

IN THE NAME OF ALLAH ALMIGHTY, THE MOST MERCIFUL,  
MOST BENEFICENT



# NEWSLETTER JUNE 2020



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## **DISCLAIMER**

Khilji & Co (Chartered Accountants) is pleased to present Firm's Newsletter. The only purpose of this document is to provide updated information to our clients about recent circulars/ notifications issued by various authorities during this month and also to provide our clients with information on latest useful decisions of appellate courts. The information provided in this document should only be used in conjunction with professional opinion from tax/ legal advisor and checked for updated position of law. This document as a whole or its any part should not be reproduced in any form without prior written approval from Khilji & Co. This newsletter is distributed free of cost to our clients only. We humbly request our readers to please provide us the most valuable comments to make this more informative and useful. It has always been a pleasure to be of service to our clients.

### **EDITORIAL GROUP:**

- |  |                       |
|--|-----------------------|
| <b>1. Mr. Muhammad Waheed Iqbal, FCA</b> | <b>Chief Editor</b>   |
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اللَّهُمَّ إِنِّي أَعُوذُ بِكَ مِنَ الْبَرَصِ وَالْجُنُونِ  
وَالْجَذَامِ وَسَيِّئِ الْأَسْقَامِ

Oh Allah I seek Your refuge from leprosy, insanity,  
mutilation and from all serious illnesses

### COVID-19

### PREVENTIVE MEASURES

- It is matter of our fundamental faith that Almighty Allah is the most merciful and beneficent and the foremost thing to do at all times particularly difficult times like these is to seek forgiveness from Allah for all our intentional and unintentional mistakes.
- Let us pray and seek forgiveness from Allah for all sins and wrongdoings committed by us deliberately or otherwise. May Allah keep all humanity including us and our families safe from this and all kinds of diseases.  
AMEEN
- While the spiritual prevention of all diseases including this CORONA should be sought through Namaz and Istaghfar however at the same time we have been taught through Quran and Sunnah to take all necessary measures and medicines against all such diseases while keeping faith that the power to cure remains with Allah.

## MONTH'S PREMIUM PUBLICATION

**KHILJI & CO --TAX BRIEFING - FINANCE BILL 2020**

**[KHILJI AND CO TAX BRIEFING ON FINANCE BILL 2020](#)**

**THE AMENDED VERSION OF THE SAME DOCUMENT WILL BE  
PUBLISHED SOON WHICH WILL BE BASED ON THE APPROVED  
FINANCE ACT 2020**

## Important Case Laws Related to Income Tax Refunds

An important issue has been decided at the High Court and Supreme Court level related to income tax refunds which we would like to highlight for the common benefit of large number of taxpayers.

Tax Reference No. 48 of 2011 in The Lahore High Court Multan Bench and Civil Petitions No.283-L to 286-L of 2018 in Supreme Court of Pakistan have been discussed hereunder. The issues settled through these judgments are as follows:

- i) when refund becomes due for the purpose of additional payment for delayed refund? and
- ii) whether the application for refund u/s 170(4) is obligatory or not?

### TAX REFERENCE NO. 48 OF 2011 IN THE LAHORE HIGH COURT MULTAN BENCH

Reference applications filed in the High Court by tax department against the decisions of Appellate Tribunal Inland Revenue ("Appellate Tribunal"), concluding that refund becomes due on the date when order under Section 120 is taken to have been issued by the Commissioner. The operative part from the order is reproduced for ease of reference: -

*"11. Cumulative reading of above shows that in terms of section 170(4) the Commissioner is duty bound to issue refund within 45 days of receipt of application, but under section 170(3)(c), even no refund application is required, for him to refund any amount overpaid after adjustment if any. In other words, the refund in this case was "due" for the purpose of section 171(1) on the date of order treated to have been made and after lapse of three months from the said date, the compensation was due. Section 171(2) relied upon by the Department does not vitiate the right of compensation as elaborated above. The Department has failed to appreciate the fact that section 171(2) is creating a legal fiction for certain specific "refund due" in section 171(1) and "a refund shall be treated as having become due" [section 171(2)] are not synonymous. The first deals with "refund" due on happening of an event, in this case the movement order under section 120 creating refund comes into existence. In the second situation a refund shall be treated as having become due i.e. when it was not otherwise due. Had this not been the case, there was no need to provide legal fiction as elaborated in detail in earlier paragraphs."*



Following questions of law framed and decided by the Court.

*“1. Whether on the facts and in the circumstances of the case, learned Tribunal was justified to dismiss departmental appeal and hold that refund becomes due on the date of deemed assessment u/s120 of the Income Tax Ordinance, 2001 for the purpose of additional payment for delayed refund?”*

*2. Whether on the facts and in the circumstances of the case learned Tribunal was justified to hold that application for refund u/s 170(4) is not obligatory while interpreting the word “may” in sub-section (1) of section 170 of the Income Tax Ordinance, 2001?*

*3. Whether on the facts and in the circumstances of the case, the learned Tribunal was justified to ignore the provisions of clause (c) of sub-section (2) of section 171 of the Income Tax Ordinance, 2001 which provides that a refund shall be treated as having become due on the date the refund order is made?”*

The department’s Counsel argued that filing of an application, under Section 170, for issuance of refund is mandatory; Refund could be issued, only on Commissioner’s satisfaction that tax to be refunded was overpaid; refund claimed in a return is always subject to certain verifications and has to be issued through an order within stipulated time.

The respondents opposed the arguments by submitted that word “may” is used in sub-section (1) of Section 170 of the Ordinance, which makes the application for refund as optional. He emphasized that the order under Section 120 is an order for all purposes of the Ordinance including issuance of refund.

The court discussed that that a refund, under the Ordinance, is required to be paid within three months from the date it becomes due. If due refund is not paid within three-month, clock for ‘additional payment of delayed refund’, at the rate of 15% per annum, shall start ticking and would stop on the date of its payment. However, its proviso, which has overriding effect, says that where there is reason to believe that the refund claimed by taxpayer is not admissible to him, the time shall not start running after three months unless investigation of the claim is completed and claim is either accepted or rejected. In other words, refund does not become due merely on its claim in the return or on filing of application for refund, if Commissioner believes, for reasons, that it is not admissible as claimed.

Subsection (2) of Section 171 envisages three eventualities when refund shall be treated as having become due.

First, when a dispute between the taxpayer and department is resolved in appeal and refund becomes payable as a consequence; the date when such order is received by Commissioner.

Second; on the date of order by Commissioner passed under section 122A.

Third situation is general in nature, it deals with remaining eventualities like; when order under section 120 is taken as issued by the Commissioner and it is not subjected to appeal or revision. In such case, the important words used by Legislature in clause (c) to subsection (2) of section 171, i.e., 'on the date the refund order is made', would clinch the controversy. Making of an order necessarily requires conscious application of mind and is to be related to the words, 'reason to believe' that claimed refund is not admissible. It is important to point out that, under scheme of the Ordinance, a complete return filed is taken as an assessment order issued by Commissioner, through operation of law and without application of mind.

While reviewing section 120, it was discussed that section 120 reveal that assessment, under this section, is taken to have been made of '**tax due**' and not of '**refund due**'. Whatever is declared and concluded as '**taxable income**' in a complete return is taken as order made by Commissioner, without application of his mind. In fact, this order, by operation of law, is passed without even a glance by Commissioner on the return, in physical or digital form.

The Court concluded that refund could not be treated as due on issuance of order, under Section 120, by Commissioner through operation of law.

Further, the Court remarked that we are not convinced by the arguments of learned counsel for the respondents that word "may" used in subsection (1) of Section 171 makes filing of application for refund as optional. The word "may" is used for applying to the Commissioner for refund within two years. It appears that option to apply for refund in two years is given for the reason that taxpayer can also opt for adjustment of refund against his future tax liability or for adjustment against demand under other taxing statutes. The word "shall" used in subsection (2) not only makes filing of application for refund as mandatory but the application has to be in the manner and in the Form as prescribed by the Rules. It is incumbent upon the Commissioner, under subsection (3), to satisfy himself that tax was overpaid and he is obliged to reduce the payable refund by adjusting the tax payable under this Ordinance and under other statutes.

The Court held that Commissioner is bound under subsection (4) of section 170, to make a refund order within sixty days from receipt of application for refund. His inaction is made appealable under subsection (5). On expiration of sixty days, a negative order is presumed to have been passed. In case appeal is accepted, against the inaction, and refund is determined by Appellate Court, the refund shall be taken as due on the date when sixty days expired from receipt of application for refund. Courts would not allow the department to take advantage of its own inaction within the stipulated period of sixty days.

After discussing the above, the Court decided the case in the following words.

***"9. For the reasons discussed above, we do not agree with the interpretation and decision given by Appellate Tribunal. Our answer to the questions of law, supra, is in "Negative" i.e., in favour of applicant department."***

## **CIVIL PETITIONS NO.283-L TO 286-L OF 2018 IN SUPREME COURT OF PAKISTAN**

Almost similar question also came before Supreme Court of Pakistan in Civil Petitions No.283-L to 286-L of 2018 on an appeal from the order of Lahore High Court, Lahore dated 21.11.2017, passed in Income Tax References No.304 to 307 of 2014.

The question before Supreme Court to determine was the date when tax refund becomes due to the petitioner (taxpayer) under the Income Tax Ordinance, 2001 (the "Ordinance") for the purposes of Additional Payment or compensation for delayed refund.

Brief facts are that the petitioner filed tax returns along with refund applications for Tax Years 2004 to 2008. The refund applications were taken up under section 170 and rejected by the Assistant Commissioner Inland Revenue, Regional Tax Office, Lahore on 23.09.2010. On appeal filed by the petitioner before the Commissioner Inland Revenue (Appeals) [CIR (Appeals)],

Lahore the case was remanded to Taxation Officer on 15.02.2011 for a fresh decision. The Deputy Commissioner Inland Revenue (DCIT) decided the matter on 22.03.2013 granting refund to the petitioner, as well as, additional payment (compensation) for delayed refund w.e.f 15.02.2011 i.e., the date when CIR (Appeals) decided the appeals and remanded the matters to the DCIT.

Petitioner, aggrieved of the date of the refund due, preferred appeals before CIR (Appeals) which were dismissed on the question of jurisdiction; holding that no appeal lay against an order under section 171 of the Ordinance.

The petitioner filed an appeal before the Appellate Tribunal Inland Revenue (ATIR) which was allowed vide order dated 12.09.2014, granting Additional Payment (compensation) to the petitioner for delayed refunds from the date of the deemed assessment under section 120 of the Ordinance when the petitioner had filed the annual income tax returns for the relevant tax years. The tax department assailed the order before the High Court by filing appeals which were allowed vide impugned order dated 21.11.2017 holding the date of the refund due in terms of section 171(2)(a) to be w.e.f 22.03.2013 - the date when DCIT passed the refund order in favour of the petitioner.

The Supreme Court examined the relevant provisions of the Ordinance, in particular, sections 120, 170, 171 and the Explanation inserted in section 171(2) vide Finance Act, 2013, dated 01.07.2013 as follows:

Under the scheme of the Ordinance (Chapter X, Part VI) a taxpayer, who has paid tax in excess of the amount which is properly chargeable under the Ordinance, may apply to the Commissioner for the refund of the excess under section 170. The application for refund has to be in the prescribed form and verified in the prescribed manner and is to be made within three years of the later of the (i) assessment order (under section 120) issued by the Commissioner to the taxpayer for the tax year to which the refund application relates or (ii) the date on which the tax was paid.

The Commissioner if satisfied that the tax has been overpaid by the taxpayer may do the following in a sequential manner: (i) apply the excess in reduction of any tax due from the taxpayer under the Ordinance. (ii) apply the balance, if any, to pay any outstanding liability of the taxpayer to pay other taxes and (iii) refund the remainder, if any to the taxpayer.

The Commissioner is to decide the refund application within 60 days of the receipt of the application and decide the same after granting a hearing to the taxpayer. Any one aggrieved of the refund order or the failure of the Commissioner to decide the application within the specified time can file an appeal as provided in the Ordinance. Once the refund order has been passed which may entail cash refund or adjustment against pending liability as envisaged under section 170(3).

Thereafter, if the refund is delayed and not paid to the taxpayer within three months of the date on which it becomes due, the taxpayer gets entitled to compensation at the rate of KIBOR plus 0.5 percent per annum of the amount of refund computed for the period commencing at the end of the three-month period and ending on the date on which it is paid. Sub-section 2 of section 171 refers to dates which are treated to be the dates when the refund becomes due. Sections 170 and 171, therefore, provide a complete mechanism for claiming tax refund by a taxpayer. Such an application undergoes proper scrutiny and only upon satisfaction of the Commissioner is the refund order issued.

After discussing the above, the Court decided the case in the following words.

*“7. In the present case, the applications for refund filed by the petitioner under section 170 were taken up by Assistant Commissioner Inland Revenue in the year 2010 and initially rejected. After remand of the matter by CIR (Appeals), DCIT passed refund order on 22.03.2013. The matter remained under litigation between the department and the taxpayer, and refund order was passed on 23.03.2013, rather than 15.02.2011, when the CIR (Appeals) simply remanded the matter to the DCIT to decide the same afresh. Therefore, the date of refund order passed by DCIT i.e., 22.03.2013 will be the date when the refund becomes due as per section 171(2)(c) [instead of section 171(2)(a)] as correctly noted by the High Court.*

*8. For the above reasons, these petitions fail and are, therefore, dismissed.”*

Summarizing both judgments above, it has been decided that that:

- refund order shall be treated as having become due on the date the refund order is made by the Commissioner; and
- filing of application for refund under section 170 is mandatory.



## NOTIFICATION / CIRCULARS

<b>ISSUING AUTHORITY:</b>	SINDH REVENUE BOARD
<b>POWERS EXERCISED U/S:</b>	45 of Sindh Sales Tax on Services Act, 2011
<b>NOTIFICATION NO:</b>	SRB-3 -4/11/2020
<b>DATE OF ISSUANCE:</b>	JUNE 01, 2020
<b>EFFECTIVE FROM:</b>	WITH IMMEDIATE EFFECT (i.e. JUNE 01, 2020)
<b>AMENDMENTS MADE IN:</b>	SINDH SALES TAX ON SERVICES ACT, 2011

## LINK OF DOCUMENT

[https://khilji.net.pk/wp-content/uploads/2020/06/NOTIFICATION\\_3\\_4\\_11\\_2020.pdf](https://khilji.net.pk/wp-content/uploads/2020/06/NOTIFICATION_3_4_11_2020.pdf)

## COMMENTARY

### SINDH SALES TAX INCENTIVE PACKAGE FOR TOTAL WAIVER OF PENALTY AND REMISSION OF UPTO 100% OF THE AMOUNT OF THE DEFAULT SURCHARGE

Through this notification the Sindh Revenue Board has allowed certain remission of penalty and default surcharge on the amount of sales tax payable as on 31<sup>st</sup> May 2020. The incentives announced through the aforesaid notification provide an opportunity to the taxpayers to get substantial waiver of their liability to pay penalties and default surcharge by depositing the outstanding amounts of tax liabilities during the period the said notification is valid.

The whole amount of tax is payable along with penalty and default surcharge as per percentages specified below

Deposit date	Principal Amount Payable	Penalty Payable	Default Surcharge Payable
1 <sup>st</sup> June 2020 to 15 <sup>th</sup> June 2020	100%	0%	0%
16 <sup>th</sup> June 2020 to 22 <sup>nd</sup> June 2020	100%	0%	5%
23 <sup>rd</sup> June 2020 to 30 <sup>th</sup> June 2020	100%	0%	10%

1. The above remission of Penalty and default surcharge shall also apply to arrears of tax as outstanding on 31<sup>st</sup> May 2020 by:
  - (i) persons who are liable to be registered under section 24 of the Act but were not registered, provided that:-
    - a. they get themselves registered with SRB in the prescribed manner during the aforementioned periods from 1st June, 2020 to the 30th June, 2020.
    - b. they deposit their tax liabilities for the principal amount of tax along with the aforementioned percentages of the amount of default surcharge thereon in relation to the tax periods from the date of the commencement of their economic activity to the tax period of May, 2020, in Sindh Government's head of account "B-02384" in the prescribed manner by the due dates prescribed above.
    - c. they also e-file their tax returns, for the tax periods from date of commencement of their economic activity of taxable services to the tax period May, 2020, during the period from the date of this notification to the 30th June, 2020.
  - (ii) persons who were registered but were non-filers or null-filers or nil-filers of their tax returns;
  - (iii) persons who were late-registered with SRB and they did not file all of their tax returns for the tax periods from the date of commencement of their economic activity of taxable services;
  - (iv) persons who withheld any amount of Sindh sales tax but have not deposited the said withheld amount;

- (v) persons who determine the arrears through self-detection and self-assessment;
- (vi) persons who short-paid any amount of tax in their tax returns;
- (vii) persons against whom any arrears of tax was detected in SRB's scrutiny of tax returns or in SRB's audit of taxpayers' record;
- (viii) persons against whom any tax amount has been determined or assessed or adjudged, by an officer of the SRB, through an order or decision passed under the Sindh Sales Tax on Services Act, 2011, or the rules/notification issued thereunder;
- (ix) persons against whom any tax liability has been adjudged or confirmed by the Commissioner (Appeals) or the Appellate Tribunal;
- (x) persons whose cases are under assessment or under adjudication with any officer of the SRB or are pending, at the appellate stage with the Commissioner (Appeals) or with the Appellate Tribunal;
- (xi) persons whose cases are under litigation in any court of law including the High Court and the Supreme Court

2. The benefits of this notification, **to the extent as specified below**, shall also be available in cases where a person has late paid the principal amount of tax prior to the date of this notification and/or has not yet discharged the liability of penalty (whether the prescribed amount of penalty or the adjudged amount of the penalty) and default surcharge on such late payment as per percentages given below :-

Deposit date	Penalty Payable	Default Surcharge Payable
1 <sup>st</sup> June 2020 to 15 <sup>th</sup> June 2020	5%	10%
16 <sup>th</sup> June 2020 to 22 <sup>nd</sup> June 2020	10%	15%
23 <sup>rd</sup> June 2020 to 30 <sup>th</sup> June 2020	15%	20%

3. If the whole of the dues of the principal amount of tax and the aforementioned prescribed percentage of the amount of default surcharge thereon are paid by a person in terms of this notification, he shall not be prosecuted under section 49 of the Act and the offence, to the extent of the arrears the tax paid under this notification, shall also be compounded under section 46 of the Act.
4. If the principal amount of tax and the aforementioned percentages of the amount of the default surcharge thereon, as are paid in terms of this notification by the persons described in clauses (vi), (vii), (viii), (ix), (x) and (xi) of paragraph 2 of this notification, are held to be not payable in view of the order issued by the respective competent authority (i.e. the adjudicating officer or the Commissioner (Appeals) or the Appellate Tribunal or the Court of Law), the Officer of the SRB, not below the rank of an Assistant Commissioner, shall allow tax adjustment/credit of the amount or, alternately, shall refund the amount, so paid, within 90 days from the date of receipt of the taxpayer's application, for refund or for tax adjustment/credit, together with a copy of the order/judgment and also of the evidence that the incidence of the tax was not passed on to the service recipient.
5. This notification shall not apply for refund or adjustment of any amount of tax or default surcharge or penalty as has already been paid or recovered on any date on or before the 31<sup>st</sup> May, 2020.

## BALUCHISTAN REVENUE AUTHORITY NOTIFICATION

### INTRODUCTION

Baluchistan Revenue Authority has issued extension in the dates of Payment Submission of **Sales Tax and Federal Excise Returns** for the Tax Period **APRIL 2020**.

<b>ISSUING AUTHORITY:</b>	Baluchistan Revenue Authority
<b>POWERS EXERCISED U/S:</b>	SECTION 18(3) read with SECTION 86(1) of Baluchistan Sales Tax Act 2015.
<b>NOTIFICATION NO:</b>	BRA/STA&A/19-20/4158
<b>TAX PERIOD</b>	<b>APRIL 2020</b>
<b>DATE OF ISSUANCE:</b>	MAY 29, 2020

### COMMENTARY

#### Payment Date

1. The date of payment for Tax Period April 2020 has been extended till May 29, 2020

#### Submission Date

2. The date of submission for Tax Period April 2020 has been extended till May 30, 2020

### LINK OF DOCUMENT

<https://khilji.net.pk/wp-content/uploads/2020/06/Extension-in-date-for-payment-and-submission-of-Sales-Tax-Federal-Excise-return-for-the-tax-period-of-April-2020.pdf>

### SECP NOTIFICATIONS

#### AMENDMENTS TO THE COMPANIES (DISTRIBUTION OF DIVIDENDS) REGULATIONS, 2017

<b>ISSUING AUTHORITY:</b>	Securities and Exchange Commission of Pakistan
<b>POWERS EXERCISED U/S:</b>	Section 512 of the Companies Act, 2017 (XIX of 2017).
<b>NOTIFICATION NO:</b>	S.R.O. 441 (I)/2020.
<b>DATE OF ISSUANCE:</b>	MAY 14, 2020

### COMMENTARY

SECP Vide S.R.O. 441 (I)/2020 dated May 14, 2020 made amendments to the Companies (Distribution of Dividends) Regulations, 2017, by changing the definition of "Paying Agent". The Amendment is made in Regulation # 2, Sub-Regulation (1), clause (vi) as the words "or a central depository" are inserted after the words "any approved payment service provider"

Now the amended definition of "Paying Agent" is as follows: -

*"paying agent" means a bank, any approved payment service provider or a central depository appointed by a company for making payment of cash dividend directly into the designated bank account of entitled shareholder".*

### LINK OF DOCUMENT

<https://khilji.net.pk/wp-content/uploads/2020/06/Amendments-to-the-Companies-Distribution-of-Dividends-Regulations.pdf>

## **KHILJI & CO --TAX BRIEFING - FINANCE BILL 2020**

In continuation of our regular practice, we are pleased to present and publish our detailed **TAX BRIEFING on FINANCE BILL 2020**.

Please click on link mentioned below to access and study the complete document

[\*Khilji and Co Tax Briefing on Finance Bill 2020\*](#)

*This document envisages following aspects:*

- Overview of Economy
- Federal Budget Highlights
- Summary of Key Amendments
- Significant Amendments in Income Tax
- Significant Amendments in Sales Tax
- Significant Amendments in Federal Excise
- Significant Amendments in Customs Act

### **FBR NOTIFICATIONS**

<b>ISSUING AUTHORITY:</b>	FEDERAL BOARD OF REVENUE
<b>POWERS EXERCISED U/S:</b>	53 (2) of the ITO 2001
<b>NOTIFICATION NO:</b>	S.R.O. 557(1)/2020
<b>DATE OF ISSUANCE:</b>	JUNE 22, 2020
<b>EFFECTIVE FROM:</b>	WITH IMMEDIATE EFFECT (i.e. JUNE 22, 2020).
<b>AMENDMENTS MADE IN:</b>	2 <sup>nd</sup> Schedule to the Income Tax Ordinance 2001

### **LINK OF DOCUMENT:**

<https://khilji.net.pk/wp-content/uploads/2020/06/20206221763939290sro557of2020.pdf>

### **COMMENTARY**

Through this notification, the Federal Board of Revenue has granted exemption from collection of advance tax u/s 148 of the Income Tax Ordinance 2001 on the import of finished drug Remdesivir 100mg injection and injectable solution 100 mg vial.

### **SINDH REVENUE BOARD CIRCULAR**

<b>ISSUING AUTHORITY:</b>	SINDH REVENUE BOARD
<b>POWERS EXERCISED U/S:</b>	Section 81 of the Sindh Sales Tax on Services Act, 2011 (Sindh Act No. XII of 2011)
<b>DATE OF ISSUANCE:</b>	June 23, 2020
<b>TAX PERIOD</b>	May 2020

**SUBJECT** Extension in the last date for E-Deposit of Sindh Sales Tax for the Tax Period MAY, 2020 and for E-Filing of Tax Return (FORM SST-03 or FORM SSTW-03, As the case may be) for the Tax period MAY, 2020

### **LINK OF COMMENTARY**

<https://khilji.net.pk/wp-content/uploads/2020/06/KCO103.pdf>

### **LINK OF DOCUMENT**

[http://www.srb.gos.pk/contents/Circulars/20200623\\_CIRCULAR\\_NO\\_05\\_2020.PDF](http://www.srb.gos.pk/contents/Circulars/20200623_CIRCULAR_NO_05_2020.PDF)

## POWERS AND FUNCTIONS OF THE COMMISSION DELEGATED TO THE DIRECTOR SUPERVISION AND ENFORCEMENT DEPARTMENT

**ISSUING AUTHORITY:** Securities and Exchange Commission of Pakistan  
**POWERS EXERCISED U/S:** Section 10 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997)  
**NOTIFICATION NO:** S.R.O. 440 (I)/2020.  
**DATE OF ISSUANCE:** MAY 13, 2020

### COMMENTARY

SECP vide S.R.O. 440 (I)/2020 dated May 13, 2020 delegated the following powers and functions of the Commission to the Director Supervision and Enforcement Department in relation to NBFCs, namely:

Sr. No.	Companies Ordinance, 1984 (XLVII of 1984) [Part VIIIA]	Nature of power/function
1.	282D(1)	To issue directions to NBFCs
2.	282D(2)	To modify or cancel the directions issued and impose conditions.

It is further provided that in case the post of Director Supervision and Enforcement Department is vacant or incumbent is unable to perform his duties, the powers and functions delegated to him through this notification, shall stand delegated to the Commissioner (SCD).

### LINK OF DOCUMENT

<https://khilji.net.pk/wp-content/uploads/2020/06/Delegation-of-powers-Director-S-ED.pdf>



<b>ISSUING AUTHORITY:</b>	SINDH REVENUE BOARD
<b>POWERS EXERCISED U/S:</b>	8 of Sindh Sales Tax on Services Act, 2011
<b>NOTIFICATION NO:</b>	SRB-3-4/12/2020
<b>DATE OF ISSUANCE:</b>	June 22, 2020
<b>EFFECTIVE FROM:</b>	WITH IMMEDIATE EFFECT (i.e. JUNE 22, 2020)
<b>AMENDMENTS MADE IN:</b>	2 <sup>nd</sup> SCHEDULE TO THE SINDH SALES TAX ON SERVICES ACT, 2011

**LINK OF DOCUMENT**

[https://khilji.net.pk/wp-content/uploads/2020/06/20200622\\_NO\\_SRB\\_12\\_2020.pdf](https://khilji.net.pk/wp-content/uploads/2020/06/20200622_NO_SRB_12_2020.pdf)

**COMMENTARY**

Through this notification, the Sindh Revenue Board has reduced the rate of sales tax on services provided or rendered by the recruiting agents, as are classified under tariff heading 9805.6000 of the Second Schedule to the Act from 13% to 8% during the tax periods of the financial years 2018-19, 2019-20 and 2020-21 subject to the conditions that such a service provider:

- a. is registered with the Board in terms of section 24 of the Act and has shown the services of "Recruiting agents" of tariff heading 9805.6000 as his Principal Activity in his Registration Form SST-01.
- b. is a stand-alone service provider of the taxable service of "recruiting agents" of tariff heading 9805.6000.

Explanation: For the purposes of this notification, a "standalone service provider" means a person whose principal economic activity is the provision of services of "Recruiting agents" of tariff heading 9805.6000, and such economic activity of the provision of the services of recruiting agency is related to recruitment of individuals or group of individuals for overseas employment in countries outside Pakistan.

**Provided that the services provided or rendered by such recruiting agents in relation to recruitment of individuals or group of individuals for employment in Pakistan shall continue to be levied to tax at the statutory rate of 13 per cent;**

- c. e-files his tax returns (Form SST-03) regularly, in the prescribed manner, showing the details of his services liable to statutory rates of tax and also to reduced rates of tax, separately, in the same return:  
Provided that the tax returns for the tax periods prior to June, 2020, if not filed earlier, shall be e-filed by the service provider on or before the 20th day of July, 2020.
- d. e-deposits his tax liability on the taxable services regularly in the prescribed manner:  
Provided that the tax liability for the tax periods upto June, 2020, if not paid earlier, shall be e-deposited by the service provider in Sindh Government's head of account "B-02384" in the prescribed manner by the 15th day of July, 2020; and
- e. complies with the provisions of the Sindh Sales Tax on Services Act, 2011, and the rules and notifications issued thereunder in relation to the taxable services received or procured by him and also in relation to the taxable services provided or rendered by him.

This notification shall not entitle any person, whether a service provider or a service recipient, to any refund or adjustment of tax and if not rescinded earlier, shall stand rescinded at 23:59 hours of the 30th day of June, 2021.

**ISSUING AUTHORITY:** SINDH REVENUE BOARD  
**POWERS EXERCISED U/S:** 10 of Sindh Sales Tax on Services Act, 2011  
**NOTIFICATION NO:** SRB-3-4/13/2020  
**DATE OF ISSUANCE:** June 22, 2020  
**EFFECTIVE FROM:** WITH IMMEDIATE EFFECT (i.e. JUNE 22, 2020)  
**AMENDMENTS MADE IN:** 2<sup>nd</sup> SCHEDULE TO THE SINDH SALES TAX ON SERVICES ACT, 2011

**LINK OF DOCUMENT**

[https://khilji.net.pk/wp-content/uploads/2020/06/20200622\\_NO\\_SRB\\_13\\_2020.pdf](https://khilji.net.pk/wp-content/uploads/2020/06/20200622_NO_SRB_13_2020.pdf)

**COMMENTARY**

Through this notification, the Sindh Revenue Board has granted exemption of sales tax on services of life insurance services (other than its related re-insurance services), classified under tariff heading 9813.1500 of the Second Schedule to the Act as were provided or rendered during the period from the 1st day of July, 2019 to the 30<sup>th</sup> day of June, 2020 subject to the conditions that:

- a. the person providing or rendering life insurance services commences e-depositing, in the Sindh Government's head of account "B-02384" in the prescribed manner, the amounts of Sindh sales tax due, on such services for the tax periods from July,
- b. the amounts of Sindh sales tax charged or collected, if any, on such services during the period from the 1st day of July, 2019 to the 30th June, 2020, are e-deposited, by the person providing or rendering such services, in Sindh Government's head of account "B-02384" in the prescribed manner by the 15<sup>th</sup> day of July, 2020.

This notification shall not entitle any person, whether a service provider or a service recipient, to any refund or adjustment of tax.

**ISSUING AUTHORITY:** SINDH REVENUE BOARD  
**POWERS EXERCISED U/S:** 10 of Sindh Sales Tax on Services Act, 2011  
**NOTIFICATION NO:** SRB-3-4/14/2020  
**DATE OF ISSUANCE:** June 22, 2020  
**EFFECTIVE FROM:** WITH IMMEDIATE EFFECT (i.e. JUNE 22, 2020)  
**AMENDMENTS MADE IN:** 2<sup>nd</sup> SCHEDULE TO THE SINDH SALES TAX ON SERVICES ACT, 2011

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**COMMENTARY**

Through this notification, the Sindh Revenue Board has extended the period of exemption of sales tax on insurance services (other than its related re-insurance services) till 30<sup>th</sup> June 2021. The exemption was allowed vide Notification # SRB-3-4/5/2019 dated 8<sup>th</sup> May 2019.

<b>ISSUING AUTHORITY:</b>	SINDH REVENUE BOARD
<b>POWERS EXERCISED U/S:</b>	10 of Sindh Sales Tax on Services Act, 2011
<b>NOTIFICATION NO:</b>	No.SRB-3-4/15/2020.
<b>DATE OF ISSUANCE:</b>	June 22, 2020
<b>EFFECTIVE FROM:</b>	WITH IMMEDIATE EFFECT (i.e. JUNE 22, 2020)
<b>AMENDMENTS MADE IN:</b>	2 <sup>nd</sup> SCHEDULE TO THE SINDH SALES TAX ON SERVICES ACT, 2011

**LINK OF DOCUMENT**

[https://khilji.net.pk/wp-content/uploads/2020/06/20200622\\_NO\\_SRB\\_15\\_2020.pdf](https://khilji.net.pk/wp-content/uploads/2020/06/20200622_NO_SRB_15_2020.pdf)

**COMMENTARY**

Through this notification, the Sindh Revenue Board has extended the period of exemption of sales tax on the services provided or rendered by Cable TV Operators, as are classified under tariff heading 9819.9000 of the Second Schedule to the Act till 30<sup>th</sup> June 2021. The exemption was allowed vide Notification # SRB-3-4/15/2019 dated 27th June, 2019.

## **BLOG OF THE MONTH**

This blog is written by Mr. Zahid Mehmood, FCA, FCCA, Partner Audit and Assurance. Please read this blog and provide your valued comments.

### **IFRS 9 – Calculation of Impairment Loss**

1. In July 2014, the International Accounting Standards Board (IASB) issued IFRS 9 “Financial Instruments effective for annual periods beginning on or after July 01, 2018.
2. In Pakistan, the Standard was adopted and notified by Securities and Exchange Commission of Pakistan (SECP) as effective for accounting periods beginning on or after July 01, 2018. Later on to facilitate implementation, subsequently the SECP through SRO 229 (14-02-2019) modified the effective date for applicability of IFRS 9 as ‘Reporting period / Year ending on or after June 30, 2019 (earlier application is permitted).
3. Furthermore, through SRO 985(I)/2019 (02-09-2019) , in respect of companies holding financial assets due from the Government of Pakistan, the requirements contained in “IFRS 9 (Financial Instruments) with respect to application of Expected Credit Losses method” shall not be applicable till 30th June, 2021, provided that such companies shall follow relevant requirements of IAS 39 – Financial Instruments: Recognition and Measurement, in respect of above referred financial assets during the exemption period.
4. SBP has vide BPRD Circular 4 of 2019 (October 23, 2019) has notified IFRS 9 for banks, DFIs and MFBs effective from January 1, 2021.
5. One of the key difference between IAS 39 and the new IFRS 9 is that the new standard requires a recognition of credit loss allowances on initial recognition of financial assets based on expected loss model, whereas previously under IAS 39, impairment is recognized at a later stage, when a credit loss event has occurred. The new model applies to debt instruments, loans, lease receivables, contract receivables, and trade receivables and to off balance sheet credit exposures such as financial guarantees and loan commitments.
6. There are two approaches under the Standard to calculate the amount of expected credit loss:

#### ***General approach***

- The approach is mostly applied by financial institutions for long term financial assets.
- In general approach, there are 3 stages of a financial asset and the impairment loss should be recognized depending on the stage of a financial asset in question.
  - For credit exposures for which there has not been a significant increase in credit risk since initial recognition, entities are required to provide for default events that are possible within next twelve months (Stage 1 ECL).
  - For credit exposure where there has been a significant increase in credit risk since initial recognition, loss allowance is required for credit losses expected over remaining life of the exposure, irrespective of timing of default (Stage 2 ECL).
  - The credit exposure which are impaired the loss is provided for on the basis of best estimate of estimated future cash flows (Stage 3 ECL).

### *Simplified approach*

- The simplified approach does not require the tracking of credit risk but instead requires the recognition of life time ECL for all receivables. This approach is relevant for non-financial sector trade receivables / contract receivables which do not contain significant financing component.
- In simplified approach, there is no need to determine the stage of a financial asset because the impairment loss is measured at lifetime ECL for all assets.
- IFRS 9 permits using a few practical expedients and one of them is a provision matrix.
- **Provision matrix** is a calculation of the impairment loss based on the **default rate percentage** applied to the **group of financial assets**.
- There are two important elements:

1. Group of financial assets e.g. receivables may be grouped into retail customers (individuals) are less reliable and slower in payments than business customers (companies). Or, maybe you sell in a few geographical regions and you noted that customers from the capital city pay more reliably than customers in the rural areas. Depending on the circumstances, below are some of suggestion for segmenting:

- By product type;
- By geographical region;
- By currency;
- By customer rating;
- By dealer type or sales channel; etc

The important point here is that the customers within one group should have the same or similar loss patterns.

2. Default rates

Default rates should be derived from historical credit loss experience which need to adjust for forward-looking information.

- The period of selection should not be too short in order to make sense and it also should not be too long because market changes quickly and long period might incorporate market effects that are no longer valid.
- They are all information that could affect the credit losses in the future, for example macroeconomic forecasts of unemployment, housing prices, etc.
- The historical default rates should be adjusted for the information that is relevant for the financial assets. For example, unemployment rates are important factor affecting the payment rate of individual customers.

7. There is choice of either of the approach for the following financial assets:

- Trade receivables WITH significant financing component,
- Contract assets under IFRS 15 WITH significant financing component, and
- Lease receivables (IAS 17 or IFRS 16)

8. One entity can apply both of the models but not for the same type of financial assets.

**Zahid Mehmood, ACA, FCCA**



## **SOCIAL MEDIA PRESENCE**

We at Khilji & Co, Chartered Accountants are fully aware of the fact that in this modern day and age connectivity is the key. Hence, we keep of striving for this through various social media forums. Please visits our pages and do provide your valuable comments.

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