

CAPITAL GAIN ON SALE OF SECURITIES

SECTION 37A

Section 37A:

Capital gain arising on or after first day of July, 2010 from disposal of securities held for a period of less than a year shall be chargeable to tax at the rate specified in Division VII of Part I of the First Schedule, Provided that this section shall not apply if the securities are held for a period of more than a year:

SECURITIES:

For the purpose of capital gain tax, Securities means share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital and derivative products.

HOLDING

Holding period of securities shall be calculated from the date of acquisition (whether

PERIOD:

Before or after the thirtieth day of June, 2010) to the date of disposal of such security falling after 30th June, 2010.

ADJUSTMENT

Adjustment of losses on disposal of securities in a tax year shall be adjustable only

OF LOSSES:

Against the gain from disposal of any other securities and such loss shall not be carried forward to a subsequent tax year.

CAPITAL GAIN:

Capital gain is taxed as a separate block of income irrespective of taxpayer's tax (exemption) status.

CGT ON BANKING COMPANY AND ON INSURANCE COMPANY:

Provision of Section 37A are not applicable to an insurance company and a banking company as CGT in these cases is governed under the provisions of Fourth Schedule and the Seventh Schedule to the Income Tax Ordinance 2001, respectively.

CGT BY COLLECTIVE INVESTMENT SCHEME/MUTUAL FUND:

As per Clause (103) Part I of the Second Schedule of the Income Tax Ordinance 2001 whereby exemption from CGT available to a collective investment scheme registered with SECP/mutual fund has been restricted only to the investment by such schemes/funds which are **debt** or **money market** funds. Thus CGT is now chargeable on the unit holders of such schemes/funds at the time of chargeable on the

unit holders of such schemes/funds **at the time of redemption of a security the unit holder and a collective investment scheme/mutual fund shall be responsible** to deduct tax (at the prescribed CGT rates as given below) on redemption of securities. Such tax shall be adjustable against the overall CGT liability and tax so deducted shall be payable to the relevant Commissioner Inland Revenue within seven days of its deduction

Advance tax on Capital Gains on sale of securities.

Advance tax on Capital Gains on sale of securities shall be payable on quarterly basis as under:

S #	Period	Rate
1	Where holding period of a security is less than six months	2% of the capital gain derived during the quarter
2	Where holding period of a security is more than six months but less than twelve months	1.50% of the capital gain derived during the quarter

The advance tax shall be payable within seven days after the close of each quarter and the Second proviso to sub-section (5) provides that these provisions will not be applicable to individual investor.

Rates of tax on Capital gain on sale of securities as specified in Division VII of Part I of the First Schedule are as under:

S #	Period	Tax Year	Rate of Tax
1	Where holding period of a security is less than six months	2011	10%
		2012	10%
		2013	12.50%
		2014	15%
		2015	17.50%
2	Where holding period of a security is more than six months but less than twelve months	2011	7.50%
		2012	8%
		2013	8.5%
		2014	9%
		2015	9.50%
		2016	10%
3	Where holding period of a security is more than one year	-	0%