Islamabad, June 07, 2005. SEC and CBR had set up a Joint Task Force for formulating a corporate tax policy aimed at encouraging corporatization and a progressive development of the Corporate Sector. The Task Force submitted its recommendations in April 2005.

Simultaneously, SECP had also sought proposals from its regulatees for removing irritants and development of different segments of the corporate sector. The matters agitated were considered by SECP and the reasonable suggestions were recommended to CBR.

SECP has been in continuous dialogue on the changes recommended by SECP in order to further the cause of development of the corporate sector as part of the avowed objective of the Government to boost the national economy. Most of the recommendations of SECP in this regard have been accepted by the Government. SECP's recommendations, inter-alia included the following suggestions which have been included in the Finance Bill 2005 which has been laid before the Parliament on June 6, 2005:-

(1) Corporate tax rate for small companies has been slashed by over 50%. These companies are proposed to be taxed only at 20%. This would encourage non-corporates to convert into corporate entities.

(2) Withholding tax of 3.5% on supplies has been a major irritant as between corporates and non-corporates, particularly, in the same business. This withholding requirement is being abolished for small companies.

(3) Non-listed companies which decide to list their securities on a stock exchange and expand their shareholders base, would receive a tax rebate of 1%. It is hoped the bigger corporates

would use this as an encouragement for soliciting public participation in their securities.

(4) Losses on amalgamation have hitherto been allowed to be adjusted on amalgamation of companies in the financial sector. Henceforth, this adjustment would also be available to industrial undertakings. It is hoped this would encourage revival of sick units.

(5) Group relief has been available to companies in the industrial sector only. This concession would now be available to companies in service sector, as well.

(6) Capital gains on dealing in listed securities, are taxed in the hands of insurance companies although other investors are tax exempt in this regard. The disadvantage for insurance companies is being removed.

(7) Investment in Term finance Certificates upto the value of Rs. 150,000 would not attract any tax on the return paid on these certificates. This would encourage investment in these certificates and remove the disadvantage vis-à-vis National Saving Schemes.

(8) Limit of investment in Initial Public Offering by salaried persons has been increased form Rs. 100,000 to Rs. 150,000 to meet an outstanding demand for better participation in new offers of securities.

(9) There was loss of depreciation on cars with price exceeding Rs. 1 million. As many of the cars now cost more than one million, the ceiling on value of cars has been removed. This will help the leasing sector.

(10) Pension Funds registered with SEC would get benefits like tax credit to employees-contributions would be permissible upto Rs. 500,000 and tax exemption would be available to pension funds and Manager of these funds. This would ensure better regulation and management of pension funds.

(11) Capital gains of stock exchange brokerage firms shall not be taxed if they convert into corporate brokerage house upto 30-6-2006. Similar incentive given in the past has helped conversion of brokerage houses into corporate brokerage houses. Broker will take benefit of this facility.

The reforms aforesaid are subject to approval of the Finance Bill 2005 by the Parliament.