Government of Pakistan
Federal Board of Revenue
(Revenue Division)
*****

Circular No. **01** of 2009
INCOME TAX.

No.C.1(23)WHT/05-Pt Islamabad, the February 20, 2009

Subject: **CLARIFICATION REGARDING ADJUSTMENTS OF PAYMENTS THROUGH LEDGER ACCOUNT.**

Under clause (b) of section 158 of the Income Tax Ordinance, 2001 (hereinafter referred as "Ordinance"), a person is required to deduct tax from an amount paid by the person at the, time the amount is actually paid. It has, however, been noticed that some inter-account adjustments of receivable/collectable against payable are carried out through ledger accounts or journals maintained by the persons and such "adjustments" are not construed as "payments" or "actually paid" and no tax is withheld therefrom.

2. Though the word "adjustment" has not been defined in the Ordinance yet it as a matter of common prudence that it is at par with the word "paid", because by such "adjustment" the payables are reduced which amounts to "actual payment" by other means.

3. The matter has been examined. According to Black's Law Dictionary, "adjustment" amounts to "an arrangement; a settlement". This obviously means that payable settled by payment or inter-account adjustment of receivables against the payables tantamount to "actually paid" and thus attracts the provisions of clause (b) of section 158 of the Ordinance, whenever any such adjustment is made. It is, therefore, clarified that in such circumstances, the person who is making such inter-account adjustments is required to withhold tax under the relevant provisions of law at the relevant rates and in case of any default, provisions of the Ordinance shall apply accordingly.

(Ali Husnain)
Secretary (IT Policy)
Ph : 9205561