

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b> Principles of Taxation	<b>SESSION</b> <b>Certificate in Accounting and Finance (CAF)</b> <b>Spring 2021</b>
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**Passing %**

Question-wise								Overall
1	2	3	4	5	6	7	8	
15%	17%	70%	22%	8%	84%	13%	74%	39%

**General comments**

An overall passing percentage of 39% is higher than previous result of 35%. The main reason of improved performance was better performance in both computational questions i.e. Q.3 of 19 marks and Q.6 of 16 marks. The highest marks obtained were 87.

It was observed that examinees struggled in answering the questions which required discussion/explanation under the taxation laws. All examinees are therefore advised that they should do the practice of solving the scenario based questions in the examination conditions and then compare the answers with the ICAP's suggested answers. This would help the examinees in improving the skills of attempting the scenario based questions.

**Question-wise common mistakes observed**

**Question 1(a)**

- Examinees did not know that Jamal has two options for computation of tax on salary received in arrears.
- Examinees calculated tax liability under option 1 only i.e. apply the current year tax rate on the entire amount of salary received during the year. However, they did not consider option 2 i.e. apply the rate that would have been applicable if the amount had been paid to the employees in the tax year in which the services were rendered.
- Leave encashment was also charged to tax at average tax rate for preceding three tax years.
- Provident fund was claimed to be exempted at lower of 1/10 of basic salary or 150,000.

**Question 1(b)**

- Examinees did not know that Jamal as an individual cannot form a non-profit organization and he has to get his clinic registered as a company or an association of persons.
- Examinees correctly stated that approval of the Commission is required but did not mention that it should be for a specified period.

- Examinees wasted time in mentioning the requirement relating to Companies Act, 2017.

**Question 2(a)**

- Examinees tried to define the term 'Turnover' merely on the basis of their general knowledge, which was entirely different from the specific definition given in the Income Tax Ordinance, 2001.
- Examinees did not include commission in the definition of turnover.
- Examinees failed to appreciate that turnover for the purposes of minimum tax liability did not include any amount covered by final discharge of tax liability for which tax was separately paid or payable.
- Examinees did not mention that only a resident company is required to pay minimum tax.

**Question 2(b)**

- Examinees were not able to compute the correct figure of sales tax from the gross sales.
- Minimum tax was calculated in situation 2 without considering the fact that the turnover is less than Rs. 10 million.
- Carried forward amount of minimum tax was not computed.

**Question 3**

- Examinees failed to appreciate that 20% of raw material and finished goods were inadmissible on account of failure to withhold tax whilst making payment.
- Expenditure on Eid-Milan party and penalty paid to a customer were considered inadmissible.
- Pre-commencement expenditure was also added back without realising that the expense was incurred in the prior year. Only 20% amortisation was to be allowed thereon.
- Income tax paid at import stage was deducted from the cost of plant.
- Dividend was grossed up by 85% without adding the amount of Zakat deducted at source.
- Zakat was deducted from total income.
- Donation was taken as a straight deduction from taxable income instead of claiming tax credit based on average rate of tax.

**Question 4(a)(i) & (ii)**

- Examinees did not disclose the income exempt under support payment under the head 'Income from other sources'.
- Examinees failed to appreciate that rental income from the shop will not be considered as support payment.
- Rental income was calculated for the entire year instated of ten months.

**Question 4(b)(i)**

- Examinees failed to appreciate that interest free loan would be chargeable to tax only when the loan amount exceeds Rs 1,000,000.
- Examinees failed to mention that no interest would be charged where interest free loan is extended by the employer due to waiver of interest by the employee on his account maintained with the employer.

**Question 4(b)(ii)**

It seemed that many examinees did not study this part of the syllabus and resorted to guess work.

**Question 4(b)(iii)**

Many examinees made mistakes in specifying the tax credits in the correct order.

**Question 5(a)**

Many examinees did not include receipts of the taxpayer from services rendered, investment made and expenditure incurred, in their definition.

**Question 5(b)**

- Examinees correctly stated that the Commissioner can amend further the original assessment order on the basis of definite information but did not mention the reasons of amendment.
- Examinees failed to work out the correct dates up to which the Commissioner can further amend the assessment order.

**Question 6**

- The taxable value of electricity bill was erroneously considered as input tax paid.
- Further tax was calculated on the entire amount of supplies (including supplies to end-customers) made to un-registered customers.
- The amount of further tax was shown as part of the output tax rather than shown it after sales tax payable/refundable.
- Total supplies for the purpose of apportionment of input tax were wrongly computed.
- Credit balance brought forward from previous month was deducted from tax payable instead of making it a part of total input tax.

**Question 7(a)(i)**

Examinees did not mention that the short paid amount of tax shall be recovered along with the default surcharge.

**Question 7(a)(ii)**

Good performance was observed in this part of the question.

**Question 7(b)**

Examinees failed to comprehend that time limitation of 180 days does not apply in the case of increase in output tax; hence, the increase in the output tax may be declared without any time limitation.

**Question 8**

Good performance was noted in this question.

***(THE END)***

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