

Special Feature

# Tax Amnesty Schemes in Pakistan

## - With special reference to 2018 Amnesty Scheme

By Research and Publications Directorate, ICMA Pakistan

Many countries have launched tax amnesty schemes with the objectives of improving tax compliance; enhancing government revenue and encouraging the repatriation of offshore assets by offering generous tax incentives and immunity from prosecution. Generally, such programs have been successful, but some have failed to generate the expected results. According to the OECD, countries may introduce tax

amnesty programmes for a variety of purposes including raising tax revenue; increasing tax honesty and compliance; and/or facilitating asset repatriation in support of economic policy. Before proceeding, let's have a look at different tax amnesty or money whitening schemes or programs offered by different countries:

### Tax Amnesty or Money Whitening Schemes offered by different countries

<b>India</b>	Since 1965, India implemented tax amnesty once in every five or six years. India's budget, in 1965, introduced a scheme whereby an amnesty was granted on unaccounted wealth or income provided 60% was handed over to Reserve Bank of India by May 31, 1965. In 1981, India offered a different tax amnesty. In 1997, a tax amnesty program considered as final tax amnesty which allowed the people to announce taxable assets derived from the previous year based on its gain price, not value of on-going year. In 2016, A four-month amnesty in India resulted in 64,275 declarations, with the average amount declared standing at Rs10.2 million. A charge of 45% was levied on assets declared under the scheme.
<b>USA</b>	Several American states also announced tax amnesties. Los Angeles administration collected US\$18.6 million whereas the state of Louisiana collected US\$ 450 million from 2009 tax amnesty program.
<b>Australia</b>	A tax amnesty program was introduced in 2014 that prompted thousands of rich Australians to declare billions of dollars in untaxed assets and hidden bank accounts in Switzerland and in other countries.
<b>Canada</b>	A tax amnesty scheme called the "Voluntary Disclosure Programme" already exists for income tax and Excise related offences. The Canada Revenue Agency has given this relief for a 10-year period prior to date of filing and covers unfiled tax returns and unfiled information returns such as offshore asset form
<b>Belgium</b>	In 2004, the country's legislative house adopted a law allowing individuals subject to Belgian income tax to regularize the undeclared, or untaxed, assets they held before June 1, 2003.
<b>Germany</b>	In 2004, Germany had also granted a tax amnesty in connection with tax evasion.
<b>Indonesia</b>	Indonesia implemented a nine-month tax amnesty program that ended on March 31, 2017. The program was largely successful as it generated about 80 percent of the expected revenue. The scheme resulted in boosting tax revenues by 3.6 percent year-on-year in 2016. A total of US\$9.61 billion was collected in March 2017. The country had previously given such incentives in 1964, 1984 and 2008.
<b>Spain</b>	In 2012, the Spanish government had announced a tax evasion amnesty for undeclared assets or those hidden in tax havens. Repatriation was allowed by paying a 10 percent tax, with no criminal penalty.
<b>Italy</b>	Since 1991 until 2014, Italy had a number of tax amnesty programs. Italy had first introduced a tax amnesty in 2001. In 2009, the Italian tax amnesty subjected repatriated assets to a flat tax of 5 per cent and succeeded in whitening a huge amount. About 80 billion Euros in assets were declared, which resulted in tax revenues of 4 Billion Euros. The Bank of Italy had estimated that Italian citizens held around 500 billion Euros in undeclared funds outside the country.

<b>Russia</b>	In 2007, a Russian tax amnesty program had collected US\$130 million in first six months. The Russian programme, however, was not open to anyone previously convicted of tax crimes such as tax evasion.
<b>Greece</b>	In 2010, the government of Greece had granted tax amnesty to millions of Greek citizens by paying just 55 percent of the outstanding debts.
<b>Turkey</b>	The Turkish government has introduced several tax amnesty programmes throughout the last decade, the latest of which was passed in August 2016 and ran until June 2017.
<b>South Africa</b>	South Africa had implemented tax amnesty program three times which was in 1995, 1995, and 2003. In 2003, South Africa introduced a tax amnesty and asset repatriation programme with three objectives: to enable South Africans to regularize their affairs without being prosecuted; to ensure maximum disclosure of foreign assets and to facilitate repatriation thereof to South Africa; and to expand the tax base by disclosing previously unreported foreign assets.

## History of Tax Amnesty Schemes in Pakistan

The Tax Reforms Commission (TRC) in its report had identified tax amnesty schemes as one of the major factors causing distortions in the country's economic system. Over the last 70 years, successive Pakistan governments have announced as many as 10 tax amnesty schemes. The PML(N) Government

announced three schemes viz. for non-filers in trading community; power bill defaulters and the real estate business.

Let's have a brief look at different amnesty schemes announced in the past:

Year	Regime / Government	Outcome/ Result
1958	Field Marshal Ayub Khan	Around 71,289 declarations of excess income were filed by 266,183 taxpayers. An amount of Rs. 1.3 billion was recovered which added 7% to the GDP.
1969	General Yahya Khan	Only 19,600 new tax filers brought into tax net which added only 1.52% to GDP. A total of only Rs. 920 million was recovered from undeclared assets.
1976	Zulfikar Ali Bhutto	The amnesty scheme was able to recover Rs. 270 million in taxes which added around 2.2% to the GDP.
1986	General Zia ul Haq	Resulted in small increase in number of tax filers
1997	Nawaz Sharif (PML-N)	The amnesty scheme brought just Rs. 141 million in taxes.
1999	General Pervez Musharraf	Around 88,000 persons made declarations. Rs. 125 billion in taxes were collected.
2008	Asif Ali Zardari (PPP)	A total of only Rs. 2.8 billion was collected from new tax payers. .
2014	Nawaz Sharif (PML-N)	Amnesty scheme for defaulters of electricity bills was announced under which 30% arrears were waived off on payment of remaining dues.
2015	Nawaz Sharif (PML-N)	Amnesty scheme exclusively for non-filers in trading community was announced
2018	Shahid Khaqan Abbasi (PML-N)	Amnesty scheme exclusively for real estate business was announced.

From the above timelines, it is quite evident that during the periods of Ayub Khan and Gen. Pervez Musharraf, the tax amnesty schemes announced produced positive results.

## Amnesty Scheme 2018

Two Tax Amnesty Schemes were announced in April 2018 by the PML (N) Government through promulgation of the Foreign Assets (Declaration and Repatriation) Ordinance, 2018 for undisclosed foreign assets; and Voluntary Declaration of Domestic Assets Ordinance, 2018 for undisclosed income and domestic assets. Both these Ordinances were placed before the Parliament and through the Finance Act 2018, these became Acts as under:

- (1) Foreign Assets (Declaration and Repatriation) Act, 2018 for undisclosed foreign assets.
- (2) Voluntary Declaration of Domestic Assets Act, 2018 for undisclosed income and domestic assets

The above Acts were further amended through the Presidential Ordinances on June 30, 2018.

The original closing date for filing declarations under the amnesty scheme was June 30, 2018, however, the deadline was subsequently extended till July 31, 2018 by Caretaker Government on account of representations from trade bodies, professional associations and general public due mainly to following two reasons:

- (1) short operational period after clearing legal and procedural challenges and problems faced by declarants in the payment of tax on foreign assets and repatriation of liquid assets.
- (2) To remove ambiguities through clarifications and explanations required to provide certainty to the general public and to ensure effective implementation of the schemes.

## Applicability and Tax rates

**Foreign Assets:** Amnesty scheme for foreign assets was applicable on both liquid and immovable assets such as bank accounts, shares and mortgaged properties with rates ranging from 2% to 5% depending on type of assets.

**Domestic Assets:** The amnesty scheme for domestic assets was applicable on all types of assets and income, with tax rates of 2 percent and 5 percent.

**Cash Repatriation:** Special tax rate of 2 percent was applicable on liquid assets repatriated into Pakistan.

## Outcome of Amnesty Scheme

(As per statistics released by FBR)

- a) Around 82,838 individuals availed both the foreign and domestic tax amnesty schemes which resulted in collections of Rs. 121 billion by the deadline of 31st July 2018.

Sr.	Amnesty Scheme	Total No. of Declarants	Total Collections (Rs)
1	Domestic Amnesty	77,485	77 billion
2	Foreign Amnesty	5,353	44 billion
<b>Total</b>		<b>82,838</b>	<b>121 billion</b>

- b) Cash repatriation of **US\$ 366 million** [Rs. 42 billion] was achieved under the foreign amnesty scheme.
- c) Both foreign and domestic amnesty schemes were availed on total assets valuing **Rs. 2.5 trillion**.
- d) Total tax paid on domestic assets stood at **Rs. 65.3 billion**.
- e) Out of 5,353 total declarants who availed foreign tax amnesty, the Pakistanis living at UAE stood on top.
- f) The response on tax amnesty schemes was quite impressive till 30th June 2018, however, after extension of deadline upto 31st July 2018 the responses slowed down.
- g) Till June 30, 2018, a total of 55,000 people benefitted through the scheme by paying Rs. 68 billion to FBR.

## Future Action Plan of FBR

- a) The Federal Board of Revenue (FBR) has decided to take action against those who do not declare their hidden local as foreign assets after the expiry of the scheme on 31st July 2018.
- b) FBR has issued notices to over 500 Pakistanis with undeclared assets abroad.
- c) FBR would send tax notices to those declarants of amnesty schemes who have not paid the due amount. They will be asked to pay the full 35% tax on their assets.
- d) FBR intend to trace the tax evaders with the help of NADRA who shall be asked to provide details of non-taxpayers regarding banking transaction, booking
- e) FBR has asked other countries to help catch the tax evaders. About 56 countries have shown willingness and officially notified necessary requirement for automatic exchange of information with Pakistan.
- f) FBR is on lookout for non-taxpayers in other countries under the Organisation for Economic Cooperation and Development (OECD). FBR has recently obtained information about immovable properties owned by the Pakistanis in the United Kingdom with the assistance of OECD and the UK tax authorities.
- g) FBR expects to receive details of offshore accounts from OECD nations in September, 2018. Currently, there are 104 signatories of the Convention on Mutual Administrative Assistance in Tax Matters.
- h) FBR also plans to seek details of Pakistanis who have invested in real estate in United Arab Emirates (UAE) and not declared those assets.

