

## **Valuation anomalies: no complaint received from ABAD: FBR**

The Federal Board of Revenue (FBR) has said that it has not received any complaint so far from Association of Builders and Developers of Pakistan (ABAD) regarding anomalies in valuation of immovable properties this year. A meeting of the National Assembly's Standing Committee on Finance chaired by Qaiser Ahmed Sheikh was presented a brief on Saturday on the agenda to consider the suggestions/proposals of real estate sector for further resolving anomalies pointed out by Pakistan Real Estate Investment Forum (PREIF), Association of Builders and Developers of Pakistan (ABAD) and other stakeholders in the FBR valuation table.

The FBR stated that rates for immovable properties were notified in August 2016 and before notifying the rates, the fair market value of all the areas was determined. Thereafter, the FBR rates were fixed after consultation with the stakeholders. The overall average of FBR rates were fixed at a certain percentage of the fair market value with the intention to take the FBR rates equal to the fair market value gradually over a reasonable period of time. Subsequently various representations/complaints were received regarding anomalies in valuation tables of FBR and it was reported that FBR rates in some areas are higher than the approximate overall average percentage of the fair market value and in some areas even higher than 100 percent of the fair market value. In this regard, the FBR also held various meetings with the stakeholders to remove the anomalies. The anomalies pointed out were of two main categories; (i) the FBR rate in some areas is fixed much higher than the overall average percentage of the fair market value and in some cases even higher than the fair market value; (ii) the FBR rate as percentage of fair market value is higher when compared with a similar comparable location.

Accordingly, the FBR rates have been revised to remove the anomalies. The areas where anomalies were removed included the areas where Pakistan Real Estate Investment Forum also pointed out anomalies, such as DHA City Karachi, SITE Industrial Area and Anmol Cooperative Housing Society. The FBR has not yet received any complaint on anomalies in valuation of immovable properties by the ABAD this year. However, previously ABAD had raised issues relating to immovable property, which included; (i) ABAD put forward a situation where the buyer registers the property at DC value at Rs 100 whereas the FBR value is Rs 200 but the actual purchase value is Rs 210 and shows the value of Rs 210 to FBR. ABAD asked whether FBR will charge 3 percent tax if the buyer is able and ready to declare his sources. In another case ABAD asked if the buyer registers property at Rs 100 and shows purchase to FBR at Rs 210, will buyer be able to pay 3 percent tax without his sources being investigated?; (ii) ABAD has pointed out that in Karachi the valuation of same size residential, commercial and industrial open and built-up properties is different whereas in Lahore there is no difference between valuation of open and built-up immovable properties; (iii) ABAD has stated that anomalies are also found in many cities of Pakistan and proposed to the National Assembly Standing Committee to delegate power to its own officers at provincial capitals, where committees be set up consisting of FBR representatives and stakeholders under the chairmanship of an elected representative. The committee should take up issues of anomalies and fix property valuation on the basis of average 30 percent of market value according to the agreed formula.

Regarding the first issue raised by ABAD and keeping in view the hypothetical values given by ABAD, if the buyer registers the property at actual price of Rs 210, then tax at 3 percent under

section 236W is not applicable. If, the buyer registers the property at Rs 100 being less than FBR value of Rs 200 or actual value of Rs 210 then under section 236W tax at 3 percent will be collected on FBR's and DC rate's differential amount, ie, Rs 200-Rs 100 = Rs 100. In accordance with explanation (2) at section 111(4) of the Income Tax Ordinance, 2001 where a person has paid tax under section 236W, the person shall be entitled to incorporate in his books of accounts the amount whereon 3 percent tax was paid in tangible form. As for second issue raised by ABAD, the FBR issued the open and built-up valuation of residential, commercial and industrial properties in Karachi while considering the valuation of immovable properties by local authority in Karachi. In Karachi, the Board of Revenue, Sindh had issued valuation of open and built-up properties separately whereas in rest of the areas the local authorities hadn't made such differentiation. However, the FBR is considering separate valuation of built-up properties in rest of the areas as well.

With respect to third issue raised by ABAD, it was stated that anomalies were found in many cities of Pakistan but no specific anomaly has been pointed out. However, the FBR is amenable to consider if any specific anomaly is pointed out, where the FBR rate is higher than the overall average %age of fair market value or where FBR rate is higher than any comparable location. ABAD has given a proposal to set up a committee for removal of anomalies. However, under the provision of section 68(4) of the Income Tax Ordinance, 2001, the Board was empowered to determine the fair market value of immovable property, which was accordingly done in the urban areas by Board in August 2016.

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