

The Scheme of Tax Holiday of Income From Residential Property

A Wahab FCA

The scheme was introduced in 1975 through Finance Act/Ordinance of that year. Prior to the enactment of Income Tax Ordinance 1984 the scheme was regulated as per Income Tax Act 1922.

After the introduction of Income Tax Ordinance 1984, the scheme was regulated as per the Sixth Schedule Part A annexed to the Income Tax Manual, Part -I. The scheme was implemented as per section 44 sub-section-I which deals with heads of Income, totally exempt from tax and not included in computation of Total Income for tax purposes subject to certain limits, conditions and qualifications laid down therein.

The scheme of Tax Holiday of Residential Property income was dealt with under paragraph 14 of the Sixth Schedule Part A of Income Tax Ordinance 1984. The scheme was in force and effective upto June 30, 2000 in respect of quantum of annual value of the concerned property and as regards the property concerning size and the property built by housing companies societies and estates, the facilities were in force upto June 30, 1990.

The source of Income of this head is segregated under the following categories

- i) Quantum of Rental Annual Value upto certain amount from the property for residential purposes;
- ii) Size of the plinth area of building for residential purpose upto certain area in sq ft. irrespective of the quantum of Annual Value thereof;
- iii) Upto certain number of units not being below 25, of such property, built for residential purposes by housing companies, societies and estates where the construction comprises bungalows, flats, apartments or units each with a plinth area of not more than 2000/1000 Sft.

The applicable conditions for availing the Tax Holiday facilities

were as follows:

- i) The erection of the concerned residential building began and completed at any time between July 01,1975 and June 30,1980 in the first period, then at any time between July 01,1980 and June 30,1985. Thereafter when the erection started and completed between July 01,1985 and June 30,1990, and July 01,1990 and June 30,1995 and July 01,1995 and June 30, 2000, respectively.
- ii) The 2nd condition was that the buildings for which this facility was made available was intended to be and was actually used for residential purposes, and
- iii) The Tax Holiday facility was available for 5 years from the date of completion of the erection of the concerned property.

The limits of the quantum of Annual Value of the Residential House Property were as follows:

a) Annual Value of the House Property in the First period (1975-80)

In a case where the Annual Value of such property did not exceed Tk. 8,400.00, the whole of such value was exempt from tax and where the annual value exceeded Tk. 8,400.00 the exemption limit would be upto Tk. 8,400.00 and the excess amount was assessable to tax under the relevant section 24 of Income Tax Ordinance 1984 as Income from house property with statutory deductions under section 25 of the said ordinance. It is however, to be mentioned here that if there were more than one building and the aggregate Annual Value was in excess of Tk. 8,400.00 from such buildings exemption limit was restricted to Tk. 8,400.00 only.

b) In the Second period.(1980-85)

The exemption limit was enhanced to Tk. 15,000 with other conditions remaining unchanged.

Authors is Fellow Member of the Institute of Chartered Accountants of Bangladesh (ICAB) and Senior Partner, A Wahab & Co., Chartered Accountants.

c) In the Third period (1985-90)

The exemption limit remained the same as Tk. 15,000 with other conditions remaining unchanged.

d) In the Fourth period (1990-1995)

The exemption limit was enhanced to Tk. 20,000 and subsequently it was further enhanced to Tk. 30,000 by an amendment as per Finance Act 1993, the other conditions remaining unchanged.

e) In the period 1995 to 2000

The exemption limit was enhanced to Tk. 36,000 with other conditions remaining unchanged and thereafter the facility of tax holiday was withdrawn by Finance Act 1999 and the concerned sub-paragraph (h) of Paragraph 14 of the Sixth Schedule which, dealt with tax holiday of income from property, was omitted. However, the benefit of the Tax Holiday was available for 5 years for residential house property the erection of which was completed within June 30, 2000.

Tax Holiday in consideration of the size of the house property

To avail the facility in the 1st period from 1975-80, the size was upto 2000 Sft. of plinth area of the concerned house property which was reduced to 1000 Sft in the subsequent two periods in 1980-85 & 1985-90 with other conditions remaining the same and thereafter the facility of tax holiday was withdrawn in such cases.

Tax Holiday in respect of house property built by housing companies societies and estates:

The tax holiday facilities were also available to this sort of organizations. In the first period i.e. 1975-80, to avail the facility the condition was that there must be at least 25 units of the house property built by such organisations with an area of 2000 Sft. of plinth area of each unit and in the subsequent two periods i.e. in 1980-85 & 1985-90, the size of the plinth area of each unit was reduced to 1,000 Sft. and thereafter the facility of Tax Holiday was withdrawn in such cases also.

The scheme was very fruitful in solving the accommodation problem of the Dhaka Metropolitan and other big cities since after the emerging of Bangladesh as an Independent and Sovereign country there was heavy pressure and demand for housing accommodation. Before liberation of the country in 1971 there were hardly 5 to 6 lakhs dwellers in the Dhaka City, which was at that time the capital of a province of East Pakistan.

Subsequent to the independence of the country and Dhaka being the capital city of the country there was heavy demand for accommodation because of inflow of people from rural areas to the capital city in search of jobs as the economy of the nation was totally shattered in the war ravaged Bangladesh. More over, foreign missions had to open their offices in the capital city, which were previously situated in the western part of the then Pakistan.

Besides, the Bangladeshi repatriates who were engaged in different jobs in the then West Pakistan started coming to Bangladesh along with their family members. All these reasons created a severe problem for accommodating the influx of the huge population from all fronts, particularly in Dhaka City. Over the last 37 years the population of Dhaka city and its suburbs had reached to 120 lakh people and now it has turned into a mega city. Obviously, there is scarcity of house to accommodate these huge number of people in a city like Dhaka where the infrastructure facilities did not grow and develop as per demand of the disproportionately large population.

In recent years the Real Estate and Housing Companies have started building of flats and houses to meet the situation of this increased demand for houses. They could meet the demand partly. The low-income group cannot afford to buy a flat or house from the Real Estate Companies at a sky-high price of Tk. 3,000.00 to 18,000.00 per Sft. varying from location to location. As a result, the rate of monthly rent for small houses also increased tremendously. More over, the utility services provided by different service providing agencies are not enough. Most often there is load shedding and scarcity of water and gas in different parts of the metropolitan cities due to the fact that the required services were not planned and equipped adequately to bear the load, which they are to bear now with the increase of population. If the Govt. could re-introduce the Tax holiday facilities for residential houses for further terms of a few years more it could be of immense service to the nation and people would be encouraged to construct new residential houses duly supported by easy loan facilities, to solve the accommodation problem to a great extent.

Since the particular paragraph 14 of the Sixth Schedule has not yet been deleted, the Govt. may consider the re-introduction of the Scheme of Tax Holiday for residential houses in consideration of the paucity of housing accommodation in the cities both big and small all over the country. ■