

BOOKS OF ACCOUNTS
TAX YEAR 2012 (1st July 2011 to 30th June 2012)

LEGAL REQUIREMENT

1. Under section 174 of the Income Tax Ordinance, 2001 all taxpayers are legally required to maintain the books of accounts documents and records, as may be prescribed.
 - i. The Commissioner may disallow or reduce any claim of expense if the taxpayer is unable to produce a receipt or any evidence of the expense claimed.
 - ii. The accounts and documents are required to be maintained /retained by the taxpayer for six year after the end of the tax year to which they relate.

General instructions about maintaining books of accounts documents and records, the place where the books of accounts documents and records are to be kept are laid down in Rules 29 to 33 of the Income Tax Rules, 2002.

BOOKS OF ACCOUNTS TO BE MAINTAINED
BY TAXPAYERS OTHER THAN COMPANIES

Rule 30 of the Income Tax Rules, 2002 lays down that all taxpayers deriving income chargeable under the head “**Income from business**” shall issue and maintain the following books of accounts documents and records:

I. All Taxpayers including new Taxpayers whose Business Income is up to Rs.200,000/-

- a. Serially numbered and dated cash memo/invoice/receipt for each transaction of sale or receipt with taxpayers name or business name, address, national tax number and sales tax registration number, if any. Such cash memo/invoice/receipt must indicate the description, quantity and value of goods sold or services rendered; provided that where each transaction does not exceeds Rs.10,000/- one or more cash-memos per day for all such transaction may be maintained;
- b. Daily record of receipts, sales payment, purchases and expenses; a single entry in respect of daily receipts, sales, purchases and different heads of expenses will suffice; and
- c. Vouchers of purchases and expenses.

II. All Taxpayers whose business income exceeds Rs.200,000/- including wholesalers, distributors, dealers and commission agents.

- a. In case of a wholesaler, distributors, dealers and commission agent, where a single transaction exceeds Rs.10,000/- the name address of the customer;

- b. General ledger or annual summary of receipts, sales, payments, purchases and expenses under distinctive heads;
- c. Vouchers of purchases and expenses and where a single transaction exceeds Rs.10,000/- with the name and address of the payee; and
- d. Where the taxpayer deals in purchase and sale of goods, quarterly inventory of stock in trade showing description, quantity and value.

III. All Professional Taxpayers who derives income from medical, Legal practitioners, Accountant, Auditors, Architects, Engineers etc. (irrespective of their quantum of Income.)

- a. Serially numbered and dated patient-slip/invoice/receipt for each transaction of sale or receipts containing the following:-
 - i. Taxpayers name or the name of his business or profession, address, national tax number and sales tax registration number, if any;
 - ii. The description, quantity, value of medicines supplied or details of treatment/case/ services rendered (confidential details are not required) and amount charged; and
 - iii. The name and address of the patient/client.

Provided that the condition of recording of the patient on the patient slip under this clause shall not apply to general medical practitioner;

- b. Daily appointment and engagement dairy in respect of clients and patient; provided that this clause shall not apply to general medical practitioner;
- c. Daily record of receipts, sales, payments, purchases and expenses; a single entry in respect of daily receipts, sales purchases and different heads of expenses will suffice; and
- d. Vouchers of purchases and expenses.

IV. All manufacturer Taxpayers with turnover exceeding Rs.2.5million.

- a. Serially numbered and dated cash memo/invoice/receipt for each transaction of sale or receipt containing the following:
 - i. Taxpayers name or the name of his business, address, national tax number and sales tax registration number, if any.
 - ii. The description, quantity, value of goods sold; and
 - iii. Where a single transaction exceeds Rs.10,000/- with the name and address of the customer;
- b. Cash book and/or bank book;

- c. Sales day book and sales ledger (where applicable);
- d. Purchase day book and purchase ledger (where applicable);
- e. General ledger;
- f. Vouchers of purchases and expenses and where a single transaction exceeds Rs.10,000/- with the name and address of the payee; and
- g. Stock register of stock-in-trade (major raw materials and finished goods) supported by gate inward and outward records quarterly inventory of all items of stock-in-trade including work-in-process showing description, quantity and value.

BOOKS OF ACCOUNTS TO BE MAINTAINED BY COMPANIES

Rule 32(2) of the Income Tax Rules, 2002 lays down that the books of accounts documents and records required to be maintained by a company shall be in accordance with international accounting standards and as required under the Companies Ordinance, 1984.

PLACE WHERE BOOKS OF ACCOUNTS ARE TO BE KEPT [Rule 33]

(a) In case of business income

The books of accounts documents and records shall be kept at the place where the taxpayer is carrying on the business or where the business is carried on in more than one places at the principal place of business or at each of such places if separate books of accounts are maintained in respect of each place.

(b) In case of income other than business income

If a person derives income from sources other than from business the books of accounts documents and records shall be kept at the person's place of residence or such other place as may be so declared by such person.

RETENTION OF RECORD

Under section 174(3) read with Rule 29(4) the accounts documents and records required to be maintained shall be maintained for **6 (six)** years after the end of the tax year to which they relate.

PENALTY

- I. A taxpayer who fails to maintain records (including books of accounts), shall be liable to penal action under clause 7 of section 182(1) of the Income Tax Ordinance, 2001. The Taxation Officer may impose penalty of Rs.10,000/- or five per cent of the amount of tax on income whichever is higher.
- II. A taxpayer without reasonable cause, in non-compliance with the provisions of Section 177 fails to produce the record or documents are liable to following penalties for non-compliance and not producing the required documents:
 - a) In the case of the first failure - Rs. 5,000
 - b) in the case of a second failure - Rs. 10,000
 - c) in the case of a third and subsequent failure - Rs. 50,000

EXEMPTION

The Federal Board of Revenue through its Circular No.14 of 2002 dated 22.08.2002 has exempted the requirement of maintenance of minimum Books of Accounts, Documents and records prescribed under Rule 29 to 33 of Income Tax Rules 2002, in case of Taxpayers whose income is covered under presumptive tax regime i.e. Importers, Exporters, suppliers, Contractors or any other person deriving Income from business whose tax collected or deducted at source is the final discharge of its tax liability and who is filing a statement u/s 115(4) of the Income Tax Ordinance, 2001

ASSESSMENT:

- I. All Returns of Income filed including the Returns where the taxpayers have declared loss are accepted and the acknowledgment of Return of Income issue by the Tax Department at the time of submission of Return is to be Deemed Assessment Order.
- II. Commissioner of Income tax may conduct Audit of the income tax affairs of a taxpayer under section 177 of the Income Tax Ordinance, 2001.

SELECTION OF CASE FOR AUDIT UNDER SECTION 177;

- 1 The Commissioner may call for any record any documents including books of accounts for conducting the Audit of the income tax affairs of the taxpayer provided
 - (a) After recording reasons Commissioner in writing call for record or documents including books of accounts of the taxpayers.
 - (b) The Commissioner shall communicate the reasons to the taxpayer for calling record or documents including books of accounts.
- 2 The Commissioner shall conduct an audit of the income tax affairs (including examination of accounts and records, enquiry into expenditure, assets and liabilities) and may call for such other information and documents as he may deem appropriate.

- 3 After completion of the Audit and after obtaining taxpayers explanation on all the issues raised in the audit, amend the assessment under sub-section (1)or sub-section (4) of section 122 as the case may be.
- 4 If the audit of a taxpayer conducted in a year shall not be exempt from audit in the next following year.

UNIVERSAL SELF ASSESSMENT SCHEME

We would like to mention here that according to the Universal Self Assessment Scheme announced in the Tax Year 2003 all Returns of Income filed including the Returns where the taxpayers have declared loss are accepted and the Acknowledgement of Return of Income issue by the Tax Department at the time of submission of Return is to be deemed Assessment Order.

The scheme further provides that:

- a. A certain percentage of Returns filed shall be selected for tax audit on the basis of risk assessment to verify the accuracy and correctness of the Return of Income.
- b. Tax audit will not necessarily mean an amendment of the assessment originally made based by taxpayer and their Return of Income.
- c. Taxpayer's original assessment can only be amended on the basis of information acquired during tax audit or any other source.
- d. If selected for audit, there will be no pre-designated auditors to carry out audit. The officials making selection for audit will be different from those who do actual audit. In other words taxpayers have no designated Income Tax Officer holding jurisdiction on taxpayer.
- e. Due to amendment in the Finance Bill 2010 the power has been given to FBR for selecting persons or class of persons for Audit through computer ballot, which could be random or parametric as FBR may deem appropriate

If the case is selected for Total Audit then the taxpayers have to produce the Books of Accounts, documents and records before the Taxation Officer to justify their declared Income.

In view of the above, it is advisable that all the Taxpayers deriving income from business should maintain the Books of Accounts, Documents and Records prescribed under Rule 30 of the Income Tax Rules, 2002.