

PAYMENT THROUGH CROSSED CHEQUES.
TAX YEAR 2012 (1st July 2011 to 30th June 2012)

- A. LOAN & ADVANCES.
- B. GIFT.
- C. PROFIT & LOSS A/C EXPENSES.
- D. TRADING A/C EXPENSES & PURCHASES.
- E. SALARIES / REMUNERATION.

A. LOAN & ADVANCES. &
B. GIFT.

According to sub-section 4 of section 39, any amount received as a LOAN, ADVANCE, DEPOSIT (for issuance of Shares) or GIFT by a person in a tax year from another person not being a banking company or financial institution otherwise than by a *Crossed Cheque* drawn on a bank or through a banking channel from a person holding a National Tax Number shall be treated as income chargeable to tax under the head of "INCOME from Other Sources" for the tax year in which it was received.

However, this clause not applies to an advance payment for the sale of goods or supply of services.

Thus, in simple words, that all Loans, Advances, Deposits or Gift should be by a *Crossed Cheque's* and from a person holding National Tax Number.

According to Circular No. 11 of 1998 dated 25th July 1998 the above section is applicable for Loans, Advances and Gifts which are made on or after 1st of July 1998.(This Circular being contrary to provision of law has been withdrawn vide Para 6 of CBR Circular No. 01 of 2006 dated: 01-07-2006)

Relief to Genuine Transactions.

CIRCULAR No. 03 of 1992 – dated 27-01-1992,
CIRCULAR No. 11 of 1992 – dated 04-05-1992 &
CIRCULAR No. 12 of 1992 – dated 19-05-1992.

According to the above Circulars The Central Board of Revenue has exempted from the provision of section 12 (18) for the assessment year 1991-92 the loans received through bearer Cheque's, Cash Deposit by Directors and Partners in the Books of the Company and the Firm respectively and Cash transaction between sister Companies and Firms.

Transactions with Finance Co-operative Society.

CBR'S Letter No. 04 (93)/ TP-I/90 – dated 12-02-1992 &
CBR'S Letter No. 04 (13)/ TP-I/92 – dated 13-09-1992

Through the above letters the Central Board of Revenue has clarified that:

1. The loans received from the Society may be treated as Genuine Loans as they are identifiable persons maintaining the regular records of all transactions.
2. The loans received from the Co-operative Societies are through normal banking channel (i.e. Cross Order Cheque's.)
3. Thus the loan received from Finance Cooperative Society to a Tax payer shall be by Crossed Cheque's.

C. PROFIT & LOSS A/C EXPENSES. &
D. TRADING A/C EXPENSES & PURCHASES.

Clause (1) of Section 21 allows any expenditure for a transaction paid or payable under a Single account head which in aggregate exceeds Rs. 50,000/- through a Cross Order Cheque's or Bank Draft or Bank Pay-Order or any other Crossed Banking instrument showing the amount from the business bank account of the tax payer.

Further, Online transfer of payment and payment through Credit Card shall be treated as transaction through banking channels subject to the condition that such transactions are verifiable from the bank statement of the respective payer and payee shall be an allowable deductions.

The provision of this section shall not apply to following expenditures;

- 1) Expenditure not exceeding Rs. 10,000/-
- 2) Utility Bills
- 3) Freight Charges
- 4) Travel fare
- 5) Postage &
- 6) Payment of Taxes, duties, fees, fines or any other statutory obligation.

The provision was originally introduced under section 24 (FF) in the Repealed Ordinance 1979. It was clarified through CBR'S Circular No. 11 of 1998 dated 25-07-1998, stating that clause (FF) applies to expenditure normally chargeable to Profit & Loss account. The expenditure chargeable to trading and manufacturing accounts (like Wages, Freight or Purchases debit able to the said account) fell outside the ambit of the said clause.

Now the language of the section 21 (1) has appropriately been amended to include every expenditure whether debit able to Trading or Manufacturing accounts or Profit & Loss account will fall within preview of said section.

Further the scope of banking transactions has also been expanded to include online transfer of payment from the business account of the payer to the business bank account and payment through credit cards subject to the condition that such transactions are verifiable from the bank statement of the respective payer and payee.

E. SALARY.

According to Clause (M) of Section 21 any Salary paid or payable exceeding Rs. 15,000/- (Rupees Fifteen Thousand) per month is payable by Cross Order Cheque's or direct transfer of funds to the employee's bank account.

In view of the above provisions every tax payer has to keep in mind that they have to make the following payments by cross order Cheque's:

- a) Loan & Advances.
- b) Gift.
- c) Trading & Manufacturing A/c.
 - Purchases
 - Expenses
- d) Profit & Loss A/c.
 - Expenses in aggregate exceed Rs. 50,000/- in any head of Account .
- e) Salary.
 - Salaries to any employee exceeds Rs. 15,000/- per month.

Please go through above and if you have any query feel free to contact us on any working day.