THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	**SESSION**
Advanced Taxation	Certified Finance and Accounting Professional (CFAP) Examination Summer 2021

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
22%	38%	22%	42%	32%	23%	1%	21%

General comments

There was a noticeable improvement in exam performance as the passing ratio improved from 10% in previous session to 21% in current session. Except for question 7, which was related to Federal Excise Act and proved challenging for the examinees, answers to rest of the questions remained satisfactory.

Question-wise common mistakes observed

Question 1(a)

- Examinees, without comprehending the difference between the collection and deduction of tax, suggested that MPL was required to deduct tax from the prize given to Ikram Nabi ignoring the fact that the prize was given in the form of a car instead of a cash.
- Examinees without appreciating that salaries of the security guards were also forming part of the "Gross rent" as defined in section 155(1) of the Income Tax Ordinance, 2001, opined that MPL was not required to withhold tax from the salaries of security guards. Further, they were of the opinion that tax was required to be deducted from the un-adjustable deposit in ten equal instalments disregarding the fact that tax is withheld at the time of payment instead of when it is charged to income.
- Examinees also failed to comprehend that as MPL was neither a manufacturer nor a distributor, dealer, wholesaler or commercial importer of pesticides, it was not required to collect advance tax on sale of pesticides to retailers on the gross value of sales of Rs. 9.6 million.
- Examinees did not deliberate on the consequences of MPL's failure to collect/deduct advance tax.

Question 1(b)

- Majority of the answers were incomplete and were limited to the statement that TPL was required to deduct withholding tax at the rate of 7% from the payment made to DL.
- Examinees were unaware of the fact that provision of services by DL through its staff created a permanent establishment (PE) in Pakistan and as such TPL was required to withhold tax from the entire amount of Rs. 180 million instead of only Rs. 150 million which was remitted abroad by TPL.
- Examinees considered sub-contractor as DL's PE in Pakistan. Similarly, some examinees thought that the tax withheld from the payment made to sub-contractor will be charged to FTR instead of MTR.
- Few examinees unnecessarily deliberated on the provisions of long-term contract which was not the requirement of the question.

Question 2

- Examinees did not appreciate that the amount of withholding tax of Rs. 585,000 deducted by MA on purchase of electric toasters from BVL was to be treated as income derived by BVL. Similarly, they also failed to comprehend that Rs. 585,000 was to be allowed as a tax credit while computing tax on BVL's taxable income.
- Service charges deducted from tax withheld from supplier was treated as withholding tax.
- Examinees did not appreciate that intercorporate dividend was to be classified as FTR income and was not to be charged to tax under any head of income in computing the taxable income of BVL.
- Examinees considered the grant received from the government towards the cost of machinery as income exempt from tax and as a result did not deduct it from the cost of machinery where in fact it was a capital receipt and was to be deducted from the cost of machinery by virtue of its being paid by the Federal Government voluntarily and BVL had no legal or contractual right to claim it from the government.
- With respect to default surcharge, most of the answers were limited to the statement that default surcharge was to be calculated at the rate of 12% instead of 18%. Majority of the examinees failed to deliberate on the time period for which such default surcharge was to be calculated. Similarly, examinees also failed to state that advance tax paid under section 147 together with the amount of tax deducted at source were to be considered for the purpose of computing the amount on which default surcharge was to be computed.

Question 3

- Although majority of the examinees correctly identified the foreign controllers, they failed to compute their effective holding in CPL. Majority of them were of the opinion that both BAP and DWL had 85% interest in CPL where in fact their shares in CPL's equity were 70% and 50% respectively.
- Examinees, instead of comparing the respective loans from BAP and DWL with three times of their respective equity share in CPL, compared the aggregate foreign loan of Rs. 1,035 million from both BAP and DWL with the 85% foreign equity in CPL for computing the amount of deductible profit on debt which was against the provisions of thin capitalization as provided in section 106 of the Income Tax Ordinance, 2001.
- Examinees also failed to compute the amount of deductible profit under section 106A of the Income Tax Ordinance, 2001.

- Some examinees deducted the amount of profit on debt from the taxable income while computing deductible profit under section 106A ignoring the fact that taxable income was already exclusive of profit on debt.

Question 4

- Examinees were unaware that no input tax was to be charged on household sewing machines, purchased on 5 April 2021, as these were exempt from the levy of sales tax.
- Input tax on purchase of cane molasses was calculated without appreciating that name of the person was not appearing in the active taxpayer list.
- Input tax on import of machinery was charged at the rate of 17% ignoring the fact that it was exempt from the levy of sales tax under clause 100D of Sixth Schedule.
- Examinees failed to appreciate that since the advertisement service, provided by a Karachi based company, was originating in the province of Sindh, the value of taxable service would be Rs. 2 million instead of Rs. 1.2 million. On the other hand, 40% of advertisement service was terminating in Punjab Province, so as per Section 4 'Reverse charge' of Punjab Sales Tax on Services Act, 2012, value of taxable service would be Rs. 800,000. Examinees also failed to comprehend that Federal Excise Duty (FED) is not levied on services provided in a province where the provincial sales tax has been levied thereon.
- Examinees also ignored to compute input tax and value addition tax on import of raw cotton at the rate of 10% and 3% respectively.
- Input sales tax and value addition tax at the rate of 17% and 3% respectively were calculated on import of vegetable ghee instead of FED at the rate of 17% on retail price basis.
- No FED was charged on supply of vegetable ghee whereas sales tax was charged at the rate of 17% on the value exclusive of FED.
- Sales tax at the rate of 17% was charged on supply of fertilizers to unregistered distributors instead of 2% as provided in the Eight Schedule.
- Further tax was charged on supply of fertilizers to unregistered distributors ignoring the fact that it was covered under Third Schedule.

Question 5(a)

- Majority of the answers were confined to the statement that after the execution of expansion plan, Mukhtar was required to be registered with the sales tax authorities. However, in most of the cases, they failed to identify the type of registration whether it was as a manufacturer or Tier-1 retailer or both.
- Examinees were of the view that after opening of new shop, Mukhtar would fall under the category of Tier-1 retailer as the total area of his shops would exceed 1,000 square feet. Where in fact, the correct reason for his registration as a Tier-1 retailer was that he would be operating a national chain of stores under the same brand name.
- Only in few instances, examinees were able to identify that since Mukhtar's business operations were not covered within the definition of cottage industry, he was not exempt from getting registration with sales tax authorities.
- Some examinees were of the view that as Mukhtar was supplying meat which is covered under the Sixth Schedule, he was exempt from the levy of sales tax and was not required to be registered.

Question 5(b)

- Majority of the examinees correctly acknowledged that Baqir Sulman was required to file the return. However, they failed to identify the type of return i.e. nil or null return for each tax period.
- Examinees did not comprehend that due to non-filing of returns for two consecutive months, Baqir Sulman's status will be changed to that of non-active taxpayer.

Question 6

- Majority of the answers were incomplete and examinees either failed to acknowledge or give reasons for the potential threats faced by Ahad/Feroze.
- Accept for one or two safeguards, examinees failed to identify the application of various safeguards for mitigating the risks to acceptable levels.
- Some examinees thought that since Feroze was associated with the audit for the past two years, self-review threat and familiarity threat were the potential treats faced by Feroze.

Question 7(a)

- Examinees failed to identify that the type of services provided by CBI to CPL were covered under the definition of franchise. Some of them considered it to be royalty or fee for technical services.
- Examinees were of the opinion that since the services are not covered under the First Schedule of the Federal Excise Act, 2005, these are not chargeable to duty.
- In many cases, the answers were confined to the statement that duty at the rate of 15% would be charged on services provided by CBI to CPL on the principle that these services originated outside Pakistan but were rendered in Pakistan.
- Examinees computed duty at the rate of 50% on the value of concentrates used for the manufacture of beverages instead of computing duty on beverages at the rate of 10% of the assessable value of beverages. The assessable value was to be computed on the basis of 5% of the value of concentrates.

Question 7(b)

Most of the examinees left this part unanswered. Those who attempted were only confined to the statement that duty would be paid at the time of filing of return.

(THE END)