

**INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Tax Practices	Certificate in Accounting and Finance (CAF) Autumn 2022

**Passing %**

Question-wise								Overall
1	2	3	4	5	6	7	8	
18%	56%	67%	27%	15%	47%	47%	12%	38%

**General comments**

The overall performance in this session shows an improvement (38%) as compared to Spring 2022 (31%) but is approximately in line with the average result of the last five sessions (36%). Below-average performances were observed in theory-based questions which show poor writing skills of the examinees.

Further, it seems that questions were attempted without paying attention to the requirements or wording of the questions. For example, in question no.4 many examinees wasted their precious time discussing whether they are resident or non-resident persons, despite the fact that it was specifically mentioned in the question that the persons under discussion are resident persons.

**Question-wise common mistakes observed**

**Question 1**

- In respect of the disallowance of purchases from which no withholding tax was deducted at the time of payment, the capping of 20% was ignored;
- In respect of deduction on account of lease rentals, the cost of the car was not restricted to the principal amount of Rs. 2.5 million.
- NRV adjustment in respect of closing inventory of damaged finished goods was ignored.
- In respect of deduction on account of amortization of specialized software, the fact that available for use on a day is treated as used on that day was ignored and consequently amortization was not computed. Further, out of those who computed, many did not apportion the amortization expense on the number of days.
- While computing the cost of the new machine in an exchange transaction, sales tax was not deducted from the payment and the fair value of the old machine was ignored. Further, those who considered the value of the old machine, added book value instead of the fair market value of the old machine.
- Initial allowance on the new machine was not computed.
- Commission paid to one of the members of AOP was considered an admissible expense.

- Computation of tax liability u/s 113 (minimum tax) was ignored.
- While responding to part (b) regarding the taxability of the scholarship received by Sara, many examinees failed to identify that the scholarship is exempt from tax as the relationship between employer and employee is not considered as an associate.

### **Question 2**

- Medical allowance was considered exempt up to 10% of basic salary despite the employer providing the insurance facility.
- Expense incurred in respect of work from home was considered admissible expense.
- Gift from parents in the form of cash was considered exempt.
- Tax credit on donations was computed despite the fact that donations were in the form of cash.
- In respect of tax credit on contributions to an approved pension fund, the limit of 20% of taxable income was ignored.
- While responding to part (b) regarding the taxability of the provision of the residential house, many examinees discussed the tax implication from the employee's point of view instead of the employer's viewpoint.

### **Question 3(a)**

- In order to compute capital gain on the sale of investment in shares of a public unlisted company, cash consideration instead of fair market value (being higher) was taken as consideration received. Further, this capital gain was subject to tax under the separate block of income.
- Gain on jewelry was not considered taxable.
- Many examinees failed to mention the correct reason for ignoring gain on the sale of a personal car.

### **Question 3(b)**

- Forfeited deposit was not considered taxable. Many of those who included it in taxable income, did not deduct 1/5 of the rent amount on account of repair allowance.
- Rental income from agricultural land was not considered an exempt income.
- Entire amount of gain on disposal of the bungalow was taxable rather than just 25% of the gain amount.
- In respect of deduction on the repair and maintenance of the factory building along with plant and machinery, 1/5 of the rent amount instead of the actual repair expense was deducted from rental income.

### **Question 4**

- While responding to (a), many examinees failed to identify Li as a short-term resident individual. Consequently, they could not produce the relevant provisions in this regard.
- While responding to (b), many examinees failed to identify Omar as a returning expatriate. Consequently, they could not produce the relevant provisions in this regard.

- While responding to (c), despite being mentioned in the question that Sidra returned back to Pakistan on 20 December 2021 and remained in Pakistan till the end of the tax year 2022, many examinees stated that foreign source salary of Sidra is exempt because she remained outside Pakistan till the end of the tax year 2022.

#### **Question 5(a)**

- In response to (i), the discussion on 'best judgment assessment' did not cover all instances when this type of judgment is made by the Commissioner.
- In response to (ii), many examinees failed to elaborate on the period in respect of furnishing the final return of income.
- In response to (iii), instead of producing mere additional documents required to be maintained, many examinees listed down the general documents without comprehending the requirement of the question.

#### **Question 5(b)**

Many examinees just mentioned either two or three rules which apply to income subject to final tax and ignored the rest.

#### **Question 6(a)**

While discussing the registration requirement for a manufacturer of taxable supplies, the rest of the conditions of the cottage industry were not mentioned. The requirement in respect of the registration of the rest of the persons was explained well.

#### **Question 6(b)**

Many examinees produced just one or two exceptions.

#### **Question 7**

##### **Input tax**

- Purchase invoice dated 21 December 2021 was ignored.
- Gas bill paid in cash was ignored.
- Input tax on the electricity bill of rented premises was claimed despite particulars of the landlord being shown on the bill.
- Debit note dated 20 June 2022 was either ignored or added into input tax instead of deducted from input tax.
- Provincial sales tax against the transporter's invoice was not claimed as an input tax.
- Input tax on advance payment to the supplier was claimed.

##### **Output tax**

- Supply of taxable goods to the export processing zone for further manufacturing was not considered a zero-rated supply.
- Adjustment in respect of credit note was made despite the fact that the note was issued after the expiry of 180 days.
- Garments withdrawn by the owner were not subject to tax.

**Question 8(a)**

In point no. (ii), examinees were unable to detect the self-review threat in the given situation. Consequently, the discussion on factors on which the significance of the threat is dependent and related safeguards were ignored.

**Question 8(b)**

The performance in this part of the question was good.

***(THE END)***