

**Commissioner enjoys powers to conduct banks' audit: FBR**

The Federal Board of Revenue (FBR) has clarified that the Commissioner has the power to conduct audit of banks under Section 177 of the Income Tax Ordinance 2001. According to the income tax circular 9 of 2019 issued by the FBR here on Tuesday, as per rule 9, the provisions of the Income Tax Ordinance not specifically dealt with in the rules in the Seventh Schedule shall apply, mutatis mutandis, to the banking company. As such, the Commissioner has the power to conduct audit of a banking company under Section 177.

However, for the removal of doubt, an explanation has been added after sub-rule (h) of rule 1 clarifying that nothing contained in the Seventh Schedule shall be so construed as to restrict power of Commissioner, while conducting audit of the income tax affairs under section 177, to call for record or such other information and documents as he may deem appropriate in order to examine accounts and records to conduct enquiry into expenditure, income, assets and liabilities of a banking company and all the provisions of the Ordinance shall be applicable accordingly.

The FBR further clarified that the income, profits and gains and tax payable thereon of a banking company is computed as per rules in the Seventh Schedule. As per sub-rule (c) of rule 1, provisions for advances and off-balance sheet items shall be allowed up to a maximum of 1 percent of total advances and 5 percent of total advances for consumers and small and medium enterprises.

Through the Finance Act, 2019, the existing sub-rule (c) of rule 1 has been clarified for the removal of any doubt by adding an explanation that provision for advances and off balance sheet items at the rate of 1 percent or 5 percent, as the case may be, shall be exclusive of reversal of such provisions, and that reversal of bad debts classified as "doubtful" or "loss" are taxable as the respective provisions have been allowed.

Prior to the Finance Act, 2019, the amount of "bad debts" classified as "doubtful" or "loss" were allowed as expense and "bad debts" classified as "sub-standard" were not allowed as expense. Through the Finance Act, 2019, sub-rule (d) of rule 1 has been amended so that amount of "bad debt" classified as "loss" shall be allowed as expense and the amount of "bad debt" classified as "sub-standard" and "doubtful" shall not be allowed as expense.

The rate of tax on taxable income of a banking company is 35%. Through the Finance Act, 2019, a new rule 6C has been inserted in the Seventh Schedule which provides tax rate of 37.5 percent on taxable income from Federal Government Securities. As per this rule, the taxable income arising from additional income earned from additional investment in Federal Government securities for the tax year 2020 and onwards shall be taxed at the rate of 37.5%.

A banking company shall furnish a certificate from external auditor along with accounts while e-filing return of income certifying the amount of money invested in Federal Government securities in the preceding tax year, additional investments made for the tax year and mark-up income earned from the additional investments for the tax year. "Additional income earned" has been defined to mean mark-up income earned from additional investment in Federal Government securities by the bank for the tax year. The term,

"Additional Investments" has been defined to mean average investment made in the Federal Government securities by the bank during the tax year, in addition to average investments held during the tax year 2019. As per sub-rule (3) of rule 6C, the Commissioner may require the banking company to furnish details of the investments in the Federal Government securities so as to ascertain the applicability of enhanced rate of tax, the FBR added.

#### RECORDER REPORT