

**BRIEF COMMENTS ON COMPUTATION AND  
COLLECTION OF TAX UNDER SECTIONS 7C AND 7D  
(BUILDERS AND DEVELOPERS)**

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By Finance Act 2016 two new **Sections 7C and 7D** were inserted by virtue of which profits and gains of persons involved in the construction and sale of residential, commercial or other "Buildings" and development and sale of residential, commercial or other "Plots" initiated and approved after 1<sup>st</sup> July 2016 shall be taxed at fixed rates. No Tax Credit shall be allowed against the liabilities arising under this section.

Consequently, Section 113A and 113B which previously dealt with taxation of Builders and Developers as Minimum Tax is now been omitted.

Now, FBR vide its SRO, 787(I)/2016 has laid down the rules for computation and collection of Tax under the said section. Part Four in Chapter II of The Income Tax Rules, 2002 has been inserted to provide the functions and responsibilities of the authorities approving, suspending and granting cancellation.

Brief comments on the said rules are as follows;

## **DEFINITIONS**

For the purpose of the said rules the following definitions are to be used;

- Every responsible officer in any authority, cantonment, municipal corporation, District Officer and authority for approving the building or land development plans.
- Further, the rules now defines the definitions of Builders, Building, Developer, Inspector General of Registration.

## **RATES OF TAX FOR BUILDERS**

The tax imposed shall be computed by applying the relevant rate of tax to the area of the residential, commercial or other building being constructed for sale.

The tax rates are as follows;

<b>(REGIONS)</b>		
(A) Karachi, Lahore and Islamabad	(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	(C) Urban Areas not specified in A and B
<b>(For commercial buildings)</b>		
Rs. 210/ Sq. Ft	Rs. 210/ Sq. Ft	Rs. 210/ Sq. Ft
<b>(For residential buildings)</b>		

Area in Sq. Ft	Rate/Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft	Area in Sq. Ft	Rate/ Sq. Ft
Up to 750	Rs. 20	Up to 750	Rs. 15	Up to 750	Rs. 10
751 to 1500	Rs. 40	751 to 1500	Rs. 35	751 to 1500	Rs. 25
1501 & more	Rs. 70	1501 and More	Rs. 55	1501 and more	Rs. 35

## RATES OF TAX FOR DEVELOPERS

The tax rates for developers are as follows;

<b>(REGIONS)</b>					
(A) Karachi, Lahore and Islamabad		(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta		(C) Urban Areas not specified in A and B	
<b>(For commercial buildings)</b>					
Rs. 210/ Sq. Yd		Rs. 210/ Sq. Yd		Rs. 210/ Sq. Yd	
<b>(For residential buildings)</b>					
Area in Sq. Yd	Rate/Sq. Yd	Area in Sq. Yd	Rate/ Sq. Yd	Area in Sq. Yd	Rate/ Sq. Yd
Up to 120	Rs. 20	Up to 120	Rs. 15	Up to 120	Rs. 10
121 to 200	Rs. 40	121 to 200	Rs. 35	121 to 200	Rs. 25
201 and More	Rs. 70	201 and More	Rs. 55	201 and more	Rs. 35

## FINAL TAX LIABILITY

Taxes paid as above under section 7C and 7D shall be final tax liability on Builders and Developers under section 8 of the Income Tax Ordinance, 2001.

## ADVANCE TAX LIABILITY OF BUILDERS AND DEVELOPERS

Every authority as defined in these Rules shall collect **advance tax** from **builders** and **developers** at the rate of **five percent of the total liability (of tax u/s 7C & 7D)**, to be calculated as per applicable rates.

## **TAX U/S 7C & 7D TO BE PAID IN INSTALLMENTS BY BUILDERS AND DEVELOPERS**

Every builder and developer after obtaining approval from the concerned authority shall furnish to the Chief Commissioner an Approved Copy of the building plan / development plan or any revised plan, evidence of advance payment along with calculation of final tax liability, on the basis of rates as given above, of the project through online portal.

The chief commissioner shall issue within fifteen days, on online portal the schedule of installments of advance tax up to a maximum of four installments.

The duration of payment of (advance) tax shall commence from the date of issuance of NOC to sell till the date of completion of building / development project.

Builders and developers may opt to pay the liability in lump sum.

## **RESPONSIBILITIES OF BUILDERS AND DEVELOPERS**

### **Time Frame to Furnish Approved Plan for Schedule of Installments**

The builder or developer shall furnish to the chief commissioner an Approved Copy of the plan along with evidence of advance tax payment by the last day of the calendar month or within a week if approval is granted in the last week of the calendar month.

### **Time frame to furnish Tax Payment challans of installments paid**

The builder or developer shall furnish online, tax payment challan to the Chief Commissioner Inland Revenue, within one week of due date of the installment.

### **Builder and Developers are Withholding Agents**

The builder shall for all purposes be construed as a Withholding agent and shall deduct withholding tax at the applicable rates.

### **Builder and Developer not entitled to take Credit of any WHT collected under Final Tax Regime**

The builders and Developers shall not be entitled to take credit of any tax collected or deducted on the activity which falls under the ambit of Final Tax Regime.

*Disclaimer: Every care has been taken in preparing these comments. These are only brief comments for information without any recourse of liability on us. Contents of law must be referred before relying on these comments. Please seek professional advice before making any decision based on these comments.*



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