

Pakistan Institute of Public Finance Accountants

(Established under Section 42 of the Companies Ordinance, 1984)

Constituted by: ICAP, ICMAP, AGP

Identification, development and imparting knowledge to provide a structure for the training of accounting professionals in the specialist areas



Newsletter

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March 2006

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Budget Proposals for the Year 2006-07

Basic Exemption Limit for Salaried individuals: Income tax is charged on the taxable income for a tax year, if it exceeds the maximum threshold limit of Rs.100,000 that is not chargeable to tax.

Inflation is like toothpaste. Once out from the tube; it is difficult to put it back. Knowing very well that taming inflation is a difficult job; inflation at 8 percent was targeted for the fiscal year 2005-06 slightly lower than the last year's average inflation of 9.3 percent. In view of extremely high cost of living and the rising inflation rate, the basic exemption limit of salaried persons whose salary exceeds 50% of taxable income, their basic exemption limit for income tax may be refixed to Rs.200,000.

Reduction of Tax Liability for Senior Citizens: Section (1A) of Part III of Second Schedule provides that where the taxable income, in a tax year, of a taxpayer aged 65 years or more on the first day of that tax year does not exceed 400,000 rupees, his tax liability on such income shall be reduced by 50%. This threshold is on lower side and the tax benefit does not help senior citizens. It is proposed that this taxable limit may be increased to Rs.600,000. The eligible age to claim 50% reduction in taxable liability should be reduced from 65 years to 60 years.

Perquisites and Allowances: Under Section 21(k) Any expenditure paid or payable by an employer on the provision of perquisites and allowances to an employee where the sum of the value of the perquisites computed under section 13 and the amount of the allowances exceeds fifty per cent of the employee's salary for a tax year (excluding the value of the perquisites or amount of the allowances); is not admissible deduction in computation of taxable income of companies. The expenditure incurred by the companies is taxable in the hands of employees, it is suggested that this clause may be deleted from the Income Tax Ordinance, 2001.

Cash Payment Exceeding Rs. 50,000: Under Section 21 (l) any expenditure paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees made other than by a crossed bank cheque or crossed bank draft, except expenditures not exceeding ten thousand rupees or on account of freight charges, travel fare, postage, utilities or payment of taxes, duties, fee, fines or any other statutory obligation is considered allowable deduction in respect of business income of companies.

This limit of Rs.10,000 is insufficient and creates difficulties in compliance of the legal provision. In order to reduce the day to day problems, it is proposed that the limit may be enhanced to Rs.25,000.

Section 122 (2) Amendment of assessments: This section provides for that an assessment order shall only be amended under subsection (1) within five years after the Commissioner has issued or is treated as having issued the assessment order on the taxpayer. It is suggested that this should be reduced from five years to two years in order to create friendly taxpayer relationship and confidence of income tax assesses.

Section 122 (5A) for Amendment or further Amendment of assessment Order: Subject to sub-section (9) of section 122, the Commissioner may amend, or further amend, an assessment order, if he considers that the assessment order is erroneous in so far as it is prejudicial to the interest of revenue.

This section destroys the sanctity of already finalized assessments, which creates unwarranted harassment to the taxpayers. In context of friendly taxpayer and hassle free tax compliance, it is proposed that this clause may be deleted from the Income Tax Ordinance, 2001.

Broad Spectrum of Economic Variables

The Handbook of Statistics on Pakistan Economy produced for the first time by State:

Bank of Pakistan is an attempt to provide a warehouse of statistical information pertaining to a broad spectrum of economic variables. The handbook will serve as an invaluable source of reference on various aspects of the country's economy. Subjects covered in the publication comprise of money and banking, balance of payments, national income, savings and investments, capital market and other key statistics of Pakistan. Major part of the handbook is based on data compiled by the Statistics Department of State Bank of Pakistan. Some of the important key economic indicators are given below:

Gross National Product

(Million Rupees)

Sector	FY03	FY04	FY05 ^p
Gross Domestic Product (FC)	4,481,412	5,142,610	6,129,676
Gross Domestic Product (MP)	4,822,842	5,532,663	6,547,590
Gross National Product (FC)	4,633,224	5,267,088	6,254,900
Gross National Product (MP)	4,974,654	5,657,141	6,672,814
Population (in millions)	146.75	149.65	152.53
Per capita income (FC) in Rs.	31,572	35,196	41,008
Per capita income (MP) in Rs.	33,899	37,802	43,748

Source: Hand Book of Statistics on Pakistan Economy 2005 Page No.10.

P= Provisional

FC= Factor Cost

MP= Market Price



Sectoral Share in Gross Domestic Product at FC

(Million Rupees)

Sector	FY03	FY04	FY05 ^p	% share (FY05)
Agriculture	941,942	962,527	1,034,292	23.1%
Industry	889,031	995,453	1,097,198	24.5%
Services	2,053,979	2,176,564	2,348,360	52.4%
Total Gross Domestic Product (FC)	3,884,952	4,134,544	4,479,850	100.0%
Growth Rate (%)	4.8%	6.4%	8.4%	X

Source: Hand Book of Statistics on Pakistan Economy 2005 Page No.26 & 39.

Comparative Federal Budget Financial Year 03-05

(Million Rupees)

Federal Government Revenue Receipts:	FY03	FY04	FY05 ^p
Tax Revenue - CBR	458,900	510,000	590,000
Revenue (Other than CBR) (Petroleum, Gas, Other)	66,882	70,108	36,289
Non-Tax Revenue	175,794	180,875	249,017
Total Gross Receipts	701,576	760,983	875,306
Transfers To Provinces	192,819	211,412	245,296
Revenue Receipts (Net)	508,757	549,571	630,010
Internal Resources (Capital Receipts & PublicA/C)	189,855	104,752	76,405
External Resources	169,009	144,820	197,640
Total Receipts	867,620	799,143	904,055
Change in Provincial Cash Balance	16,576	14,331	6,167
Privatization Proceeds	9,971	11,000	10,000
Credit From Banking System	-32,986	74,038	80,783
Total Resources	861,181	898,512	1,001,005
Federal Government Expenditures:			
Current Expenditure	673,312	714,019	784,680
Development Expenditure	35,870	59,146	82,091
Capital Disbursements	151,999	125,348	119,672
Adjustments in PSDP	—	—	14,562
Total Expenditure	861,181	898,513	1,001,005

Source: Hand Book of Statistics on Pakistan Economy 2005 Page No. 85, 89 & 92

Scheduled Banks' Liquidity Position All Banks

(Million Rupees)

Period	Total Liquid Assets of all Banks maintained in Pakistan	Minimum of Assets Required to be held Under Section 29 of the Banking Cos. Ordinance	Excess of Assets Being Held Over the Minimum required Under Section 29 of the Banking Cos. Ordinance	Percentage of Access to minimum of Assets
2003 Jun.	789,900.0	339,997.0	449,903.0	132%
Dec.	714,096.0	364,774.0	349,322.0	96%
2004 Jun.	701,670.0	382,784.0	318,886.0	83%
Dec.	594,569.0	408,376.0	186,193.0	46%
2005 Jun.	719,678.0	450,694.0	268,984.0	60%

Source: Hand Book of Statistics on Pakistan Economy 2005 Page No.143

IFAC News

IFAC's Public Sector Accounting Standards Board Issues New Paper on U.S. Transition to Accrual Accounting: To provide greater transparency and information in their financial reports, an increasing number of governments and other public sector entities are moving to adopt the accrual basis of accounting. The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) has released an information paper on the experiences of the United States (US) in its transition to accrual accounting, entitled The Road to Accrual Accounting in the United States of America.

IFAC's Public Sector Accounting Standards Board Issues Consultation Paper on Heritage Assets: The International Public Sector Accounting Standards Board (IPSASB) of the International Federation of

Accountants (IFAC) is working to improve both the quality and uniformity of financial information reported by public sector entities around the world. In pursuit of this objective, the IPSASB has issued a Consultation Paper entitled Accounting for Heritage Assets under the Accrual Basis of Accounting. The Consultation Paper includes a Discussion Paper, Heritage Assets: Can Accounting Do Better?, recently published by the United Kingdom's Accounting Standards Board (ASB).

Accounting for heritage assets is an area of particular interest for governments and public sector entities worldwide. Many assets of significant cultural, artistic and historical importance and outstanding natural beauty are controlled by public sector entities, including items and sites which are emblematic of particular nations. Diverse approaches to accounting for heritage assets have been developed by different standard-setters worldwide.

Corporate Sector

SECP Launches Two Guide Booklets: The Securities and Exchange Commission of Pakistan (SECP) has launched two guides, "Conversion of Status of Companies" and "Shareholders' Rights" The booklet "Conversion of Status of Companies" is aimed to educate the investors about the procedures involved in conversion of a single member company into a multi-member company and a private company into a public company or vice versa. The guide booklet "Shareholders' Rights" is developed to create awareness among the shareholders of the corporate sector about their rights, with the main focus on ensuring members' participation in the company's affairs. The shareholders are entitled to various rights under the various provisions of the Companies

Ordinance, 1984, exercise of which not only protects their interests but also results in the implementation of good governance principles in the corporate entities.

The guide booklets are a summary of the detailed procedures provided in the Companies Ordinance. The publications are part of a booklet series started by the SECP to create awareness among the investors. It is advisable that these guide booklets should be studied in conjunction with the relevant provisions of the Companies Ordinance and the rules framed there under. The two publications can be obtained from the SECP head office and its regional offices in eight cities and also available at the SECP's website, www.secp.gov.pk

Financial Sector

State Bank Committed to Develop Islamic Banking in the Country: The Governor, State Bank of Pakistan, Dr. Shamshad Akhtar presided over a meeting of the Chief Executives of present and up-coming full fledged Islamic Banks at SBP, Karachi on 25th February, 2006.

Speaking on the occasion, she said that Islamic banking was growing rapidly not

only in Pakistan but also throughout the world. She said that the Islamic banking has great potential to grow in future in Pakistan and the State Bank was committed to the development of this industry. She impressed upon the heads of Islamic banks to meet the growing challenges in the development of Islamic banking.



'Pakistan has provided a supportive policy and regulatory framework for Islamic banking due to which investors of international repute are coming to establish new Islamic banks in the country', she added. She further said that the State Bank has set up a dedicated Islamic Banking Department for the promotion and regulation of this industry.

The Chief Executives of Islamic Banks highlighted the issues facing the industry in its early stages of development. These include, for example, liquidity

management which would require an effective development of Islamic inter bank market and trained human resources. They were of the view that the rapid growth of Islamic banking in the country would be dependent on providing level playing field to both the conventional and Islamic Banks. The SBP has clarified to the industry that there is a level playing field for Islamic Banks and has agreed to look at approaches to develop Islamic inter bank market.

Notifications

Income Tax: S.R.O.108(I)/2006 dated the February 7, 2006:- WHEREAS the Government of the Islamic Republic of Pakistan and the Government of Bosnia and Herzegovina have executed a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income on 24th August.

S.R.O. 85(I)/2006 dated the 3rd February, 2006:- The Federal Government is pleased to direct that the following further amendment shall be made in the Second Schedule to the said Ordinance, namely:-

In the aforesaid schedule, in Part-IV, after clause (59), the following new clause shall be added, namely:-

" (60 Provisions of sections 148 and 153 shall not apply to fully as well partly designed/assembled cypher devices, for use within the country as are verified by NTISB with reference to design, quality and quantity."

S.R.O.60(I)/2006 dated 25th January, 2006.- The Federal Government is pleased to direct that in the Second Schedule to the said Ordinance, the following amendment shall be made and shall be deemed to have been so made on the 12th June, 2004, namely:

In the aforesaid Schedule, in Part-IV, in clause (56), after sub-clause (xv), the following new sub-clause shall be added, namely:-

"(xvi) off-highway dump trucks and transit mixers."

S.R.O. (I)/2006 dated the 3rd January, The following draft amendments are proposed to be made in the Income Tax Rules, 2002, and are published for the information of all persons likely to be affected thereby and notice is given that the

draft amendments will be taken into consideration after fifteen days of its publication in the official Gazette.

2. Any objection or suggestion which may be received from any person in respect of the said draft amendments before the expiry of the aforesaid period shall be considered by the Central Board of Revenue.

DRAFT AMENDMENT

In the aforesaid rules,-

(1) in rule 2,-

(i) after clause (a), the following new clauses shall be inserted, namely:-

" (aa) "Computerized Payment Receipt" means a computer generated receipt issued by the State Bank of Pakistan or the National Bank of Pakistan acknowledging payment of tax;

(ab) "digital certificate" or "digital signatures" means a digital certificate or digital signatures issued by an agency approved by the Central Board of Revenue to issue such certificate or signatures;

(ac) "e-intermediary" means a person registered as,-

(a) Chartered Accountant with the Institute of Chartered Accountants of Pakistan;

(b) Cost and Management Accountant with the Institute of Cost and Management Accountants of Pakistan;

(c) a legal practitioner entitled to practice in any Civil Court in Pakistan;";

ICMAP News

Institute of Cost and Managements Accountants of Pakistan, Karachi Branch Council organized Pre- Budget Seminar 2006 07

On March 25, 2006: The Chairman Central Board of Revenue (CBR) Mr. Muhammad Abdullah Yusuf, in his address to the participants said that the government is determined to make all out efforts to support the local business and industry in the forthcoming budget. He further said that due to sound economic policies of the Government the country is in a take off position. He said economic growth rate is very encouraging which would indeed generate good investment activities in the country and create new jobs and alleviate poverty. The economy continues to perform strongly despite rising oil prices and destruction caused by the October 08, 2005 earthquake. Although cotton and sugarcane production would be less than last year but other components of national accounts are likely to perform better than the target.

Therefore, the growth target of 7.0 percent is likely to be achieved. While revenue position is better than the target the expenditure side is under pressure owing to account of earthquake related expenditures. Consequently the overall budget deficit is likely to be slightly above 4.0 percent of GDP this year. Inflation is one downward footing and the year is likely to end with an average inflation of 8.0 percent. Both exports and imports are growing at high double-digit with import growth likely to slow down during the second half of the current fiscal year. Both trade and current account deficits are high and rising. In the absence of both short and long-term corrective policy measures these two deficits may reach unsustainable levels.

Chairman CBR quoted that Prime Minister of Pakistan has directed that outlay of the public sector development programs for the next financial year should be increased. He has further directed that rates for all basic services should be competitive. Health and Education should also remain in focus in the development Programme.

Mr. Muhammad Abdullah Yusuf said the fiscal policy stance remained decidedly growth-oriented, providing for strong public sector spending, declining debt service costs; intensification of spending on alleviating poverty and investing in infrastructure. Pakistan has made considerable progress in recent years on fiscal side. The overall fiscal deficit that averages nearly 7.0 percent of the GDP in the 1990s has declined to 3.3 percent in 2004-05. Fiscal deficit is targeted at 3.8 percent of GDP for the current fiscal year which is slightly higher than the deficit level of the previous year (3.3% of GDP). Higher deficit was targeted to finance higher public sector development program (PSDP), particularly towards financing infrastructure projects. Pakistan needs to strengthen its physical and human infrastructure to sustain.

Addressing the seminar the **President ICMAP, Mr. Sher Afgan Malik** was of the view that Pakistan's economy has continued to perform strongly over the last several years with economic growth accelerating to 8.4 percent in 2004-05, it's

fastest pace in two decades. The strong economy recovery since 2002-03 accompanies by macroeconomic stability has been underpinned by prudent macroeconomic policies, wide-ranging structural reforms, fiscal discipline and consistency and continuity in policies. These policies have contributed to a marked improvement in productivity and in consumer and investor confidence leading to growing overall domestic demand, which should help to support growth at a robust level over the medium-term.

President ICMAP said that the major achievements thus far included a strong economic recovery supported by a robust performance in industry, agriculture and service extra-ordinary strengthening of domestic demand; reduction in fiscal deficit; a high double-digit-growth in exports and imports; workers' remittances continue to maintain its momentum; stability in exchange rate; a sharp reduction in the public and external debt burden; privatization program moving forward with a brisk pace; and Pakistan re-entering international capital markets with major successes. Notwithstanding these successes, some major challenges also emerged in the shape of a sharp pick up in general price level and widening of trade and current account deficits; these can be described as side effects of strong economic recovery.

Mr. Sher Afgan Malik concluded that on the back of strong economic recovery the current fiscal year (2005-06) was envisaged to consolidate the gains made over the last three years and also address the challenges of economic recovery mentioned above. Accordingly, the real GDP was targeted to grow by 7.0 percent; supported by a 4.2 percent growth in agriculture, 12.0 percent growth in manufacturing and a 6.5 percent growth in all other sectors. Inflation is like toothpaste. Once out from the tube, it is difficult to put it back. Knowing very well that taming inflation is a difficult job; inflation at 8 percent was targeted for the fiscal year 2005-06 slightly lower than the last year's average inflation of 9.3 percent. Fiscal deficit targeted at 3.8 percent of GDP, exports and imports were targeted to grow by 16.4 percent and 16.2 percent, respectively with trade and current account deficits amounting to \$5.035 billion and \$ 3.157 billion, respectively; and remittances were targeted at \$4.3 billion.

The Managing Director of Karachi Stock Exchange (KSE), Mr. M. A. Lodhi said that KSE is the biggest and most liquid exchange and has been declared as the "Best Performing Stock Market of the World for the year 2002". As on February 22, 2006 662 companies were listed with the market capitalization of Rs. 3,264.486 billion (US \$ 54.41) having listed capital of Rs. 475.305 billion (US \$ 7.92 billion). The KSE 100 Index closed at 11444.12 on February 22, 2006. He urged the investors to come forward and invest in difference sectors in Pakistan. M.D. KSE assured the investors, industrialists and manufactures of governments' full support in resolving their genuine problems and said that consistent business friendly policies would be made for providing maximum incentives and concessions in this regard.



ICAP News

The Institute of Chartered Accountants of Pakistan (ICAP) in collaboration with International Accounting Standard Boards (IASB) and South Asian Federation of Accountants (SAFA) organized the first South Asian Accounting summit on April, 18 and 19, 2006 at Karachi. The conference will be addressed by Global and Regional Standard Setters and other renowned international and national

speakers. The topics to be covered in technical sessions include financial instruments (IAS32, 39 and IFRS7); Non-Financial Liabilities and Business Combinations (IAS37 and IFRS3); Accounting framework for SMEs; IASB update/ recent development in IFRS/IAS and other complex IASs.

IT News

New version of Microsoft Office: Microsoft Corp. has said that its upcoming 2007 Microsoft Office will come in seven versions and that many of them will include new collaboration and content management tools. Formerly, Known as Microsoft Office 12, the new Office versions are expected to release by the end of 2006.

The new versions are:

- » Office Professional plus 2007 » Office Enterprise 2007
- » Office Home and Student 2007 » Office Professional 2007
- » Office Small Business 2007 » Office Standard 2007
- » Office Basic

PIPFA Affairs

Admission of New Members:

Fellow:

- | | |
|---|------------|
| 1. Mr. Ch. Ahmed shahzad | (FPA-75) |
| 2. Mr. Muhammad Anwar Saeed | (FPA-138) |
| 3. Mr. Ch. Shafqaat ahmad | (FPA-207) |
| 4. Mr. Muhammad Shahab | (FPA-234) |
| 5. Mr. Abdul Khaliq | (FPA-306) |
| 6. Mr. Ihsan-Ul-Haq | (FPA-1036) |
| 7. Mr. Idrees Ahmad | (FPA-1049) |
| 8. Mr. Aman Ullah Khan | (FPA-1317) |
| 9. Mr. Mohammad Aslam Chagani | (FPA-1487) |
| 10. Mr. Abdur Rashid | (FPA-1629) |
| 11. Mr. Mirza Muhammad Shahidullah Baig | (FPA-1700) |
| 12. Mr. Muhammad Nadeem Hanif | (FPA-1854) |

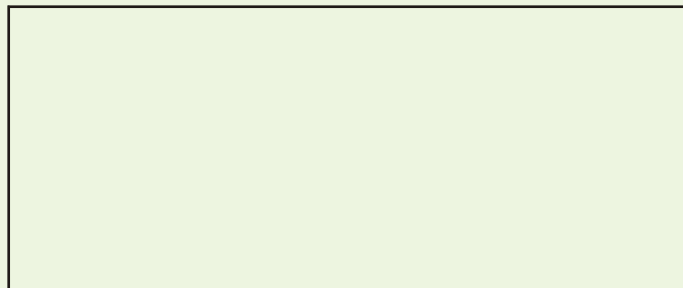
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- | | |
|-------------------------------------|------------|
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| 2. Mr. Irfan Ali Siddiqui | (APA-3680) |
| 3. Mr. Zahid Nawaz Ghuri | (APA-3681) |
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| 10. Mr. Muhammad Faisal Khan | (APA-3688) |
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| 32. Mr. Abdul Saboor | (APA-3710) |
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| 35. Mr. Junaid Khan | (APA-3713) |
| 36. Mr. Abdul Wahab | (APA-3714) |
| 37. Mr. Arshad Hameed Hashmi | (APA-3715) |
| 38. Mr. Asif Muhammad Yousuf | (APA-3716) |

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