

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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HEAD OFFICE:

1005, Park Avenue, 10th Floor,
Block-6, P.E.C.H.S. Karachi.
Tel.: (021) 4380451-52

LAHORE OFFICE:

42 Civic Centre, Barkat Market,
New Garden Town, Lahore.
Tel.: (042) 5838111-5866896

FAISALABAD OFFICE:

Room # 2, 2nd Floor, Kuwait Plaza,
Soosan Road, Madina Town, Faisalabad.
Tel.: (041) 8530110

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SBP News

Bank's Board of Directors Meetings (Abroad): State bank of Pakistan released BPD circular letter No. 15 of 2006 dated July 25, 2006 allowed. Banks incorporated in Pakistan having foreign participation/equity can hold board meetings abroad in following manner in a calendar year:

i.	Banks having more than 51% foreign shareholding.	-	Maximum of 4 Board meetings.
ii.	Banks having more than 40% but less than 51% foreign shareholding.	-	3 Board meetings.
iii.	Banks having more than 30% but less than 41% foreign shareholding.	-	1 Board meeting.
iv.	Less than 30 % foreign shareholding.	-	NIL

The bank concerned will, however, only inform SBP in writing as and when they hold meeting abroad. This supersedes BPD Circular letter No.06 dated 22nd February, 2006.

Sales Tax

S.R.O. 678 (I)/2006. Dated 30th June, 2006: Thereof, the Federal Government directed that the following amendments shall be made in the Sales Tax Special Procedures Rules, 2006, namely: In the aforesaid Rules, (a) In rule 16, for the full stop, at the end, a colon shall be substituted and thereafter the following proviso shall be added, namely: "Provided that the retail sectors specified in column (2) of the Table below shall pay sales tax on the basis of minimum value addition as specified against each in column (3) thereof, namely:-

S.# (1)	Retail Sector (2)	Value Addition (3)
1.	Motorcycles	4%
2.	Rubber Tyres	3%
3.	Mild Steel Products i.e. Steel Bars etc.	Rs 1000/- PMT
4.	Electronic Goods of Domestic Use (Pakistan Origin)	3%
5.	Flat Rolled Products of Chapter 72 including Tin Plate and Tin Free Steel	3%
6.	Sanitary Wares and Tiles	4%."

(b) For Chapters XI and the following shall respectively be substituted, namely:-

"CHAPTER XI: SPECIAL PROCEDURE FOR PAYMENT OF SALES TAX BY STEEL-MELTERS AND RE-ROLLERS"

Application: The provisions of this Chapter shall apply to all steel melting and steel re-rolling units.

Registration: Every steel-melter or steel re-roller, if not already registered, shall obtain registration in the manner prescribed in Chapter I of the Sales Tax Rules, 2006.

Payment of tax: (1) A steel-melter shall pay sales tax at the rate specified in sub-section (1) of section 3 of the Act on the following basis, namely:-

(a) For the purpose of determination of his tax liability, the production of a steel-melter shall be calculated at the rate of eight hundred units of electricity consumed for production of one metric ton of ingots or billets; (b) where a steel-melter, melts and casts ingots or billets from locally generated scrap for which a sales tax invoice is not available, he shall pay sales tax on a fixed value addition of three thousand and six hundred rupees per metric ton; (c) where a steel-melter melts and casts ingots or billets from imported scrap against which he holds a valid GD in his name, from scrap purchased from Pakistan Steel Mills, Karachi against a valid sales tax invoice in his name, he shall pay sales tax on fixed value addition of two thousand four hundred and seventy rupees per metric ton; (d) where a steel-melter, melts and casts ingots or billets from imported scrap as well as from the scrap purchased from Pakistan Steel Mills, Karachi or uses local scrap, he shall determine his liability proportionately as under clause (b) and (c); and (e) Pakistan Steel Mills, Karachi shall pay sales tax on billets produced



by it as determined under section 7 of the Act. (2) For the purpose of determination of tax liability, the production of all steel re-rollers shall be calculated at one hundred and thirty units of electricity consumed for the manufacture of one metric ton of long mild steel products (bars, reinforced bars, rods, wire rods and structural sections made of mild steel) and the re-rollers shall pay sales tax on long MS products on fixed value addition of one thousand and eight hundred rupees per metric ton:

Provided that steel melters and re-rollers paying sales tax on fixed value addition shall not be entitled to any input tax adjustment.

Invoices and returns: A registered steel-melter and a registered steel re-roller shall issue tax invoices as provided under section 23 showing the amount of sales tax charged on fixed value addition and file details of his production in the format set out at annex-L in addition to a monthly sales tax return under section 26 of the Act.

Records Every steel-melter and re-roller shall be required to maintain records specified under section 22 of the Act.

Responsibility of All Pakistan Steel Melters' and All Pakistan Steel Re-rollers Associations: The all Pakistan Steel Melters' Association and all Pakistan Steel Re-rollers' Association shall be responsible to ensure that their respective members pay sales tax in the manner specified in these rules, and in case of non-compliance, the Association shall actively assist the concerned Collector for enforcement and recovery of sales tax due along with default surcharge calculated thereon, besides any other proceedings that may be initiated against the defaulting steel-melter or steel re-roller under the Act.

(c) For the existing annex L under Rule 77 the following shall be substituted, namely:-

Name of Steel Melter/Re-roller: _____ Address: _____

Sales Tax Registration No.: _____ Month: _____

DETAILS OF PRODUCTION

#	Details	Amount (in Rs.)	
		Purchased	Used
1.	Electricity units consumed for production of ingots or billets		
2.	Production of ingots or billets in metric tons [Total electricity units / 800]		
3.	Tax payable on production of ingots or billets (= Rs. 3600 x 15% = Rs. 540 PMT and / or Rs 2470 x 15% = Rs. 370 PMT) Total Tax		
4.	Purchase of Scrap (in metric tons): Imported scrap Scrap purchased from Pakistan Steel Scrap purchased locally (no invoice) Total		
5.	Electricity units consumed for production of MS products and Production (Units/130 = Production)	Units	Production
6.	Tax payable on production of MS Products [=Production X 1800 x 15% = Rs. 270 PMT]		
7.	Purchase & Consumption of Ingots or Billets (in MT)	Purchase	Used

Signature: _____ Name: _____

Designation: _____ NIC No.: _____

Income Tax

Circular No. 2 of 2006 dated July, 1st, 2006

Finance Act, 2006 Explanation of Important Provisions Relating to the amendments made through the Finance Act, 2006 relating to Capital Value Tax are explained as under:-

1. Scope of CVT: Amendment in section 7 of Finance Act, 1989 has been made through Finance Act, 2006 to extend levy of CVT on urban immovable property. Transfers falling in the scope of transactions attracting charge of capital value tax include acquisition of assets through: (i) purchase, (ii) gift, (iii) exchange (iv) surrender (v) power of attorney; or (vi) Relinquishment of rights.

However, transactions from the following through inheritance or gifts have been excluded from its ambit: (i) Spouse (ii) parents (iii) grand parents (iv) brother; and (v) sister.

2. Definition of Urban Area: "Urban area" for the purpose of levy of CVT has been defined as below:—"urban area" means area falling within the limits of:-(i)the Islamabad Capital Territory (ii) a cantonment board; or(iii)a municipal body (iv)in case of Karachi up to 40 Kilometers from the outer limit of municipal or cantonment limits (v) in case of Lahore and Faisalabad up to 30 Kilometers from the outer limit of municipal or cantonment limits;(vi)in other cases, up to 10 kilometers from the outer limits of municipal bodies or cantonment boards; and (vii) areas defined as such in the Urban Immovable Property Tax Act, 1958 (WP Act V of 1958) and such areas as the Central Board of Revenue may, from time to time, by notification in the official Gazette specify.

3. Rates of CVT For Immovable Property: A new clause (CA) in sub-section (2) of section 7 has been added to prescribe rates of CVT livable on immovable property w.e.f. July 1, 2006 as below:-(a) Immovable property (other than commercial property and residential flats) situated in urban area, measuring at least one kanal or 500 square yards whichever is less:

(i) Where the value of immovable property is recorded. 2% of the recorded value

(ii) Where the value of immovable property is not recorded Rs. 50 per square yard of the landed area;

(b) Commercial immovable property of any size situated in urban area:

(i) Where the value of immovable property is recorded. 2% of the recorded value

(ii) Where the value of immovable property is not recorded. Rs. 50 per square yard of the landed area

(c) Residential flats with covered area measuring 1500 sq. feet and above:

(i) Where the value of immovable property is recorded. 2% of the recorded value

(ii) Where the value of immovable property is not recorded. Rs. 50 per square yard of the landed area.

Circular No. 03 of 2006 Dated July 11, 2006

Computation of Income Tax Payable by the Salaried Taxpayers for Tax Year 2007 and Deduction of Advance Tax From Salary for the Tax Year Starting 1st July 2006

Tax in the case of a salaried taxpayer shall be computed in accordance with sections 12,13 and 14 of Income Tax Ordinance 2001, read with rules 2 to 7 of Income Tax Rules 2002. A salaried taxpayer means where salary constitutes more than 50% of the total income. All perquisites, allowances or benefits, [excepting those covered under Part-I of the Second Schedule to the Ordinance], are to be included in the salary and rate of tax prescribed in Part-I of the First Schedule shall be applied for the tax year 2007 on the gross figure. The taxation of salaried taxpayer is explained as under:

Taxation of accommodation provided by the employer: The value of accommodation provided by the employer to the employee shall be taken as the amount which the employer would have paid to the employee in case the accommodation was not provided to him. In other words, for the purpose of calculation of value of the perquisite of housing, the amount of house rent that would have been paid by the employer (if house was not provided) shall be included in the salary for tax purposes. However, the value taken for this purpose will not be less than 45% of the minimum of the time scale of the basic salary or the basic salary where there is no time scale.

Taxation of motor vehicle provided by the employer: The addition on account of Motor Vehicle provided by the employer to the employee shall be calculated in the following manner: (I) where motor vehicle is used partly for personal and partly for business purposes.

In case the motor vehicle provided by the employer is used partly for personal and partly for business purposes, the amount to be included in the salary on this account shall be 5%, of: (a) Cost to the employer for acquiring the motor vehicle; Or (b) The fair market value of the



motor vehicle at the commencement of the lease (if the motor vehicle is taken on Lease by the employer)

(ii) Where motor vehicle is provided exclusively for personal or private use.

In case motor vehicle provided by the employer is used exclusively for personal or private use, addition in income will be made as under:

(a) Where motor vehicle is Owned by the employer: 10% of cost to the employer for acquiring the motor vehicle;

OR

(b) Where the motor vehicle is Taken on lease by the Employer 10% of fair market value of the motor vehicle at the Commencement of the lease.

Adjustment of Tax Liability of Salaried Taxpayers by Employers Being Withholding Agent.

In accordance with the guidance embodied in Circular No. 18 of 2004 dated August 9, 2004, every employer, while deducting income tax payable on the income chargeable under the head "Salary" of its employees, is allowed under the provisions of section 149 of the Income Tax Ordinance, 2001 to make such adjustments, as may be necessary, for any excess deduction or deficiency arising out of any previous deduction or failure to make deduction during the Tax Year. A withholding agent is allowed to make adjustments on production of the documentary evidence by an employee regarding income tax withheld along with (a) Motor vehicle tax in respect of motor vehicle registered in employee's own name; (b) Telephone bill as subscriber of telephone.

The following examples will illustrate the computation of tax of salaried taxpayers for the tax year 2007 and tax shall accordingly be deducted under section 149 (1) of the Income Tax Ordinance, 2001 by the employer's w.e.f July 1, 2006:

Example-1: Minimum Time Scale (Rs.2980-200-8980) A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 45% of minimum time scale, had the accommodation not been provided.

	Total Income	Exempt Income	Taxable Income
Basic Salary @ 7180 per month	86160	Nil	86160
House Rent allowance (35760 X 45%)	16092	Nil	16092
Conveyance allowance	8160	Nil	8160
Medical allowance Rs.5100/- Exempt upto 10% of the MTS [clause (139)(b), Part I of Second Schedule]	5100	5100	00
Spl. Addl. Allowance	5496	Nil	5496
Spl. Relief Allowance	10956	Nil	10956
Adhoc Relief	10956	Nil	10956
Dearness allowance	12924	Nil	12924
Total	155844	5100	150744

Tax payable on Rs. 150744 @ 0.25% = Rs. 377

Tax deductible per month = Rs. 31

Example-2: Minimum Time Scale (Rs.2865-185-8410) a salaried taxpayer is entitled to house rent allowance @ 45% of minimum time scale, as he has not been provided with accommodation by the employer.

	Total Income	Exempt Income	Taxable Income
Basic Salary @ 4345 per month	52140	Nil	52140
House Rent allowance (34380 X 45%)	15471	Nil	15471
Conveyance allowance	5520	Nil	5520
Medical allowance Rs.5100. Exempt upto 10% of MTS	5100	5100	00
Computer allowance	9000	Nil	9000
Spl. Addl. allowance	4980	Nil	4980
Spl. Relief Allowance	6492	Nil	6492
Adhoc Relief	6492	Nil	6492
Dearness allowance	7821	Nil	7821
Total	113016	5100	107916

This salaried taxpayer also owns a house which is on rent @ Rs.10, 000/- per month (Total property income comes to Rs.10, 000 X 12 = 120,000/-). Since the salary income as well as property income is below the basic threshold i.e. Rs.150, 000/-, therefore, no tax will be paid by the taxpayer for the tax year 2007 [section 15(7) of the Income Tax Ordinance, 2001].

Example-3: Minimum Time Scale (Rs.2865-185-8410) A salaried taxpayer is entitled to house rent allowance @ 45% of minimum time scale, as he has not been provided with accommodation by the employer...

	Total Income	Exempt Income	Taxable Income
Basic Salary @ 4345 per month	52140	Nil	52140
House Rent allowance (34380 X 45%)	15471	Nil	15471
Conveyance allowance	5520	Nil	5520
Medical allowance Rs. 5100. Exempt upto 10% of MTS	5100	5100	00
Computer allowance	9000	Nil	9000
Spl. Addl. Allowance	4980	Nil	4980
Spl. Relief Allowance	6492	Nil	6492
Adhoc Relief	6492	Nil	6492
Dearness allowance	7821	Nil	7821
Total	113016	5100	107916

This salaried taxpayer also owns a house which is on rent @= Rs.15, 000/- per month (Total property income comes to Rs.15,000 X 12 = 180,000/-). Therefore, tax payable on the salary and property income for the tax year 2007, will be computed as below: (A)Salary income Rs.107916/- being below the basic threshold i.e. Rs.150, 000/-, therefore, no tax on such income will be payable. (B)Property income=Rs.180, 000 Tax @ 5% = Rs. 9000 Total tax payable is Rs. 9000

Example-4: Minimum Time Scale (Rs.14260-705-28360) A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 45% of minimum time scale, had the accommodation not been provided.

	Total Income	Exempt Income	Taxable Income
Basic Salary @ 19195 per month	230340	Nil	230340
Accommodation provided by employer	77004	Nil	77004
Conveyance allowance	14880	Nil	14880
Spl. Addl. Allowance	18600	Nil	18600
Qualification Pay	6000	Nil	6000
Spl. Relief allowance @ 15%	30069	Nil	30069
Ad-hoc relief allowance @ 15%	30069	Nil	30069
Total	406962	Nil	406962

Tax payable on Rs. 406962 @ 3.5% = Rs. 14244

Tax deductible per month = Rs. 1187

Example-5: Basic Salary Rs. 19195/- A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 60% of basic salary had the accommodation not been provided and there is no minimum time scale. Besides, the employer provided the vehicle exclusively for personal use. The cost of motor vehicle to the employer is Rs. 500000/-

	Total Income	Exempt Income	Taxable Income
Basic Salary @ 19195 per month	230340	Nil	230340
Accommodation provided by employer	138204	Nil	138204
Motor Vehicle @ 10% of the cost [Rs.500,000]	50000	Nil	50000
Total	418544	Nil	418544

Tax payable on Rs. 418544 @ 3.5% = Rs.14649/-

Tax deductible per months. = 1220



PIPFA Affairs

Associate Members

1. Tahir Ali	(APA-3769)	31. Muhammad Imran	(APA-3799)
2. Fahad Mahmood	(APA-3770)	32. Shahid Mahmood	(APA-3800)
3. Muhammad Abdul Hannan	(APA-3771)	33. Shahid Kamal	(APA-3801)
4. Nadia Zikria	(APA-3772)	34. Safdar Abbas	(APA-3802)
5. Ali Imran	(APA-3773)	35. Fida Hussain Jamali	(APA-3803)
6. Muhammad Wasim Anwar	(APA-3774)	36. Sohail Zafar Abid	(APA-3804)
7. Wajid Shafiq	(APA-3775)	37. Ejaz Ahmad	(APA-3805)
8. Mobashir Shafiq	(APA-3776)	38. Aftab Ahmed Khaskheli	(APA-3806)
9. Shabbir Ahmed Dahar	(APA-3777)	39. Emad Nazir Ahmed	(APA-3807)
10. Muhammad Ayub	(APA-3778)	40. Muhammad Ashfaq	(APA-3808)
11. Muhammad Salim	(APA-3779)	41. Aftab Alam Qureshi	(APA-3809)
12. Muhammad Azhar	(APA-3780)	42. Muhammad Iqbal Qureshi	(APA-3810)
13. Hammad Alam	(APA-3781)	43. Allah Warayo Abro	(APA-3811)
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22. Ghulam Nizam Ud Din	(APA-3790)	52. Rashid Rahman Mir	(FPA-3870)
23. Noman Nasir	(APA-3791)		
24. Muhammad Rashad	(APA-3792)		
25. Muhammad Hussain	(APA-3793)		
26. Salim Waqar	(APA-3794)		
27. Amanat Ali	(APA-3795)		
28. Muhammad Rehan	(APA-3796)		
29. Khawaja Obaidullah	(APA-3797)		
30. Syed Shahzad Ahmad Bukhari	(APA-3798)		

Coaching Classes: Enrolment of students has begun in the new educational session. Coaching classes for winter 2006 session will begin in the month of August at PIPFA's own supervised centers at Karachi, Lahore and Faisalabad as well as PIPFA's Approved Coaching Centers in all major cities of Pakistan. Coaching classes are compulsory for PIPFA students except when exemption is granted to students residing at a place where the coaching facility is not available. The facility is available at Karachi, Rawalpindi, Islamabad Lahore, Gujranwala, Faisalabad and Multan.

Post Office Reg. No. : SS-1112

To,

If undelivered, please return to:

Pakistan Institute of Public Finance Accountants,

1005, Park Avenue, 10th Floor, 24-A, Block 6, P.E.C.H.S., Shara-e-Faisal, Karachi-75400.

Tel # 021-4380451, 4380452, Fax : 021-4524871, E-mail: pipfa@cyber.net.pk, Website : www.pipfa.org.pk