. This may impact the future performance of capital market adversely while also being negative for market liquidity.

Firstly, the rate of Capital Gain Tax on stock market transactions within a year has been raised from 8% to 12.5%, and for transactions of more than one year will be taxed at 10% as against no tax previously.

The holding period for tax free Capital Gain has been increased to two years. It is unfair to those investors who were invested for more than one year. Those who think more Capital Gain Tax can be collected should appreciate that tax collected so far is from individual investors (7% of the total). Banks, insurance companies, mutual funds, foreign investors and sponsors who make 93% are not included in the National Clearing Company of Pakistan (NCCPL).

Additionally 5% tax has been imposed on issue on bonus shares, which is not a practical measure. The Bonus shares are merely an accounting entry and it is not an income, therefore it had been struck down previously by the Lahore High Court. Further, it may not be out of place to highlight that in the Indian jurisdiction, this matter has been tested in appeals and it has been held that bonus shares are not dividend or for that matter income when issued to holders of ordinary and equity shares.

The Board once again reiterated the proposal of compulsory distribution of cash dividend out of current year profit if the company's reserves are equivalent to its paid up capital. This was introduced by Mr. Ishaq Dar in 1999 and had a healthy impact on the investors' confidence. However this feature did not continue as the PML (N) government did not remain in power. The small investors are short changed by the sponsors by declaring paltry dividend even when they earn handsomely. It is hoped that to bolster investor confidence, the Finance Minister will take remedial measures.

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