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# Tax regime for non-residents simplified to encourage investment in long-term debt securities

Amendments in the Income Tax Ordinance, 2001 have been issued to simplify the tax regime for non-resident companies investing in debt instruments and Government securities. These amendments aim to deepen our capital markets, support availability of long term rupee financing sources, support competition in the local currency debt market, and diversify the source of funding for the government.

The existing foreign exchange framework allows non-residents to invest in debt instruments and Government securities through Special Convertible Rupee Account (SCRA) maintained with banks in Pakistan. However, the tax structure for non-residents investing in debt securities was historically complex. Different rates applicable for the withholding tax on profit on debt and capital gains tax, penal transaction charges for non-filers, a complex tax-filing process and uncertainty about tax applicability were the key impediments to foreign investment into the local debt market, particularly in the long-term debt instruments. In this context, the recent amendment in the tax laws has simplified Pakistan’s tax regime for investment in the local debt market.

Specifically, the above Ordinance has implemented the following changes in Income Tax Ordinance, 2001 to simplify the tax regime for non-resident companies, having no permanent establishment in Pakistan, investing through SCRA in debt instruments and government securities (including Treasury Bills and Pakistan Investment Bonds):

1. The capital gains tax shall be subject to withholding at the rate of ten percent and shall constitute final discharge of the tax liability;
2. No deduction of 0.6% banking transaction tax under section 236P on transactions in SCRA;
3. No advance tax payment under section 147 on capital gains;
4. Dispensation from the requirement of registration under section 181, filing of return under section 114 and filing of statement of final taxation under section 115 in respect of income solely from capital gains or profit on debt from investment in debt securities;
5. No distinction shall be made in terms of filer or non-filer;

Many non-resident investors currently benefit from tax treaties and already enjoy reduced rates of taxation around 10 percent. The key provision in the ordinance is to simplify the tax structure and process for international investors.

The above amendments will help to deepen the capital market, generate greater interest in the longer-dated government securities, diversify the investor base, and reduce the cost of debt for the government.

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