



**The Institute of  
Chartered Accountants  
Of Pakistan**

**HEAD OFFICE**

Circular No. 01/2010

January 13, 2010

Dear Member

**BANKING COMPANIES – TAX CHARGE ON IRRECOVERABLE DEBTS**

The Institute has been approached by a number of practicing members seeking opinion regarding the legal status of the clarification issued by the Federal Board of Revenue (FBR) vide their letter F. No. 4(I)ITPI2008-49 dated 23 December 2009 (copy attached) addressed to the Institute.

It may be recalled that the above matter was taken up by the Institute and Pakistan Banking Association (PBA) with the FBR since last one year and a number of representations were made in this regard. ICAP also issued Circular no. 7 dated July 28, 2009 advising its members that reversal of deferred tax assets may not be made in the interim financial statements, as the matter was expected to be resolved by the FBR in the manner suggested by the Institute and the PBA before December 31, 2009. After several discussions and exchanges of correspondence, the FBR finally agreed to the aforesaid recommendation and has issued the above letter.

As mentioned in the letter the FBR has decided to insert Rule 8A in the Seventh Schedule to the Income Tax Ordinance, 2001 which would facilitate the banks in the preparation of their annual financial statements and income tax returns for the year 2009.

You would appreciate that the process of amending the Schedule requires a due process at the FBR, which, we understand, has already commenced. Accordingly, the members of the Institute may consider the communication of the Institute in the spirit it has been made and take cognizance of the same as a reasonable indication of the rule as would stand amended in due course.

Members are advised to take note of the same.

Yours truly

Muhammad Asif Iqbal  
Director Technical Services

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Government of Pakistan  
Revenue Division  
Federal Board of Revenue

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F. No. 4(1)ITP/2008-49

Islamabad, 23<sup>rd</sup> December, 2009

Mr. Saqib Masood  
Chairman, Committee on Taxation ICAP  
Chairman, Committee Financial Sector, ICAP  
Karachi

Subject: **BANKING COMPANIES - TAX CHARGE FOR IRRECOVERABLE DEBTS**

Reference your subject letter No. CA/DTS/FBR/2009-1494 dated December 11, 2009, addressed to the Chairman, FBR, Islamabad.

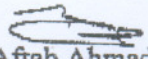
2. The proposals contained in your letter under reference have been examined and in order to facilitate filing of income tax returns for tax year 2009, it has been decided to insert Rule 8A in THE SEVENTH SCHEDULE to the Income Tax Ordinance, 2001, as under:

**Rule 8A**

- (1) Amounts provided for in the tax year 2008 and prior to the said tax year for or against irrecoverable or doubtful advances, which were neither claimed nor allowed as a tax deductible in any tax year, shall be allowed in the tax year in which such advances are actually written off against such provisions, in accordance with the provision of section 29 and 29A.
- (2) Amounts provided for in the tax year 2008 and prior to the said tax year for or against irrecoverable or doubtful advances, which were neither claimed nor allowed as a tax deductible in any tax year, which are written back in the tax year 2009 and thereafter in any tax year and credited to the profit and loss account, shall be excluded in computing the total income of that tax year under Rule 1 of the Schedule.
- (3) The provisions of this Schedule shall not apply to any asset given or acquired on finance lease by a banking company up to tax year 2008, and recognition of income and deductions in respect of such asset shall be dealt in accordance with the provisions of the Ordinance as if this Schedule has not come into force.

Provided that un-absorbed depreciation in respect of such assets shall be allowed to be set-off against the said lease rental income only."

3. These amendments shall have immediate effect and will be applicable to the returns for tax year 2009 onwards.

  
(Aftab Ahmad)  
Chief (ITP)