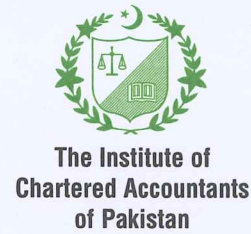


**ICAP HEAD OFFICE**

Chartered Accountants Avenue, **U:** (+92 21) 111 000 422 **F:** (+92 21) 99251626  
Block 8, Clifton, Karachi, 75600 **E:** info@icap.org.pk **W:** www.icap.org.pk  
Pakistan.



**CA**  
**PAKISTAN**

Circular No. 10/2024

August 20, 2024

**ALL MEMBERS OF THE INSTITUTE**

Dear Member,

**Clarification in relation to 'IAS 12 Application Guidance on Accounting for Minimum Taxes and Final Taxes' issued vide circular no. 7 dated May 15, 2024**

The Accounting Standards Board of the Institute issued 'IAS 12 Application Guidance on Accounting for Minimum Taxes and Final Taxes' (IAS 12 Application Guidance / Application Guidance) vide circular no. 7 dated May 15, 2024. The Application Guidance clarifies how IAS 12 applies to taxes such as 'Minimum Tax' and 'Final Tax' charged under the Income Tax Ordinance, 2001.

The Accounting Standards Board received following enquiries in relation to above-referred Application Guidance:

- (a) whether withholding tax on investments in associates, subsidiaries and joint arrangements is an income tax in terms of paragraph 2 of IAS 12?
- (b) what shall be the applicability period of the above-referred Application Guidance?

Accordingly, the above-enquiries are responded as follows:

**2. Tax on dividends earned from investment in subsidiaries, associates or joint arrangements**

Paragraph 2 of IAS 12 (emphasis added), while explaining the scope of income taxes states:

*"For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint arrangement on distributions to the reporting entity."*

Further, paragraph 65A of IAS 12 describes withholding taxes on dividends, as follows:

- ✳ *"When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. In many jurisdictions, this amount is referred to as a withholding tax. Such an amount paid or payable to taxation authorities is charged to equity as a part of the dividends."*

It should be noted that tax on dividend income, withheld under provisions contained in the Income Tax Ordinance, 2001, corresponds with withholding tax referred to in paragraph 65A of IAS 12, since an associate, subsidiary or joint venture paying such dividend is required to withhold / deduct the tax and pay the same to tax authorities on behalf of the recipient.

**REGISTERED OFFICE**

Chartered Accountants Avenue,  
Block 8, Clifton, Karachi, 75600, Pakistan.

**ICAP HEAD OFFICE**

Chartered Accountants Avenue, **U:** (+92 21) 111 000 422 **F:** (+92 21) 99251626  
Block 8, Clifton, Karachi, 75600 **E:** info@icap.org.pk **W:** www.icap.org.pk  
Pakistan.



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Accordingly, in view of paragraph 2 read with paragraph 65A of IAS 12, it is clarified that tax withheld on dividends earned from investments in subsidiaries, associates or joint arrangements, is an income tax falling within the scope of IAS 12. Investing entities should, therefore, apply requirements of IAS 12 for current and deferred taxes, including recognition, measurement, presentation and disclosure, in relation to taxes chargeable under the Income Tax Ordinance, 2001, on dividends earned from investments in subsidiaries, associates or joint arrangements.

Further, it is to be noted that any tax specifically included in the scope of IAS 12, is to be treated as 'income tax' and should not be considered 'levy' under IAS 37 or IFRIC 21.

**3. Applicability period of the IAS 12 Application Guidance on Accounting for Minimum Taxes and Final Taxes'**

The withdrawal of '*TR-27 IAS 12 Income Taxes*' was announced in circular no. 7 dated May 15, 2024. The IAS 12 Application Guidance was also introduced in the same circular.

It is clarified that '*TR-27 IAS 12 Income Taxes*' shall remain applicable to accounting periods ended prior to the withdrawal of TR-27 (i.e. on accounting periods ended before May 15, 2024), whereas '*IAS 12 Application Guidance*' should be followed in the preparation of financial statements of the accounting periods ended subsequent to the issuance of such guidance (with retrospective application as required as per this guidance).

Yours truly,

Muhammad Imran Khan  
Director Technical Services