

## Mitiari transmission line project: contractors to be charged WHT rates as per tax

The government is to charge rates of withholding tax for corporate and non-corporate contractors of Mitiari transmission line project in accordance with the Income Tax Ordinance 2001 instead of increased rates, well-informed sources told *Business Recorder*. This decision was taken at a recent meeting of Economic Co-ordination Committee (ECC) of the Cabinet.

On July 18, 2017 the ECC deferred consideration of the summary titled "standard implementation agreement under policy framework for private sector transmission line projects, 2015 and project specific transmission services agreement" with the direction to Secretary, Ministry of Water & Power to review the proposal holistically in consultation with Secretary, Law & Justice Division, Chairman, FBR and Chairman, NEPRA; and resubmit it to the ECC for consideration, after consensus.

Accordingly, a series of meetings was held between representatives of Ministry of Water & Power and FBR. After deliberations and discussions on all issues raised by FBR in its earlier letter of May 4, 2017 a consensus was developed between all stakeholders and all issues were resolved. Ministry of Law has already given its concurrence on these agreements subject to approval of PPIB. Nepra also endorsed the terms and conditions as stipulated in Implementation Agreements (IA) and Transmission Services Agreement (TSA) to be signed with Income Tax Credits (ITCs) subject to the commitment that these should be consistent with Nepra tariff determination and special purposes transmission licenses terms.

Ministry of Water & Power submitted the following proposals for consideration of the ECC of the Cabinet: (i) as per Transmission Line Policy 2015 the ITC is liable to withhold and pay to the GoP as full and final income tax liability of its contractors @ 6.5% and 7% tax from corporate and non-corporate contractors, respectively. However, present applicable tax rates under the Income Tax Ordinance 2001 have been increased. It was agreed between FBR and Ministry of Water & Power that rates of withholding tax for corporate and non-corporate contractors shall be as per the Income Tax Ordinance 2001; (ii) as per policy, the reduced customs duty of 5% rate on local manufacturing appearing in part-I of schedule of the Customs Act 1969 shall not be applicable for the period of three years on import of machinery and equipment and other capital goods imported for new transmission lines under the valid contract(s) or letter of credits and total C&F value of such imports for the project is US\$ 50 million or above. It was agreed between FBR and Ministry of Water & Power that FBR will implement the policy provision after ECC approval in this regard; and (iii) the policy provides that Sales Tax on import of machinery, equipment and other capital goods, if not exempted under the Sixth Schedule of the Sales Tax Act 1990, shall be charged @ of 5% and shall be

nonadjustable/non-refundable. FBR will issue an appropriate SRO to give effect to the aforementioned policy provision.

It was further suggested that the project specific TSA for HVDC transmission project as prepared and finalized by NTDC may be approved and Board of PPIB may be authorized to make and approve any project specific amendments required in the Standard IA during negotiations and/or prior to its execution, provided GOP obligations or liabilities are not increased.

It was also recommended that Board of PPIB and NTDC may further be authorized to make and approve any amendments in the approved Standard IA & the Project Specific TSA respectively required to comply with NEPRA's Tariff Determination, directives and/or approvals.

After a detailed discussion, the ECC approved the proposal of Water and Power Ministry with following modification: "As per Transmission Line Policy 2015 the ITC is liable to withhold and pay to the GoP as full and final income tax liability of its contractors @ 6.5% and 7% tax from corporate and non-corporate contractors, respectively. However, present applicable tax rates under Income Tax Ordinance 2001 have been increased. It was agreed between FBR and Ministry of Water & Power that rates of withholding tax for corporate and non-corporate contractors shall be as applicable under the Income Tax Ordinance 2001 at the relevant time".

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