

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

CERTIFICATE IN ACCOUNTING AND FINANCE (CAF) EXAMINATIONS

EXAMINERS' COMMENTS

SUBJECT Principles of Taxation	SESSION Autumn 2020
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Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
26%	38%	18%	40%	17%	16%	74%	50%	35%

General comments

The overall performance has declined from 39% in previous session to 35% in current session. The underperformance can be attributed to lack of proper understanding of law due to rote learning which resulted in failure to apply knowledge to practical situations. It was also commonly noted that that questions were not read carefully in the exam to properly understand the requirement of the questions.

Question-wise common mistakes observed

Question 1

- Medical allowance was treated as 'exempt' despite the fact that it was given in addition to free hospitalization.
- In some cases, the benefit under share option scheme was not calculated as income.
- While computing the benefit under employee share option scheme, Rs.142 was taken as fair market value instead of Rs.130.
- Examinees failed to identify that capital loss on sale of shares can only be adjusted from capital gain from securities.
- Tax on capital gain from sale of immovable property was computed separately for each property instead of computing it as the total capital gain from immovable property.
- The deductible allowance on account of donation paid to non-profit organization covered under 2nd Schedule of the Income Tax Ordinance, 2001 was calculated and deducted from tax liability instead of from taxable income. Further, examinees ignored the limit of 30% of taxable income applicable on such donations.
- In computation of foreign tax credit, the tax payable in Pakistan was computed without considering income under all the heads. Some examinees directly deducted the paid foreign tax from tax liability.
- Full time teacher allowance was computed using the basic salary instead of total salary income. Some examinees computed the allowance by applying the rate of 25% to tax payable.

- Cost of the inherited plot was taken zero instead of taking the fair market value at the time of inheritance as its cost.
- The deductible allowance pertaining to donation was deducted before deduction of separate block of income.

Question 2

- FIFO method was not applied correctly in computation of gain from sale of shares of PBB. Consequently, examinees were not able to compute the cost of shares and amount of gain correctly.
- Gain from sale of shares of XOK was not computed.
- Loan received in cash from Imran was not taken as income under the head 'Income from other sources'.
- Tax liability of AOP was computed using slab rates of salaried individual.
- Average rate of tax was not calculated for computation of Saba's tax liability.

Question 3(a)

- Examinees failed to state that the due date of a filing an appeal is calculated from the date of service of demand notice and not from the date of the order.
- The different types of orders which may be issued by the CIR(A) could not be identified.
- The number of days within which an appeal can be filed before ATIR could not be identified.

Question 3(b)

Although examinees wrote correct examples of deductible allowance and allowable deduction, they failed to differentiate these both terms.

Question 4(a)

- Net income from provision of security guards, rent received from inherited factory and amount received for vacating the office was taken under 'Income from property' instead of 'Income from other sources'.
- The amount previously paid for getting the office vacated was not deducted from the amount received.
- The entire amount of tax refund was taken as taxable instead of just the additional payment.
- Legal charges were taken as an admissible deduction.

Question 4(b)

- Revised computation was prepared by some examinees even though the question specifically mentioned that it was not required.
- Examinees could not identify the cost of feasibility study as a pre-commencement expenditure.
- Donation paid in USA was considered eligible for tax credit and also for direct deduction in some cases.

Question 5(a)

- Examinees did not mention the names of the correct documents.
- The required description of the documents was not given.

Question 5(b)

- Names of the documents required for record maintenance were mentioned instead of the time period of retention.
- The retention period in case of pending proceedings was not discussed.

Question 6

- Many examinees got confused between the procedure of suspension and blacklisting and could not explain the consequences correctly.
- The procedure was not explained in the correct sequence in most cases.

Question 7

- Apportionment of residual input tax to taxable, zero rated and exempt supplies was not computed correctly.
- Sales return of exempt supplies was not deducted from total supplies used for apportionment of residual input tax.
- Further tax was adjusted against the input tax on fixed assets instead of being shown separately as a payable
- Excess of input tax on fixed asset over sales tax payable was incorrectly shown as sales tax refundable instead of showing it as sales tax to be carried forward.
- Sales tax on electricity was not included in input tax.

Question 8

Good performance was observed in this question.

(THE END)