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Sixth Sense Update

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Workers Welfare Fund: Does not Impact Mutual Funds

A circular issued by the Ministry of Labor and Manpower - Government of Pakistan clarifies the treatment of the Worker Welfare Fund (WWF). It was announced that mutual funds are not liable to pay WWF; instead management companies managing the funds would be liable to pay this tax.

It was previously understood from the Finance Act 2008, that mutual funds were defined as 'Industrial Establishments' and liable to contribute as according to the 'Workers Welfare Fund Ordinance, 1971.' Following this, the Mutual Fund Association of Pakistan (MUFAP) proposed amendments to the ordinance, so that mutual funds and pension fund would not be liable to contribute to the WWF. The Ministry of Labor and Manpower has looked into this proposal and advised MUFAP on the correct treatment of WWF.

Mutual Funds are not liable to contribute to WWF

The Ministry of Labor and Manpower highlighted that mutual funds and the company managing the funds are two separate entities. Mutual Funds are exempt from income tax provided they distribute a minimum of 90% of their profits to investors. Therefore, mutual funds will not be liable to contribute to WWF.

Management companies on the other hand, generate income by charging a management fee from investors. This is income for the management company and is subject to tax. Therefore, WWF is applicable on the asset management companies who are managing the mutual funds and earning profits from their business. This charge constitutes to 2% of annual accounting profit.

Various asset management companies have applied WWF charge on mutual fund profits. This resulted in a fall in net asset value (NAV) and a subsequent fall in returns for such funds. Following this news, the charge on mutual fund profits will be reversed. Thus, those funds that took a hit and suffered from lower returns are likely to reverse the charge and returns will converge back to normal. Funds that did not provide for WWF charge will remain unaffected.

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