PBA asks FBR to either abolish Super Tax or reduce rate to 3 percent

Pakistan Banks Association (PBA) has asked the Federal Board of Revenue (FBR) either to abolish Super Tax or reduce its rate to 3 percent through Finance Bill 2017, as Super Tax has raised effective tax rate on banks to 39 percent. Reacting to the Finance Bill 2017, the PBA has communicated its observations to Federal Board of Revenue Chairman Dr Muhammad Irshad on Thursday.

According to the PBA, the Super Tax, for rehabilitation of temporarily displaced persons, was first introduced vide 2015 budget as a onetime levy for banking companies at 4 percent and for other companies, having income above Rs 500 million, it was 3 percent. Through Finance Bill 2017, it has been extended for the third consecutive year. This has resulted in increasing tax rate for banks effectively to 39 percent, which is excessive and also inequitable.

It is proposed that Super Tax should be abolished or at least the rate of Super Tax be reduced to 3 per cent, as is applicable to other corporate firms to bring in harmony and eliminate discrimination. Pakistan Banks Association referred to the proposals in the Federal Budget 2017-18, seeking amendments in Income Tax Ordinance, 2001, which would be detrimental for the member banks of the PBA.

Proposed "explanation" in Rule 1(g) of the Seventh Schedule: Rule 1(g) requires the banks to disregard any adjustments in accounts made in accordance with IAS 39 & 40. The Finance Bill 2017 proposes to insert following "explanation" in Rule 1(g) of the Seventh Schedule. Both the present Rule 1(g) and the proposed 'explanation' are reproduced below for your ease of reference:

(g) Adjustment made in the annual accounts, on account of application of international accounting standards 39 and 40 shall be excluded in arriving at taxable income. Explanation - For the removal of doubt, it is clarified that nothing in this rule shall be so construed as so allow a notional loss, or charge to tax any notional gain on any investment under any regulation or instruction unless all the events that determine such gain or loss have occurred and the gain or loss can be determined with reasonable accuracy.

The State Bank of Pakistan, however, has issued notification directing the banks, in Pakistan, not to adopt and apply both IAS 39 and 40 whilst preparing their accounts.

Rule 1(g) as it stood in recent past and without the presence of explanation, was being misused with the assessing officers disallowing adjustments being done as per SBP directives. Given that there is overlap between the requirement of the SBP circulars and IAS 39/40, this provides easy tools for the assessing officers whilst framing the amended assessments.

In view of the above, the PBA would suggest that:

(a) Rule 1(g), being redundant, be kept in abeyance till the time the SBP permits the banks to adopt IAS 39 and 40; or

(b)Proposed "explanation" in Rule 1(g) should be modified to clarify that all SBP allowed accounting treatments, including any notification for valuation of investment, will not be covered under present Rule 1(g) of the Seventh Schedule, the FBR added.