



Investing in Real Estate Pakistan

Buying property is a difficult decision making process more so in other country.

The tax and legal systems which apply to property transactions differ in each fiscal jurisdiction and therefore, any foreign investor need to understand the local tax implications existing in the proposed territory.

Grant Thornton Pakistan is experienced in dealing with such issues and will be able to assist a prospective investor in structuring its investments, identifying opportunities and provide compliance services.

The information detailed below should not be taken as a substitute for a specific advice.

Who can invest?

There are generally minimal restrictions imposed for purchase property in Pakistan. Non-resident individuals and companies can also invest in property in Pakistan subject to approval of Ministry of Interior.

Tax implications

The Federal government has imposed 2% capital value tax on the purchase of an urban property through Finance Act 2006. Moreover, Provincial Governments also imposes property taxes on the ownership of property located in their respective jurisdiction. However, gains or losses arising on the disposal of real estate are not taxable unless the sale / purchase are carried out as a business activity of the seller.

The provincial governments also impose tax at the time of registration of properties which ranges between 4-6% of the value assessed by the Deputy Collector in the form of stamp duty. The local governments also impose tax at the time of purchase which ranges from 1%

to 3% on the value in the respective provinces.

Federal Excise Duty is payable at the following services of the property developers:

| Services | Rate of Duty |
|---|-------------------------------------|
| Development of purchases/leased land for conversion into residential / commercial plots | PKR 100/Square yard |
| Construction of residential / commercial units | Rs.50/ Square Foot of covered area. |

Income from Property

Rental income from property is subject to tax under the income tax laws in Pakistan. The income from property is taxed at a graduated scale as under::

| Rent in PKR | Rate of Tax |
|---------------------------------|--|
| <i>a. Non-Corporate Persons</i> | |
| 0-150,000 | 0% |
| 150,001-400,000 | 5% of amount exceeding PKR 150,000 |
| 400,001-1,000,000 | PKR 12,500+7.5% of amount exceeding PKR 400,000 |
| 1,000,001 and excess | PKR 57,500+10% of amount exceeding PKR 1,000,000 |
| <i>b. Corporate Persons</i> | |
| 0-400,000 | 5% |
| 400,001-1,000,000 | PKR 20,000+7.5% of amount exceeding PKR 400,000 |
| 1,000,001 and excess | PKR 65,000+10% of amount exceeding PKR 1,000,000 |

The corporate persons paying the rent are required to withhold tax from such payment made to another person according to the above slabs.



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Capital gain on sale of property

Any gain which arises from the sale of property is currently not liable to income tax, unless the person selling is undertaking an adventure in the nature of trade.

Tax Exemption

Income of a Real Estate Investment Trust is exempt from income tax provided that at least 90 % of its income is distributed to the unit holders of the trust. The capital requirement of the above company is around Rs.5 billion

Practical considerations

In order to secure better returns on investment, following needs to be considered while investing in real estate.

- Location of property
- Sponsors of the project

Tax planning

There is, at the moment no federal tax, on the disposal of real estate property unless such disposal is the business activity of the alienator. Rental income is assessed by applying a fixed rate of tax on gross rental income. Income from development projects is taxed as business income on net income basis @35% of net profits in the case of a corporate person.

Grant Thornton's Tax team in Pakistan can advise prospective investors on such and other related opportunities.

and other various conditions apply to undertake the above tax exempt business.

Inheritance tax

There is no income tax on the deceased estate by way of inheritance tax.

Tax reporting obligations

Investors in real estate located in Pakistan are required to file a tax return of their income.

If you have any comments or require further information please contact:

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