

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b> Advanced Taxation	<b>SESSION</b> Certified Finance and Accounting Professional (CFAP) Examination Winter 2021
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**Passing %**

Question-wise							Overall
1	2	3	4	5	6	7	
33%	38%	06%	59%	19%	75%	08%	25%

**General comments**

The overall performance in this attempt was marginally improved to 25% as compared to 21% in last attempt. It is observed that despite the introduction of open book examinations, examinees are not studying the entire syllabus. This is evident from the fact that number of examinees did not attempt Q.1 and Q.2 in which many examinees secured full marks. It is therefore, advised to all examinees to cover the entire syllabus while appearing in any paper of the CA examinations.

**Question-wise common mistakes observed**

**Question 1**

- Toll manufacturing services were incorrectly classified as MTR income.
- Option of NTR for exports of goods and royalty proceeds were not discussed.
- While computing capital gain on sale of shares (including bonus shares), average of Rs. 30 was taken as cost per share.
- Payment to TV channel was subject to 3% instead of 1.5% withholding tax.
- While discussing cash payment to restaurants as admissible expense, limit of Rs. 25,000 for any restaurant was ignored.
- While discussing lease rental as admissible expense, Rs. 9 million instead of Rs. 7 million was considered.
- Non-applicability of initial allowance for machine on expiry of lease was not discussed.
- Provisions related to FTR income were not discussed i.e. FTR income shall not be chargeable to tax under any head of income and no deduction shall be allowable for any expenditure incurred in deriving the FTR income.

**Question 2(a)**

- Commission to distributors was considered as admissible expense despite the fact that the aggregate payment in cash was in excess of Rs. 250,000.
- Amortization of right to use a formula was computed on the basis of number of months instead of number of days in use.
- Sales tax and income tax paid at import stage were not excluded from the cost of the label printing machine for computing initial allowance / depreciation.
- Tax gain on sale of immovable property being a depreciable asset was incorrectly classified under the head 'Capital Gains' instead of 'Income from Business'.
- Profit from business setup in Gwadar free zone and dividend from corporate agricultural enterprise were subject to tax as either 'Income from Other Sources' or 'separate block of income' instead of 'Exempt income'.
- Tax rate of 29% instead of 15% was applied on taxable income.

**Question 2(b)**

- While computing turnover, advance against future sales and profit from Gwadar business were not adjusted.
- Percentage other than 0.5% was applied on turnover.

**Question 3(a)**

**On part of Jawwad:**

- Gain on disposal of property was computed and considered as subject to tax.
- Implication of advance tax was not discussed.

**On part of Khalid:**

- Property received from parents by way of gift was considered as other source income.
- While computing capital gain on disposal of property, open market value of Rs. 29 million was taken as cost.
- Implications of advance tax on acquisition as well as on disposal of property were not discussed.

**Question 3(b)**

Provisions related to speculation loss were not discussed.

**Question 4**

- Purchase of milk was considered as either exempt or subject to tax @ 17%.
- Value of supply in respect of sugar being industrial raw material was computed by taking retail price or price fixed by FBR.
- Value addition tax rate was applied on import of raw material for own consumption.
- Input tax on transportation charges was considered as inadmissible.
- Input tax related to unclaimed last month's purchase was ignored.
- Value of supply in respect of aerated water was calculated incorrectly.
- While calculating value of supply in respect of goods sold on credit, either mark-up was not deducted or incorrect amount of mark-up was deducted from given amount in which mark-up was included.

- Value of supply in respect of flavored milk was computed by taking retail price. Further, flavored milk was subject to tax @ 17% instead of 10% as mentioned in Eighth schedule.
- While adjusting input tax, it was restricted to 90% of output tax.
- Withholding sales tax on purchases of taxable supplies from unregistered persons was ignored.

**Question 5(a)**

- Zaman Associates was not classified as Tier-1 retailer.
- While discussing consequences of non-compliance, penalty was ignored.

**Question 5(b)**

- Many examinees restricted their answers by just stating that sales tax at zero percent shall be charged whereas the requirements related to zero percent charge such as exemption certificate, mentioning the description and quantity of goods to be purchased etc. were ignored.
- The requirements of refund if sales tax at rate other than zero percent was charged was not discussed.

**Question 6**

The performance in this question was good.

**Question 7**

- Purchase of unmanufactured tobacco for manufacturing naswar was not considered as exempt.
- The entire import of 1000 kg of unmanufactured tobacco was subject to duty at Rs. 10 per kg, however, only 768 kg was used for the production of biris with the help of manually operated machine.
- Input duties related to inland carriage charges and advertisement charges were ignored.
- Duty drawback related to biris supplied as provisions for consumption on board a ship that was proceeding to Bangladesh was ignored.

***(THE END)***