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Revamping Real Estate Taxation in Pakistan: Prospects and Challenges

Dr Mahak Mansoor
Deputy Comisioner Inland Revenue
Department: Federal Board of Revenue
mansoormahak344@gmail.com

Abstract
This research paper aims to study, describe and analyze challenges faced in effective real estate taxation in Pakistan and reforms in this sector since 2017. It studies its progress in the province of Punjab. It substantiates the validity of such reforms by comparison of Pakistan to other countries. It elaborates their role in the documentation of the tax base. It will provide administrative and legal recommendations to counter its shortfalls.
Keywords: *real estate taxation, Pakistan*

1 Introduction

Real estate of construction and housing sector contributes 9% to total GDP of the country yet its tax revenue contributes less than 0.01% (State Bank of Pakistan, 2019). Pakistan has dismal 12% tax to GDP ratio (Harman et al., 2016). It has a large informal and undocumented sector approximately 70-90 % of GDP (Delmendo, 2019). Pakistan real estate sector estimated worth is $700 USD (Shaikh, 2018). Comprehensive tax reforms for real estate sector were introduced in year 2017 in Pakistan at both federal and provincial level. Federal level component included countrywide revaluation of real estate properties on Fair Market Values and reintroduction of capital gains tax. In provinces introduction of e-stamp duty and corresponding Information Technology infrastructure were major features. However, real estate market faced major slump in following two years due to over regulation and high rate of stamp duty (Delmendo, 2019).

This research aims to study through theoretical and empirical evidences both domestically by researches done in Pakistan and internationally how effective real estate tax reforms should preferably be undertaken. Through such study paper will look into the nature of real estate sector reforms required to broaden tax base in Pakistan and measures to counter its temporary negative effects on economy. After analyzing the evidences paper would provide recommendations of legal and administrative prerequisites and precautions to be put in practice to make any future real estate tax reforms more effective in Pakistan.

Not many studies have been conducted in past on real estate taxation in Pakistan as the matter is largely assumed to be a matter of local tax authorities. Real estate is the most neglected area in taxation due to pressure groups involved in housing authorities (State Bank of Pakistan, 2019). Cevik & Serhan (2016) describes importance of real estate taxation in Pakistan and its future revenue potential but does not recommend any effective methods for tax policies implementation. Piracha (2016) elaborates administrative aspects of Board of Revenue, Punjab only but its scope does not encompass the relationship of taxing real estate and its implications on overall economy. Moore (2015) also elaborates importance of effective real estate tax collection on overall GDP but it also does not elaborate any specific tax policies for Pakistan. Harman et al. (2016) describes the importance of up to date revaluation system for effective real estate transfer taxes in Punjab but only to finance local expenditure not as an effective tool to broaden tax base. Thus, previous researches done in this area do not encompass holistically integrated role of Federal and Provincial valuation and tax enforcement agencies in overall regulation of real estate sector in Pakistan. Furthermore, this paper will use data collected from Punjab Information Technology Board and will use e-stamp duty in Province of Punjab from years 2016 to 2019 as diagnostic tool to show effects of real estate tax reforms both on number of real estate transactions and on revenue collected. It will substantiate the validity of proposal for documentation of real estate as an effective mechanism for increase in tax base and bringing the wealthy into tax net.

This research is divided into five sections. Section one gives introduction of topic, methodology and research question. Section two deals with literature review of researches done in past both in favor and against the efficiency of transfer taxes across the world with their overall effects on economy. Section three deals with the description of problem that is the current system of real estate taxation in Pakistan and would draw comparable of this system with other developed and developing countries across the world. Section four provides recommendations, which are both administrative and legal in nature for successful implementation for such reforms in future. Section five would deal with conclusion.

This research is marred by limitation that area of real estate taxation in Pakistan is underdeveloped in literature. Empirical evidence of housing transactions post 2017 is unreliable in trend as it is too short a time to deduct any logical consequence. Attempts of surveys and interviews proved futile due to involvement of powerful stakeholders in this sector. Their biased views limited the scope of such an attempt. Thus, the research had to rely on theoretical discussion and descriptive statistics obtained from government agencies in Pakistan and other international organizations across the world and would follow qualitative methodology due to above limitations.

1.1 Research Question

1. How effective real estate tax reforms can be done in Pakistan and what benefits can accrue from their effective implementation?
2. Does real estate revaluation and taxation would enhance tax base in Pakistan?

2. Literature Review

1.1 Literature Showing the Importance of Wealth Taxation for Developing Countries

Wealth Taxes as described by (Wani et al., 2016) would provide for massive source of capital taxation. As they state that Punjab with population of 100 million generates lessor property tax revenue in year 2016 as compared to that of Indian city of Chennai with population of 10 million only. Their research focus local on benefits a province would have by expanding local real estate

tax base to fund local revenue expenditures but does not provide a holistic picture of how real estate taxation can be implemented effectively in the province.
Several other researchers have emphasized the effective valuation of real estate is prerequisite to better taxation. Carolini et al. (2020) elaborate the need for effective revaluation system by case study of Addis Ababa by latest GIS mapping. Grieco et al. (2019) in their research provides empirical evidence of success of implementation of area based valuation in 10 African countries e.g. Rwanda, Kenya, and likewise. They also provide evidence of successful implementation of point based property evaluation in Free -Town Sierra Leone. According to evidences, collected by (Norregard, 2013) 42 countries out of 121 OECD countries are following area based revaluation system. Their results show that 52 countries out of 121 are following fare market valuation system. But so far effect of introduction of uniform central real estate valuation system in Pakistan have not been studied.
On the question of whether valuation be of central government or local government function in developing countries, research done by Wanjira and Wilson (2019) states that due to limited administrative capacity and lack of coherence at local government level 10 out of 11 east African and central Africans republics have opted for centralized system of property valuations.
For importance of information communication technology (ICT) in restructuring real estate taxation research done by Franzen (2018) from data collected by 12 African states in which property tax is recently structured shows a high positive correlation. He states that good information and communication technology system in tax administration highly strengthen the efficiency of property taxes collected in his sample states.

1.2 Literature Showing High Transfer Taxes as Potential Cause of Tax Avoidance

A lot of researchers have emphasized importance of low and progressive rates of transfer taxes while restructuring of real estate reforms. (Franzen, 2018; Kelly, 2013) for researches done for International Monetary Fund and USAID respectively states that tax rates for transfer taxes should not be too high and should be of progressive in nature. They give empirical evidences from countries like India where high transfer taxes gave to way to tax evasion and avoidance.
Another area of discussion in real estate taxation is efficiency of transfer taxes vs annual rental taxes. It is stated by (Clements et al., 2017) that high transfer taxes like stamp duty taxes as much as 15% like that of Hong Kong creates “Lock in Effects” They depress the real estate sector so are less efficient than recurring annual rental taxes on Property.
Thus, lot of research has been done on real estate taxation across the world in developing countries but so far not much empirical evidence been collected from Pakistan. This is a gap this research aim to fill by seeing the theoretical application of above concepts in case study of real estate taxation of Pakistan also to describe how it can be used to enhance tax base in Pakistan.

3. Pakistan Real Estate Bubble and History of Tax Reforms

Pakistan real estate sector for years has been place of investment for illegal money and before 2014 was unregulated (Baig, 2018). It grew by 118% in last ten years and its least regulated in World with only 0.01% revenue contribution to GDP (Rashid, 2019). It was mostly a speculation business with 100 % rate of return (Rashid, 2019). In speculation business people buy great

number of properties at same time then sell them at very high profits all together. This created the "real estate bubble" especially after when real estate rates quadrupled (Rashid, 2019). After year 2001, real estate investments were facilitated by the Government and "no question" asked policy on source of money as foreign remittance led to very high investment in this sector (Baig, 2018). This led to rapid urban expansion, mushrooming of housing societies and on average 69% rise in prices of plots and houses in urban areas (State Bank of Pakistan, 2019). Real estate this way became a hub of black money investment (Rashid, 2019). This led to very wide gap between house demand and supply. With more than 50% urban population living in slums the 56% of the housing only targeted top 12 % of country's population (Baig, 2018). Though the sector was registering growth higher than 10% it was widening gap between supply and demand (State Bank of Pakistan, 2019). Due to very high rate of return business men also invested their retained earnings in real estate sector rather than manufacturing so other sectors of economy also started to suffer (State Bank of Pakistan, 2019). Furthermore, this sector did not contribute in revenue generation as due to very low land valuation rates called DC rates transfer taxes such as stamp duty was negligible (Jakvani, 2017). Secondly, real estate profit was not taxed as returns on capital investment. Thus, in 2009 real estate tax reforms started with double motive to regulate real estate bubble and to tax income from real estate as capital investment (Jakvani, 2017).
Finance Acts from 2009 - 2015 introduced various rates and holding periods of capital assets to compute capital gains tax of 10 % on income on disposal of properties being held less than five years (PWC, 2020). It was a first step towards recognizing gains of disposal of properties as return on capital investment. Federal Board of Revenue (FBR), Pakistan also introduced 2% Capital Value tax to be collected by buyer at time of purchasing a property. Provincial revenue authorities later became its enforcement agencies (Jakvani, 2017). These steps could not materialize in raising tax revenues due to very low official valuations of real estate properties being in practice also called Deputy Commissioner (DC) rates (Jakvani, 2017).
In year 2016 in Finance Acts in Federal and Provincial level important real estate reforms were introduced all across Pakistan. At Federal level two far reaching changes were made in law. First adjustable withholding taxes were at sale and purchase of immovable property to keep a track on transactions in real estate market. Secondly, revaluation of major urban units in Pakistan at par with market level was made an obligation of central government under Federal Board of Revenue instead of local authorities in provinces (Jakvani, 2017). On Provincial level especially in Province of Punjab for good land governance e-stamp duty was introduce to collect stamp duty tax (Jakvani, 2017). Those reforms are described in detail below.

2.1 Re-Valuation of Immovable Properties by Federal Board of Revenue, Pakistan

Property Valuation has been a major administrative issue with regard to real estate transactions. Since independence in 1947 it was decentralized among provinces which resulted in inconsistencies in evaluation due to lack of trained valuators, manual system and no uniformity of land rates. This lead this discretion to be left in hands of less educated "patwaris" or local land evaluators which would put "District Collector" rates also known as DC rates far below market rates to favor the client for less stamp duty (Baig, 2018). In 2017, government of Pakistan decided to make system of property valuation centralized and uniform in urban areas of Pakistan. Federal

Board of Revenue was given this responsibility and power of valuation was taken away from local governments (Baig, 2018). Federal Board of Revenue vide SRO 978 (I) 2016 Income Tax Rules 2002 issued procedure for asset valuation. It states that the fair market value of property will be the value used by FBR in its valuation tables. For this a special unit Director General of Immovable properties been created to create these valuation tables (Jakvani, 2017). Valuation was done on sales comparison approach by Zameen (2016) and market value average were taken by real estate giants like zameen.com, DHA Housing Authority rates, Bahria Housing Authorities (PKRevenue, 2020). In some areas valuations worked very well and they significantly broaden the tax base in some areas it stayed below the original market rates. However, this step created so much commotion in real estate sector as real estate valuation form a base of tax to be levied. When it increased taxes to be paid on purchase of real estate for example capital gain tax, stamp duty taxes and likewise taxes all increased. Thus real estate cartels resisted this move. The table below shows the official price in few main areas of city of Lahore before and after FBR valuations:

Table 1

Effects of Revaluations in Main Areas in Lahore

Sr. No.	Town/Tehsil	DC Rate per Square Marla in 2014 (in PKR)	FBR Rate 2019***	Percentage Increase or Decrease
1	Gurumangat Gulberg *	275,000*	522,000***	179
2	Saddar bazar Cant*	275,000*	667,200***	142
3	Cantonment Roads*	440,000*	976,800***	122
4	Old Anarkali**	325,000**	1,595,880***	391
5	Al Faisal town**	160,000**	825,000***	415
6	DHA phase 1*	962,000**	860,000***	-10
7	DHA Phase 5 *	962,000**	900,000***	-6.4

Note: Sources:* Cantonment Board Lahore, **The Punjab gazette 2014, ***FBR Pakistan

Empirical evidences find that in case of immovable property valuations central uniform valuation authority is more efficient than local bodies' valuation (Bird & Slack, 2002). The market based and point based valuation introduced by Federal Board of Revenue on locality, area occupied and construction is an ideal method of valuation for developing country like Pakistan. They used sales comparison approach to announce new DC rates. This method was suitable for rapidly developing urban centers where a locality one day is worth pennies and next day if some construction project announced is worth a million. This form of valuation system is prevalent in countries like China, Tunisia, South Africa, Latin America, UK where real estate price is constantly changing (Bird & Slack, 2002). Area base approach where fixed value is determined for every locality would not have been suitable for Pakistan as would put high burden on low income taxpayers. This approach is used in central and western Europe with developed real estate markets (Bird & Slack, 2002). Thus, establishing a central authority and rough method of valuation appropriate to cater needs of Pakistan real estate was a very important feature of 2017 reforms. This step fell short of expectations as no systemic formula was employed for formal revision of DC rates. That gave rise to criticism (Haider, 2021).

Many high profile cases especially on capital gains tax went in litigation but apex courts affirmed validation of valuations done by FBR. In case PTR no 205 of 2004 titled Tariq Ullah Sufi vs. the Commissioner of Income Tax Lahore, Lahore High Court in judgement on 12 October 2020 confirmed from year 2019 FBR rates at higher values will be the fair market rates and for assessments concerning years before that stamp duty DC rates will be taken as base level.

2.2 Documentation of Real Estate Transactions through e-Stamp Duty

Stamp duty is a provincial tax in Pakistan and is collected by Board of Revenue in each of the four provinces of Pakistan. It is collected under Stamp Act 1899.It is a transfer tax collected by local authorities on sale or transfer of property. Its value was 3% of the DC valuation of the real estate which was increased to 5% in Finance Act 2017. Before 2017 stamp duty was collected manually in every province and deposited in public bank on execution of stamp deed. It was not tracked by e-system. This was giving rise to massive fraud in real estate transactions. Thus in Punjab Finance Act 2017 e-stamping introduced in province of Punjab made the real estate transactions safe and secure. The project to digitize the stamp duty was given by board of revenue Punjab to newly created Punjab information technology board (Punjab Information Technology Board, 2020). It created a software with real estate mapping of province of Punjab by GIS mapping and introduced system of e-stamping. In this system DC valuation rate as given by Federal Board of Revenue is previously incorporated (Punjab land records authority, 2021). Therefore, the buyer of the real estate only has to download challan of the e-stamp called challan 32 from its website. It automatically calculate stamp duty tax and that has to be deposited in the Bank of Punjab. Only than the registrar of desired area transfers the property on name of buyer. Furthermore, Punjab Land Records Authority was set up through PLRA Act-2017 under the administrative control of the Board of Revenue was created to register e-stamp deeds and mutate the property in name of buyer in very short span of time.

Thus, by introduction of e-stamping in Province of Punjab first time ever name of seller, buyer, their registration numbers, description of property were properly documented. After Punjab Sindh revenue board followed suit for automation of stamp collection.

This aspect of reform though on one hand was appreciated in real estate market due to making real estate transactions safe and secure, simultaneously on other hand it became a subject of criticism. This happened as FBR revised DC rates upwards for whole country in 2017 and simultaneously rate of stamp duty was increased to 5%. Thus, real estate buyers faced a double jeopardy and significantly higher transfer taxes. As real estate market is a speculation market mostly in Pakistan with such a documentation measure the real estate market country wide faced a recession.

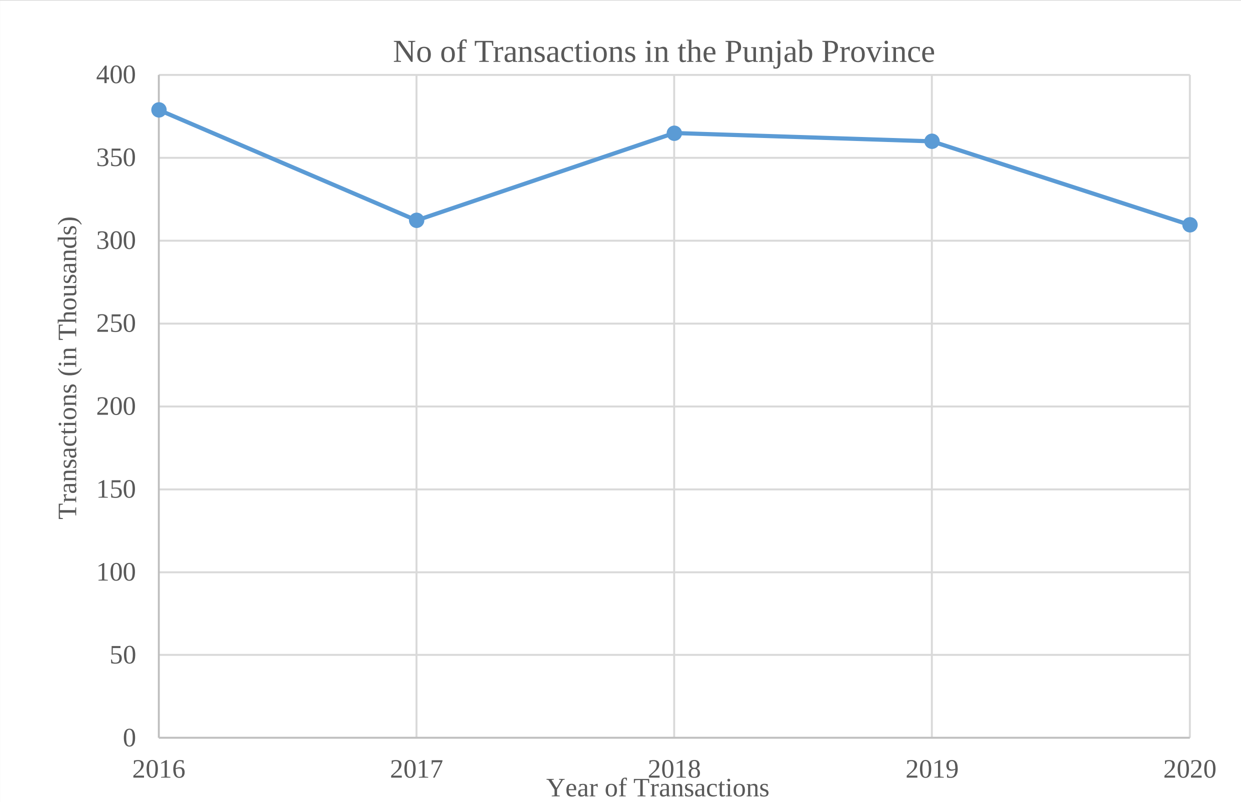
Currently, Federal Board of Revenue has only been appointed as a valuation agency of country wide real estate properties. Transfer taxes collection for example stamp duties and capital value tax is job of provincial board of revenues. FBR is only responsible for enforcement of Federal taxes on real estate for example capital gains tax. Income tax return in Pakistan is filled under voluntary self-declaration. FBR ICT system is not integrated with provincial ICT system to monitor real estate transactions. In Pakistan in population of 230 million only 3 million individuals are registered with FBR as filler (GEO, 2020). Thus, this research will study e-stamp duty is adopted as a diagnostic tool to study real estate transactions in Province of Punjab in aftermath of 2017 real estate tax reforms below.

1.1.1 Impact of Reforms in Number of Real Estate Transactions and Stamp Duty Collection in Province of Punjab – a Case Study

In Punjab, it is observed from Figure 1 below that in first year after introduction of reforms the real estate transactions experienced dip of 17.6%. Next year as compared to 2017 it started regaining the pace with 16.9 % increase but even after introduction of amnesty in year 2020 real estate transactions stay comparatively low as compare to base year 2016. Overall as compared to 2016 real estate transactions on average has fallen 11.4% in five years.

Figure 1

Overall Real Estate Transactions in Punjab Involving Consideration



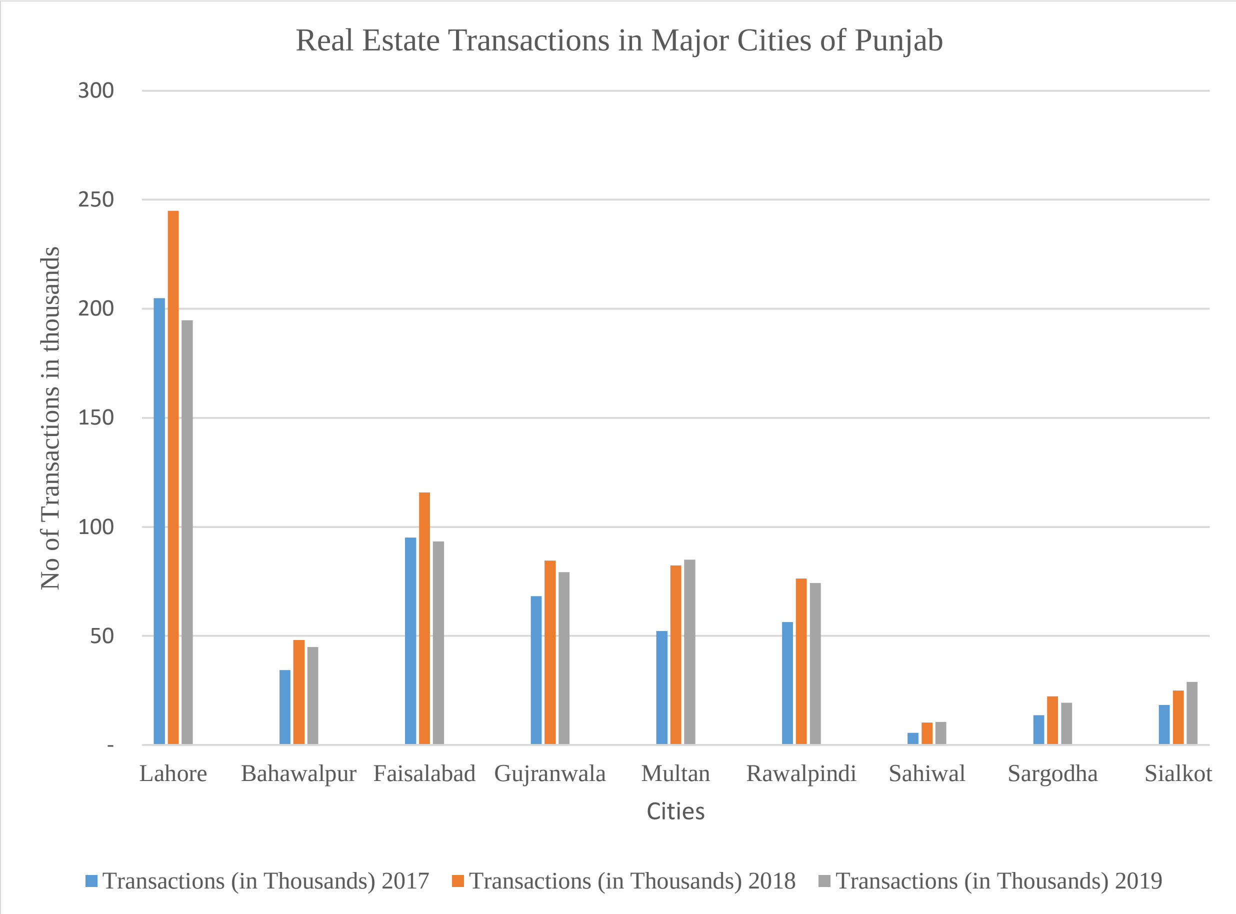
Note: Source was from the Punjab Land Records Authority

1.1.2 Graphs Showing Transactions in Major Cities of Punjab

It is clear from graphs below that number of transactions in major cities of Punjab had major fall due to new reforms introduced in tax year 2017 but in a year as FBR new valuations were not done in initial round towards higher side than market slowly regained the trust of buyers and year 2018 show increase in net amount of transaction. However, since FBR re-valuated properties with 15 % high coupled with high burden of taxes the real estate transaction again falls but revenue shows considerable rise. The reason why property transactions severely dipped was due to the fact that all property taxes (introduced by FBR in 2014) increased significantly as the taxes were now calculated on the (substantially higher) FBR rates. Additionally FBR raised the taxes Federal Budget 2016-17. The Capital Gain Tax (CGT) was revised. The Withholding Tax (WHT) were doubled. Also revaluation was done by FBR. However, consensus of that time was that FBR only increased DC rates in majority areas by 20%-30% but in some areas more than 100% on very arbitrary principles. This led to major slump in real estate market.

Figure 2

No of Transactions in Major Cities of Punjab



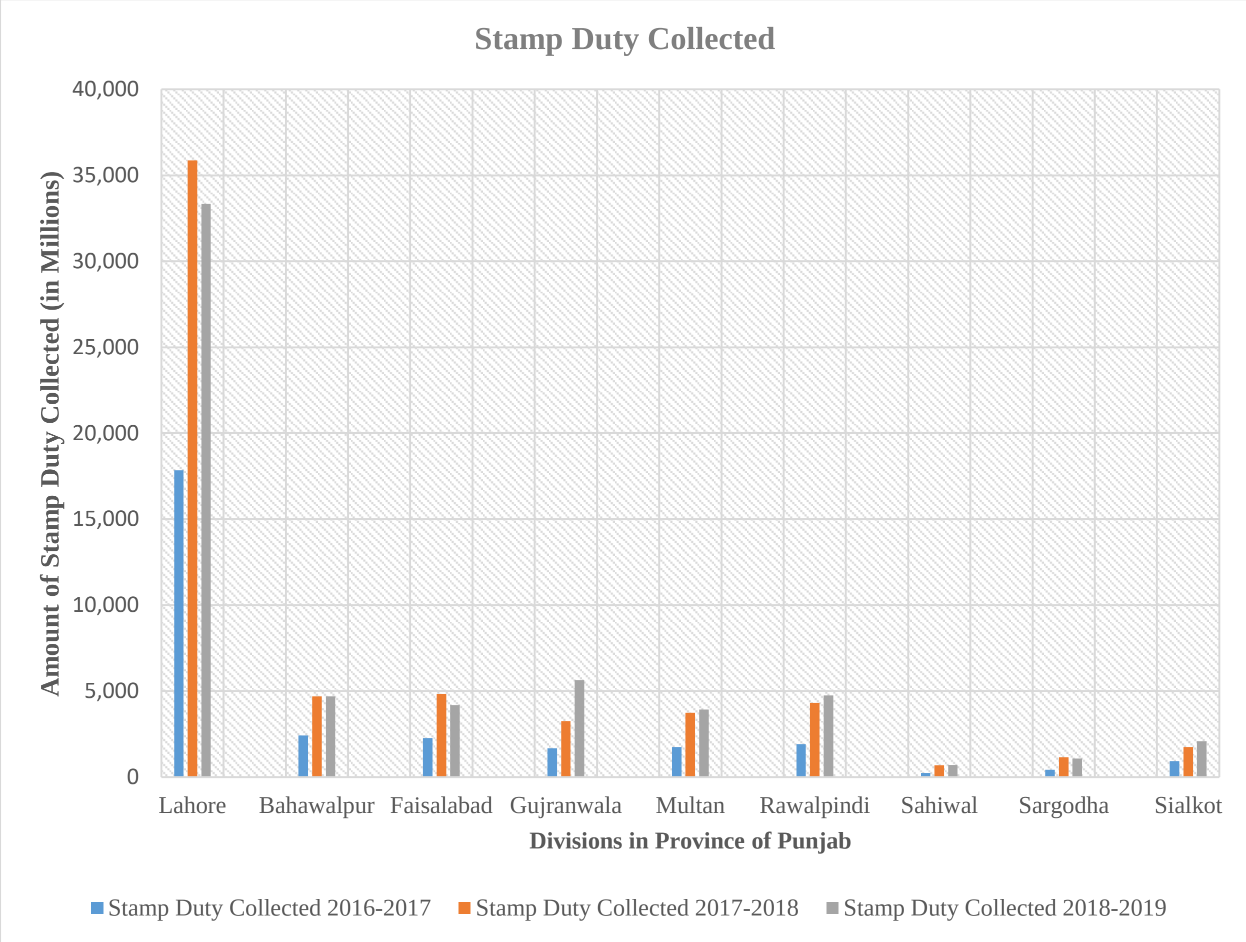
Source: Punjab Information Technology Board (PITB)

1.1.3 Effect on Revenue Collection of Real Estate Tax Reforms

Figure 3 below takes year 2017 as base year of comparison when reforms were announced. Analysis of trends of stamp duty data showed in year 2018 and 2019 stamp duty revenue has increased on average 105% in districts in Punjab. It is due to new increased Dc rates of valuations been introduced province vide with effective documentation of e-stamp duty. Even though transactions of real estate have registered, a major decline in province of Punjab stamp duty collected is still on the rise. This shows that even though new revised DC rates are significantly below market level yet they have contributed to millions of rupees to the public exchequer.

Figure 3

Stamp Duty Collected in Major Cities of Punjab



Source: Punjab Information Technology Board (PITB)

2.3 Comparison of Pakistan with Other Countries

Table 2 shows typology of real estate transfer taxes in six European Union states before year 2016 as compared to Pakistan. Comparison with European Union states have been done as these countries have very effective wealth taxation mechanism in place. Comparison with India and China is done as these countries have recently revamped their real estate taxation sector and are still in process to do so. It is clear from table below when revaluation of immovable property is role of central government in all other states, in Pakistan before 2016 it was work of local government and very obsolete DC rates were in practice. In all six countries below real estate rates are revaluated every ten years to be at par with current market rates on average. In Pakistan though DC rates revaluation law was passed in 1999 but no significant change was made. Also real estate valuation system of different provinces followed arbitrary pattern with values extremely lower than the prevalent market values (Jakvani, 2017). It is evident from the table below that uniform central real estate valuation is International Best practice in countries with developed Wealth taxation systems. Transfer taxes are among most well developed and old taxes in countries below:

Table 2

Comparison of Pakistan Real Estate Administration with Other Countries in 2014

Sr. No	State	Tax	Provision	Applicable rate set by central govt.	Applicable rate set by local govt.	Taxpayer is the buyer	Taxpayer is the seller	Tax base= transaction value	GAAR and Anti-abuse rules prevalence
1	Belgium*	yes	yes	yes	no	no	yes	no	no
2	Denmark*	no	yes	no	no	no	no	yes	no
3	Germany*	yes	no	yes	no	yes	yes	yes	yes
4	France*	yes	no	yes	no	yes	no	yes	yes
5	Italy*	no	yes	yes	no	no	no	no	no
6	United Kingdom*	yes	no	yes	no	yes	no	yes	yes
7	China***	yes	yes	yes	no	yes	No	yes	yes
8	India**	yes	yes	yes	no	yes	no	yes	yes
7	Pakistan	no	no	no	yes	yes	no	no	no

Sources: (Director General of Custom and Taxation Europeon Union, 2014)*, (Senguppta, 2017)** (Zhi Liu, 2020)***

Furthermore, comparison of transfer tax rates of Pakistan with six EU states as were in 2014 including United Kingdom before it's exit from European Union are given in Table 3. Pakistan so far has one of lowest rates of transfer taxes as its real estate has never been regulated before. Denmark does not have a transfer tax but annual property tax and its valuation of real estate is done every year by SKAT thus making tax incidence very high already.

Table 3

Comparison of Real Estate Transfer Taxes of Pakistan with other EU Countries in 2014

Sr. No	State	Withholding tax rate (possession)	Minimum dwelling	Transfer tax	Valuation	Exemptions
1	Belgium*	0.29-0.4%	€ 190,000	8.5-12.5%	Centrally	none
2	Denmark*	0.1-0.3%	DKK 3,040,000	None	annually by SKAT	none
3	Germany*	0.03%	€ 192,000	3.5-6.5%	Done every 10 years	yes
4	France*	n/a	n/a	5.09%	FMV	none
5	Italy*	n/a	€ 159,000	2.1-9%	FMV	none
6	United Kingdom*	1-4% annual rent	£ 125,000	1-15% progressive slabs	FMV	yes
7	Pakistan	1-15% annual rent	none	3%	Old DC rates since 1950s.	yes

Source: Director General of Custom and Taxation Europeon Union, 2014*

Capital gain tax on other hand is not an old concept in many commonwealth countries but recently been started from 1980s onward on progressive rates. Capital gain tax attracts criticism due to two effects on local market as shown by empirical evidence, namely "Bunching effect" and "Lock in effect" (Senguppta, 2017). These effects observe that capital gain on disposal of capital asset is similar to returns gained on investment. Tax on capital gains decreases the return by giving a share of such profit to public exchequer. Hence experts fear such taxes can be dangerous for investment as people will try to invest in avenues with less tax and more return on investments. Hence, this is the reason capital gain tax on Land is mostly recently introduced e.g. in 2009 in Pakistan and 2017 in India (Senguppta, 2017). Capital gains tax is introduced as progressive rates for short holding period for 1 to 5 years so the amount being taxed is actually an investment. It is not levied on old investments keeping inflationary trends in sight. India along with introduction of Capital gains tax, also introduced section XA in income tax statute 1961 giving state a right to buy undervalued properties to limit black money investment (Senguppta, 2017). However due to increased litigation involved it became impossible for state to acquire any undervalued property as stated in Section XA. Then Indian Tax authorities introduced section 50 C in their income tax statue, giving tax agencies power to make assessments at prevalent market rates. It introduced concepts like "indexed cost of acquisition" and general anti avoidance rules (GAAR) in year 2017 to counter such non-arm length transactions in real estate (Senguppta, 2017). India further introduced real estate regulatory authority named as its acronym RERA to facilitate real estate transactions for investors and monitor a state check at construction authorities (PWC, 2021). It has greatly facilitated the real estate sector both as an investment sector and for monitoring of big developers for tax purposes. Such authority is also in pipeline in Pakistan.

A recent study by Zhi (2020) on China, another Pakistan's strategic neighbor describes the introduction of massive nationwide real estate registration and tax reforms in year 2014. It states that since 2014, China has undertaken massive assessments to reevaluate its 661 municipalities on area based land value capture (LVC) Instruments. It has used mixed approach of market and area based valuations to revalue both urban and rural municipalities. It has also kept exemptions of no transfer cost for purchase residential property below 90 square meter. It also gives exemptions to self-occupied owners by taxing their stamp duty liability to half. Furthermore its transfer tax slabs ranges from 2 -5 % progressively. Thus, it has introduced very balanced reforms since 2014 to document private ownerships and raise municipal tax from their transfer. Thus, whole world in wake of rapid urbanization is inching towards real estate taxation reforms and its regulation. This is due to fact that tax is progressive in nature and only target the top elites.

United Kingdom underwent recent stamp duty and valuation reforms in year 2013.The stamp duty tax became stamp duty land tax to be charged progressively from 0 to 15% (Director General of Custom and Taxation Europeon Union, 2014). In those reforms, central government was competent authority for market rate revaluation and collection. Furthermore, UK introduced GAAR in same year to counter tax avoidance on wealth taxes (Director General of Custom and Taxation Europeon Union, 2014). In year 2020 Stamp Duty Land Tax was also levied at progressive rates at non-residents investing in United Kingdom thus also bringing their investments in tax net (GAAR, 2021). Tax on real estate comes under wealth taxation in UK. It is collected in ambit of various heads for example gift tax, inheritance tax, stamp duty tax, tax on capital gains and tax on off shores investments of UK residents (GAAR, 2021). Each income head of wealth taxation has comprehensive rules, progressive tax rates, specific exemptions. Moreover, general anti-tax avoidance rules (GAAR) has its ambit over all such wealth taxes. Pakistan as compared does not have inheritance tax as income tax. Thus, it can only observe the implementation practices of stamp duty tax, capital gains tax and tax on non-residents on investments in real estate sector from tax statute of HMRC UK.

2 Recommendations

3.1 Standardized Revaluation System of Immovable Properties Countrywide at Par with Market Rates

Correct property valuations are key to improve under documentation of real estate transactions. This is the most important area to revamp on definite formulas based on International best practices so tax avoiders will not be able to reduce their tax liabilities and conceal wealth. This is because all taxes are levied on percentage of the amount of consideration received or exchanged as value of the property. World Bank has also included real estate updated valuations at par with market value as the most important tool in Land Governance Assessment Framework (Haider, 2021).

Thus, if the value of consideration is understated than all taxes to be levied henceforth on it,namely capital gains tax, stamp duty, withholding tax are ad valorem reduced. Thus, the value of real estate is actually the base of the real estate tax. The formula below given by (Wani et al., 2019) shows the importance of well calculated real estate value as a sound tax base:

Land tax base = (Registered tax base - exemptions) ×taxable value of valuation × tax rate × tax collection

In year 2017 FBR was granted a role to train expert valuators to re –valuate nationwide real estate. Than due to lack of resources and shortage of time it revalued prevalent provincial DC rates from market information based on sales comparison approach from private real estate companies like zameen.com and inputs from regional tax offices of major cities to get to know how of prevailing market prices. Also due to public uproar and fear of market crash first revaluation rates by FBR were kept significantly below the real market rates. Three valuations has been revised upward so far since 2020 by FBR. In addition, Punjab government has also revised DC rates in year 2018. The table below from urban area of Lahore Cantonment shows on average prevalent FBR rates are still on average 50 percent lower than prevalent market rates:

Table 4

Current Prevalent DC Rates in Lahore Cantonment as Compared to Market Rates 2020

Sr. No	Area	DC rates and FBR rates per Marla (in thousands)					Market rates	Difference
		2014	2015	2018	2019	2020		
1	Cavalry ground	450	495	520	710	770	1,785	57%
2	Gurumangat Gulberg	312	345	340	475	506	3,500	86%
3	DHA 1	525	575	600	875	962	2,000	52%
4	DHA II	462	575	520	875	1100	2,000	45%
5	DHA III	462	687	710	1,000	1375	2,000	31%
6	DHA IV	462	480	490	1,250	825	2,000	59%
7	DHA V	437	400	350	875	962	3,000	68%

Source: Cantonment Board Lahore, 2020

The cause for FBR rates to be 15 % lower than prevalent market rates in SRO 978 (i)/2016 has given to give room for any initial shock to real estate. But due to random process of market information gathering the real estate rates despite three successive valuations have not been taken at par with market. Another reason for this is resistance by Provincial apex courts. In directions given by Sindh High Court in 2019 to FBR it was categorically stated to revise the valuations for cities of Hyderabad and Sukkur at lower side to avoid trouble for consumers.

Real estate valuations in developing countries is an important topic. Five methods are normally used namely cost approach, income capitalization approach, sales comparison approach, value per gross rent multiplier and value per door approach. In research done by Grieco et al. (2019) in Sierra Lone they emphasize a unique point based system been introduced. It mixes area based valuations plus costing the material used in building the residential and commercial place and valuation is done accordingly. Carolini et al. (2020) describes in recent case study of Ethiopian capital Addis Ababa how a German company Hansa Luftbild was awarded a contract to geo map, document, digitize the property information system and their values were re-valuated on annual rental system. This work of remapping has successfully been done by Punjab Information Technology Board in Punjab only. Other provinces in Pakistan are following suit. However, liaison between provincial authorities and central authority like FBR is lacking. The revaluation of properties has to be done centrally, under one authority, uniformly with trained staff and definite formula for valuations to decrease legal impediments.

Second most important issue along with revaluation is of multiple level taxation in form of transfer taxes, recurrent property taxes, advance taxes on sale and purchase. It was proposed in 2016 when revaluation clause was introduce that in wake of new property rates all the transfer taxes that amounted to 6% percent of property than be lowered to 1%. However, it was not implemented in 2017 and transfer tax rates remained high. Various researchers among them Franzen (2018), Kelly (2013), and Blochliger et al. (2015) state that high real estate taxes contributes to tax avoidance behavior in tax payers and reduce the number of real estate transactions. The same has been observed in Province of Punjab in previous section. Thus, the transfer tax rate was finally brought down for three years at 1% in amnesty 2020 in construction sector with a disadvantage the source of investment could not be revoked.

Thus, to stabilize and document the real estate sector there should be central authority responsible for effective market level uniform valuations throughout country, the taxes on transfers should be kept low to encourage people to invest in real estate sector and trained valuators should be appointed to carry out valuations on internationally accepted valuations model.

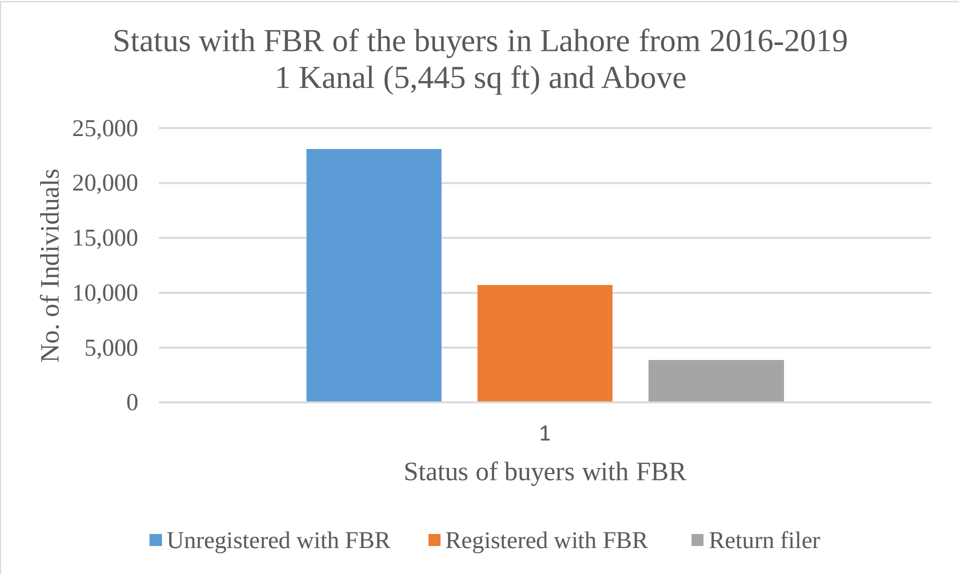
3.2 Federal and Provincial ICT System Liaison for Effective Documentation

According to Mclussley et al. (2019), weak administration is core of weak real real estate documentation. They studied recently installed Information and communications technology softwares instituted in four african cities of four different countries namely Arusha (Tanzania), Kiambu (Kenya), Kitwe and Ndola (Zambia) for real estate documentation and taxation. They deduced that such ICT systems significantly improved tax collections as empowered administrations as effective monitoring and enforcement tool. In Pakistan, post 2016 real estate reforms geo mapping of real estate was started by Punjab Information Technology Board (PITB) but not in remaining three provinces. In Pakistan absence of liasion between ICT system of provincial and federal level is major administrative lacuna. Income tax return filling in Pakistan is based on voluntary self declaration scheme. Thus, there is no way for Government to track the transactions between buyers and sellors of real estate countrywide.Witholding taxes introduced under section 236 C and 236 K of ITO (2001) are heavily dependant upon witholding agent i.e. housing society to deposit to FBR. Thus, on Federal Level in Pakistan there is no direct way to track the transactions in real estate sector and to monitor sources of income of buyers and sellors of the properties. Monitoring of real estate transactions has become possible at provincial level as shown by data from PITB punjab by introduction of e-stamp duty and is in process to be systemized in other three provinces. That is the only authentic way to monitor real estate transactions for capital gains tax, to audit source of taxpayer wealth and likewise. Currently, ICT system of Federal tax agencies is not integrated with those of provicial tax agencies. They are heavily dependant on old system of manual data sharing. Their integration and liasion of federal and provincial agencies on automatic exchange of data of taxpayers will be fruitfull to both the agencies in the long run.

In pilot project carried over district Lahore, in Punjab by FBR by data from year 2016 till 2019 of e-stamp duty obtained by PITB analysis of one canal and above properties of district Lahore was carried it. It was revealed out of 142,655 transactions complete information (national identity number) was available for 33,814 individuals. Out of these 33,814 entries 23,092 individuals were found to be Unregistered with FBR, owning land area (ranging from 1 to 911 Kanals each) in District Lahore. Out of the 10,723, Registered land holders/ Individuals, 3,864 did not file their tax return and were referred to their respective tax offices for return enforcement. Among the 3,864 non filers average size of holding of every transaction was 18.6 kanal (101,277 sq ft.). Thus to summarize only 32% of individuals in Lahore were found to be registered with Federal Board of Revenue and among them only 36% of individuals filed their tax returns.This is shown by Figure 4.

Figure 4

Registration Status of Real Estate Buyers with FBR in Lahore from Tax Year 2016 - 2019



Source: Punjab Information Technology Board, 2020

The case study above shows the importance of ICT system integration between federal and provincial level for broadening of tax base.Without the system integration at Federal and Provincial level, data of stamp duty transactions at provincial level will not be audited at Federal Level to detect non-filers and to invoke source of investments in real estate. Also, for provincial tax authorities, integration of taxpayers data will facilitate their collection of agriculture and other land related taxes. Thus, ICT system integration would greatly benefit tax enforcement of land revenue between revenue authorities of Provincial and Federal level in Pakistan.

3.3 Need for Introduction of General Anti-Tax Avoidance Laws (GAAR) in Income Tax Statute of Pakistan

In Finance Act 2017 section 230F is inserted in Income Tax Ordinance, 2001 of Pakistan for creation of Director General of Immovable Properties (ITO, 2021). Director General of Immovable properties has been empowered to re-characterize any transaction within six months of its origin, if lacking economic substance and done below fair market value, as done for tax concealment or avoidance. In addition, it can appoint trained valuators to determine true value of such transactions and can charge it as either tax concealment or can acquire such a property on behalf of Federal Government (ITO, 2021). Furthermore, Benami Transaction (Prohibition) Act 2017 empowers Federal Government to confiscate properties acquired at fictitious names and to adjudicate such cases under jurisdiction of special courts (Benami Transaction Prohibition Act, 2017).

The above two new additions in statue gives wide powers to the FBR to audit sources of real estate investments. But, FBR fell short to reap advantage of such legislature due to its lack of enforcement logistics to catch such investments. It has been traditionally observed in FBR in past that creating too many directorates and overlapping legal statutes adds to confusion of not only the tax authorities but also of taxpayers and increases possibility of tax case going in litigation in apex court for years. The problem with above legal insertions in act have been that they are too generic and in presence of high tax rates, low administrative capacity of FBR and lack of ICT system integration such laws would only facilitate tax avoidant behavior of tax payers. Secondly, the above two laws has their base mainly in tax evasion and malafide attention.Clause of Federal government acquiring an undervalued transaction property was also introduced in India in 2016 but could not bring fruitfull results (Senguppta, 2017).The newly revamped taxation of real estate need general anti avoidance rules (GAAR) for taxation at both Federal and Provincial level taxation agencies to check tax avoidance in cases of capital gain tax,stamp duty, income tax instead of addition of many confusing and overlapping clauses in income tax statute 2001of Pakistan.

GAAR is based on a premise that tax collection is principle mechanism of state to fund its services and every individual is liable to pay due tax not to avoid it (GAAR, 2021). GAAR is successfully implemented in 34 countries in the world and generally, covers the provisions needed to re-characterize transactions done for tax avoidant purposes that can otherwise may not be charged in their absence (Senguppta, 2017). Income tax law of Pakistan currently has numerous tax exemptions e.g.in sphere of gifts and inheritance of immovable property, time limitation in capital gains tax and so forth. Furthermore, both Federal and Provincial tax authorities have low administrative and enforcement capacity to detect every tax evasion and avoidance. This combined with slow appellate system, ambiguity in tax law with numerous exemptions exacerbate the need for introduction of comprehensive GAAR Act as part of legal tax statute (Matsuda,2015). It will facilitate both tax authorities and taxpayers in understanding of transactions that falls within the legal taxable limits.

However, since the real estate taxation in Pakistan is in its earliest days of legislation and documentation thus along with a comprehensive general-anti tax avoidance legal statute it is desirable to keep transfer taxes rates low and keeping current exemptions and tax concessions in place. This is to increase tax compliance among taxpayers and to provide them with incentives to voluntarily be a part of tax net and avoid tax avoidant behavior. High tax rates increase tax avoidant behavior (Norregard & John, 2013). Thus, in initial stages and based on sample data from province of Punjab where since introduction of 2017 reforms where real estate transactions are continuously on decline and despite of tax amnesty scheme of construction sector in year 2020 significant rise in transactions has not been observed. This research paper recommend for keeping low transfer tax rates, keeping tax exemptions on real estate transactions in place but introducing a comprehensive form of GAAR in tax statute. This will help to encourage tax compliant behavior in real estate sector and with lower taxes and tax credits available in transfers of immovable property its documentation for effectively increasing tax base and its regulation will be easier keeping in view same administrative and enforcement constraints of Federal and Provincial revenue authorities

3 Conclusion

This research studied the need for effective real estate tax reforms in Pakistan. Pakistan had a problem of not taxing real estate equitably. Lately, major reforms in this sector were undertaken in the year 2017 namely central valuation system under FBR and introduction of digitized stamp duties for the good governance of land. Simultaneously tax rates were also increased and many new acts were introduced to tackle tax evasion in real estate. This all ended in the effect of a major slump in the real estate sector. This research paper on one side suggested reforms of revaluation based on effective scientific methods and integration of ICT systems in various tax enforcement agencies on the other hand it recommended low tax rates and ease of transfer taxes for increased voluntary tax compliance on tax payers side. Thus, real estate is a very important part of Pakistan's GDP. Its taxation adversely affects its investments. Thus, it has to be done with a balance not only to effectively document it but also to regulate it in an amicable manner. For reaching such a conclusion real estate taxation system of Pakistan was compared with other countries namely those of the European Union who have a significantly strong system of wealth taxation in place and then with India and China who are currently struggling to place an effective wealth taxation system in their respective countries. Furthermore, the effect of current reforms of real estate in the year 2017 was studied making stamp duty as a diagnostic indicator. Analysis of data clearly showed where effective real estate valuations can significantly increase revenue collection on other hand very high transfer tax rates can reduce real estate transactions. Various empirical evidence of other authors and cross-country comparisons also supported it. Moreover, the research paper emphasized the need for a strong integrated ICT system in place for effective documentation. By doing so it's the first comprehensive study done on the latest real estate tax reforms in Pakistan with original data from the Punjab Information Board of Technology. In times when Pakistan has become a part of one belt one road initiative and when foreign real estate investments are expected to come into the country, effective real estate regulation mechanisms are required to be in place to reap revenue benefit of such investments as well as documentation of current wealth structure in an attempt to bring high net worth individuals in the tax net and making country's taxation system more progressive.

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