BoI asks FBR to do away with amendment in section 5A of ITO

The Board of Investment (BOI) has approached Federal Board of Revenue (FBR) for withdrawal of amendment in section 5A of the Income Tax Ordinance 2001 under which 7.5% tax was levied on undistributed profits of every public company, having negative impacts on auto sector. According to the sources, the BOI conveyed the concerns of a car dealer company to the FBR on the issue of tax on undistributed profits under amended section 5A of the Income Tax Ordinance 2001.

The BOI said that it would be highly appreciated if the FBR looks into the matter and facilitates the company in this regard, the BOI requested the FBR. The company would like to draw the FBR attention towards an amendment enacted vide Finance Act 2017 (Federal Budget 2017). As per amended section 5A of Income Tax Ordinance, 7.5% tax was levied on undistributed profits of every public company other than a scheduled bank or a modaraba that derives profits for a tax year, but does not distribute dividends equal to 40%. An exemption from this tax by distributing profits as dividend equal to 50% of its paid up capital has been withdrawn.

Further the amendment is effective for tax year 2017. Given that tax year 2017 corresponds to accounting year ended December 31, 2016 for company and accounts were already approved and final dividend was declared on April 25, 2017, whereas the budget was approved in June 2017. So the retrospective implementation of amendment has adversely affected company. This would unnecessarily result in outflow in foreign exchange from reserves which parent company, holding 73% shares would like to keep it in the country for further expansion of the plant, company quoted its example.

Although amended section 5A will contribute in additional tax revenue to government on the one hand, yet on other hand, it will affect the beleaguered Forex reserves of the country. At the same time it will also discourage foreign investors to retain profit in Pakistan for future expansion. As a businessman, BOI/FBR would appreciate that once remittance is made, to bring the additional investment back would require decision at the highest level in a parent company particularly when there may be opportunities available in other markets.

While greatly appreciating BOI efforts in attracting foreign investment into the country, BOI would agree that the said tax measure is counterproductive for business growth in general and retrospective implementation for accounting year 2016 in particular. Therefore, the BOI should approach the FBR for reinstating the provision of exemption from this tax by distributing profits as dividend equal to 50% of its paid up capital. The company would be grateful for providing an opportunity to arrange meeting with the concerned officials of FBR to explain company's point of view in detail.