

## Prime Notes

### Deconstructing the PM's Construction Package

8<sup>th</sup> August, 2020

#### BACKGROUND

With the increasing population of the country, the need for housing units has also been increasing. While the current capacity of developers in the country is to deliver only 150,000 housing units per year, the actual demand stands at 350,000 new housing units per year.<sup>1</sup> This leaves a shortfall of 200,000 units each year. Given this demand and sectoral linkages of the construction sector, the Prime Minister Imran Khan announced a major package on the 10th July 2020, which has been warmly welcomed by all concerned stakeholders in the industry.

#### PM CONSTRUCTION PACKAGE – SALIENT POINTS

- Construction sector given the status of industry
- Mark-up on bank loans for houses up to 5 and 10 marlas would be 5 and 7 percent respectively
- On the construction of the first 100,000 houses, the government would provide a subsidy of Rs. 300,000/house
- State Bank of Pakistan and all other banks have to set aside 5 percent of their portfolios for house financing. This comes to about Rs. 330 billion
- Builders and developers offered a tax amnesty scheme
- Introduction of fixed-tax regime for construction sector
- Only 10% of fixed tax to be payable for those constructing houses under Naya Pakistan Housing Program
- WHT exempted on all construction related goods and services except steel and cement

#### COMMENT

As per Arif Jeeva, former Vice-Chairperson of Association of Builders and Developers (ABAD), the PM has constituted a high level cabinet committee, which meets with industry representatives on a weekly basis to inquire about hurdles faced in obtaining permits, and financing etc. Punjab Chief Minister Usman Buzdar has also announced that all approvals will now be granted within 45 to 60 days and the entire process will be online, including the payment for application processing.

While the package will not be sufficient in fulfilling PM's promise of 5 million houses for the less privileged, the key industry players are quite optimistic about its success in industry revival. As yet, the only foreseeable constraint seems to be the race against time. This amnesty scheme (PTI's second) expires in December 2020. Given that FATF is not willing to approve an extension in amnesty beyond this timeline, it seems unlikely that this deadline would be extended.

#### RECOMMENDATIONS

1. Since one condition of Tax Laws (Amendment) Ordinance, 2020 already provides that any other income of developer or builder shall not be taxed under fixed tax rather would be taxable under normal tax regime, the requirement of incorporating a new company or partnership should be done away with.
2. Existing companies should also be extended the benefit of the facility to avail tax-amnesty on new investments.
3. Necessary amendments in zoning, approval processes and height limits should be introduced.

Authored by



Shehryar Aziz

For comments:

[research@primeinstitute.org](mailto:research@primeinstitute.org)