IMPACT

RASG - Financial Updates

Quarterly News letter from Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants.
www.rasgco.com Volume No. 1: March 2009

Income Tax:

The Federal Board of Revenue has clarified, through Circular # 2 of 2009, that the seller of the shares who did the trading of shares through a Member of a Stock Exchange will take the credit of income tax withheld under Section 233A(1)(c) of the Income Tax Ordinance, 2001. There was an ambiguity that whether the Member from whom tax is to be deducted by relevant Stock Exchanges will take the credit or the actual seller of the shares. The Board ruled that, although the tax is to be withheld by Stock Exchanges from their Members on account trading of shares but the member only acts as an intermediary and, therefore, credit of the tax will go to person who has traded the shares.

The Board has further clarified that the Member would certify the quantum of tax withheld from each person traded through him and shall furnish a statement to the concerned Director General, RTO for the verification of claim of the taxpayers who traded the shares through him.

Sales Tax:

The Federal Government has issued SRO 227(I)/2007 whereby levying sales tax on import of sunflower seed by solvent extraction industries at a reduced rate of 14% of the import value of the seeds. Previously, only import of rapeseed and canola seed were subjected to this reduced sales tax rate.

As many as nine (9) Sales Tax General Orders (SGOs) have been issued by the Board during the last month. Brief of each SGO is as under:

SGO # 9/2009 to 14/2009: Certain registered sales tax payers have been notified for charge of sales tax on supply of electricity to them by Karachi Electric Supply Company, Lahore Electric Supply Company, Faisalabad Electric Supply Company, Multan Electric Supply Company and Gujranwala Electric Supply Company at the rate of zero percent.

SGO # 15/2009 and 16/2009: Certain registered sales tax payers have been notified for charge of sales tax on supply of natural to them by Sui Southern Gas Company Limited and Sui Northern Gas Company Limited at the rate of zero percent.

SGO # 17/2009: The Board has made an amendment in its SGO # 3/2007 whereby 2% ad volorem sales tax payable by commercial importers on goods imported by them will now be included for value for calculating withholding income tax. Previously, such sales tax was not included for the purposes of calculating value for collection income tax from the commercial importer.

SECP News:

SECP has made arrangement with NIFT for provision of the digital signatures for using eService being offered by SECP at a subsidized rate of Rs. 650/- as compared to original cost of Rs. 2,250/-. The applicant will also have to deposit Rs. 500/- as one time service charges in addition to fee for obtaining digital signatures. This subsidized rate will only be applicable till June 30, 2009.

International Financial Reporting Standards (IFRS):

A number of new IFRS including International Accounting Standards (IAS) are effective from 1 January 2009 and are to be complied with while preparing quarterly financial statements for the quarter ended March 30, 2009. Brief of the issues relating to these IFRS is as follows:

Revised IAS 1 – Presentation of Financial Statements:

IAS 1 changes the way the income statement and annual movements in equity are presented. It essentially requires a single statement of comprehensive income to be presented (single statement approach) or an income statement and a statement of recognized income (two-statement approach). The standard allows use of titles other than those used in the Standard. Perhaps in Pakistan in the presence of fourth schedule - a two statement approach would be more appropriate / convenient.

The revised IAS 1 also requires a second comparative if there has been a change in accounting policy, correction of an error or any reclassification of items. This will also have to be presented at the interim stages.

Revised IAS 23 – Borrowing Costs:

Prior to the revision, an entity had an option to either expense out or capitalize the borrowing cost incurred on qualifying assets. This option has been abolished by the Revised IAS 23. Now, all borrowing costs incurred on qualifying assets have to be capitalized. This amendment will impact all assets for which the commencement date of capitalization is on or after 1 January 2009. An entity can designate an earlier date.

IAS 27 – Consolidated and Separate Financial Statements:

Until recently, a dividend received from the subsidiary shortly after acquisition was treated as a pre-acquisition dividend. The removal of the definition of ‘cost’ in IAS 27, together with the addition of IAS 27 para 38A requires that dividends received from the subsidiary should be treated as income. Subsequent to the above amendments, concept of pre acquisition dividends that reduce the investment cost is no more in existence. The investment cost will only be reduced when there is an actual impairment in accordance with IFRSs.

New IFRS 8 – Operating Segment:

The new standard changes the way segment reporting is presented. Segments are now presented based on an entity's internal reporting structures rather than business and geographic segments. These changes need to be incorporated in the March 2009 interim report.

<u>International Accounting Standards Board's (IASB) Improvements to IFRS</u>:

The 2008 improvements project resulted in 24 amendments in accounting, recognition and measurement of items and also resulted in 11 editorial changes. Almost all of these amendments are effective from 1 January 2009.

Of these 35 amendments, summary of most significant amendments that would have an impact on financial statements of this quarter and for this financial year is given below:

- ***Change to IAS 40 – Investment Property:*** Investment property under construction will no longer be treated as Property Plant and Equipment during the construction phase rather it will be accounted for as investment property during the construction phase as well.

- ***Change to IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance:*** If government provides a loan to an entity below the market rate, the differential to the market rate is to be accounted for as a government grant by the entity.

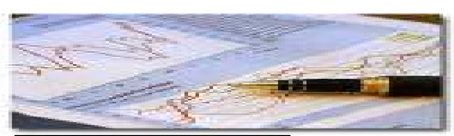
- ***Change to IAS 28*** – *Investments in Associates:* When an investment in associate is impaired and an impairment loss is recognized, the entire impairment loss can be subsequently reversed if the loss is not allocated to any asset and will not be allocated to goodwill. Any reversal of a previously recognized impairment loss will be recognized in accordance with IAS 36, to the extent that the recoverable amount of the investment in the associate subsequently increases. The option of applying the amendment prospectively is available in the standard.

<u>Other News:</u>

National Electric Power Regulatory Authority (NEPRA) has announced the simplification of license procedures and a major cut in the license fee for small scale renewable energy projects.

Private investors intending to set up renewable energy projects with a power generation capacity of 500KW would now be required to pay Rs24,000 to apply for a generation license. The license fee for renewable energy projects with up to 2.5 MW has been fixed at Rs50,000. Earlier, investors seeking license for any project of over one MW had to pay Rs. 200,000 along with their application.

Under the revised procedures sponsors of small renewable energy projects would not be required to visit NEPRA offices for their licenses and the procedures could now be completed through mail.



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