

March 15, 2021

Dr. Abdul Hafeez Shaikh,
Minister for Finance and Revenue,
Ministry of Finance,
Pakistan Secretariat,
Islamabad.

Dear Doctor Sb,

PROPOSED REMOVAL OF CLAUSE 103C OF PART I OF THE SECOND SCHEDULE TO THE ITO 2001

In today's highly competitive global economy, one of the major determinants of success is the size of an entity. Size allows companies to compete on scale, product sophistication and innovation by allowing them to attract financial and human capital. In Pakistan there is also the need for family-owned businesses to infuse fresh capital from a wider set of investors, thus helping the development and democratization of the capital market.

To promote the scaling up of Pakistani entities to enable them to compete, both in the global as well as domestic markets, the Finance Act, 2007 introduced the concept of Holding Companies. Changes were made in the tax laws by introducing Section 59AA which relates to Group Taxation and Section 58B which relates to Group Relief. Additionally, Clause 103A was inserted in Part I of the Second Schedule to exempt from withholding tax, inter-corporate dividends paid within Group Companies.

In the fourteen years since the passage of the Group Company Laws in 2007, there has been a significant shift towards scaling up through the process of consolidating group entities under a holding company structure. Pakistani companies operating under Group structures have in the recent past started participating in international joint ventures and making standalone global investments. It has also enabled them to diversify into new sectors, leveraging the parent company's standing and reputation. Banks and lenders are as a consequence able to take a differentiated risk exposure depending on the sector that such groups venture into.

The Pakistan Business Council (PBC) views with concern media reports that the Government is considering the withdrawal of Clause 103C of Part I of the Second Schedule to the Income Tax Ordinance 2001. The exemption currently provided under Clause 103C to the taxing of intercorporate dividends has helped in the consolidation and scaling-up of Pakistani businesses. Any change now in the tax laws is likely to negatively impact investment decisions, especially at a time that the government is looking for growth.

We would therefore request that Clause 103C of Part I of the Second Schedule to the ITO 2001 be left unaltered in the larger interest of the Country.

We are available in case you require any clarification of the above.

Yours faithfully,



Ehsan Malik