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Top 10 Rules for Successful TradingR

Most people who are interested in learning how to become profitable traders need only spend a few minutes before reading such phrases as "plan your trade; trade your plan" and "keep your losses to a minimum." For new traders, these tidbits of information can seem more like a distraction than any actionable advice. New traders often just want to know how to set up their charts so they can hurry up and make money.

To be successful in trading, however, one needs to understand the importance of and adhere to a set of rules that have guided all types of traders, with a variety of trading account sizes. Each rule alone is important, but when they work together the effects are strong. Trading with these rules can greatly increase the odds of succeeding in the markets.

Rule No.1: Always Use a Trading PlanR

A trading plan is a written set of rules that specifies a trader's entry, exit and money management criteria. Using a trading plan allows traders to do this, although it is a time consuming endeavor.

With today's technology, it is easy to test a trading idea before risking real money. Once a plan has been developed and back testing shows good results, the plan can be used in real trading. The key here is to stick to the plan.

BY: WAQAS CHOUDHRY

MBA (FINANCE & SUPPLY CHAIN),
CERTIFIED PUBLIC ACCOUNTANT,
M.A.ECONOMICS,
SAP CERTIFIED,
CERTIFIED INFORMATION SYSTEM AUDITOR

Rule No.2: Treat Trading Like a BusinessR

In order to be successful, one must approach trading as a full- or part-time business - not as a hobby or a job. As a hobby, where no real commitment to learning is made, trading can be very expensive. As a job it can be frustrating since there is no regular paycheck. Trading is a business, and incurs expenses, losses, taxes, uncertainty, stress and risk. As a trader, you are essentially a small business owner, and must do your research and strategize to maximize your business's potential.

Rule No.3: Use Technology to Your Advantage

Trading is a competitive business, and one can assume the person sitting on the other side of a trade is taking full advantage of technology. Charting platforms allow traders an infinite variety of methods for viewing and analyzing the markets. Back testing an idea on historical data prior to risking any cash can save a trading account, not to mention stress and frustration. Getting market updates with smart phones allows us to monitor trades virtually anywhere. Even technology that today we take for granted, like high-speed internet connections, can greatly increase trading performance.

Rule No.4: Protect Your Trading Capital

Saving money to fund a trading account can take a long time and much effort.R

It can be even more difficult (or impossible) the next time around. It is important to note that protecting your trading capital is not synonymous with not having any losing trades. All traders have losing trades; that is part of business. Protecting capital entails not taking any unnecessary risks and doing everything you can to preserve your trading business.

Rule No.5: Become a Student of the Markets

Think of it as continuing education - traders need to remain focused on learning more each day. Since many concepts carry prerequisite knowledge, it is important to remember that understanding the markets, and all of their intricacies, is an ongoing, lifelong process.

Hard research allows traders to learn the facts, like what the different economic reports mean. Focus and observation allow traders to gain instinct and learn the nuances; this is what helps traders understand how those economic reports affect the market they are trading.

Rule No.6: Risk Only What You Can Afford to Lose

In rule No.4, I mentioned that funding a trading account can be a long process. Before a trader begins using real cash, it is imperative that all of the money in the account be truly expendable. If it is not, the trader should keep saving until it is.

Rule No.7: Develop a Trading Methodology Based on Facts

Taking the time to develop a sound trading methodology is worth the effort. It may be tempting to believe in the "so easy it's like printing money" trading scams that are prevalent on the internet. But facts, not emotions or hope, should be the inspiration behind developing a trading plan.

Traders who are not in a hurry to learn typically have an easier time sifting through all of the information available on the internet. Consider this: if you were to start a new career, more than likely you would need to study at a college or university for at least a year or two before you were qualified to even apply for a position in the new field.

Rule No.8: Always Use a Stop Loss

A stop loss is a predetermined amount of risk that a trader is willing to accept with each trade. The stop loss can be either a dollar amount or percentage, but either way it limits the trader's exposure during a trade. Using a stop loss can take some of the emotion out of trading, since we know that we will only lose X amount on any given trade.

Ignoring a stop loss, even if it leads to a winning trade, is bad practice. Exiting with a stop loss, and thereby having a losing trade, is still good trading if it falls within the trading plan's rules. While the preference is to exit all trades with a profit, it is not realistic. Using a protective stop loss helps ensure that our losses and our risk are limited.

Rule No.9: Know When to Stop Trading

There are two reasons to stop trading: an ineffective trading plan, and an ineffective trader.
An ineffective trading plan shows much greater losses than anticipated in historical testing. Markets may have changed, volatility within a certain trading instrument may have lessened, or the trading plan simply is not performing as well as expected. One will benefit by remaining unemotional and businesslike. It might be time to reevaluate the trading plan and make a few changes, or to start over with a new trading plan. An unsuccessful trading plan is a problem that needs to be solved. It is not necessarily the end of the trading business.

An ineffective trader is one who is unable to follow his or her trading plan. External stressors, poor habits and lack of physical activity can all contribute to this problem. A trader who is not in peak condition for trading should consider a break to deal with any personal problems, be it health or stress or anything else that prohibits the trader from being effective. After any difficulties and challenges have been dealt with, the trader can resume.

Rule No.10: Keep Trading in Perspective

It is important to stay focused on the big picture when trading. A losing trade should not surprise us - it is a part of trading. Likewise, a winning trade is just one step along the path to profitable trading. It is the cumulative profits that make a difference. Once a trader accepts wins and losses as part of the business, emotions will have less of an effect on trading performance. That is not to say that we cannot be excited about a particularly fruitful trade, but we must keep in mind that a losing trade is not far off.

TAXATION SYSTEM OF PAKISTAN

STRUCTURE AND TRENDSF

Fiscal structure in Pakistan is divided between the Federal and the Provincial Governments. This structure was derived from the revenue-sharing provisions of the Government of India Act 1935 and has been incorporated into successive constitutional provisions delineating the respective revenue powers of the Federal and Provincial Governments. Under the present 1973 constitution, Federal and Provincial Governments are assigned separate revenue jurisdictions. The Federal Government has the constitutional right to levy a wide range of direct taxes including:

* Personal and corporate tax (excluding tax on agricultural income)

* Capital taxes (excluding tax on immovable property)

* Estate duty and gift tax (since abolished)

The Provinces are empowered to legislate in respect of direct taxes not reserved to the Federal Government. The provinces levy the following direct taxes:-

* Tax on agriculture income

* Urban immovable property tax

* Capital gains tax on land and building

* Land Revenue tax

* Taxes on professions, trades and callings.

History of Tax Policy Changes

By: ICPAP

Pakistan inherited a sophisticated taxation structure at the time of its independence in 1947. The system underwent substantive changes over the years with a view to augmenting the resources as well as meeting other economic needs. From 1947 to 1979, the changes made to the tax structure generally included

:

- Granting industrial incentives by means of tax exemptions to industrial undertakings in specified backward regions or industries, i.e. area and activity-specific concessions.
- Extending the exemption of agricultural income to agricultural-related industry e.g. renting out of agricultural machinery, manufacturing of specified agricultural machinery, and providing agricultural related services.
- Suspending the operation of capital gains tax.
- Enacting capital taxes (Wealth Tax, Estate duty and Gift Tax - of which the latter two have

In June 1979, the Income Tax Act of 1922, was replaced by the Income Tax Ordinance, 1979. It made no fundamental changes in the system of income taxation. Instead, as announced by the Government, the reasons for enforcing the new enactment were to arrange the provisions in more systematic and logical form simplify the law plug the loopholes, remove lacunae and ambiguities, and to evolve a tax system which is fair, equitable and capable of voluntary compliance leading to effective administration. Thus, the fundamental concepts of fiscal policy as well as the basic features of the tax laws remained unchanged.

During the 1980's, certain clear departures were made from the concepts followed during the previous decades. In the area of personal taxes, the income threshold for tax purposes was substantially raised. Income computation provisions, particularly those relating to technical service fees, carry forward of losses, investment allowances and donations to charities were liberalised. Agriculture income was also included in the tax base for rate purposes. Investment income such as dividends, interest, capital, gains, etc. attracted a mixed approach, i.e. extension in certain exemptions and withdrawal of others.

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Tax rates were gradually reduced during 1980s. The policy on depreciation of fixed assets was liberalized. Industrial investment incentives in the form of tax and investment credits and tax holidays were expanded along with the extension of existing concessions. The withholding taxes were extended as a measure of resource mobilization as well as for expanding the tax base. The self-assessment scheme, as started in 1979, was continuously liberalised to promote better compliance. Anti-tax evasion and avoidance provisions were introduced

These tax policy changes brought about in the wake of relatively increased economic activity to address the specific issues were not accompanied by adequate improvements in tax administration. The tax assessment and collection procedures/norms and the organization set-up followed the traditional pattern. The shift from 100 per cent audit of taxpayers' returns to selected 'test audit' in the short-run improved tax compliance but the inherent weakness in tax policy and administration did not permit adequate broadening of the tax base.

It is in this background that a comprehensive tax policy reform programmed was undertaken in Pakistan in 1990. Government constituted a Committee on Tax Reforms "to review the existing taxation system and recommend a system that will substantially increase Government's revenues". While making its recommendations in February 1991, the Committee affirmed the need "to restructure the entire taxation system taking into account the revenue generating aspects, economic growth potential, removal of anomalies, complexity of law and procedures, and the inadequacy of tax administration". A wide range of recommendations on tax policy, procedures and administration were made. Fundamental direction of the tax reforms was aimed at broadening the tax base and simplification of tax system by removing causes, both legal and administrative, which may inhibit voluntary tax payments and mitigating exposure of the taxpayers to and open-ended assessments and appellate procedures.

The changes in tax design introduced in 1991 (as continued during 1992 and 1993) have attempted to partially reverse the existing distortions in resource use, inequities and revenue loss by phasing out some of the tax exemptions, streamlining the tax rate structure, adjusting the basic exemption for personal taxes to indices, and expanding the withholding taxes to several economic activities otherwise not contributing to the revenue effort. Major changes in the design of taxation system have been introduced in the form of presumptive basis of income taxation, scheduler basis for taxation of dividends, bank profits and interest, prizes, winnings from lottery, etc; fixed tax on small business enterprises' minimum taxation on companies and registered firms based on turnover, and one time Corporate Assets Tax. These policy changes underline the on-ground economic realities in the background of difficult-to-implement conceptual norms.

Economic Objectives Assigned to Taxation

While resource mobilization remains as the primary objective of taxation system in Pakistan, through the medium of various exemptions and incentives, the tax system embodies a wide range of secondary objective as well. These include:

- Encouragement of savings
- Stimulation of certain industries
- Development of backward areas
- Encouragement of fixed investment
- Promotion of exports
- Promotion of capital markets
- Support for charity
- Support for welfare activities
- Promotion of house building

Description of Direct Taxes

As referred to in the beginning, the Federal Government levies taxes on income as well as capital. These include:-

- Income tax on individuals, association of persons, unregistered firms, Hindu un-divided families, and Companies.
- Super tax on Registered Firms
- Wealth tax
- Capital Value Tax
- Corporate Assets Tax

Income Tax

Income tax is levied on the total income of a person from all sources including salaries, interest on securities, income from house property, income from business, professional or vocation, capital gains, and 'other sources of income'. Income Tax Ordinance, 1979 and the rules made there under provide the mechanism for computation of income and tax. Wherever applicable, expenditure incidental to the earning of income is deductible from gross income. Personal expenditure is not allowed. Minimum threshold of Rs. 40,000 exists in respect of salaried persons as against Rs. 30,000 for taxpayers earning income from all other sources. Corporate taxpayers do not enjoy any minimum threshold.

Income from other sources, as referred above, includes dividends, interest on Bank deposits, royalties, director's fees, commissions, or remunerations other than those included in salary, business or professional income. All reasonable expenditure, other than personal expenses, incurred for the purposes of earning such income is deductible before subjecting it to tax.

Perquisites and allowances in respect of salaried persons are valued on a definite basis as provided in Rules 3 to 18 of the Income Tax Rules, 1982. Allowances and perquisites specially granted to meet expenses incurred wholly and necessarily in performance of the duties of an office are tax exempt. Traveling allowance and daily allowance granted to employees on official tour or transfer fall in this category,

Tax is levied on capital gains derived from disposal of capital assets other than shares of specified category of public limited companies (as are defined in the First Schedule of the Income Tax Ordinance, 1979). The exemption to the later expires on 30th June, 1996.

The law provides for a multitude of tax allowances, rebates, credits and exemptions. Investment credits are also admissible in respect of priority industrial undertakings.

In respect of business income, losses are allowed to be off-set against current income from all sources and where these are not completely absorbed, these can be carried forward for six years to be set-off against future profits from the same business, profession or vacation. Losses from speculative transactions can, however, be set-off only against profits from such transactions. The six years time limit, however, does not apply to un-absorbed depreciation allowance which can be carried forward indefinitely. Separate rules for the computation of profits apply to undertakings engaged in the exploration, production and extraction of oil and gas, and mineral deposits as well as insurance business.

Extremely generous tax regime applies to income from exploration and production of petroleum. In addition to the general manner of computation of business income, special concessions are available to companies engaged in these ventures. These include:

- set-off of the expenditure allocable to a surrendered or dry hole against other income (except dividend) and its carry forward to the next six years;
- Deduction of all expenditure incurred and not deemed lost prior to commencement of commercial production;
- Depreciation (not earlier charged) on capital assets acquired before commencement of commercial production at original cost from the date of commencement of production;
- depletions allowance @ 15 percent of gross receipts representing well-head value subject to a maximum of 50 per cent of profits before deduction of the allowance;
- 100 per cent of the WDV as depreciation allowance for below-ground installations, etc; and
- The aggregate of taxes and other payments to government (royalties, etc.) in no case to exceed 50 per cent of the profits before deduction of payments to the government
- Income from exploration and extraction of mineral deposits are similarly liable to a concessional tax regime. These concessions include the following:
- All expenditure on prospecting and exploration up to the date of commercial production, to the extent that it cannot be set off against any other income, is treated as loss and carried forward for 10 years.
- After commencement of commercial production, depreciation on plant and machinery is allowed @ 100 per cent of the original cost.
- Depletion allowance is admissible at the rate of 20 per cent of income before deduction of allowance or at 50 per cent of the capital employed, whichever is less.
- Companies engaged in exploration of selected minerals and set up during the specified period are exempt for five years. After five years, tax on such income is charged at 50 per cent of normal rates for five years.

Industries set-up in Export Processing Zone enjoy concessional tax treatment in respect of profits and gains. Salary income of expatriate workers and technicians is tax exempt. Similarly, foreign investment enjoys extensive tax concessions.

Wealth Tax

It is imposed on the net wealth exceeding Rs. 1,000,000/- owned by a person. Taxpayers have the option to claim one house owned and occupied for the purposes of own residence exempt from net wealth. However, in such cases, exemption of Rs. 1,000,000/- does not apply. For the purpose of calculating wealth tax, net wealth includes:-

i) in case of an individual and a Hindu Undivided Family, property of every description, movable or immovable, except growing crops, grass or standing trees on agricultural land, and building owned or occupied by a cultivator or receiver of rent or revenue out of agricultural land.

ii) In case of a firm, an association of persons or a body of individuals, whether incorporated or not, and a company, immovable property held for the purpose of the business of construction and sale, or letting out, of property.

Basis of Taxation

Income tax, over the years, has been levied on the net income at progressive rates and on a global basis. Determination of net income has involved application of suitable parameters on 'production', turnover and manufacturing and trade-related expenditures. These parameters reflect the 'expected profits' from various business on the basis of historical appreciation of each trade. Revenue efficiency of this system, of taxation has depended on the administrative capability to 'match' taxpayers' reported income with the relevant market data.

Corporate Assets Tax:

Corporate Assets Tax was introduced through 1991 budget. It is a one time levy payable by companies as defined in the Companies Ordinance, 1984 in respect of the value of fixed assets exceeding Rs. 5 million held by it on the specified date. Corporate assets tax is collected by Wealth Tax Officers. Default in payment calls for penalties and additional tax.

Capital Value Tax

The capital value tax is payable at the rate ranging between 2.5 per cent to 5 per cent by every individual, association of persons, firm or a company which acquires by purchase or transfer certain assets, or a right to use thereof for more than twenty years. However, in respect of certain type of assets if the purchaser is an income tax assesses and produces from the Income Tax Officer the certificate of having paid income tax in the latest assessment year, it is not liable to pay this tax.

Taxation of net-income at progressive but differential tax rates on a global basis has signified the underlying principles of equity and neutrality in tax matters. The introduction of tax concessions for promoting preferred economic activities through granting of investment and tax credits, rebates and exemption of selected incomes, particularly during 1970s and 1980s, however, led to the use of several of the 'tax preferences and expenditure' instruments as 'tax shelters' by unscrupulous taxpayers. Consequently, fairness, and 'equity' aspects of the taxation system were gradually diluted in the process of reconciling diverse, multiple economic objectives. The Reform Package of 1990s, therefore brought comprehensive changes in the concepts and basis of taxation. There was a conscious departure from the age old net-basis of income taxation and its substitution by presumptive, schedular and fixed bases. The newly introduced concepts, as basis of income/tax determination, are explained as below:-

Presumptive Income Tax

The concept of 'presumptive income' was, first introduced in Pakistan in 1980 for taxation of income of foreign shipping and air transport enterprises (to mitigate the adverse effects of tax foregone as a consequence of deduction of huge depreciation allowances in computing income on a net-basis, and also to eliminate the comparative disadvantage Pakistani enterprises faced, particularly in countries following presumptive taxation on such profits). Gradually, and imperceptibly, this concept was extended to the technical services/know-how fees received by the non-residents. The tax reforms initiated in 1990s has attempted, on a selective basis, presumptive taxation of resident and non-resident taxpayers, e.g. payments for supply of goods, execution of work contracts, imports and exports, investment income, payments to non-residents, etc.

The vital aspect of the new basis of taxation is that it is both presumptive and schedular in nature, particularly where the taxpayer's income is limited to the economic activities covered under this regime. For example, the new tax regime provides that the value of imports and exports, and payments for execution of contracts and supply of goods constitute the 'presumed income' of the taxpayer and is taxed at the prescribed rates. The tax deducted/paid at the withholding stage is treated as final discharge of tax liability. However, where the recipient also derives income from activities not covered under the 'presumptive or schedular' taxation, the 'presumptive income' is taxed on a global basis.

Schedular Tax

The 'Schedular tax' on a 'presumptive base' covers dividends, interest on bonds, certificates, debentures, securities or instruments, interest on deposits with banks, financial institutions and finance companies; prize money on bonds, and winnings from raffle, lottery and cross-word puzzles received by both resident (except for the corporate taxpayers) and non-resident taxpayers. Such incomes are treated as a separate block of income, no allowances or deductions permitted and subjected to a flat tax rate varying in respect of each type of income. The tax deducted at source at the prescribed rates is treated as the discharge of final tax liability. The requirement of filing tax return has been waived.

Minimum Tax on Companies and Registered Firms

A minimum tax equal to 0.5 per cent of the declared turnover of every company, body corporate, trust and registered firm resident in Pakistan has become payable as income tax. It is payable on the deemed income representing the total amount of the declared turnover from all sources falling under the head "Income from business or profession", i.e. gross receipts derived from goods sold, services rendered, In case of banking companies, interest, markup, discounts, commission, etc. is considered as turnover.

This minimum tax becomes payable by every company, body corporate, trust, registered firm even though it may be exempt otherwise due to tax holiday or may not be paying any tax under the Income Tax Ordinance 1979, for any reason including accounting concessions like depreciation allowances and tax credits or set off of losses.

Fixed Tax on Small Businesses

Fixed tax on small businesses, viz. small shopkeepers, traders and establishments engaged in any business or profession was introduced in 1991 in consequence to government's concern that the existing tax procedures are too cumbersome for small taxpayers to comply with. It also signifies administrative difficulties in reaching 'small business' earning taxable income. The scheme envisages a fixed tax charge - separate for rural and urban areas - on the basis of 'presumptive income' determined by taxpayer himself. The tax is payable in the Post Offices rather than the Income Tax Department. In 1992, this scheme was extended to the selective markets, with no reference to the 'smallness' of the business in. It has since been abandoned.