

## SUMMARY OF TAX AND LEGAL MATTERS

### INCOME TAX MATTERS

S. No.	Description	Development during current quarter
1.	<p><b>Income Tax Demand Order – Al Hamra Islamic Income Fund (AHIF) &amp; MCB DCF Income Fund (DCF)</b></p> <p>During the quarter ended December 31, 2020, Additional Commissioner Inland Revenue (ACIR) raised the Ex-Parte Orders to AHIF and DCF pertaining to Tax Year 2018.</p> <p>ACIR rejected the claim for Income Tax Exemption under clause 99 of Second Schedule of ITO, 2001, on the premise that <i>‘the distribution made by the Fund to outgoing unitholders on redemption of units during the year i.e. Element of Income’</i> be not considered as distribution, therefore 90% distribution as specified in said clause was not met, resultantly demand of Rs.40.769 million and Rs.73.376 million were raised in AHIF and DCF were raised respectively.</p> <p>Appeals were filed against both the Orders before the Commissioner Inland Revenue - Appeals CIR(A) by PWC (tax consultant of the Management Company). Moreover, the Fund also filed Stay Application before CIR(A) and Sindh High Court (SHC) for DCF and AHIF respectively which were duly granted.</p>	<p><b><u>AHIF( TY 2018)</u></b> On February 24, 2022 an Appellate Order was issued by CIR (A) whereby the case has been remanded back/ annulled with the directions that the assessing officer may re-examine the case. Since then, no fresh Order/ Notice has yet been issued by FBR.</p> <p><b><u>DCF( TY 2018)</u></b> - <b>No development in the current quarter.</b> During the quarter ended December 31, 2021, an Appellate Order was issued by CIR (A) whereby the case was remanded back/ annulled with the directions that the assessing officer may re-examine the case. Since then, no fresh Order/ Notice has yet been issued by FBR.</p>
2.	<p><b>MCB Pakistan Sovereign Fund (PSF)- Tax Year 2015</b></p> <p>During the quarter ended June 30, 2021, Additional Commissioner Inland Revenue (ACIR) raised the Ex-Parte Order to PSF pertaining to Tax Year 2015 whereby demand of Rs.309.896 million was raised.</p> <p>ACIR erred in grossly misinterpreting clause 99 of Part 1 of Second Schedule of the Ordinance. Instead of the correct figure of Rs.274 million (being the income for the year before including capital gains), the learned ACIR has wrongly taken the figure of Rs.852 million as the income for the year (which is the income arrived at before taking into account an amount of Rs.572 million representing <u>‘Net element of loss included in prices of units issued less those in units redeemed’</u> and amount of Rs.5.59 million representing Provision for Workers’ Welfare Fund). The ACIR has also included the capital gains of Rs.331.5 million whilst computing the amount required to be distributed for purposes of clause 99</p>	<p><b>No development in the current quarter.</b></p>

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	<p>Second Schedule of ITO,2001 despite that capital gains (whether realized or unrealized) are specifically mentioned in clause 99 of second schedule of ITO, 2001, to be excluded while computing the distributable income for purposes of clause 99 of Second Schedule.</p> <p>Appeal was filed against the Order before the Commissioner Inland Revenue - Appeals CIR(A) by PWC (tax consultant of the Management Company). Moreover, the Fund also filed Stay Application before CIR(A) which was duly granted.</p> <p>During the quarter ended December 31, 2021, an Appellate Order was issued by CIR (A) whereby the case has been remanded back/ annulled with the directions that the assessing officer may re-examine the case. No fresh Order has yet been issued by FBR after CIR (A) Order.</p>	
3.	<p><b>DCF– Tax Year 2017</b></p> <p>During the quarter ended Dec 2020, a Show Cause Notice was issued by FBR, asking for the justification why the Element of Loss be considered as distribution for the purpose of clause 99 of Second Schedule of ITO, 2001.</p> <p>Department was of the view that the Element of Loss be not considered while calculating the Accounting Income for the purpose of 90% distribution.</p> <p>Tax Advisor PWC responded for Show cause Notice specifying in detail that the Element of Loss and Capital Losses be considered/ incorporated while calculating net income for the purpose of distribution of 90%.</p> <p>During the quarter ended December 31, 2021, an Assessment Order was issued by FBR whereby demand of Rs.139 million was raised. The Company, being aggrieved with impugned Order, has filed Appeal and Stay application in front of CIR (A). Stay Order has been duly granted by CIR (A). The Company in consultation with its tax advisor anticipates a favorable outcome of the case.</p>	<p><b><u>Closed Matter [Favorable Order issued by CIR(A)]</u></b></p> <p>On March 31, 2022 an Appellate Order was issued by CIR (A) whereby it has been directed that the benefit of Element of Loss should be allowed to the Company; accordingly, the case has been decided in favor of the Fund.</p>
4.	<p><b>Income Tax Audit - MCBAH - Tax Year 2014</b></p> <p><b>Assessment:</b> During the quarter ended March 31, 2017, the tax department issued an order to the Company for amending the assessment for tax year 2014. A demand of Rs. 93 million was raised.</p>	<p><b>No development in the current quarter.</b></p>

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	<p>An appeal against the same was filed before the Commissioner Inland Revenue - Appeals (CIR-A) by the tax consultants of the Company.</p> <p><b>Commissioner Appeals:</b> The demand raised by the assessing officer was annulled by deleting major issues raised i.e. amortization of goodwill and management rights etc. and setting aside certain other issues for fresh proceedings to be conducted by the assessing officer.</p> <p>The issues confirmed have been challenged by the Company before the Appellate Tribunal Inland Revenue (ATIR) including treatment of provision for FED as income of the Company.</p> <p><b>Tribunal:</b> The case is pending adjudication before the ATIR.</p>	
5.	<p><b>Income Tax Audit - MCBAH - Tax Year 2015</b></p> <p><b>Assessment:</b> During the quarter ended September 30, 2017, the tax department issued a notice to the Company for amending the assessment for tax year 2015. Later an assessment order was passed by the Additional Commissioner Inland Revenue wherein a demand of Rs. 119 million was raised.</p> <p><b>Commissioner Appeals:</b> The demand raised by the assessing officer was annulled by deleting major issues raised i.e. amortization of goodwill and management rights etc. and setting aside certain other issues for fresh proceedings to be conducted by the assessing officer.</p> <p>The issues confirmed have been challenged by the Company before the Appellate Tribunal Inland Revenue (ATIR).</p> <p><b>Tribunal:</b> The case is pending adjudication before the ATIR.</p> <p><b>Set-Aside Proceedings:</b> A notice from the Additional Commissioner for conducting the set-aside proceedings was received. The management, through its tax advisors, has submitted the response against the notice.</p>	No development in the current quarter.
6.	<p><b>Income Tax Audit - MCBAH - Tax Year 2016</b></p> <p><b>Assessment:</b> During the quarter ended June 30, 2017, the Management Company received a notice of Audit from the tax department. Later an assessment order was passed by the Deputy Commissioner Inland Revenue wherein a demand of Rs.142 million was raised.</p>	No development in the current quarter.

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	<p><b>Commissioner Appeals:</b> The demand raised by the assessing officer was annulled by deleting major issues raised i.e. amortization of goodwill and management rights etc. and setting aside certain other issues for fresh proceedings to be conducted by the assessing officer.</p> <p>The issues confirmed have been challenged by the Company before the Appellate Tribunal Inland Revenue (ATIR).</p> <p><b>Tribunal:</b> The case is pending adjudication before the ATIR.</p>	
7.	<p><b>Income Tax Audit - MCBAH - Tax Year 2017</b></p> <p>During the quarter ended March 31, 2018, a notice was received from Additional Commissioner Inland Revenue for conducting the amendment of assessment proceedings for tax year 2017. The management had submitted its response against the notice. No order has been passed till date.</p>	No development in the current quarter.
8.	<p><b>Income Tax Audit - MCB AMC - Tax Year 2011</b></p> <p>During the Jun-17 quarter, Order for amending the assessment was received for tax year 2011 for MCB AMC, raising a demand of Rs.4.8 million.</p> <p>The Order of the CIR(A) also received and challenged before the ATIR. Decision of the ATIR is pending.</p>	No development in the current quarter.
9.	<p><b>Income Tax Audit - Tax Year 2011 &amp; 2012 (AHIML)</b></p> <p>During the quarter ended March 31, 2017, FBR had issued orders to the Company for amending the assessments of the pre-merged entity for tax years 2011 and 2012. The amount of the order is Rs.25 million.</p> <p>Later in Dec-17 quarter, orders of the CIR(A) were received for tax years 2011 and 2012; wherein the demand raised by the assessing officers was annulled by deleting major issues raised in the previous Orders.</p> <p>Certain other issues, raised in the assessment Order, had been set-aside for which fresh proceedings to be conducted by the tax department. In this regards, a notice from the Additional Commissioner for conducting the set-aside proceedings for tax year 2011 had been received. The management, through its tax advisors, had submitted its response.</p>	No development in the current quarter.

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10.	<p><b>Income Tax Audit - AHIML - Tax Year 2010 &amp; 2013</b></p> <p>During the quarter ended December 31, 2015, the Management Company received an order for Tax Year 2013 wherein a demand of Rs.39 million was raised. Due to some unavoidable circumstances created by Income Tax Officers, the tax Advisor suggested paying Rs.13.5 million under protest after adjusting Rs.25.8 million refund for Tax Year 2008 (as calculated by Income Tax Department in the Order).</p> <p>In Dec-17 quarter, the order of the CIR(A) was received for the tax year 2013, wherein the demand raised by the assessing officer was annulled by deleting major issues raised in the Order.</p> <p>Certain other issues, raised in the Order, were set-aside for which fresh proceedings would be conducted by the tax department.</p> <p>Further, during the quarter ended September 30, 2017, the Appellate Tribunal Inland Revenue (ATIR) passed an Order against appeal filed by the Company pertaining to Tax Year 2010 by maintaining the decision of the CIR(A) on all major issues. An appeal against the order of the ATIR, has been filed before the SHC through legal counsel.</p>	<p><b>No development in the current quarter.</b></p>
11.	<p><b>Monitoring of Withholding Taxes – TY 2018</b></p> <p>During the quarter ended December 2019, a notice for seeking information for conducting the proceedings for monitoring of withholding taxes for the tax year 2018 was received.</p> <p>Reconciliations for expenses [(as reflected in Financials) with that of Withholding Tax Statements, required by FBR] have been submitted via tax consultant PWC.</p>	<p><b>No development in the current quarter.</b></p>
12.	<p><b>Super tax levied on Mutual Funds – TY 2015</b></p> <p>During the quarter June 30, 2016, the Tax Department passed orders against three CIS of the Company (DCF, PSF and CMOP) whose income for tax year 2015 exceeded the minimum threshold for levy of Super Tax (Rs.500 million). The Orders were challenged before the CIR-A and later before the ATIR.</p> <p>The ATIR decided the cases in favor of the CIS on the grounds that since the income of the CIS is exempted</p>	<p><b>No development in the current quarter.</b></p>

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	<p>under the ITO-2001, accordingly Super Tax is also not applicable on the CIS. The decision of the ATIR was not challenged further by the tax department.</p> <p>The Funds, at the time of assessment, also approached the SHC for obtaining Stay Orders against the assessment proceedings; however, an ex-parte order was passed by the assessing officer.</p> <p>Further, Notice was received with respect to Super Tax on MCB Pakistan Sovereign Fund (PSF) pertaining to Tax Year 2015 (merged with point # 2).</p> <p>Response was submitted by consultant that no Super Tax would be levied since income of Mutual Fund is exempt under clause 99 of Part 1 of Second Schedule of ITO, 2001.</p> <p>FBR then raised the point that such exemption clause is applicable only with the condition that 90% accounting income has been distributed amongst the unit holders. Department thus asked for the explanation and documentary evidence, over which working for distribution of income for PSF (which clearly depicted that 90% profit was distributed) was shared to the department; after that no further correspondence has been received yet.</p>	

## WORKERS WELFARE FUND

S. No.	Description	Development during current quarter
1	<p><b>Federal Workers' Welfare Fund (WWF)</b></p> <p>The Supreme Court of Pakistan, in its decision dated November 10, 2016, annulled the changes made vide Finance Acts 2006 and 2008 by virtue of which AMC and Mutual Funds/ VPS were made subject to WWF Ordinance.</p> <p>Consequent to such decision, the question of levy of Federal WWF was resolved; however, Sindh Workers Welfare Fund Act, 2014 is still applicable.</p> <p>On account of the above developments, the Management reversed the provisions recorded in the books only up to the date of promulgation of the Sindh Act i.e. May 21, 2015 and maintained a provision for Sindh WWF post promulgation of Sindh Act.</p> <p>During the quarter ended March 31, 2017, the FBR filed a review petition before the Supreme Court against the decision.</p>	No development in the current quarter.
2	<p><b>Payment of Sindh Workers' Welfare Fund (SWWF) to Sindh Revenue Board (SRB)</b></p> <p>During the quarter ended March 31, 2017, the SRB issued notices for payment of SWWF to MCBAH and other AMCs. The said notices were challenged before the SHC and Stay Orders obtained against any coercive action to be taken in this respect.</p> <p>Later during Dec-17 quarter, a letter was issued by the SRB for payment of SWWF relating to Tax Year 2017. The Company obtained a Stay Order against the same from SHC.</p> <p>The SHC, in August 2017, held that Suits filed by the Appellants in respect of duty and tax matters before the Single Judge - SHC are out of jurisdiction on certain grounds and thus not maintainable. This decision of the SHC was challenged before the Supreme Court [SC] by the aggrieved Companies. The SC, in its judgment relating to the maintainability of Suits in tax matters, decided that the cases may be entertained subject to a condition that a minimum of fifty (50) per cent of the tax calculated by the tax authorities is paid to such authority.</p>	No development in the current quarter.

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	<p>Post SC decision, the tax department and then the SHC, where the Suits were still pending, started issuing notices to the parties whose cases were still pending and final verdict was not given by SHC before the decision of the SC.</p> <p>Since CISs are not covered under definition Industrial Establishments in terms of section 2(g)(v) of the Sindh Workers Welfare Act, 2014 and therefore, not liable to pay SWWF (as clarified by Assistant Commissioner (Tax Policy) SRB vide its letter dated August 12, 2021), the management reversed the cumulative provision for SWWF recognized in funds' financials for the period from May 21, 2015 to August 12, 2021. However, w.r.t the Management Company, the provision is maintained in its books. Pertinent to mention here that the Management Company has already filed Constitution Petition in SHC and hence till now have not paid SWWF.</p>	



## SALES TAX AND FEDERAL EXCISE MATTERS

S. No.	Description	Development during current quarter
1	<p><b>SRB – Order – Short Payment of Sindh Sales Tax (for periods from July 2015 to June 2016)</b></p> <p>During the quarter ended December 31, 2021, Assistant Commissioner SRB passed an Order whereby demand of Rs.10.4 Million (inclusive of penalty amount of Rs.0.49 Million) was raised being the short payment of Sindh Sales Tax.</p>	<p>On February 02, 2022, Order-In-Appeal was issued by Commissioner Appeals SRB wherein SST liability of Rs. 10.4 million as assessed by Assistant Commissioner SRB was upheld. The Company being aggrieved with said Order filed Appeal before Appellate Tribunal SRB along with filing of Stay Application before SHC which was duly granted.</p> <p>The management, in consultation with tax advisor anticipates favorable outcome of the case.</p>
2	<p><b>SRB - Show Cause Notice over Input Tax</b></p> <p>During the quarter ended March 31, 2018, two Show Cause Notices were issued by the Assistant Commissioner - SRB on alleged ground that the input tax claimed by the Company against its purchases had not been offered by the respective vendors / suppliers and was accordingly not allowable. The management submitted its response against the notice.</p> <p>On October 3 and 10, 2018, the Company received two orders, against the SCNs, issued by the AC-SRB raising demands of Rs.7.9 million and Rs.2.7 million respectively whereby input tax claimed by the Company on certain transactions was disallowed on the following grounds:</p> <ol style="list-style-type: none"> <li>1. Output tax was not deposited by some vendors into the Government kitty; and</li> <li>2. Output tax is not allowable being not pertaining to the taxable activity of the Company.</li> </ol> <p>The orders of the AC-SRB have been challenged by the Company before the Commissioner Appeals - SRB and stay against the demand raised has been obtained from the Sindh High Court.</p>	<p><b>No development in the current quarter.</b></p>

S. No.	Description	Development during current quarter
3	<p><b>Sindh Sales Tax Audit 2017</b></p> <p>In Dec-17 quarter, SRB had selected the case of the Company for sales tax audit purpose for the period from July 2017 to December 2017. The management through its Tax Advisors, responded to the issues raised.</p> <p>Another notice covering the remaining period was also received and responded by the management, through its tax advisors.</p>	No development in the current quarter.
4	<p><b>Short Levy of Sindh Sales Tax</b></p> <p>Vide Show Cause Notice dated 30 May 2016 (SCN), SRB framed Sindh Sales Tax demand / liability to the tune of Rs.98.62 million against the Company for the periods from July 2011 to June 2015.</p> <p>Subsequently, an Order in this respect was passed by AC-SRB who established Sales Tax demand of Rs.16.95 million (inclusive of penalty amount of Rs.6.3 million) out of above total tax liability.</p> <p>The Company preferred an appeal before the Commissioner – Appeals SRB against the said Order. However, this Appeal was rejected by Commissioner-Appeals. Hence, Management Company filed second appeal before the Appellate Tribunal (AT)-SRB.</p> <p>Upon hearing Company's contention, the Case was remanded back by AT-SRB to Commissioner Appeals with directions to pass Appellate Order after hearing Appellant's contention.</p> <p>Commissioner Appeals called the Company for hearings which was attended by legal counsel from time to time as fixed by this appellate forum. Finally, Commissioner-Appeals passed Appellate Order on June 28, 2021 whereby tax liability was confirmed in totality as adjudged through Order-in-Original by AC-SRB at original stage.</p> <p>The Company then filed appeal before Appellate Tribunal SRB who had stayed demand of Sales Tax, whereby SRB is restrained from taking any coercive action.</p>	During the quarter, the Company filed Stay Application before SHC since time period for which Stay could be granted/extended by Appellate Tribunal was exhausted. The Stay has been duly granted by SHC. Various hearings have been held in Appellate Tribunal on the basis of which management in consultation with its tax advisor anticipates favorable outcome of the case.
5	<b>Charge of Sales Tax by Punjab Revenue Authority (PRA)</b>	No development in the current quarter.

S. No.	Description	Development during current quarter
	<p>In July 2013, PRA had issued notices to various Asset Management Companies (AMCs); requiring them to get registered with PRA on account of Asset Management Company's taxable services rendered to Funds in the province of Punjab.</p> <p>The Company along with other AMCs responded to the PRA through AFF &amp; Co. but PRA still demanded registration based on branch network available in Punjab.</p> <p>On July 08, 2014, the Management Company on behalf of Funds had filed an appeal in Sindh High Court against notices received from PRA on which the SHC had granted stay order.</p>	
6	<p><b>Notice Received from KPRA</b></p> <p>During the quarter, a notice was received from the Khyber Pakhtunkhwa Revenue Authority for requesting the Company to register under the respective provincial sales tax law. The matter was handled by MUFAP collectively on behalf of all AMCs who had received the notices.</p>	No development in the current quarter.
7	<p><b>Federal Excise Duty</b></p> <p>Pursuant to 18th amendment and promulgation of Provincial Sales Tax Laws, the levy of FED on services was challenged before the Sindh High Court on the grounds of being a provincial subject. The matter had been decided in the favor of the taxpayers by the Sindh High Court whereby the dual levy of FED on various services including asset management services had been declared ultra vires. The said decision of the Sindh High Court had been challenged by the Tax Department before the Supreme Court of Pakistan. The decision of the Supreme Court of Pakistan is still awaited.</p> <p>Further, effective July 1, 2016, the law dealing with the levy of FED had also been amended whereby FED was no more chargeable on such services which are subjected to provincial laws.</p>	No development in the current quarter.
8	<p><b>Sindh Sales Tax (SST) on Rent of Immovable Property</b></p> <p>In August 2020, the Company via its legal counsel Hashmi Associates approached Sindh High Court with respect to Stay Order against the chargeability</p>	No development in the current quarter.

S. No.	Description	Development during current quarter
	<p>of SST on rent of Immoveable Property on the ground that letting out an immovable property by a landlord to a tenant on rent does not involve any element of providing any taxable service. Stay Order has been granted by Sindh High Court on August 19, 2020.</p>	

## SECP INSPECTION

S. No.	Description	Development during current quarter
1	On February 25, 2022, SECP issued Show Cause Notice ("SCN") to MCB Arif Habib Savings and Investments Limited ("MCB-AH") regarding On-Site inspection. In this SCN, SECP mainly highlighted missing data of dormant/ inactive Unit Holders in the Unit Holders' database.	MCB-AH submitted response on SCN to SECP on March 11, 2022. Hearing was fixed by SECP on March 30, 2022 in which Chief Executive Officer, Chief Operator Officer and Head of Compliance attended the hearing. Since then no further Order/ action has been issued from SECP.

## B. Other Matters

S.No.	Description	Development during current quarter
1.	<p><b>Applicability of Zakat on Collective Investment Schemes and Pension Scheme</b></p> <p>Pension Funds and Gratuity Funds had been excluded from the definition of Sahib-e-Nisab in pursuance of the judgment delivered by the Honorable Lahore High Court. However, Collective Investment Scheme and Voluntary Pension Schemes were not exempted.</p> <p>Moreover, Zakat is not deducted from the investments made by these entities.</p> <p>In 2010, MUFAP had filed a constitutional petition with the Sindh High Court (the Court). On MUFAP's petition on January 11, 2010 the Court passed a Stay Order. Till date no further hearing of the Petition had been scheduled.</p> <p>During the September 2017 quarter, an apex court of Pakistan gave a decision, in the case of a retirement fund of a telecommunication company, on the basis of which the levy of zakat might be extended to the collective investment schemes and mutual funds.</p>	<p><b>No development in the current quarter.</b></p>