IMPACT

RASG -Financial Updates

Quarterly News letter from Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants.

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Income Tax:

1. Income of the **Corporate Zone Developers** for the projects in the Special Economic Zones as announced by it for a period of ten years from the date of start of developmental activity has been exempted - SRO 660(I)/2009.

2. Companies operating as **Trading Houses**, fulfilling the conditions laid down in Clause (57) of Part IV of the Second Schedule to the Income Tax Ordinance, 2001 would not be required to pay tax at import stage under section 148 - SRO 717(I)/2009.

In our opinion a few of the conditions laid down for trading houses are not practically possible specially with regard to owning of fixed assets exceeding Rs. 300 million as trading houses are more working capital extensive than capital expenditure.

3. Through Circular no. 10 of 2009, the employers are no more required to file **Annual Statement of Tax Deducted from Salaries** if monthly and quarterly statements under the law have already been filed.

Sales Tax:

1. The Federal Government by virtue of amendments made through SRO 704(I)/2009 in the Special Procedure (Withholding) Rules, 2007 had made it mandatory for a registered person in a Large Taxpayers Unit (LTU) purchasing goods from a registered person, other than one registered in an LTU, to deduct and withhold one percent (1%) of value of taxable supplies received by him as sales tax from the payment due to supplier. This amount will be deposited by the withholding agent through his monthly return. Remaining amount of fifteen percent (15%) or more, as the case may be, of the value of taxable supplies shall be paid by the withholding agent to supplier who will account for that in his monthly return. The provision were later amended through SRO846(I)/2009 to provide a level playing field to person registered in LTU and only withholding agents having Free Tax Numbers (FTN) and falling under clause (a), (b), or (c) of Rule 1(2) of the Special Procedure (Withholding) Rules, 2007 were made liable to deduct sales tax at the applicable rate from payment made to the supplier against value of supply made to it if such supplier is an un-registered person. SRO 846(I)/2009 further adds that unless otherwise specified in the contract between the buyer and supplier, the value of sales tax for the purposes of deduction shall be work out on the basis of gross value of supplies.

2. The Federal Government has through SRO 720(I)/2009 exempted the import and supply of Platinum, Palladium, Diamonds and Precious Stones from levy of sales tax w.e.f. 6th August, 2009.

3. The Federal Government has revised rate of sales tax on local

supply of sugar to 8% through SRO(I)/2009 dated August 23, 2009.

4. The Federal Government has through SRO 769(I)/2009 announced the application of zero-rate of sales tax on the import and supply of polyethylene and polypropylene falling under PCT heading 3901.1000, 3901.2000 and 3902.1000 for manufacture of mono filament yarn and net cloth subject to the condition that the manufacturer is duly registered in sales tax and has in-house manufacturing facility and supplies net cloth to green house farming at zero-rate. This zero-rating would be available subject to limitations, conditions, etc. laid down in SRO 811(I)/2009.

5. The Federal Government, in order to remove the anomaly of zero-rating and exemption available to dairy products at the same time, has withdrawn the exemption, through SRO 879(I)/2009, available to dairy products. However, zero-rating of these dairy products shall continue without any change.

6. SGO # 35/2009: The Board has extended the time limitation for issuance of Debit Credit Note from 180 days to 360 days by Insurance Companies.

Federal Excise Duty:

1. The Federal Government has exempted the advertisement in newspapers from levy of Federal Excise Duty through SRO 802(I)/2009 dated September 14, 2009.

SECP News:

1. The Securities and Exchange Commission of Pakistan has brought about number of changes in Non-Banking Finance Companies and Notified Entities Regulation, 2008 through the issue of SRO 764(I)/2009 dated September 2, 2009. Major changes are numerated below:

(a) An NBFC which has been given permission to issue Certificates of Deposit shall now be required, among other things, to invest at least 15% of its outstanding funds raised through issue of the certificates in Government Securities or instruments or investments as notified by the Commission. Such instruments or investments are now also required to be valued at lower of cost and market value with the condition that the shortfall in the value of the instruments and investment shall be immediately made-up.

(b) An Asset Management Company on behalf of Collective Investment Scheme would now be able to enter into transaction for the purpose of purchase and sale of securities from connected persons and employees with the approval of its Board of Directors and consent of the Trustees instead of prior approval of the Commission.

(c) The Commission has extended the time period for compliance of Minimum Equity Requirement for all the existing NBFCs.

2. SECP has through Circular no. 25 of 2009 dated August 19, 2009 has notified for the information of all concerned that in order to streamline the processing of application for granting insurance surveying licenses and registration of ASOs, the Commission, as an administrative measure, will entertain such applications twice a year i.e. in January and July every year. This will not be applicable on the application already received by the Commission.

SECP also clarified that the applicants who do no satisfy the Commission in respect of their suitability as surveyor/ASO, as prescribed under section 112(2) and 113(2) of Insurance Ordinance respectively, may re-appear after the expiry of six months.

The process of renewal of licenses will continue as per current practice. However, effective from 19th September 2009, the applications for renewal of licenses of surveyor and registration of ASOs will be entertained provided that such applications are received by the Commission at least 2 weeks before expiry, along with complete information and duly completed prescribed form. In case of delay, these applications will be considered as fresh cases.

The SECP further clarified that the deadline given above will not be applicable on the applications which have already been received by the Commission and are under process.

International Financial Reporting Standards (IFRS):

IFRS for Small and Medium-sized Entities

The International Accounting Standards Board (IASB) has issued an International Financial Reporting Standard (IFRS) for small and medium-sized entities (SMEs). The IFRS for SMEs is a self-contained standard of less than 230 pages, designed to meet the needs and capabilities of small and medium-sized entities (SMEs), which are estimated to account for over 95 per cent of all companies around the world.

It is built on the foundation of full IFRSs, however, many of the principles for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted, and the number of required disclosures has been significantly reduced. Revisions to the IFRS will be limited to 'once' every three years. The *IFRS for SMEs* is separate from full IFRSs and is therefore, available for any jurisdiction to adopt whether or not it has adopted the full IFRSs. It is also for each jurisdiction to determine which entities should use the standard. It is effective immediately on issue.

Amendments to IFRS 7 – Improving Disclosures about Financial Instruments

The fair value hierarchy introduces three (3) levels of inputs based on the lowest level of input significant to the overall fair value (IFRS 7.27A-27B):

- Level 1 - quoted prices for similar instruments
- Level 2 - directly observable market inputs other than Level 1 inputs
- Level 3 - inputs not based on observable market data

Effective date 1 July 2009

Amendment to IAS 39 – Embedded Derivatives when Reclassifying Financial Instruments

- Treatment of loan prepayment penalties as closely related embedded derivatives
- Scope exemption given for business combination contracts
- Cash flow hedge accounting has been introduced

Effective date 1 January 2010

Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions

The IASB has issued amendments to IFRS 2 Share-based Payment that clarifies the accounting for group cash-settled share-based payment transactions.

The amendments are in response to the requests the IASB received to clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those supplier.

"An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash."

Amendment to IAS 32 – Classification of Rights Issues

The International Accounting Standards Board (IASB) issued an amendment to IAS 32*Financial Instruments: Presentation*. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment issued requires that, provided certain conditions are met, such rights issues are classified as **equity** regardless of the currency in which the exercise price is denominated.

The global financial crisis has led to an increase in the number of such rights issues as entities seek to raise additional capital. The IASB has moved swiftly to address this issue.

IFRIC 18 Transfers of Assets from Customers.

The basic principle of IFRIC 18 is that when the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity.

The deemed cost of that asset is its fair value on the date of the transfer.

Effective date: Transfers received on or after 1 July 2009.

Following IAS/IFRS have been applicable since January 1, 2009.

IAS 1 - Presentation of Financial Statements (Revised September 2007)
effective for annual periods beginning on or after from January 01, 2009

IAS 23 - Borrowing Costs (Revised March 2007) – effective from January 01, 2009

Amendments to IAS 27 (Revised) - Consolidated and Separate Financial Statements – effective from July 01, 2009

IAS 32 (amendment) - Financial instruments: Presentation and consequential amendment to IAS 1 - Presentation of Financial Statements – effective for annual period beginning on or after 1 January 2009.

IFRS 1 (revised), 'First -time adoption' – effective from July 01, 2009

IFRS 2 Share based payments (amended) – effective from January 01, 2009

IFRS 3 - Business Combinations (Revised) – effective from July 01, 2009

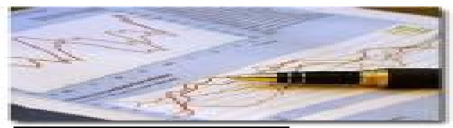
Amendment to IFRS 7 - Financial Instruments: Disclosure – effective from January 01, 2009

IFRS 8 - Operating Segments – effective from January 01, 2009

IFRIC 15 - Agreements for The Construction of Real Estate – effective from January 01, 2009

IFRIC 17 - Distribution of Non-Cash Assets to Owners – effective from July 01, 2009

IFRIC 18 - Transfer of Assets from Customers – effective from July 01, 2009



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