Depreciation, Initial Allowance, First Year Allowance And Amortization Of Capital Expenditures

TAXPAYER'S FACILITATION GUIDE

Brochure – IR-IT-06 / Updated April, 2014

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Government of Pakistan

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Our Vision

To be a modern, progressive, effective, autonomous and credible organization for optimizing revenue by providing quality service and promoting compliance with tax and related laws

Our Mission

Enhance the capability of the tax system to collect due taxes through application of modern techniques, providing taxpayer assistance and by creating a motivated, satisfied, dedicated and professional workforce

Our Values

Integrity
Professionalism
Teamwork
Courtesy
Fairness
Transparency
Responsiveness

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Introduction

This brochure gives basic information for the benefit and use of persons deriving income from business and/or letting out of building together with machinery and plant. It explains:

- **What is capital expenditure;**
- **What is decline in value of capital expenditure;**
- **Deductibility of decline in value of capital expenditure under the Income Tax Ordinance, 2001;**
- **How to workout the decline in value of capital expenditure, i.e., depreciation of tangible assets and amortization of intangible assets and pre-commencement expenditure under the Income Tax Ordinance, 2001;**
- **What happens when a tangible or an intangible asset is disposed off; and**
- **How to workout the gain or loss on disposal of tangible and intangible assets under the Income Tax Ordinance, 2001.**

In this brochure words and phrases that are not familiar to taxpayers have been explained in the earlier part of this brochure and such words and phrases used in this brochure are in ***italic bold***.

***This brochure is to assist taxpayers and reflects the position at time of printing. In case of conflict, the provisions of law shall prevail over the contents of this brochure*.**

Comments and suggestions
We welcome your valuable input about this brochure for future editions.
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Words and phrases frequently used

Words and phrases that are frequently used in this topic are explained, in alphabetical order. It is important to note that these explanations are of general nature. Whenever a different or a specific explanation is required, it is explained appropriately.

Amortization is the systematic allocation of ***decline in value*** of ***capital expenditure*** or the consumption of the ***economic benefit*** embodied in an ***intangible asset*** over its ***useful life***.

Capital expenditure is ordinarily, expenditure with expected ***useful life*** of more than one year, which includes:

- Expenditure incurred in acquiring ***Tangible*** and ***intangible assets;*** and
- ***Pre-commencement expenditures***

Cost of tangible and *intangible assets*, generally comprises of the:

- Amount paid to own the asset, such as purchase price, expenditure incurred to produce or create, etc.;
- Amount paid to bring the asset to its present location and condition fit for its intended use, such as incidental expenditure incurred in acquiring, transporting, altering, improving, renewing, installing, etc.;
- The ***value*** of any non-cash benefit given; and
- ***Debt incurred*** to pay the amount or to provide a non-cash benefit.

Value of non-cash benefit will be the previous WDY where it was accounted for; but will be FMY where it has never been part of accounts

Debt incurred in acquiring a tangible or an ***intangible asset*** is generally the unpaid amount of any loan, credit, liability, etc., that was incurred to pay the ***cost*** of acquiring or producing a tangible or ***intangible asset*** and the unpaid amount of accrued markup, interest, profit, etc., that was included in the ***cost*** of the tangible or ***intangible asset***.

Decline in value of ***capital expenditure***s comprising of immoveable and moveable tangible and ***intangible asset***s represents the ***economic benefit*** embodied in it and consumed principally through the use in the production or supply of goods or services, for rentals to others, or for administrative purposes as well as other factors such as obsolescence, wear and tear, etc. All ***capital expenditure****s* have a limited ***useful life*** and can reasonably be expected to ***decline in value***. ***Decline in value*** is ordinarily known as ***depreciation*** or ***amortization***.

Depreciation is the systematic allocation of this ***decline in value*** of ***capital expenditure*** or the consumption of the ***economic benefit*** embodied in a ***tangible asset*** over its ***useful life***.

Economic benefit is the ***cost*** of a tangible or an ***intangible asset*** or other amount substituted for ***cost***, less its residual value.

Fair market value of tangible and ***intangible assets*** at any particular time is the price it will ordinarily fetch on sale in the open market in ***an arm's length dealing or transaction***.

Finance lease is a ***lease*** that transfers substantially all risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Intangible assets are identifiable non-monetary assets without physical existence like patent, invention, design, model, copyright, trademark etc., with expected usage of more than a year.

Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Non-arm's length dealing or transaction means dealing or transaction between two parties who are:

- Related;
- On close terms;
- Involved in a confidential relationship;
- Presumed not to have roughly equal bargaining powers;
- Not knowledgeable about the deal or transaction; and

- Not willing to undertake the deal or transaction.

Normal *useful life* of a tangible or an ***intangible asset*** is how long it can be used for earning or producing income. It is an estimate, having regard to the wear and tear under the expected circumstances of use with the assumption that it will be maintained in reasonably good order and condition.

Operating lease is a ***lease*** other than a ***finance lease***.

Owned, in most cases, means the legal ownership. In certain circumstances it also includes the real or beneficial ownership. Instances of real or beneficial ownership are:

- Where a person can exercise the right of ownership and is entitled to the use or income thereof without the legal title;
- Where a person enjoys full possession of the property and the entire consideration paid but formal conveyance deed not yet executed;
- Building constructed on or any other ***tangible asset*** fixed to the land not ***owned*** (land taken on ***lease*** or land legally not ***owned***);
- Benami transactions;
- ***Tangible assets*** of an association of persons or a partnership held and applied for the purposes of the association or partnership's business.

Pre-commencement expenditures are those that are incurred before the commencement of business like feasibility studies, construction of prototypes, trial production activities, etc.

Revenue expenditure is ordinarily expenditure with expected ***useful life*** of less than one year incurred for earning an income. This includes expenditure incurred on purchases, rent, salaries, electricity, telephone, etc.

Tangible assets have physical existence like land, building, furniture, machinery and plant, etc., with expected usage of more than a year.

Written down value ordinarily is the **cost** of a tangible or an **intangible asset** as reduced by decline in its value or consumption of the **economic benefit** embodied in it.

Depreciation of tangible assets

Depreciation is one of the important components to determine income of activities involving use of ***tangible assets***.

As a general rule the ***revenue expenditure*** incurred in earning or producing income are deductible to arrive at the profit earned while the ***capital expenditure*** incurred in acquiring ***tangible assets*** are not deductible, although benefit is derived from its use over a number of years.

However, the ***decline in value*** of ***tangible assets*** used in earning or producing income is deductible by way of ***depreciation*** to arrive at the profit earned. This is equally recognized both for accounting and taxation purposes.

Varieties of methods are in practice, for accounting purposes, to depreciate ***tangible assets*** on a systematic basis. Two commonly used methods are the straight-line method and the diminishing balance method. The method to be used is selected on the basis of the expected pattern of ***economic benefits*** and is applied consistently from year to year unless there are valid reasons justifying the change.

Any of the methods of ***depreciation*** used require determination of three very significant things, i.e., ***cost***, ***normal useful life*** and residual value of an asset.

Taking cognizance of complexity in determining the ***useful life*** and residual value of each and every ***tangible asset***, specific provisions have been made in the Income Tax Ordinance, 2001, which are explained below, to quantify / determine ***depreciation*** of ***tangible assets***.

***Depreciation* deduction under the Income Tax Ordinance, 2001** is allowed only while computing income from:

- Business; or
- ***Lease*** of a building together with machinery and plant. (i.e depreciation is not allowed against rent of buildings).

The deduction for ***depreciation*** under the Income Tax Ordinance, 2001 is also restricted to certain ***specified tangible assets***, hereinafter referred to as ***"depreciable assets"*** that:

- Are ***Owned*** by the person claiming the deduction for ***depreciation***;
- Have a normal ***useful life*** of more than one year;
- Are likely to loose value as a result of wear and tear, or obsolescence; and
- Are wholly or partly used by the person, during the corresponding tax year, in deriving income from business or ***lease*** of a building together with plant and machinery, which is chargeable to tax.

"Depreciable assets" are:

- Any tangible movable property e.g., furniture, fixtures, computers, technical or professional books, ships, motor vehicles, aircrafts, machinery and plant, etc.;
- Immovable property (other than unimproved land) e.g., buildings, etc.; or
- ***Structural improvement*** to immoveable property.

Structural improvements to immoveable property include any building, road, driveway, car park, railway line, pipeline, bridge, tunnel, airport, runway, canal, dock, wharf, retaining wall, fence, power lines, water or sewerage pipes, drainage, landscaping or dam.

Tangible moveable property, immoveable property or structural improvement to immoveable property in respect of which deduction of entire cost is allowed under any provisions of the Income Tax Ordinance, 2001 (other than depreciation, initial allowance or first year allowance) is excluded from the ambit of "depreciable assets".

Depreciation **method** prescribed under the Income Tax Ordinance, 2001, for calculating the deduction for ***depreciation*** is the commonly known "Diminishing Balance or Written Down Value Method".

Under this method, the deduction for ***depreciation*** in the first year is calculated by applying ***"standard depreciation rate"*** on the ***cost of depreciable asset*** as reduced by the deduction for admissible ***"initial allowance"*** or ***"first year allowance"***, if any.

Following illustration explains the above**:**

Example - First Year	Amount (Rupees)
Cost of depreciable asset	500,000
Initial allowance @ 50% of cost i.e. Rs. 500,000	250,000
Depreciation @ 15% of Rs. 250,000, i.e., cost of Rs. 500,000 minus initial allowance of Rs. 250,000	37,500
Written down value carried forward – Cost minus initial allowance and depreciation deduction	212,500

In the following years the deduction for ***depreciation*** is calculated on the ***cost*** of the depreciable asset as reduced by the aggregate ***depreciation*** and initial allowance deductions allowed in the preceding years i.e. diminishing balance or ***written down value***.

Example - Second Year	Amount (Rupees)
Written down value brought forward	212,500
Depreciation @ 15% of Rs. 212,500, i.e., cost of Rs. 500,000 minus aggregate initial allowance and depreciation of Rs. 287,500	31,875
Written down value carried forward	180,625

Example - Third Year	Amount (Rupees)
Written down value brought forward	180,625
Depreciation @ 15% of Rs. 180,625, i.e., cost of Rs. 500,000 minus aggregate initial allowance and depreciation of Rs. 319,375	27,094
Written down value carried forward	153,531

Written down value for the purposes of calculating ***depreciation*** in the following years of a depreciable asset is the ***cost*** of a depreciable asset reduced by:

- Aggregate ***depreciation, initial allowance and first allowance*** deductions actually allowed against the income from business or income from letting out of building together with machinery and plant chargeable to tax in respect of that depreciable asset in the preceding years; and
- Aggregate ***depreciation*** attributable to fair proportional use of the depreciable asset for purposes other than deriving income from

business or income from letting out of building together with machinery and plant chargeable to tax.

***Cost* of depreciable asset,** generally comprises of the:

- Amount paid to own the asset, such as purchase price, expenditure incurred to produce or create, etc.;
- Amount paid to bring the asset to its present location and condition fit for its intended use, such as incidental expenditure incurred in acquiring, transporting, altering, improving, renewing, installing, etc.;
- The ***fair market value*** of any non-cash benefit given; and
- ***Debt incurred*** to pay the amount or to provide a non-cash benefit.

Example - Purchase of molding machine in exchange for old machine	Amount (Rupees)
Purchase price paid - Cheque drawn on business bank account	100,000
Bringing to present location – Transportation freight paid in cash	5,000
Making fit for intended use – Installation expenditure paid	10,000
Non-cash benefit given – Fair market value of old molding Machine	25,000
Debt incurred – Bank paid to the supplier against loan repayable in ten monthly installments	75,000
Cost of the molding machine for the purposes of depreciation deduction	225,000

There are special rules to work out the ***cost*** of depreciable asset **in certain specific circumstances**. Some of the common situations are explained below:

- ***Cost*** of **passenger transport vehicle not plying for hire** for the purposes of depreciation is taken as under:
  - **For tax year 2003 to 2005** – Actual cost or Rs. 1,000,000 which ever is less;
  - **For tax year 2006 to 2009 – Actual cost**
  - **For tax year 2010 onwards – Actual cost or Rs. 1,500,000 which ever is less;**

- ***Cost*** of **personal asset applied to business use** is taken at the ***fair market value*** on the date it is so applied.

Example - Personal computer applied to business use	Amount (Rupees)
Purchase price paid – At the time it was acquired in June 2009	50,000
Fair market value today when applied to business use	35,000
Cost of the computer for the purposes of depreciation deduction	35,000

Example - Structural improvement to immovable property (building) applied to business use	Amount (Rupees)
Purchase price paid – At the time it was acquired in June 2000	500,000
Fair market value of the today when applied to business use	700,000
Cost of the structural improvement to immovable property (building) for the purposes of depreciation deduction	700,000

- ***Cost*** of **internally produced or constructed** depreciable asset is the ***cost*** incurred to produce or construct.

Example - Boiler produced in house by the entity for its factory	Amount (Rupees)
Cost incurred to produce	
Material	50,000
Wages	7,500
Consumables (welding rods etc)	3,000
Fuel and power (electricity, gas, etc)	2,000
Overheads – Factory & administrative expenditures etc.	1,500
Cost of the boiler for the purposes of depreciation deduction	64,000

- ***Cost*** of depreciable asset **acquired by the lessee on maturity or pre-mature termination of *finance lease* agreement** is the residual value or bargain purchase price, as the case may be.

Example - Motor vehicle	Amount (Rupees)
Cost at the time acquired	850,000
Finance obtained under finance lease	850,000
Bargain purchase price:	
Before payment of 11th installment	850,000
After payment of 11th installment but before payment of 21st installment	600,000
After payment of 21st installment but before payment of 26th installment	300,000
After payment of 26th installment but before payment of 30th installment	150,000
Residual value on maturity of lease	85,000
Monthly lease rentals	35,000
Number of installments	30

Total lease rentals of 30 installments	1,050,000
Cost of the motor vehicle for the purposes of depreciation deduction	
On pre-mature termination	
After paying 03 installment	850,000
After paying 18 installment	600,000
After paying 22 installment	300,000
After paying 27 installment	150,000
On maturity of lease agreement	
After paying 30 installment	85,000

- ***Cost*** of depreciable asset **acquired against a loan denominated in a foreign currency:**

  - Where the ***depreciable asset*** is acquired on or before June 30, 2009 - The ***cost*** worked out otherwise and the increase or decrease in the loan liability expressed in Pakistan Rupees, until the loan is fully repaid, as a result of exchange rate fluctuations during the year. The annual increase or decrease is added to or deducted from the ***cost*** or ***written down value*** of such depreciable asset.

Example - Machinery	Amount (Rupees)
Cost at the time acquired (January 2002) including debt in foreign currency of US$ 100,000	7,000,000
Debt of US$ 100,000 expressed in Pak Rs. at the prevailing exchange rate of Rs. 57.00 at the time acquired	5,700,000
Debt out-standing on 30th June, 2002, US$ 100,000 expressed in Pak Rs. at the prevailing exchange rate of Rs. 57.25 resulting into increase in debt.	25,000
Cost of machinery on 30th June, 2002 (cost at the time acquired plus increase in debt up to 30th June, 2002)	7,025,000
First installment paid on 1st January, 2003 US$ 10,000 at the prevailing exchange rate of Rs. 56.95 resulting into exchange gain (decrease in debt) of Rs.0.30 per US$ as compared to the exchange rate of 30th June, 2002	(3,000)
Debt out-standing on 30th June, 2003 US$ 90,000 expressed in Pak rupees at the prevailing exchange rate of Rs. 57.50 resulting into increase in the debt	22,500
Net increase in debt as a result of exchange rate fluctuation between 1st July, 2002 to 30th June, 2003	19,500
Cost of machinery on 30th June, 2003 (cost as on 1st July, 2002 plus increase net in debt between 1st July, 2002 to 30th June, 2003)	7,044,500
Second installment paid on 1st January, 2004 US$ 10,000 at the prevailing exchange rate of Rs. 58.00 resulting into exchange loss (increase in debt) of Rs.0.50 per US$ as compared to the exchange rate of 30th June, 2003	5,000
Debt out-standing on 30th June, 2004 US$ 80,000 expressed in Pak rupees at the prevailing exchange rate of Rs. 57.00 resulting into decrease in debt	(40,000)
Net decrease in debt as a result of exchange rate fluctuation between 1st July, 2003 to 30th June, 2004	(35,000)
Cost of machinery on 30th June, 2004 (cost as on 1st July, 2003 minus net decrease in debt between 1st July, 2003 to 30th June, 2004)	7,009,500

  - Where the ***depreciable asset*** is acquired on or after July 01, 2009 - The ***cost*** worked out otherwise and the increase or decrease in the loan liability expressed in Pakistan Rupees, until the ***depreciable asset*** is used and qualifies for depreciation allowance. The increase or decrease in the loan liability after the ***depreciable asset*** has been put to use is business income or expenditure, as the case may be.

Example - Machinery acquired in January 2010 and put to commercial use on December 31, 2010	Amount (Rupees)
Cost at the time acquired (January 2010) including debt in foreign currency of US$ 67,857	7,000,000
Debt of US$ 67,857 expressed in Pak Rs. at the prevailing exchange rate of Rs. 84.00 at the time acquired	5,700,000
Debt out-standing on 30th June, 2010, US$ 67,857 expressed in Pak Rs. at the prevailing exchange rate of Rs. 84.368 resulting into increase in debt.	25,000
Cost of machinery on 30th June, 2010 (cost at the time acquired plus increase in debt up to 30th June, 2010)	7,025,000
First installment paid on 1st July, 2010 US$ 10,000 at the prevailing exchange rate of Rs. 84.068 resulting into exchange gain (decrease in debt) of Rs.0.30 per US$ as compared to the exchange rate of 30th June, 2010	(3,000)
Debt out-standing on 31st December, 2010 (date of commencement of commercial production) US$ 57,857 expressed in Pak rupees at the prevailing exchange rate of Rs. 84.458	

resulting into increase in the debt	22,500
Net increase in debt as a result of exchange rate fluctuation between 1st July, 2010 to 31st December, 2010	19,500
Cost of machinery on 31st December, 2010 (cost as on 1st July, 2010 plus increase net in debt between 1st July, 2010 to 31st December, 2010)	7,044,500

The increase or decrease in the loan liability is worked out after taking into account the position under the related hedging arrangements, if any.

- **Consideration in full or in part settled against income chargeable to tax or exempt from tax** is included while working out the ***cost***.

Example - Purchase of a paper cutting machine	Amount (Rupees)
Purchase price paid - Cheque drawn on business bank account	75,000
Non-cash benefit given – Printed stationery given (taxable income)	15,000
Non-cash benefit given – Agricultural produce given (exempt income)	15,000
Cost of the paper cutting machine for the purposes of depreciation deduction	105,000

- **Consideration in full or in part settled against grant, subsidy, rebate, commission or any other assistance,** which is not chargeable to tax under the Income Tax Ordinance, 2001 is not included while working out the ***cost***.

Example - Purchase of a hospital equipment	Amount (Rupees)
Purchase price paid - Cheque drawn on business bank account	85,000
Purchase price paid - Grant-in-aid paid directly by the Health Department to the supplier (not chargeable to tax)	15,000
Cost of the hospital equipment for the purposes of depreciation deduction	85,000

- ***Cost*** of **Immoveable property or a structural improvement to immoveable property** does not include the ***cost*** of land, as land is not a depreciable asset.

Example - Factory building including land)	Amount (Rupees)
Cost at the time acquired	1,500,000
Cost of land at the time acquired (-)	850,000
Cost of the factory building for the purposes of depreciation deduction	650,000

- ***Cost*** of depreciable asset ***owned* by more than one person** in the hands of each co-owner is their own ***cost*** of acquiring and not the ***cost*** of the depreciable asset it self. There may arise situations where equal co-owners have different ***costs***.

Example - Office building (excluding land)	Amount (Rupees)
Construction cost incurred by Mr. A	1,000,000
After one year Mr. A sold 50% of the office building to Mr. B for a consideration of	800,000
Cost of the 50% of the office building in the hands of Mr. A for the purposes of depreciation deduction remains what it cost him	500,000
Cost of the 50% of the office building in the hands of Mr. B for the purposes of depreciation deduction is what it cost him and not the 50% of the cost of the building when it was constructed.	800,000

- ***Cost*** of depreciable asset **acquired in non-*arm's length* transaction** is the ***fair market value*** at the time of acquiring.

Example - Packing machinery	Amount (Rupees)
Mr. A son of Mr. B, the manufacturer of the machinery is doing business outside Pakistan	
Mr. B father of Mr. A, the purchaser of the machinery is doing business in Pakistan.	
Mr. B purchased (imported) machinery from Mr. A with a recorded C&F price US$ 15,000 equivalent to Pak rupees	900,000
Fair market value at the time of acquiring the machinery	610,000
The transaction between Mr. A and Mr. B does not satisfy the conditions of an arm's length transaction.	
Cost of the packing machinery for the purposes of depreciation deduction	610,000

- ***Cost*** of **two or more depreciable assets acquired in a single transaction** is apportioned between each in proportion to their ***fair market value*** at the time of acquiring.

Example - Purchase of photo copier and computer	Amount (Rupees)
Cost at the time acquired	100,000
Fair market value at the time acquired:	
Of photo copier	70,000
Of computer	50,000
Of both (total)	120,000
Photo copier (Rs. 100,000 / Rs. 120,000 X Rs. 70,000)	58,333
Computer (Rs. 100,000 / Rs. 120,000 X Rs. 50,000)	41,667

- ***Cost*** of depreciable asset **acquired with some thing else in a single transaction** is restricted to a reasonably attributable amount. Generally the ***fair market value*** at the time of acquiring is considered as a reasonably attributable amount.

Example - Purchase of photo copier with two years service and maintenance contract	Amount (Rupees)
Cost at the time acquired	100,000
Fair market value of the photo copier at the time acquired:	70,000
Cost of the photo copier for the purposes of depreciation deduction	70,000

- **Waiver of *debt incurred in acquiring*** depreciable asset is the reduction of the ***cost*** itself and treated as consideration received on disposal of depreciable asset, as discussed under **"Disposal of depreciable assets"**.

- **Recoupment of *cost* incurred in acquiring** depreciable asset is also reduction of the ***cost*** itself and treated as consideration received on disposal of depreciable asset, as discussed under **"Disposal of depreciable assets".**

- Depending upon the applicable provisions of the Sales Tax Act, 1990, where Sales Tax paid is allowed credit / adjustment as 'input tax', **Sales Tax paid on acquiring** depreciable asset is not included in the ***cost***.

Any expenditure in respect of which a deduction of entire amount is allowed under any provision of the Income Tax Ordinance, 2001 (other than ***depreciation*** or initial allowance) cannot be included in the ***cost*** of depreciable asset).

Standard *depreciation* rate for various classes of depreciable assets are as under: -

Description of assets	**Rate**
• **Buildings**	
– All types (not otherwise specified)	10%
– A ramp built to provide access to persons with disabilities with a cost not exceeding Rupees250,000 each	100%
• **Furniture**	
– Furniture (including fittings)	15%
• **Machinery and Plant**	
– Machinery and plant (not otherwise specified)	15%
– Technical or professional books	15%
– Ships	15%
– Motor vehicles (all types)	15%
– Computer hardware, including printer, monitor & allied items, machinery and equipment used in manufacture of I.T. products	30%
– Aircraft, aero-engines	30%
– Below ground installations in mineral oil concerns the income of which is liable to be computed in accordance with the rules in Part I of the Fifth Schedule	100%
– Offshore platforms and Production installation in mineral oil concerns the Income of which is liable to be computed in accordance with the rules in Part I of the Fifth Schedule	20%

The above rates of ***depreciation*** are the annual rates.

There are special rules to workout ***depreciation deduction in certain specific circumstances***. Some of the common situations are explained below:

- ***Depreciation*** deduction of **depreciable asset partly used for deriving income chargeable to tax** is restricted to fair proportional use in deriving income chargeable to tax.

  In such situations although the ***depreciation*** deduction is restricted to the fair proportional use but since the depreciable asset is also used for another purpose, therefore, full amount of annual ***depreciation*** is taken into account for determining the ***written down value*** to be carried forward. This can be illustrated as under:

Example - Motor vehicle – Partly for business use chargeable to tax and partly for private use	Amount (Rupees)
Written down value brought forward	800,000
Used for business purposes	70%
Used for private purposes	30%
Annual depreciation @ 15%	120,000
Fair proportional depreciation deduction for business purposes (70% of Rs.120,000)	84,000
Written down value carried forward (Written down value brought forward minus annual depreciation i.e. Rs.800,000 minus Rs.120,000)	680,000

- Under the Income Tax Ordinance, 2001 there is no distinction in treatment of **depreciable assets *leased* out** under a ***finance lease*** or an ***operating lease***.

Depreciable asset ***leased*** out under a ***finance lease*** is treated as ***owned*** and used by the lessor for the purposes of its business of leasing. Accordingly the lessor is entitled to the ***depreciation*** deduction like any other depreciable asset. However, ***depreciation*** of ***leased*** asset cannot be set-off against non-leasing income of the lessor.

On the other hand the lessee is not entitled to ***depreciation*** deduction of ***leased*** assets but instead is allowed full deduction of ***lease*** rentals paid.

This treatment of depreciable asset under a ***finance lease*** is available only in respect of ***lease*** arrangement done by a leasing company, an investment bank, a modaraba, a scheduled bank or a development finance institution.

Under the International Accounting Standards, assets ***leased*** under a ***finance lease*** or an ***operating lease*** are given different treatment for accounting purposes as against the uniform treatment given under the Income Tax Ordinance, 2001.

- Deduction for ***depreciation*** is not allowed in the tax year in which the **depreciable asset is disposed off**.

Particulars to be furnished alongwith the return of income, whenever there is a claim for ***depreciation*** deduction, are given in Annex I.

Disposal of depreciable assets

Disposal of depreciable assets takes place in the following situations:

- The owner parts with the ownership of depreciable asset, i.e.,:
  - The depreciable asset is sold, exchanged, transformed or distributed, including a sale and ***lease*** back arrangement;
  - The depreciable asset is cancelled, redeemed, relinquished, destroyed, lost, expired or surrendered;
  - Transmission of depreciable asset by succession or under a will;
- Application of depreciable asset to personal use;
- The depreciable asset is discarded or ceases to be used; or
- The depreciable asset is exported or transferred out of Pakistan.

Disposal of depreciable asset includes the disposal of a part thereof.

Disposal of depreciable asset results into ***gain or loss*** that is chargeable to tax or a deductible allowance, as the case may be, under the head business.

Gain or loss on disposal of depreciable asset is the difference between the ***consideration received*** and the ***written down value*** at the time of disposal.

Consideration received on disposal of depreciable asset is generally higher of the following two:

- Amount received and the ***fair market value*** of a non-cash benefit received as consideration, compensation, indemnity or damages; or
- The ***fair market value*** at the time of disposal.

There are exceptions to the above general basis of working out the **consideration received on disposal of depreciable asset in certain specific circumstances**. Some of the common situations are explained below:

- Consideration received is taken at the residual value or bargain purchase price of depreciable asset disposed off **on maturity or pre-mature termination of *finance lease*** by a scheduled bank, financial institution, modaraba or a leasing company approved by the Commissioner.

Example - Machinery	Amount (Rupees)
Cost at the time acquired	850,000
Finance given under finance lease	850,000
Bargain purchase price	
Before payment of 11th installment	850,000
After payment of 11th installment but before payment of 21st installment	600,000
After payment of 21st installment but before payment of 26th installment	300,000
After payment of 26th installment but before payment of 30th installment	150,000
Residual value on maturity of lease	85,000
Monthly lease rentals	35,000
Number of installments	30
Total lease rentals of 30 installments	1,050,000
Consideration received on disposal for the purposes of calculating gain or loss on disposal	
Pre-mature termination	
After paying 03 installment	850,000
After paying 18 installment	600,000
After paying 22 installment	300,000
After paying 27 installment	150,000
Maturity of lease agreement	
After paying 30 installment	85,000

This is subject to the condition that the residual value plus the amount realized during the term of ***lease*** towards the ***cost*** of the asset is not less than the original ***cost*** of the asset.

- Consideration received for **passenger transport vehicle not plying for hire,** where the original ***cost*** thereof was restricted*****, is taken at proportionate amount of the consideration actually received in the ratio actual ***cost*** was restricted, i.e., consideration received multiplied by restricted ***cost*** initially taken divided by actual ***cost***.

Example - Motor vehicle (Passenger transport vehicle not plying for hire)	Amount (Rupees)
Cost at the time acquired	1,250,000
Cost restricted for the purposes of depreciation deduction	1,000,000
Actual consideration received on disposal	850,000
Consideration received on disposal for the purposes of calculating gain or loss on disposal (Rs. 850,000 divided by Rs. 1,250,000 multiplied by Rs. 1,000,000)	680,000

***** From July 01, 2005 (Tax Year 2006) to June 30, 2009 (Tax Year 2009) the restriction on the cost of transport vehicle not plying for hire, for the purposes of depreciation thereon, was dispensed with. Accordingly the above calculation of consideration received on disposal applies on transport vehicle not plying for hire acquired on or before June 30, 2005 or on or after July 01, 2009 with actual cost exceeding the threshold.

The threshold on the cost of transport vehicle not plying for hire prior to tax year 2005 was Rs. 1,000,000 and effective tax year 2010 it is Rs. 1,500,000.

- Consideration received for depreciable asset **exported or transferred out of Pakistan** is taken at the cost at the time it was acquired.

- Consideration received for **Immovable property**, where the consideration actually received exceeds the ***cost*** thereof, is restricted to the ***cost*** at the time it was acquired. (A capital gain arising from sale of immovable property is subject to tax by the Provincial Governments. Thus by restricting the sale proceeds to cost the gain to the extent of depreciation allowed, if any, is recognized for Income Tax purpose).

Example - Factory land / building (Consideration on disposal **less** than cost)	Amount (Rupees)
Cost at the time acquired	2,000,000
Aggregate depreciation and initial allowance deduction actually allowed against business income	225,000
Written down value at the time of disposal (cost at the time acquired minus aggregate depreciation and initial allowance deductions, i.e. Rs.2,000,000 minus Rs.225,000)	1,775,000
Actual consideration received on disposal	1,850,000
Consideration received on disposal for the purposes of calculating gain or loss on disposal (Actual consideration received being less the cost at the time acquired)	1,850,000

Example - Factory land / building (Consideration on disposal **more** than cost)	Amount (Rupees)
Cost at the time acquired	2,000,000
Aggregate depreciation and initial allowance deduction actually allowed against business income	225,000
Written down value at the time of disposal (cost at the time acquired minus aggregate depreciation and initial allowance deductions, i.e. Rs.2,000,000 minus Rs.225,000)	1,775,000
Actual consideration received on disposal	2,500,000
Consideration received on disposal for the purposes of calculating gain or loss on disposal (Cost at the time acquired because actual consideration received is more than the cost)	2,000,000

- Consideration received for **two or more depreciable assets in a single transaction** is apportioned between each in proportion to their ***fair market value*** at the time of disposal.

Example - Photo copier and computer	Amount (Rupees)
Consideration received on disposal	100,000
Fair market value at the time of disposal:	
Of photo copier	70,000
Of computer	50,000
Of both (total)	120,000
Apportionment of the consideration received on disposal for the purposes of calculating gain or loss on disposal (Total consideration received divided by total fair market value multiplied by fair market value of each)	
Photo copier (Rs.100,000 / Rs.120,000 X Rs.70,000)	58,333
Computer (Rs.100,000 / Rs.120,000 X Rs.50,000)	41,667

- Consideration received on **disposal of depreciable asset with some thing else in a single transaction** is restricted to a reasonably attributable amount. Generally the ***fair market value*** at the time of disposal is considered as a reasonably attributable amount.

Example - Photo copier with un-consumed spares and toner	Amount (Rupees)
Total consideration received on disposal	100,000
Fair market value of the photo copier at the time of disposal:	70,000
Consideration received on disposal of photo copier for the purposes of calculating the gain or loss on disposal	70,000

- Consideration received for **depreciable asset discarded or ceased to use** is taken at the ***fair market value*** at that time.

- Consideration received for **depreciable asset applied to personal use** is taken at the ***fair market value*** at that time.

- Consideration received for **depreciable asset as a result of disposal of business by an individual or an association of persons to a wholly owned company** is taken at written down value, subject to certain restrictions and conditions.

- Consideration received for **depreciable asset as a result of disposal of assets between wholly owned resident companies** is taken at written down value, subject to certain restrictions and conditions.

Written down value for the purposes of ascertaining the gain or loss on disposal of depreciable asset is the ***cost of depreciable asset disposed off*** as reduced by the aggregate ***depreciation*** and initial allowance deductions actually allowed against the income from business or income from letting out of building together with machinery and plant chargeable to tax in respect of that depreciable asset in the preceding years.

Example - Motor vehicle – Partly for business use chargeable to tax and partly for private use	Amount (Rupees)
Used for business purposes	70%
Used for private purposes	30%
Cost at the time acquired	800,000
Depreciation 1st yr 15% of Rs.800,000 (cost at the time acquired)	120,000
WDV for next years depreciation calculation	680,000
Depreciation 2nd yr 15% of Rs.680,000	102,000
WDV for next years depreciation calculation	578,000
Depreciation 3rd yr 15% of Rs.578,000	86,700
WDV for next years depreciation calculation	491,300
Depreciation deduction allowed against business income chargeable to tax	
1st year – 70%of Rs.120,000	84,000
2nd year – 70%of Rs.102,000	71,400
3rd year – 70%of Rs. 86,700	60,690
Total	216,090
Written down value (WDV) for the purposes of calculating gain or loss on disposal (Cost minus aggregate depreciation deduction actually allowed, i.e., Rs.800,000 minus Rs.216,090)	583,910

Cost* of depreciable asset disposed off** generally is the ***cost worked out at the time when the depreciable asset was acquired or produced, as explained under **"*Depreciation* of *tangible assets*"**.

There are special rules to work out the ***cost* of depreciable asset disposed off in certain specific circumstances**. Some of the common situations are explained below:

- ***Cost*** of **part of depreciable asset disposed off** is taken at the ***fair market value*** of that part at the time the depreciable asset was acquired or produced.

Example - Two Chairs out of complete set of office furniture	Amount (Rupees)
Cost at the time acquired of the complete set of office furniture	100,000
Cost of two chairs out of the complete set at the time acquired	Not known
Fair market value of the two chairs at the time acquired:	6,000
Cost of two chairs for the purposes of calculating the gain or loss on disposal	6,000

- ***Cost*** of depreciable asset as a result of **waiver of *debt incurred* in acquiring** is taken at the amount equal to the debt waived off.

- ***Cost*** of depreciable asset as a result of **recoupment of *cost*** is taken at the amount equal to the ***cost*** recouped.

Generally, **Sales Tax liability** arises on disposal of a depreciable asset by a Sales Tax Registered entity.

Particulars to be furnished alongwith the return of income, whenever there is a disposal of a depreciable asset, are:

- Description of each depreciable asset disposed off;

- Actual consideration received on disposal and the amount of consideration adopted to arrive at the gain or loss on disposal of the depreciable asset;

- Written down value of the depreciable asset at the time of disposal indicating the original ***cost*** and aggregate ***depreciation*** and initial allowance deductions actually allowed; and

- The resultant gain or loss on disposal.

Initial allowance

Initial Allowance of 50% of the '***cost***' of ***"eligible depreciable assets"*** is allowed as deduction against the chargeable income from business or letting out of building together with machinery and plant in the tax year in which such asset is used for the first time or commercial production is commenced, whichever is latter.

"Eligible depreciable assets" for the purposes of initial allowance are all '***depreciable assets***' except the following:

- ***Depreciable asset***, which is previously used in Pakistan;

- Furniture, including fittings;

- Road transport vehicle, which is not plying for hire, including road transport vehicle ***leased*** under ***finance lease*** arrangements;

- Building let out together with machinery and plant.

'*Cost*' and **'depreciable assets'** has the same meaning as explained earlier, under **'*Depreciation* of *tangible assets*'**.

Like ***depreciation***, initial allowance on eligible depreciable assets given on ***lease*** cannot be set-off against non-leasing income of the lessors.

The rate of Initial Allowance Under section 23 for plant and machinery has been reduced to 25% from 50%

The Initial Allowance for building is 25%

Particulars to be furnished alongwith the return of income, whenever there is a claim for initial allowance, are given in Annex **I**.

First year allowance

First Year Allowance in lieu of ***initial allowance*** is allowed as deduction against the chargeable income from business of ***industrial undertaking***:

- Set up in **specified rural and under developed areas** notified by the Federal Government, and owned and managed by a ***company***; and

- Set up anywhere in Pakistan for generation of alternate energy, owned and managed by a ***company*** and put to use after July 01, 2009.

First Year Allowance of 90% of the '***cost***' of ***"eligible depreciable assets"*** is allowed as deduction against the chargeable income from business in the tax year in which such asset is used for the first time or commercial production is commenced, whichever is latter.

"Eligible depreciable assets" for the purposes of first year allowance is plant, machinery and equipment, which are not previously used in Pakistan, installed by the aforesaid ***industrial undertaking***.

'*Cost*' has the same meaning, as explained earlier under **'*Depreciation* of *tangible assets*'**.

"Industrial undertaking" means –

- An undertaking which is set up in Pakistan and which employs,
  - ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy; or
  - twenty or more persons in Pakistan and does not involve the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy and which is engaged in,-
    - the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition;
    - ship-building;
    - generation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power; or
    - the working of any mine, oil-well or any other source of mineral deposits; and
- Any other industrial undertaking which the Federal Board of Revenue may by notification in the official Gazette, specify.

Specified rural and under developed areas have yet not been notified by the Federal Government.

Particulars to be furnished alongwith the return of income, whenever there is a claim for first year allowance, are given in Annex **I**.

Amortization of *intangible assets*

Like ***depreciation***, ***amortization*** is also one of the important components to determine income of activities involving use of ***intangible assets***.

Capital expenditures incurred in acquiring ***intangible assets*** used in earning or producing income are also not deductible to arrive at the profit earned, although benefit is derived from its use over a number of years.

However, the ***decline in value*** of ***intangible assets*** used in earning or producing income is deductible by way of ***amortization*** to arrive at the profit earned. This is equally recognized both for accounting and taxation purposes.

Generally intangibles are amortized using the straight-line method.

Specific provisions have been made in the Income Tax Ordinance, 2001, which are explained below, to quantify / determine ***amortization*** of ***intangible assets***.

Amortization* deduction under the Income Tax Ordinance, 2001** is allowed only while computing income from business and is restricted to certain specified ***intangible assets, hereinafter referred to as ***specified intangible assets*** that:

- Are ***owned*** by the person claiming the deduction for ***amortization***;
- Have a normal ***useful life*** of more than one year; and
- Are wholly or partly used by the person, during the corresponding tax year, in deriving income from business chargeable to tax.

Specified *intangible assets* are:

- Any patent, invention, design or model, secret formula or process, copyright, trade mark, scientific or technical knowledge, computer software, motion picture film, export quota, franchise, license, intellectual property or other like property or right;
- Contractual rights; and
- Any expenditure that provides an advantage or benefit for a period of more than one year (other than expenditure incurred to acquire a depreciable asset or unimproved land).

However, any ***intangible asset*** in respect of which a deduction of entire ***cost*** is allowed under any other provision of the Income Tax Ordinance, 2001 (other than ***amortization***) is excluded from the ambit of "specified intangibles assets".

Amortization* method** prescribed under the Income Tax Ordinance, 2001, for calculating the deduction for ***amortization is the commonly known "Straight Line Method".

Under this method, the annual deduction for ***amortization*** is calculated by equally distributing the ***cost of specified intangible asset*** over its ***normal useful life*** in whole years i.e., ***cost*** of the specified ***intangible asset*** divided by normal ***useful life*** in whole years.

***Cost* of specified *intangible asset*,** generally comprises of the:

- Expenditure incurred to acquire or create; and
- Expenditure incurred in improving or renewing.

Any expenditure in respect of which a deduction of entire amount is allowed under any provision of the Income Tax Ordinance, 2001 (other than ***amortization***) cannot be included in the ***cost*** of a specified ***intangible asset***).

The maximum **normal *useful life*** of a specified ***intangible asset***, where it is more than ten years or cannot be ascertained is taken as ten years,

There are special rules to work out the ***amortization* deduction in certain specific circumstances.** Some of the common situations are explained below:

- ***Amortization*** deduction of **specified *intangible asset* not used for whole of the tax year** is restricted to ***number of days a specified intangible asset is used*** for deriving business income chargeable to tax during a tax year, e.g., where specified ***intangible asset*** is used for 200 days, the

amortization deduction will be annual ***amortization*** divided by 365 and multiplied by 200.

- ***Amortization*** deduction of **specified *intangible asset* partly used for deriving income chargeable to tax** is restricted to fair proportional use in deriving income chargeable to tax.

  In such situations although the ***amortization*** deduction is restricted to the fair proportional use but since the specified intangible is also used for another purpose, therefore, full amount of annual ***amortization*** is taken into account for determining the ***written down value*** to be carried forward. This can be illustrated as under:

Example - Patent – Used for 200 days in a tax year and partly for business use chargeable to tax and partly for other use	Amount (Rupees)
Cost of the patent	200,000
Use full life	10 years
Annual amortization	20,000
Number of days used for business	200
Used for business purposes	70%
Used for other purposes	30%
Fair proportional amortization for business use - 70% of the annual amortization i.e., 70% of Rs.20,000	14,000
Fair proportionate amortization for 200 days business use –Amortization for business use divided by 365 multiplied by 200 i.e., Rs.14,000 / 365 X 200	7,671
Amortization deductible	7,671

- Deduction for ***amortization*** is not allowed in the tax year in which the **specified *intangible asset* is disposed off.**

Number of days a specified *intangible asset* is used includes the days the specified ***intangible asset*** is available for use. In other words the day the specified ***intangible asset*** is available but remained idle is treated as used on that day including a non-working day.

Particulars to be furnished alongwith the return of income, whenever there is a claim for ***amortization*** deduction, are given in Annex II.

Disposal of specified *intangible assets*

Disposal of specified *intangible assets* takes place in the following situations:

- The owner parts with the ownership of specified ***intangible asset***;
- The specified ***intangible asset*** is sold, exchanged, transformed or distributed;
- The specified ***intangible asset*** is cancelled, redeemed, relinquished, destroyed, lost, expired or surrendered;
- Transmission of specified ***intangible asset*** by succession or under a will;
- Application of specified ***intangible asset*** to personal use;
- The specified ***intangible asset*** is discarded or ceases to be used; or
- The specified ***intangible asset*** is exported or transferred out of Pakistan.

Disposal of specified ***intangible asset*** includes the disposal of a part thereof.

Disposal of specified ***intangible asset*** results into ***gain or loss*** chargeable to tax or a deductible allowance, as the case may be, under the head business.

Gain or loss on disposal of a specified ***intangible asset*** is the difference between the ***consideration received*** and the ***written down value*** at the time of disposal.

Consideration received on disposal of specified ***intangible asset*** is generally, higher of following two:

- Amount received and the ***fair market value*** of the non-cash benefits received as consideration, compensation, indemnity or damages; or
- The ***fair market value*** at that time.

There are exceptions to the above general basis of working out the **consideration received on disposal of specified *intangible asset* in certain specific circumstances**. Some of the common situations are explained below:

- Consideration received for **two or more specified intangibles asset in a single transaction** is apportioned between each in proportion to their ***fair market value*** at the time of disposal.

- Consideration received on **disposal of specified *intangible asset* with some thing else in a single transaction** is restricted to a reasonably attributable amount. Generally the ***fair market value*** at the time of disposal is considered as a reasonably attributable amount.

- Consideration received for **specified *intangible asset* discarded or ceased to be used** is taken at the ***fair market value*** at that time.

- Consideration received for **specified *intangible asset* applied to personal use** is taken at the ***fair market value*** at that time.

- Consideration received for **specified *intangible asset* as a result of disposal of business by an individual or an association of persons to a wholly owned company** is taken at written down value, subject to certain restrictions and conditions.

- Consideration received for **specified *intangible asset* as a result of disposal of assets between wholly owned resident companies** is taken at written down value, subject to certain restrictions and conditions.

Written down value for the purposes of ascertaining the gain or loss on disposal of specified ***intangible asset*** is the ***cost of specified intangible asset disposed off***, as reduced by:

- Aggregate ***amortization*** deductions actually allowed against the income from business chargeable to tax in respect of that specified ***intangible asset*** in the preceding years; and

- Aggregate ***amortization*** attributable to fair proportional use of specified ***intangible asset*** for purposes other than deriving income from business chargeable to tax.

Cost* of specified *intangible asset* disposed off** generally is the ***cost worked out at the time when the specified ***intangible asset*** was acquired or created, as explained under "***Amortization* of *intangible assets***".

Particulars to be furnished alongwith the return of income, whenever there is a disposal of a specified intangible, are:

- Description of each specified **tangible asset** disposed off;

- Actual consideration received on disposal and the amount of consideration adopted to arrive at the gain or loss on disposal of the specified ***intangible asset***;

- Written down value of the specified ***intangible asset*** at the time of disposal indicating the original ***cost***, aggregate ***amortization*** deductions actually allowed and aggregate ***amortization*** attributable to fair proportional use for purposes other than deriving income from business chargeable to tax; and

- The resultant gain or loss on disposal.

Amortization of *pre-commencement expenditure*

In computing income from business a deduction for amortization of certain ***specified pre-commencement expenditures*** is allowed under the Income Tax Ordinance, 2001.

Specified *pre-commencement expenditures* are expenditures incurred before the commencement of business wholly and exclusively to derive income chargeable to tax like, ***cost*** of feasibility studies, construction of prototypes, trial production activities, etc.

Any expenditure incurred in acquiring land, depreciable asset or specified ***intangible asset*** cannot be included in the 'specified ***pre-commencement expenditure***'.

Similarly, any expenditure in respect of which a deduction of entire expenditure is allowed under any other provision of the Income Tax Ordinance, 2001 (other than amortization) is not included in 'specified ***pre-commencement expenditure***'.

Amortization method prescribed under the Income Tax Ordinance, 2001, for calculating the deduction for amortization is the commonly known "Straight Line Method".

Under this method, the annual deduction for amortization of ***pre-commencement expenditure*** is calculated on a straight-line basis at the rate of 20% per annum of the specified ***pre-commencement expenditure***. In other words the specified ***pre-commencement expenditure*** is amortized over a period of five years.

Annex - I

Particulars to be furnished alongwith the return of income, whenever there is a claim for depreciation or initial allowance deduction, are as under:

- Description of each depreciable asset;
- Written down value of each depreciable asset at the beginning of the year (brought forward) i.e., cost minus aggregate depreciation and initial allowance deductions actually allowed and aggregate depreciation attributable to fair proportional use for purposes other than deriving income from business or income from letting out of building together with machinery and plant chargeable to tax;
- Capital expenditure incurred in the year on addition of new depreciable assets or by way of alterations, improvements or extensions etc. on an existing depreciable asset (where the cost is restricted, as in case of motor vehicles, both actual and restricted amounts);
- Applicable rate of depreciation and initial allowance;
- Extent of use of each depreciable asset to derive income chargeable to tax from business or letting out of the buildings together with machinery and plant;
- Amount of initial allowance and annual depreciation (indicating separately the depreciation deductible and the that attributable to fair proportional use for purposes other than deriving income from business or income from letting out of building together with machinery and plant chargeable to tax); and
- Written down value carried forward;

The format of schedule of depreciable assets, depreciation and initial allowance commonly used to furnish the above particulars is given as Annex-III.

Annex - II

Particulars to be furnished alongwith the return of income, whenever there is a claim for amortization of specified intangible, are as under:

- Description of each specified intangible asset;
- Date of acquisition of each specified intangible asset;
- Cost of each specified intangible asset;
- Amount of annual amortization of each specified intangible asset;
- Extent of use of each specified intangible asset to derive income chargeable to tax from business (in percentage);
- Proportionate amount of amortization of each specified intangible asset attributable to use for deriving business income chargeable to tax;
- Number of days the specified intangible asset has been used for deriving business income chargeable to tax during a tax year;
- Proportionate amount of amortization of each specified intangible asset attributable to the number of days it is used to derive business income chargeable to tax.
- Capital expenditure incurred in the year on addition of new specified intangible asset or by way of alterations, improvements or extensions etc. on an existing specified intangible is to be shown as a separate item;

The format of schedule of specified intangible asset and amortization commonly used to furnish the above particulars is given as Annex-IV.

Annex – III

Schedule of Depreciable Assets, Depreciation and Initial Allowance

Tax Year	LTU/RTO	NTN	Name								
2011	02	1000000	XYZ and Co.								
S. No.	Particulars / Description	Opening Written Down Value	Additions / Deletions	Total	Initial Allowance on additions, if any		Depreciation				Written Down Value carried forward
							Total/Annual		Business Use		
					Rate %	Amount	Rate %	Amount	Extent %	Amount	
1	Building – Factory	500,000	0	500,000	50	0	10	50,000	100	50,000	450,000
2	Building – General	100,000	200,000	300,000	50	100,000	10	20,000	100	20,000	180,000
3	Furniture – Office	50,000	10,000	60,000	0	0	15	9,000	100	9,000	51,000
4	Machinery – Computers	80,000	40,000	120,000	50	20,000	30	30,000	50	15,000	70,000
5	Machinery – Vehicles *	0	1,000,000	1,000,000	0	0	15	150,000	50	75,000	8,50,000
6	Machinery – General	0	200,000	200,000	50	100,000	15	15,000	75	11250	85,000
7	Total	730,000	1,450,000	2,180,000		220,000		274,000		1,80,250	16,86,000

* not plying for hire

Annex – IV

Schedule of Specified Intangibles and Amortization

Tax Year	LTU/RTO	NTN	Name						
2011	02	1000000	XYZ and Co.						
S. No.	Particulars / Description	Acquisition Date	Useful Life (Years)	Original Cost	Amortization				
					Annual	Business use		Actual usage / Admissible	
						Extent%	Amount	Days	Amount
1	Patents	01-07-2003	3	300,000	100,000	50	50,000	100	13,699
2	Computer Software	01-07-2004	10	1,000,000	100,000	100	100,000	365	100,000
3	Copyrights	01-01-2005	2	150,000	75,000	100	75,000	183	37,603
4	Total			1,450,000	275,000		225,000		151,302

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Income Tax:

- Income Tax Ordinance, 2001;
- Income Tax Rules, 2002;
- Income Tax Notifications (SRO's issued by the Federal Government);
- Income Tax Circulars (Clarifications issued by the Federal Board of Revenue);
- Income Tax Forms (Registration form, return forms, withholding tax statements, tax deposit form);
- Computer Software (Withholding tax statements);
- Avoidance of Double Tax Treaties with other countries;
- Publications and brochures

Sales Tax

- Sales Tax Act, 1990;
- Sales Tax Rules, 2006;
- Sales Tax Special Procedure Rules, 2007;
- Sales Tax Special Procedure (Withholding) Rules, 2007
- Sales Tax Notifications (SRO's issued by the Federal Government);
- Sales Tax General Orders;
- Sales Tax Circulars/Rulings (Clarifications issued by the Federal Board of Revenue);
- Sales Tax Forms (Registration form, return forms, tax deposit form);
- Computer Software (Refund claim);
- Publications and brochures

Federal Excise Duty

- Federal Excise Act, 2005;
- Federal Excise Rules, 2005;
- Federal Excise Notifications (SRO's issued by the Federal Government);
- Federal Excise General Orders;
- Federal Excise Circulars/Rulings (Clarifications issued by the Federal Board of Revenue);
- Federal Excise Forms (Return forms);
- Publications and brochures

On line information services:

- Registration (Income Tax, Sales Tax and Federal Excise Duty);
- Registration Application Status (Income Tax and Sales Tax);
- Registered Taxpayers Verification (Income Tax and Sales Tax);
- Active taxpayers list;

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