

Capital Value Tax

Significant amendments

Section 7 of the Finance Act, 1989

CVT was introduced vide section 7 of the Finance Act, 1989. Amended from time to time, present application of CVT is summarised in the following table:

S. No.	Description of assets	Rate of CVT Percent
1.	<p>Immovable property (other than commercial) situated in urban area, measuring at least one Kanal or 500 square yards whichever is less:</p> <ul style="list-style-type: none"> ■ Where the value of immovable property is recorded ■ Where the value of immovable property is not recorded <p>Commercial immovable property of any size:</p> <ul style="list-style-type: none"> ■ Where the value of immovable property is recorded ■ Where the value of immovable property is not recorded 	<p>2 of the recorded value</p> <p>Rs.50 per square yard of the land area</p> <p>2 of the recorded value</p> <p>Rs.50 per square yard of the landed area</p>
2.	Purchase of modaraba certificates or any instrument of redeemable capital,	0.02 of the purchase value

S. No.	Description of assets	Rate of CVT Percent
	or shares of a public company listed on stock exchange in Pakistan	

In terms of section 7, CVT is applicable on acquisition of assets through specified forms, including by power of attorney.

The Finance Act 2008 added a proviso in sub-section 1 of section 7 to provide deferment of CVT on acquisition of an asset by general power of attorney unless such power of attorney is used by the bank to enforce mortgage of property offered as collateral against a loan or in other words the property is transferred in the name of the bank. This amendment was introduced to mitigate the burden of tax on the banks where general power of attorney is frequently used in transaction relating to the mortgage of properties as collateral to loans.

Further, the Finance Act 2008 substituted the definition of term 'urban area'. The consequential effects of this change was that:

- Municipal body was excluded from the definition;

Presently rating areas as defined under the Urban Immovable Property Act, 1958 are covered in the definition. The Finance Act clarified that such rating areas as in force in Punjab, NWFP, Sindh and Balochistan except where the rate

under section 117 of the respective Provincial Local Government Ordinance, 2001 is zero.

Real estate is known to be under taxed sector of the economy which usually attracts black money. In order to discourage non-productive investment in this sector, The Finance Bill seeks to enhance significantly the rate of CVT on transfer of immovable property. To encourage trading in shares of listed companies CVT is proposed to be withdrawn.

Application of CVT after proposed amendments is summarised as follows:

S. No.	Description of assets	Rate of CVT Percent	
1.	<p>Residential Immovable property (other than flats) situated in urban area, measuring at least 500 square yards or one Kanal (whichever is less) and more:</p> <ul style="list-style-type: none"> ■ Where the value of immovable property is recorded 	4% of the recorded value	Which ever is higher

S. No.	Description of assets	Rate of CVT Percent	
	<ul style="list-style-type: none"> ■ Where the value of immovable property is not recorded ■ Where the immovable property is a constructed property 	<p>Rs.100 per square yard of the land area</p> <p>Rs. 10 per square feet of the constructed area in addition to the value worked out above</p>	
2.	<p>Commercial immovable property of any size situated in urban area:</p> <ul style="list-style-type: none"> ■ Where the value of immovable property is recorded ■ Where the value of immovable property is not recorded ■ Where the immovable property is a constructed property 	<p>4% of the recorded value</p> <p>Rs.100 per square yard of the landed area</p> <p>Rs.10 per square feet of the constructed area in addition to the value worked out above</p>	Which ever is higher

S. No.	Description of assets	Rate of CVT Percent	
3.	<p>Residential flats</p> <ul style="list-style-type: none"> ■ Where the value of immovable property is recorded ■ Where the value of immovable property is not recorded 	<p>4% of the recorded value</p> <p>Rs.100 per square feet of the covered area</p>	Which ever is higher
4.	<p>Purchase of modaraba certificates or any instrument of redeemable capital</p>	<p>0.02 of the purchase value</p>	