

Rules	Sub-rule	Clause	THE SEVENTH SCHEDULE (See section 100A) NEW / inserted Omitted or deleted Substituted Finance Bill 2019-20 The Gazette Extra June 30, 2019
			RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS OF A BANKING COMPANY AND TAX PAYABLE THEREON
1		(c)	<p>Provided further that if provisioning is less than 5% of advances for consumers and small and medium enterprises (SMEs) then actual provisioning for the year shall be allowed and this provisioning shall be allowable from the first day of July, 2010.</p> <p>Explanation.— For removal of doubt, it is clarified that—</p> <p>(i) provision for advances and off balance sheet items allowed under this clause, at the rate of 1 percent or 5 percent, as the case may be, shall be exclusive of reversals of such provisions;</p> <p>(ii) reversal of "bad debts" classified as "doubtful" or " loss" are taxable as the respective provisions have been allowed under this clause; and</p> <p>(iii) with effect from tax year 2020 and onward; reversal of "bad debts" classified as " loss" are taxable as the respective provisions have been allowed under this clause.</p>
		(d)	The amount of "bad debts" classified as "sub-standard" or doubtful" under the Prudential Regulations issued by the State Bank of Pakistan shall not be allowed as expense.
		(e)	Where any addition made under sub-rule (d) is reclassified by the taxpayer under the Prudential Regulations issued by the SBP, as 'doubtful' or 'loss', provision of sub-rule (c) shall mutatis mutandis apply in computing the provision for that tax year.
		(h)	<p>An adjustment shall be made for exclusions from income on account of paragraph (g) for determining the cost of related item in the financial statement in the year of disposal of such item or asset or the discharge of the liability, as the case may be.</p> <p>Explanation.— For removal of doubt, it is clarified that nothing contained in this 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 provisions of this Ordinance shall be applicable accordingly.";</p>

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6C			Enhanced rate of tax on taxable income from Federal Government securities. —
	(1)		The taxable income arising from additional income earned from additional investment in Federal Government securities for the tax years 2020 and onwards, shall be taxed at the rate of 37.5% instead of the rate provided in Division II of Part I of the First Schedule-
	(2)		A banking company shall furnish a certificate from external auditor along with accounts while e-filing return of Income certifying the amount of such money invested in Federal Government securities in preceding tax year, additional investments made for the tax year and net mark-up earned from such additional investments for the tax year.
	(3)		Notwithstanding anything contained in this Ordinance, the Commissioner may require the banking company to furnish details of the investments in Federal Government securities to determine the applicability of the enhanced rate of tax.
	(4)		"Additional income earned" means any average earned in addition to average amount of such income earned from investment in Federal Government securities by the bank for the tax year.
	(5)		"Additional investments" means average investment made in Federal Government securities by the bank during the tax year, in addition to the average investments held during the tax year 2019.
	(6)		The taxable income arising from additional investment under sub-rule (1) shall be determined according to the following formula, namely:- Taxable income subject to enhanced rate of tax = A x B/C Where- A. is taxable income of the banking company; B is net mark up income earned from such additional income earned for the tax year as declared in the annual accounts; and C is total of the net mark-up and non mark-up income of the banking company as per accounts.";
7C			For tax year years 2015 to 2020 the provisions of section 4B shall apply to banking companies and shall be taxed at the rate specified in Division IIA of Part I of First Schedule." Provided that brought forward losses, if any, shall be excluded from income computed under this Schedule for the purpose of section 4B of this Ordinance."; and

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7D			Reduced rate of tax on additional advances for micro, small and medium enterprises. -
	(1)		The taxable income <u>interest income</u> arising from additional advances to micro, small and medium enterprises, for the tax years 2020 to 2023, shall be taxed at the rate of 20% instead of the rate provided in Division II of Part I of the First Schedule-