KCO BLOGS 2020

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A BLOG TO HELP UPCOMING TAX CONSULTANTS AND THEIR CLIENTS

The time for filing of annual tax returns has arrived and individual tax return filers are increasing to avoid non-filer status. There is an influx of tax consultants who are still in learning phase which sometimes lead to filing of incorrect tax returns & wealth statement. This blog is part of my effort to contribute towards society by educating the upcoming tax consultants and saving the taxpayers from errors committed in filing of their tax returns & wealth statement.

Salaried Individual Tax Return

1. Salary taxation is on receipt basis and if an employee did not receive salary for a month he cannot be taxed for such receivable salary.
2. Any reimbursements by employer for official expenses is not included in salary but any reimbursement of personal expenses like house rent, children education etc. is part of salary.
3. An individual with multiple sources of income should be checked for his status as “salaried individual” or “non-salaried individual”. For tax year 2020, A salaried individual is a person whose salary income exceeds 75% of his taxable income.
4. To check whether salary income exceeds 75% of taxable income or not, only NTR income is to be considered as FTR income is not part of taxable income.
5. Check for exemptions like medical allowance & special allowance. Do not rely on the employer’s certificate of tax deduction only, always seek complete break up of salary to ensure all salary income is appropriately taken into account.
6. Please note that medical allowance is not exempt if any medical facility is available under terms of employment.
7. Always obtain bank statement and cross check salary transferred by employer with the salary informed by taxpayer.
8. Taxation of Provident fund (employer contribution and interest in case of approved fund) is usually missed and complete information should be sought about Provident Fund.

9. In case of switching of employment, do check for retirement benefits and their taxation.
10. Retirement benefits and arrears of salary provide tax planning opportunity, don't forget to check it.
11. For Government employees, judges, defense personnel and other such public sector employees, there are certain extra exemptions available in the law. Do check them.
12. Reduction in tax liability for teacher/ researcher is not available to teachers working in "for profit organizations". Moreover, it is only available against their salary income not overall income.
13. Exemption on marginal benefits under clause 53A, 2nd Schedule available to employees of Hotels/ restaurants, educations institutions and hospitals should be considered.
14. Any non-cash benefit like cars, accommodation etc. should be taken into account in salary taxation.

Income from Property

15. Income from property is taxable on accrual basis of accounting. I have observed that a number of returns are filed reporting all property income **received** during the year which is incorrect.
16. Security deposits/ pugree and similar un-adjustable advances are also required to be considered for taxation under income from property over a period of ten years.
17. For individual having income from property in excess of Rs.4,000,000, tax planning opportunity is available as to offering of such income under normal tax regime or fixed tax rates of income from property.
18. In case of using normal tax regime, expenses under section 15A can be claimed. For a person having "income from property" only, the decision is straight forward i.e. he should always go for normal tax regime taxation and claim expenses however for a person having more sources of income, the decision need to be taken after appropriate calculations.

Capital Gains

19. The taxation of capital gains needs to be carefully looked into. Capital gains under normal tax regime may change status of a salaried person to non-salaried person so need to be careful.
20. Income from sale of personal assets except those mentioned in section 38(5) is arguably exempt from tax.
21. Income from sale of immovable property and listed securities is not under normal tax regime and should be taxed as per applicable tax rates.

Income from other sources

22. For individuals this usually comprise of dividends and interest on bank deposits, all under FTR.
23. Common mistake in these incomes is observed about reporting on a net basis rather than gross basis.

Income from business

24. Separate profit & loss & balance sheet is required to be prepare for business income as sole proprietor.
25. The capital appearing in the balance sheet should be reported in the wealth statement of the individual however it is observed that business assets and personal assets are intermingled leading to an incorrect return and wealth statement.
26. Minimum tax under section 113 for business individuals must be taken into account if they exceed threshold.
27. Sales tax implications of business individuals should also be considered at the time of preparation of their returns.
28. Opening balances like fixed assets, stock in trade, capital should be appropriately taken into account for the purpose of balance sheet. If the person preparing the return is not confident about his accounting skills, he should take on board an accountant to ensure the financial statements, wealth statement and tax returns are properly prepared, cross matched and reconciled.
29. In case of share from AOP, the amount to be included in taxable income, tax credits and tax liability need to be carefully worked out.

Deductible allowances & tax Credits

30. Zakat, children education expenses, profit on debt on house construction loan should be checked as available deductible allowances for individuals.
31. All tax credits like charitable donations, investment in shares, insurance, pensions, tax deducted at source should be taken into account.
32. It is advisable to have a checklist of all the available tax credits and in the first meeting, the client should be asked to provide details/ evidence related to such tax credits. These tax credits save tax liability of taxpayer and help tax consultant earn a customer.

Wealth statement

33. The wealth statement and wealth reconciliation statement are very important particularly from the perspective of notices received under section 111 of Income Tax Ordinance, 2001.
34. All bank credits entries should be discussed with client and appropriate treatment of all bank credit entries should be made in the return, wealth statement and wealth reconciliation statement.
35. Major debit entries in the bank statement should also be checked.
36. If the cash & bank balances are going too high, check again and again with client if he is forgetting something and also cross check your calculations.
37. Usually Provident fund balance, accumulated balance of insurance is missed in wealth statement, please ensure taking care of these.

38. It is sometimes noted that wealth is reported on a fair market value basis when it is required to be on cost basis.

39. I have even seen some people reporting their assets on depreciated value, that's what I call;

Neem Mulla Khatra e Imaan;	نیم ملا خطرہ ایمان
Neem Hakeem Khatra e Jaan;	نیم حکیم خطرہ جان
Neem accountant khatra e sara sazo saamaan	نیم اکاؤنٹنٹ خطرہ سارا سازوسامان

40. Taxable income sometimes includes non-cash benefits like car, accommodation, security deposits deemed as property income etc. These are included in taxable income but do not increase wealth of an individual so need to be careful in adjusting these in calculation of wealth reconciliation statement.

41. Always ask your client about identifiable expenses like children education, rent, utility bills, medical expenses club fees etc. which are required to be reported in expense schedule. It is agreed that individuals do not have an absolute record of all expenses and they are not expected to have however their identifiable expenses should be appropriately taken into account. Smaller expenses like routine kitchen expenses can be taken on estimate basis after due to consideration to cash in hand balance and other assets at the close of financial year.

A final advice to taxpayers

It is noted that a large number of taxpayers do not bother to check what their tax consultant has filled in their tax return which is not a correct attitude. Your tax consultant does not know your finances better than you, so the taxpayer should always check his final draft of tax return so that at least the correct figures are reported. Leave the technical details to tax advisor but don't leave facts to him.

I know taxpayers who had to face deep trouble only because of a "zero" not correctly accounted for in his tax return & wealth statement. An extra zero can change 5,000,000 to 50,000,000 and a lesser zero can change 500,000,000 to 50,000,000. Either way the taxpayer has to face music because of a simple "zero" error.

I end it with this note "A doctor's mistake can take you from deathbed to graveyard but may be in the first place it was accountant's mistake which steered you to deathbed".

Caveat

This is not an exhaustive checklist and this blog is only prepared for the purpose of general guidance without assumption of any liability whatsoever.

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