

## Tax Framework for Mutual Funds in Pakistan

This document addresses the tax framework applicable to mutual funds and Collective Investment Schemes (“CIS”) in Pakistan, as outlined in the Income Tax Ordinance, 2001. It provides a summary of the current tax treatment for various categories of mutual funds and related investment vehicles, including Real Estate Investment Trusts (“REITs”), Pension Funds, and Specialized Funds such as Islamic, Money Market, Index, and Commodity Funds. Additionally, it outlines key exemptions available under the Second Schedule.

### Key Provisions and Exemptions

This document specifies statutory provisions that offer exemptions or tax relief, particularly under Clauses 99, 99A, 99B, 103A, 103D, 23A, and 23C of Part I of the Second Schedule, along with Section 63, which provides tax credits for pension fund contributors. It further specifies the conditions necessary to qualify for these exemptions, including requirements for minimum accounting income distribution.

### A. Exemptions and Tax Relief:

#### 1. Mutual Funds/CIS Under Clause (99):

Income generated by a CIS, including both open-ended and closed-ended mutual funds, is exempt from tax if:

- At least 90% of its accounting income (excluding capital gains) is distributed to unit or certificate holders in cash.
- “Accounting income” refers to income calculated based on generally accepted accounting principles, verified by auditors.
- This exemption also applies to closed-end funds regulated under SECP’s NBFC & NE Regulations, 2008.

#### 2. REITs:

Income from REIT schemes is exempt from tax if at least 90% of accounting income is distributed.

#### 3. Capital Protected/Capital Preservation Funds:

Classified as CIS and eligible for tax exemption under Clause (99) upon meeting the distribution requirement.

#### 4. Shariah-Compliant Funds/Islamic Mutual Funds:

Structured as CIS and qualify for tax exemption if they distribute 90% of their accounting income.

#### 5. Money Market Funds:

Exempt under Clause (99) if they satisfy the distribution requirement.

#### 6. Index Funds/ETFs:

Treated as CIS and qualify for an exemption under Clause (99) with proper distribution.

## 7. Commodity Funds:

If structured as CIS and compliant with distribution rules, they are eligible for an exemption under Clause (99).

### Additional Relevant Clauses:

- **Clause (99B):** Exempts income of a Special Purpose Vehicle (SPV) acquiring Diversified Payment Rights (DPRs) from authorized dealers in Pakistan.
- **Clause (103D):** Provides a ten-year tax exemption on dividends and long-term capital gains for venture capital funds investing in enterprises licensed under the Special Technology Zones Authority Act, 2021.
- **Clause (57):** Exempts income from Voluntary Contributions, House Property, and Federal Government Securities, applicable if 90% of the income is distributed among unit/certificate holders, with certain public participation criteria.

It is important to note that although these funds may be exempt from taxes, any distributions made to unit holders from such exempt incomes will incur a 25% withholding tax.

## B. Withholding Tax Rates Overview

The document concludes with a comprehensive overview of the relevant tax rates for the mutual funds industry. This includes the taxation of profit on debt, dividends, capital gains, and pension contributions, as governed by the Income Tax Ordinance, 2001, along with any amendments introduced by the Finance Act, 2025.

### 1. Taxation of Profit on Debt:

Profit on debt is taxed differently depending on the instrument's nature, mode of investment, issuer, and recipient's residency status.

Where profit is earned on debt instruments, Government Securities, T-bills, or Pakistan Investment Bonds (“PIBs”) issued by the Federal Government (“FG”), and the investment is made through a Special Rupee Convertible Account (“SRCA”) in Pakistan by a non-resident, the applicable tax rate is 10% and the tax is treated as final.

If any person earns profit on debt through any investment channel and is a non-resident, such profit is taxed at 10%, but under the normal tax regime.

For debt instruments issued by the FG, where investment is made through a bank account abroad, a Non-Resident Rupee Repatriable Account, or a Foreign Currency Account (“FCY), and the profit is paid to a non-resident, the tax rate remains 10% and is treated as final tax.

Similarly, if a resident makes the investment through a Foreign Currency Value Account (“FCVA) and pertains to a Federal Government-issued debt instrument, the profit is taxed at 10% final.

Bank deposits with banks, when invested through a Foreign Currency Account (“FCA”) or Certificate of Investment, and held by non-residents, are exempt from tax (0%). Additionally, bank deposits maintained through Rupee Accounts funded by foreign remittances and held by non-residents possessing a NICOP, POC, or CNIC are exempted (0%).

However, under the normal tax regime, the profit of residents holding any form of bank deposit is taxed at a 20% rate.

Where profit is earned on Government Securities other than those falling under the National Saving Scheme or post office savings accounts, and is paid by the Federal Government to a resident, the applicable tax rate is 20% under the normal regime.

In all other cases not specified above, where profit on debt is paid to residents, the tax rate is 15% under the normal tax regime.

For Sukuks, the tax treatment depends on the recipient:

- If the recipient is a company, the final tax rate is 25%.
- If the recipient is other than a company.
  - Where the return exceeds Rs. 1 million, the tax rate is 12.5% final.
  - Where the return is less than Rs. 1 million, the tax rate is 10% final.

Note: In cases where profit on debt exceeds Rs. 5,000,000, and such profit is taxed under the normal regime, it shall be chargeable under the head “Income from Other Sources” and taxed at normal slab-based rates.

## 2. Taxation of Dividends

- Where the payer is an Independent Power Producer (“IPP”) and the recipient is any person, and the condition is that the dividend is a pass-through item, the applicable rate is 7.50% for filers and 15% for non-filers.
- Where the payer is a Real Estate Investment Trust (“REIT”) and the recipient is any person, the applicable tax rate is 15% for filers and 30% for non-filers.
- Where the payer is categorized as “Others” and the recipient is any person, the applicable rate is 15% for filers and 30% for non-filers.
- Where the payer is a Mutual Fund and the recipient is a person other than a corporate entity, and the income is proportionally derived from average annual investments in debt securities and equities, the applicable tax rate is 25% on debt securities and 15% on equity securities for filers, and 50% on debt securities and 30% on equity securities for non-filers.
- Where the payer is a Special Purpose Vehicle (“SPV”) and the recipient is a Real Estate Investment Trust (“REIT”), with the condition that the SPV is defined under the Real Estate Investment Trust Regulations, 2015, the applicable tax rate is 0% for both filers and non-filers.
- Where the payer is a Special Purpose Vehicle (“SPV”) and the recipient is other than a REIT, the applicable tax rate is 35% for filers and 70% for non-filers.
- Where any company, fund, trust, etc. (“Company/Fund/Trust”) is the payer and the recipient is any person, and the income of the fund/trust/company is exempt, the applicable tax rate is 25% for filers and 50% for non-filers.

## 3. Taxation of Capital Gains on Securities

Capital gains on debt instruments, government securities, and certificates issued or deducted by banks and invested through Foreign Currency Value Accounts (FCVA) or Non-Resident Rupee Value Accounts (NRVA) by non-residents holding NICOP, POC, or CNIC are subject to tax at the rate of 10%, which shall be treated as final tax.

As for capital gains on securities, the applicable tax rates depend on the holding period and the acquisition timeline of the securities:

- For securities acquired before July 1, 2013, no capital gains tax is applicable, regardless of the holding period.
- For securities acquired between July 1, 2013, and June 30, 2022, a flat rate of 12.5% is applicable on all gains, irrespective of the holding period.
- For securities acquired between July 1, 2022, and June 30, 2024, the rates are progressive based on the holding period:
  - 15% if held for one year or less
  - 12.5% if held for more than one year but not more than two years
  - 10% if held for more than two years but not more than three years
  - 7.5% if held for more than three years but not more than four years
  - 5% if held for more than four years but not more than five years
  - 2.5% if held for more than five years but not more than six years
  - 0% if held for more than six years
- For securities acquired after June 30, 2024, filers' tax rate on capital gains is 15%, regardless of the holding period. For non-filers, the gains will be taxed under the normal tax regime, subject to a minimum rate of 15% for individuals and associations of persons (AOPs).
- In the case of future commodity contracts entered into by members of the Pakistan Mercantile Exchange, a flat 5% capital gains tax is applicable, irrespective of acquisition or holding period.
- Capital gains on debt securities in case of companies are subject to tax at 29%.
- Capital gains arising from the redemption of securities by a mutual fund, collective investment scheme, or REIT scheme are subject to deduction at source, depending on the category of the investor as under:
  - For individuals and AOPs, the rate of deduction is:
    - 15% for stock funds
    - 15% for other funds
  - For companies, the rate is:
    - 15% for stock funds
    - 25% for other funds
- Further, no capital gains tax shall be deducted if the holding period for securities acquired on or before June 30, 2024, exceeds six years.

Additionally, every custodian of debt securities, including a banking company maintaining an Investor Portfolio Securities (IPS) Account on behalf of holders of debt securities (including government securities), must deduct tax on capital gains at 15% for filers. In the case of non-filers,

the applicable rate is 30%. This deduction obligation does not apply to settlements routed through the National Clearing Company of Pakistan Limited (NCCPL).

#### **4. Taxation of Pension Funds**

Contributions made by individuals or employers to an approved pension fund are eligible for a tax credit under Section 63 of the Income Tax Ordinance, 2001.

Under Clause (23A) of Part 1 of the Second Schedule, when a participant withdraws up to 50% of the accumulated balance from the pension fund at retirement (or earlier, in some instances), that amount is exempt from tax. The remaining balance is typically converted into an annuity or income stream taxed under applicable rules.

Under Clause (23C) of Part 1 of the Second Schedule, any withdrawal of accumulated balance from an approved pension fund that represents the transfer of balance of an approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005, is exempted from tax.

Finance Bill 2025 proposed to omit clauses (23A) and (23C); however, the proposal was withdrawn. This means that these exemptions are still available under the law.

## Annexures

### Taxation of Funds

Fund Type	Legal Structure	Tax Status
Mutual Fund (Open-end)	CIS (Collective Investment Scheme) (NBF C Regulations)	Exempt (Clause 99)
ETF (Exchange Traded Funds)	CIS / Listed	Exempt (Clause 99)
TTFs (Tradeable Treasury Funds)	ETF focused on T-Bills	Exempt (Clause 99)
Closed-End Fund	CIS / Listed	Exempt (Clause 99)
REIT	Trust	Exempt (Clause 99)
Shariah Mutual Funds	CIS	Exempt (Clause 99)
Money Market Fund	CIS	Exempt (Clause 99)
Index Fund	CIS / ETF	Exempt (Clause 99)
Capital Protected Fund	CIS	Exempt (Clause 99)

<b>Profit on Debt</b>					
Instrument	Issued deduction by	Investment through/other condition	Paid to	Rate	Taxation
Debt instruments, Govt. Securities, T-bills, PIBs	FG	SRCA account in Pak	NR	10.0%	Final
Any Debt Instrument	Any	Any	NR	10.0%	Normal
Debt Instrument	FG	bank account abroad, NR Rupee Account Repatriable or FCY account	NR	10.0%	Final
Debt Instrument	FG	FCVA	R	10.0%	Final
Bank Deposits	Banks	FCA, Certificate of Investment	NR	0.0%	Exempt
Bank Deposits	Banks	Rupee Account through Foreign Remittances	NR having NICOP, POC, CNIC	0.0%	Exempt
Bank Deposits	Banks	Any	R	20.0%	Normal
Government Security except other than Profit on account, deposits / certificates under National Saving Scheme or Post office saving a/c	FG	Any	R	20.0%	Normal
Other than above	Any	Any	R	15.0%	Normal
Sukuks		Any	Company	25.0%	Final
		Return is more than one million	Other than company	12.5%	Final
		Return is less than one million	Other than company	10.0%	Final
<p>Note - Profit on debt exceeding Rs. 5,000,000/- shall be chargeable to tax under "Income from other sources" on normal tax rates, if taxation is normal</p>					
R = Resident					
NR = Non-Resident					

Dividends			Rates	
Payer	Recipient	Condition	Filer	Non-Filer
IPP	Any	Pass through item	7.50%	15%
REIT	Any	N/A	15%	30%
Others	Any	N/A	15%	30%
Mutual Funds - Debt Securities	other than Corporate	proportional income derived from average annual investments in debt securities and equities	25%	50%
Mutual Funds - Equities	other than Corporate	proportional income derived from average annual investments in debt securities and equities	15%	30%
Mutual Funds - Equities/Debt securities	Corporate	Component of income derived from debt securities	29%	58%
SPV	REIT	SPV as defined under the Real Estate Investment Trust Regulations, 2015	0%	0%
SPV	Others	SPV as defined under the Real Estate Investment Trust Regulations, 2015	35%	70%
Any Company/fund/trust, etc.	Any	Income of the fund/trust/company is exempt	25%	50%

## Capital Gain on Securities

Instrument	Issued / deduction by	Investment through	Paid to	Rate	Taxation
Debt instruments, government securities, certificates	Bank	FCVA, NRVA	NR having NICOP,POC,CNIC	10%	Final
Description	Holding period	Acquired before July 01, 2013	Acquired between July 01, 2013 to 30th June, 2022	Acquired between July 01, 2022 to 30th June, 2024	Acquired after 30th June, 2024
Securities	one year or less	0%	12.50%	15%	Filer - 15%  Non-Filer - Normal rates, but min 15% for Ind/AOPs
	one to two years			12.50%	
	two to three years			10%	
	three to four years			7.50%	
	4 to 5 years			5%	
	5 to 6 years			2.50%	
	more than 6 years			0%	
Future Commodities	Any	5%	5%	5%	5%
Debt Securities in case of companies		29%			
Deduction by a mutual fund or a collective investment scheme or a REIT scheme	Category	Rate			
		Individual and AOP	Stock fund	15%	
	other fund		15%		
	Company	Stock fund	15%		
other fund		25%			

In case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 15%

No capital gain shall be deducted, if the holding period of the security acquired on or before 30th day of June 2024 is more than six years

Every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of holder of a debt security including government securities shall deduct tax on capital gain at 15% (except settlement through NCCPL). The rate will be 30% for non-filers

<b>Future Commodities</b>	Any	5%	5%	5%	5%
<b>Debt Securities in case of companies</b>		29%			
<b>Deduction by a mutual fund or a collective investment scheme or a REIT scheme</b>	Category		Rate		
	Individual and AOP	Stock fund	15%		
		other fund	15%		
		Company	Stock fund	15%	
		other fund	25%		
<b>In case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 15%</b>					
<b>No capital gain shall be deducted, if the holding period of the security acquired on or before 30</b>					
<b>th day of June 2024 is more than six years</b>					
<b>Every custodian of debt securities including a banking company responsible to maintain Investor Portfolio Securities (IPS) Account on behalf of holder of a debt security including government securities shall deduct tax on capital gain at 15% (except settlement through</b>					

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