Country Solution Pakistan

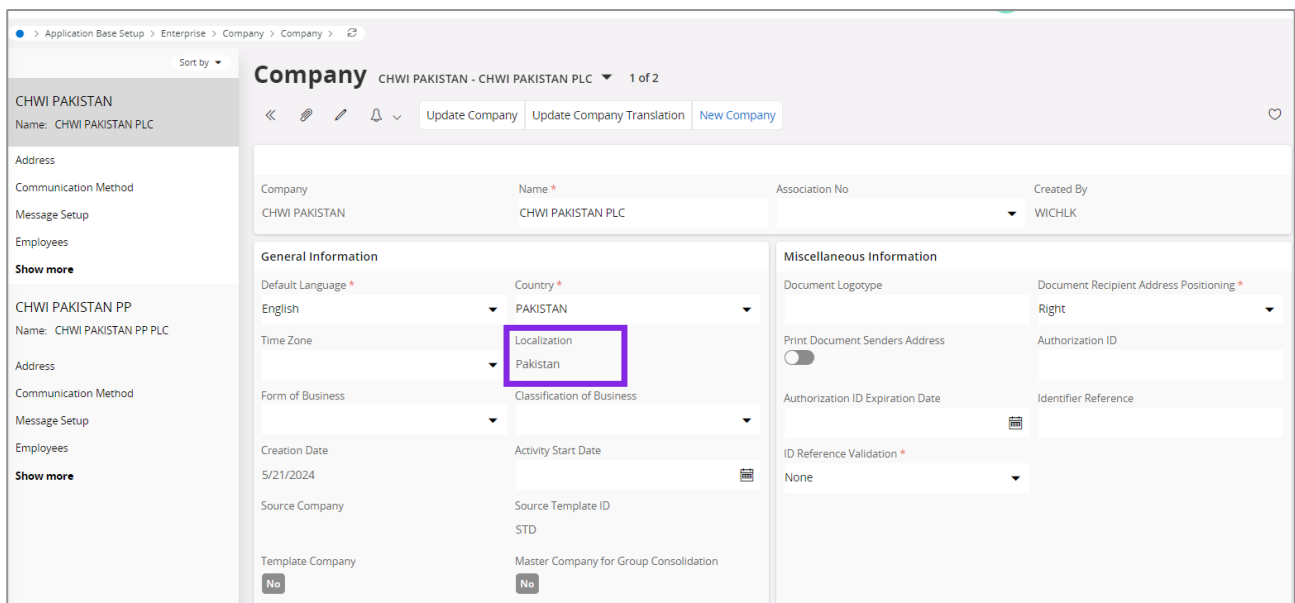IFSCLOUD24R2

Table of Contents

1 Company Set-up

1.1 Overview

To utilize Pakistan's functionality, the company must be set up using Pakistan localization. This is defined on the Company/General Information page.

1.2 Define Localization

- Open the page, *Company*.
- Search for the company.
- Select "Pakistan" in the drop-down list of the **Localization** field in **General Information** and save. Note that this cannot be changed once transactions are created for the company.

1.3 Select Localization Functionality

Specify which functionality to use.

- Open the *Localization Control Center* sub-menu under *Company*.
- The localization selected in the previous step is displayed in the **Localization Control Center** field and cannot be changed.
- All functionalities available for Pakistan are presented in the list. Enable/Disable the functionalities based on the requirements of the company by selecting the toggle buttons Enable. Note that some functionalities are mandatory and cannot be disabled.

2 System Defined Pakistan States

2.1 Solution Overview

There are different scenarios relevant to the withholding tax calculation based on several criteria such as state, nature of the transaction, legal status, sales tax status income tax status, etc. State code acts as a decisive component in the tax calculation since Pakistan has state-based tax rates when supplying and buying goods and services. Hence the State codes specific to Pakistan were introduced.

Accordingly, on the *States* page, the user can view the list of system-defined Pakistan **State Codes**, **State Names,** and **Numeric State Codes** under **PK** (Pakistan) country code. The solution allows the addition, modification, and removal of States as per the user's requirement.

As a result of the system-defined state codes, the user will be able to select the applicable state code from the list of values, when registering an address of the supplier in IFS Cloud if the country is Pakistan (PK).

3 Pakistan Section Codes & Sales Tax WHT

3.1 Overview Legal Requirement

Sales Tax is a tax levied by the Federal Government under the Sales Tax Act, of 1990, on the sale and supply of goods and the goods imported into Pakistan. Sales Tax on services is levied by the Federal Government under The Islamabad Capital Territory (Tax on Services) Ordinance, 2001.

Withholding sales tax under the Sales Tax Act 1990 is deducted by the provisions of Section 3(7) of the Sales Tax Act 1990.

The tax shall be withheld at the rate as specified in the Eleventh Schedule, by any person or class of persons being purchasers of goods or services, other than the services liable to pay sales tax under a Provincial enactment, as withholding agent to deposit the same, in such manner and subject to such conditions or restrictions as the Board may prescribe in this behalf through a notification in the official Gazette.

3.2 Process Overview
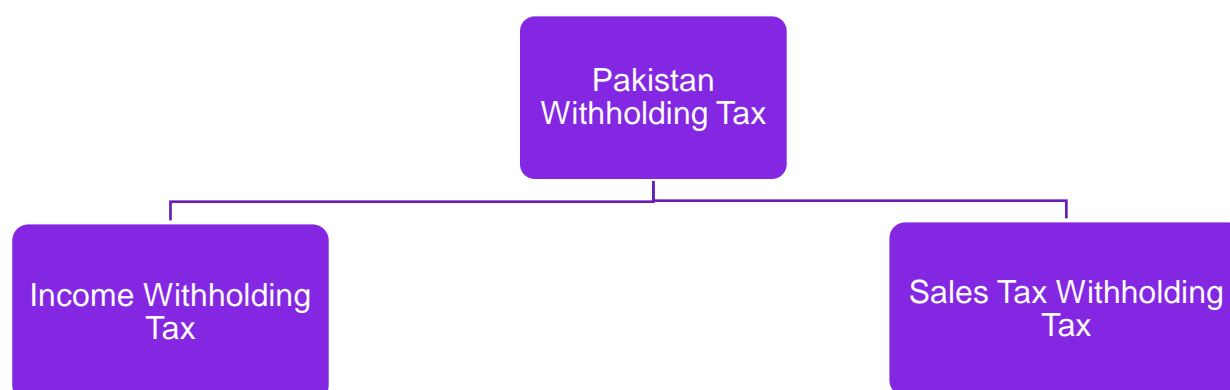
3.3 Solution Overview

The diagram below provides an overview of the entire solution, including calculations for both "Registered" and "Unregistered" supplier scenarios.
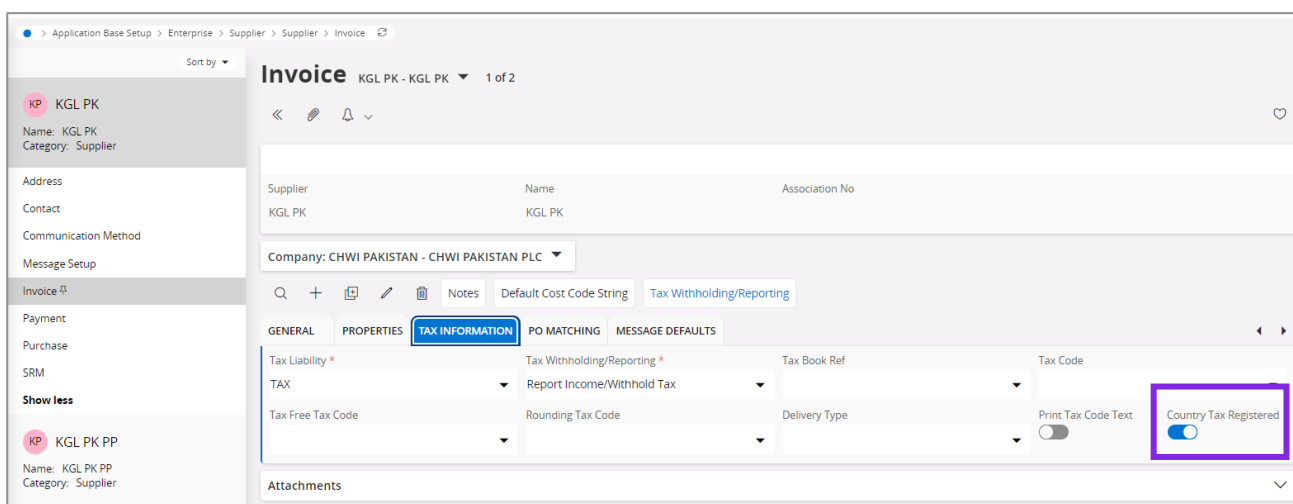
3.4 Prerequisites

- The company must be set up to use Pakistan localization, see the Company Setup chapter.
- The **Tax Method Tax Disbursed** column must be set up as **Payment** for tax codes defined under the **Tax Withhold** tax type on the *Tax Codes* page.

3.5 Supplier-level basic data

3.5.1 SUPPLIER TAX REGISTRATION STATUS

A new toggle **Country Tax Registered** is introduced in the *Supplier/Invoice/Tax Information* sub-section. This functionality will determine whether the supplier is registered for sales tax or not and carry out the tax calculations accordingly.

3.5.2 INTRODUCTION OF A NEW WITHHOLDING BASE TO SUPPLIER BASIC DATA
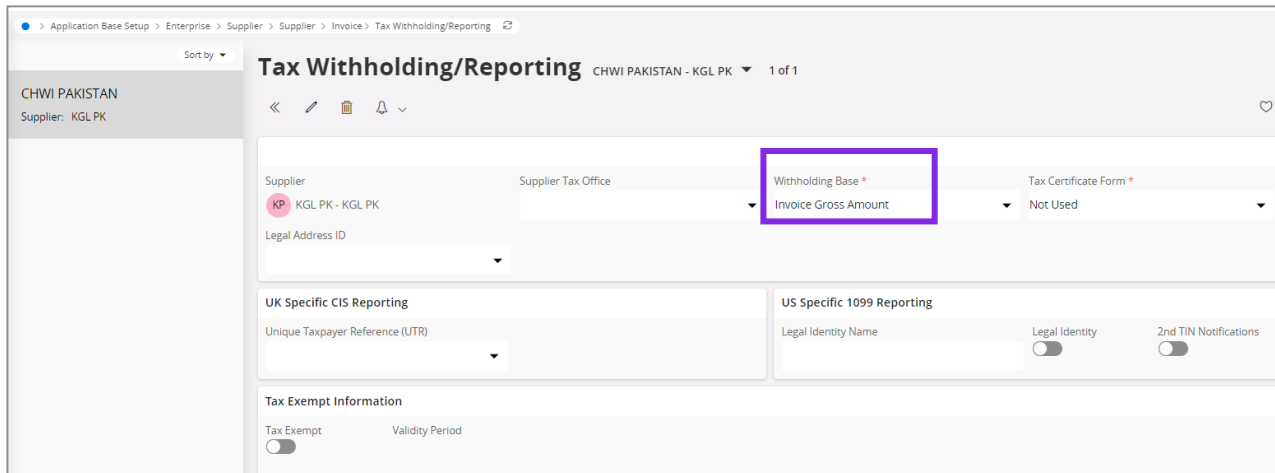
A new tax base as **Invoice Gross Amount** is introduced as a standard functionality in the *Supplier/Invoice/Tax Withholding/Reporting* page. This will enable the calculation of Income Withholding taxes to consider the Invoice Gross Amount as the Withholding tax base.
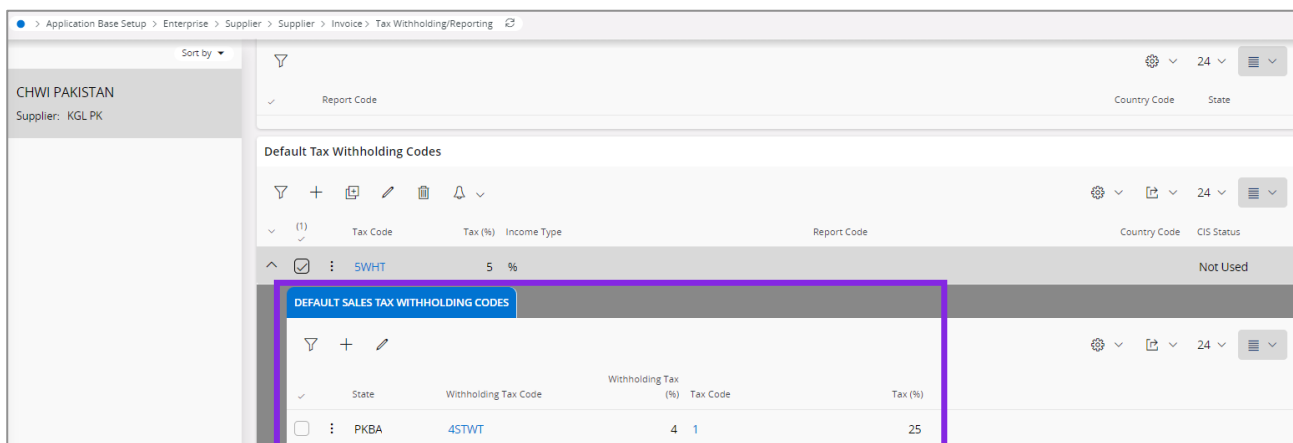
3.5.3 INTRODUCTION OF A NESTED TABLE TO STORE SALES TAX WITHHOLDING BASIC DATA

A nested table named **Default Sales Tax Withholding Codes** is introduced under the Default Tax Withholding Codes section of the *Supplier/Invoice/Tax Withholding/Reporting* page, to store information related to State, Sales Tax Withholding Tax rates and Sales Tax rates at the supplier basic data level. The functionality allows users to add, modify, and delete records related to Sales WHT.

Note - The **State** code will be a mandatory field in this nested table, and if the supplier is not registered for sales tax, entering the **Tax Code** will also be mandatory.

3.6 Fetching and Modifying of Income WHT and Sales Tax WHT

Fetching of Income Tax WHT and Sales Tax WHT are handled for the below three pages.

1) New Manual Supplier Invoice Page
2) Manual Supplier Invoice Page
3) Posting Proposal Page

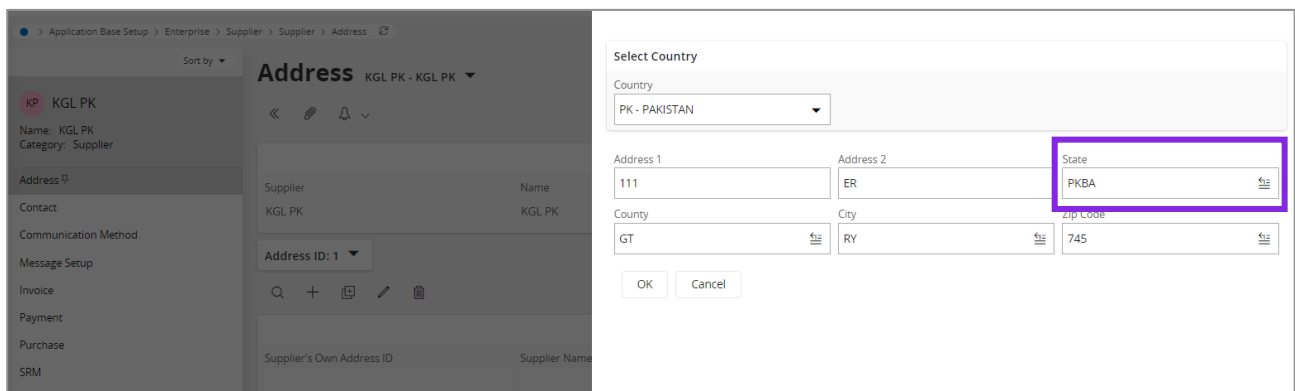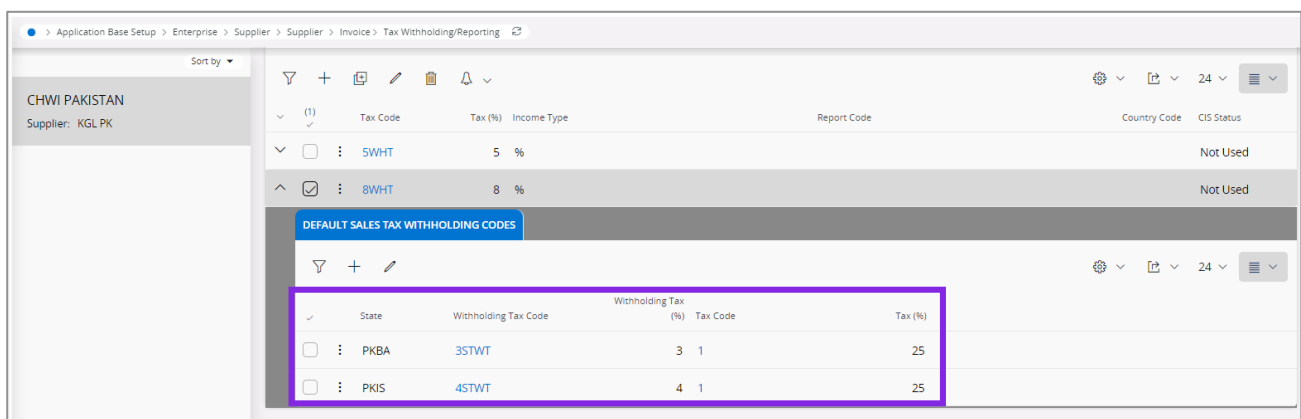Fetching of Income Withholding taxes to the manual supplier invoices will work based on the standard functionality regardless of the state and based on the Income Tax Withholding rates defined for a particular supplier on the *Supplier/ Invoice/Tax Withholding/Reporting.*

The fetching of the Sales tax WHT to the manual supplier invoice is based on the State defined on the Default Document Address on the *General Address Information* section of the *Supplier/Address* page. Users should enter sales tax withholding information on the **Default Sales Tax Withholding Code** nested table based on the *Supplier/ Invoice/Tax Withholding/Reporting* page based on the Supplier's default document address. If this condition suffices, sales tax withholding tax codes and sales tax codes will be fetched to the supplier invoice. The functionality has enabled the addition, modification, and deletion of withholding taxes and the correct amount should be fetched as per the change.

3.7 Calculation of Income WHT and Sales Tax WHT

3.7.1 INCOME WITHHOLDING TAX CALCULATION

Calculation of income withholding taxes will be based on the withholding base defined, income type, and the WHT rate defined under the Default Tax Withholding Codes section of the **Supplier/ Invoice/ Tax Withholding/Reporting** page. Note: Income WHT calculation will not depend on the state in which the invoice is raised.

3.7.2 SALES TAX WITHHOLDING CALCULATION FOR A SUPPLIER REGISTERED FOR SALES TAX

Country Tax Registered toggle should be enabled on the *Supplier/ Invoice/ Tax Information* sub tab.

Further income and sales tax withholding tax codes should be defined under the **Default Tax Withholding** section of the *Supplier/ Invoice/ Tax Withholding/Reporting* page. Entering the **State** with relevant Sales Tax WHT rates is required to fetch Sales Tax WHT values to the manual supplier invoice. If the state is defined but the Sales Tax WHT rate isn't defined on the **Default Sales Tax Withholding Codes** nested table, the relevant sales tax WHT line won't be created on the manual supplier invoice and other supported pages.

When the supplier is registered for sales tax, sales tax WHT will be calculated based on the sales tax amount derived from the manual supplier invoice line level. Hence **Withholding Base Amount** for the invoice will be the sales tax amount which will be multiplied by the sales tax withholding code defined in the nested table.

The formula to calculate Sales WHT is as below.

Sales Tax WHT = Sales Tax Amount X Sales Tax WHT %

Example: 200 * 3% = 6

Application Base Setup > Enterprise > Supplier > Supplier > Invoice > Tax Withholding/Reporting

Sort by

CHWI PAKISTAN
Supplier: KGL PK

Income Type | Type | Currency | Amount | Threshold Amount

Supplier State Tax Information

	Report Code		Country Code	State

(No data)

Default Tax Withholding Codes

	Tax Code	Tax (%)	Income Type	Report Code	Country Code	CIS Status
(1)						
8WHT		8 %				Not Used

DEFAULT SALES TAX WITHHOLDING CODES

	State	Withholding Tax Code	Withholding Tax (%)	Tax Code	Tax (%)
(1)					
	PKIS	3STWT	3	1	25

Financials > Supplier Invoice > New Manual Supplier Invoice

New Manual Supplier Invoice

○ Header Information —— ● Line Information —— ○ Posting Information

Invoice

Company	Supplier	Series ID	Invoice No	Currency	Gross Amount	Net Amount	Tax Amount
CHWI PAKISTAN	KGL PK	SI	FF	PKR			

Line Information

Gross Amount	Net Amount	Tax Amount	Non-deductible Tax Amount	Cost Amount
1000.00	800.00	200.00	0.00	800.00

Lines

Done Cancel Edit

Line ID	Delivery Type	Income Type Identity	Tax Code	Tax Calculation Structure	Multiple Tax Lines	Tax (%)	Tax Method Tax Received	Gross Amount	Net Amount	Tax Amount	Tax Amount in Accounting Currency	Tax A Parallel
1		1	1		No	25	Invoice Ent...	1000.00	800.00	200.00	200.00	

◀ Previous ▶ Next Finish Cancel

Tax Lines, Withholding

Supplier	Withholding Base	Series ID	Invoice No
KP KGL PK - KGL PK	Invoice Gross Amount	SI	REG5

Tax Curr Rate	Gross Amount	Net Amount
1	1000.00	800.00

Line Details

	Tax Code	Tax Type	Withholding Base Amount	Tax %	Tax Amount	Tax Amount in Accounting Currency	Tax Amount in Parallel Currency	Use Withholding Amount Table	Report Code	State
	8WHT	Tax Withhold	1000.00	8	80.00	80.00	96.00	No		
	3STWT	Tax Withhold	200.00	3	6.00	6.00	7.20	No		

OK Cancel

3.7.3 SALES TAX WITHHOLDING CALCULATION FOR A SUPPLIER NOT REGISTERED FOR SALES TAX

The **Country Tax Registered** toggle should be disabled on the ***Supplier/ Invoice/ Tax Information*** sub-tab.

Further income and sales tax withholding tax codes should be defined under the Default Tax Withholding section of the ***Supplier/ Invoice/ Tax Withholding/Reporting*** page. Entering the **State** and **Tax Code** with relevant Sales Tax WHT rates is mandatory to fetch Sales Tax WHT values to the manual supplier invoice. If the state and sales tax code are defined but the Sales Tax WHT rate isn't defined on the **Default Sales Tax Withholding Codes** nested table, the relevant sales tax WHT line won't be created on the manual supplier invoice.

When the supplier is not registered for sales tax, sales tax WHT will be calculated based on the calculated net amount derived from the gross amount of the manual supplier invoice. Hence **Withholding Base Amount** for the invoice will be the calculated net amount derived from the sales tax rate defined on the Default Sales Tax Withholding codes nested table which will be multiplied by the sales tax withholding code to arrive at the sales tax WHT amount.

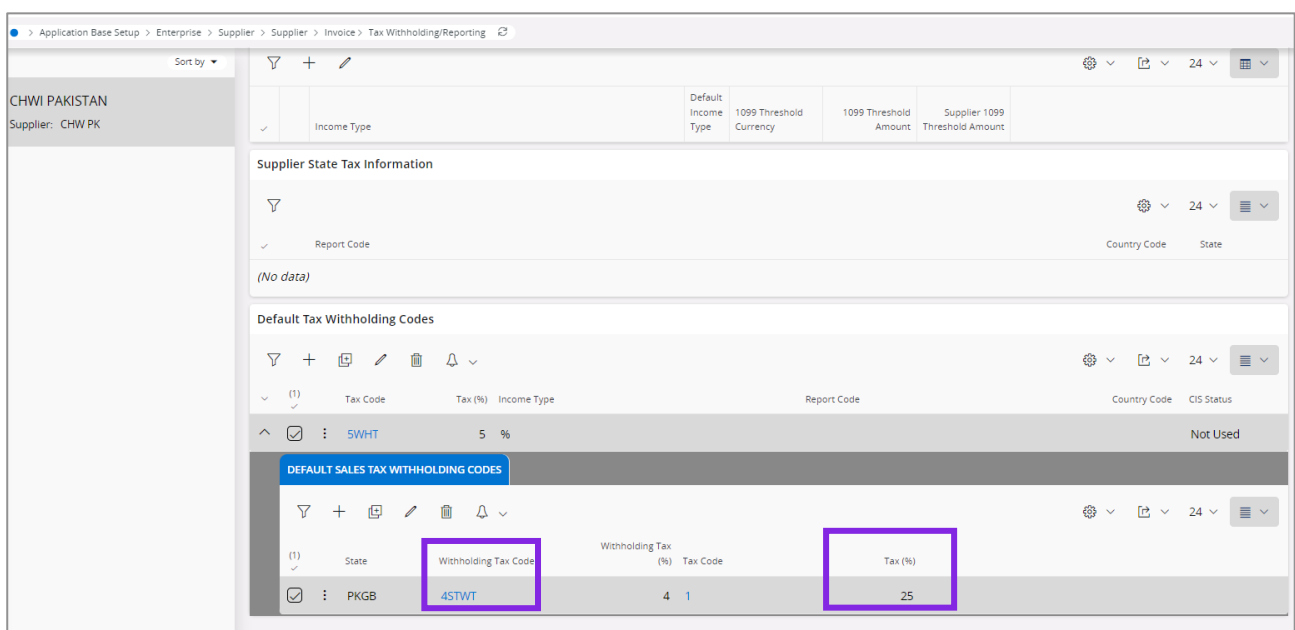The formula to calculate Sales WHT is as below.

Sales Tax WHT = Calculated Invoice Net Amount X Sales Tax WHT %

Calculated Invoice Net Amount = Invoice Gross Amount/ (100%+Sales Tax WHT %)

Example:
Net Amount = 1000/ (100%+25%) =800
Sales WHT = 4%*800 = 32

The standard IFS procedure can be followed to update the general ledger and to fetch tax ledger information on the tax transaction page.

3.8 Delimitations

- Sales Tax Withholding functionality for customers is not handled by this development.
- Adding new tax lines to the Tax Lines, Withholding dialog box manually, will be considered as an Income Withholding Tax Line regardless of whether the relevant tax code is defined in the Default Sales Tax Withholding Codes nested table as a Sales Tax Withholding Code.
- Supplier Invoice Template is not handled by this development considering the business scenarios with different tax combinations.
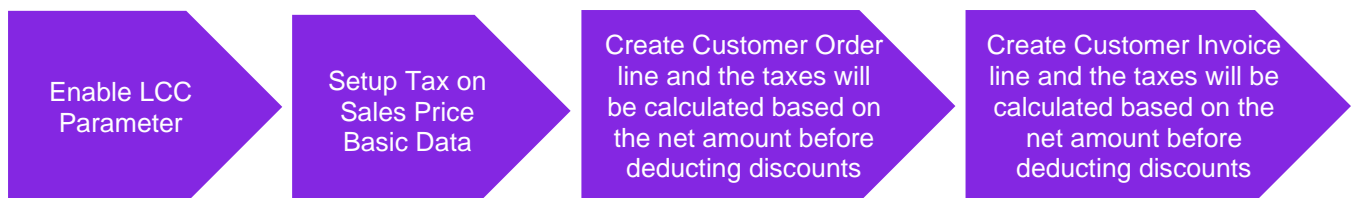
4 Tax on Sales Price

4.1 Overview Legal Requirement

In general conditions tax is applied on discounted sales price. But for some specific customers within Pakistan this is not applicable. In such situations tax should be applied on sales price before deducting discounts.

4.2 Solution Overview

To support this, the tax calculation logic has been adjusted to calculate the tax on the net amount before deducting discounts, when using the Pakistan localization. A new basic data setup has been introduced to site page, where the user can specify which customers this should be applied on based on the Form of Business. The tax calculation logic can be used in the Customer Order and in the Customer Invoice.

4.3 Process Overview

Enable LCC Parameter → Setup Tax on Sales Price Basic Data → Create Customer Order line and the taxes will be calculated based on the net amount before deducting discounts → Create Customer Invoice line and the taxes will be calculated based on the net amount before deducting discounts

4.4 Prerequisites

The company must be set up to use Pakistan localization, see the Company Setup chapter.

4.5 Basic Data Setup

4.5.1   TAX ON SALES PRICE LOCALIZATION CONTROL CENTER PARAMETER
A new Localization Control Center Parameter for Pakistan is introduced in the **Company/Localization Control Center,** *Tax on Sales Price.* This parameter enables the possibility to calculate tax on sales price before deducting discounts on Customer Orders based on Customers Forms of Business.

4.6 Tax on Sales Price setting on Site

A new toggle *Tax on Sales Price* is introduced in the **Site/Sales and Procurement/Sales/Pricing** sub-section. This functionality will determine whether the site is registered for Tax on Sales Price or not and tax calculations will appy accordingly. Along with the new toggle, *Tax on Sales Price*, a list with the field *Form of Business* is introduced and will be enabled once the *Tax on Sales Price* toggle is enabled. The new field is in the *Forms of Business for Tax on Sales Price* sub-section. The list of values in the field *Form of Business* contains all the Forms of Business registered for the Country Pakistan. When adding a Form of Business in the list, all the Customers registered with the same Form of Business will be applicable for the Tax on Sales Price.

4.7 Tax Calculation based on Sales Price

For Customers that are registered with the Form of Business determined on the site, the taxes should be calculated based on the Net Amount before deducting discounts. For these Customers the tax calculations on Customer Order and Customer Invoice have been adjusted accordingly.

Upon creation of the Customer Order line and/or Customer Invoice line the application will first validate if the LCC Parameter, **Tax on Sales Price** is enabled and then if **Tax on Sales Price** toggle is enabled on the sending site, if the Customer is registered with the **Form of Business** added in the list on site and if the Delivery address on Customer Order line is within country **Pakistan**. If all conditions are true, the taxes will be calculated based on the Net amount before deducting discounts on the Customer Order line and/or Customer Invoice line.

The new base to calculate the Sales tax will be as below.

Sales Tax Base = Sales qty * Price/Curr

Example:

        Sales price = 10
        Quantity = 10
        Tax % = 25
        Discount % = 10

        Tax base amount   = (10*10) = 100 (Sales price * sales quantity)
        Tax   = 100*.25 = 25

Once the tax is calculated, application will follow the standard logic to update tax amounts to respective fields and tables. Further there will be no changes to order line net amount calculation and discount calculation.

If you change the Customer Order line and/or Customer Invoice line, the application will re-fetch the tax accordingly. Re-fetch of tax based on the Net amount before deducting discounts is done for below changes:

- Delivery Address
- Sales Qty
- Price/Curr
- Price/Base
- Tax Code
- Tax Calculation Structure

4.8 Delimitations

- Tax on Sales Price is not handled for Sales Quotation and Return of Goods.
- Use price incl tax functionality is not handled when using Tax on Sales Price.
- Price conversion factor for Sales Part is not handled when using Tax on Sales Price, only Sales Quantity in Customer Order line is considered.