

GOVERNMENT OF PAKISTAN
REVENUE DIVISION
CENTRAL BOARD OF REVENUE

No.F.4(1)ITP/2006-CVT

Islamabad, July 1, 2006

Circular No. 2 of 2006
(Income Tax)

Subject: **FINANCE ACT, 2006 – EXPLANATION OF IMPORTANT PROVISIONS RELATING TO CAPITAL VALUE TAX (CVT).**

The amendments made through the Finance Act, 2006 relating to Capital Value Tax are explained as under:-

1. **SCOPE OF CVT:**

Amendment in section 7 of Finance Act, 1989 has been made through Finance Act, 2006 to extend levy of CVT on urban immovable property. Transfers falling in the scope of transactions attracting charge of capital value tax include acquisition of assets through:

- (i) purchase,
- (ii) gift,
- (iii) exchange,
- (iv) surrender,
- (v) power of attorney; or
- (vi) relinquishment of rights.

However, transactions from the following through inheritance or gifts have been excluded from its ambit:

- (i) spouse;
- (ii) parents;
- (iii) grand parents;
- (iv) brother; and
- (v) sister.

2. **DEFINITION OF URBAN AREA:**

“Urban area” for the purpose of levy of CVT has been defined as below:-

“urban area” means area falling within the limits of:-

- (i) the Islamabad Capital Territory;

- (ii) a cantonment board; or
- (iii) a municipal body;
- (iv) in case of Karachi up to 40 Kilometres from the outer limit of municipal or cantonment limits;
- (v) in case of Lahore and Faisalabad up to 30 Kilometres from the outer limit of municipal or cantonment limits;
- (vi) in other cases, up to 10 kilometres from the outer limits of municipal bodies or cantonment boards; and
- (vii) areas defined as such in the Urban Immovable Property Tax Act, 1958 (WP Act V of 1958) and such areas as the Central Board of Revenue may, from time to time, by notification in the official Gazette specify.

3. **RATES OF CVT FOR IMMOVABLE PROPERTY:**

A new clause (CA) in sub-section (2) of section 7 has been added to prescribe rates of CVT leviable on immovable property w.e.f. July 1, 2006 as below:-

- (a) Immovable property (other than commercial property and residential flats) situated in urban area, measuring at least one kanal or 500 square yards whichever is less:

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|------|---|---|
| (i) | Where the value of immovable property is recorded. | 2% of the recorded value |
| (ii) | Where the value of immovable property is not recorded | Rs.50 per square yard of the landed area; |

- (b) Commercial immovable property of any size situated in urban area:

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|------|--|--|
| (i) | Where the value of immovable property is recorded. | 2% of the recorded value |
| (ii) | Where the value of immovable property is not recorded. | Rs.50 per square yard of the landed area |

(c) Residential flats with covered area measuring 1500 sq. feet and above:

- | | | |
|------|--|---|
| (i) | Where the value of immovable property is recorded. | 2% of the recorded value |
| (ii) | Where the value of immovable property is not recorded. | Rs.50 per square yard of the landed area. |

4. **TAXATION OF PURCHASE OF SHARES.**

Previously, a registered stock exchange in Pakistan was obliged to collect Capital Value tax (CVT) at the rate of 0.01%, with effect from July 1, 2004, of the purchase value of any modaraba certificates or any instrument of redeemable capital as defined in the Companies Ordinance, 1984 (XLVII of 1984), or shares of a public company listed on a registered stock exchange in Pakistan transacted through its automated trading system in ready, future, provisional and any other counter(s). Now, the rate of CVT on aforesaid transactions has been enhanced from 0.01% to 0.02% w.e.f. July 1, 2006. A detailed procedure with respect to collection of said tax and submission of statement has been provided in Circular No.6 of 2004 dated July 1, 2004.

5. **WITHDRAWAL OF CVT ON PURCHASE OF AIR TICKETS:**

CVT was levied on purchase of air tickets for foreign travel @ 1.5% of the value of a ticket. This provision has been omitted w.e.f. July 1, 2006.

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