

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**  
**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Tax Planning and Practices	Certified Finance and Accounting Professional (CFAP) Examination Summer 2022

**Passing %**

Question-wise							Overall
1	2	3	4	5	6	7	
20%	20%	16%	59%	63%	20%	23%	25%

**General comments**

The overall result in this session was in line with the previous session's result.

It was observed that many examinees wasted their valuable time on calculations which were specifically excluded from the requirement of the question. It is therefore advised to all examinees to read the requirement of the question carefully and answer it accordingly.

**Question-wise common mistakes observed**

**Question 1**

- Business was not identified as 'Small and Medium Enterprise'. Consequentially, computation of tax liability under FTR option, given in Fourteenth Schedule, was ignored.
- Under AOP option, examinees were unable to realize that Nasreen's income (including salary) from AOP would be exempt from tax as Nasreen had no other source of income.
- While computing the tax liability of Khalida, actual rent instead of fair market value of rent was taken. Further, allowance in respect of repairs to a building was not deducted.
- Instead of computing tax credit on donations, amount of donations was directly deducted from taxable income.
- Under limited liability (company) option, incorrect amount of net profit was offered for distribution among members. Further, dividend taxation on such amounts in the hands of members was not applied.
- Under company option, instead of using slab rates for salaried class, other slab rates were used for determining tax liability of Nasreen.

**Question 2**

- Inadmissibility of payments in respect of rent and due diligence, being non-deduction of withholding tax, was discussed, however, discussion on the related withholding tax rates were ignored.

- In respect of amortization of intangible asset i.e., computer software, many examinees did not realize the fact that available for use on a day is treated as used on that day. Consequentially they did not compute amortization on computer software for tax year 2022.
- While applying thin capitalization rule, following errors were observed:
  - In respect of foreign equity, closing balance instead of opening balance of the tax year was taken.
  - In respect of foreign debt, opening balance instead of greatest amount, at any time in a tax year (closing balance in the given scenario) was taken.
  - Restriction on deduction of profit on debt as given in section 106A was ignored.
- Initial allowance was applied on delivery vehicle and / or CEO's car.
- While computing tax gain / loss on sale of CEO's car, following errors were made:
  - Cost of car (being passenger vehicle not plying for hire) was not restricted to Rs. 2.5 million.
  - Instead of taking actual cash consideration, market value of the car was taken.
- Income from rendering of maintenance services was considered as subject to minimum tax despite Kamran & Co. not being a prescribed person under section 153.
- While commenting on group relief, following observations were noted:
  - RL's brought forward losses were also considered as eligible for group relief.
  - Instead of taking 80% of current year business loss, the entire loss was taken.
  - Other conditions related to group relief were not discussed at all.

### **Question 3**

- While computing gross amount of sales, sales tax was ignored.
- Requirement for collection of advance tax on sales to retailers by distributor of electronic items under section 236H was not discussed at all.
- SL was incorrectly made liable to withhold tax despite the fact that sales were made by a commercial importer.

### **Question 4**

- Principles were identified correctly, however, many examinees could not explain well that how such principles would be breached in the given scenario. Some examinees explained the breach of fundamental principles from Nawaz's point of view instead of Salman's.
- Some examinees identified familiarity and self-review threats instead of intimidation and self-interest threats.

### **Question 5**

- While computing input tax for the month, following observations were noted:
  - Purchase of raw material was treated as exempt from tax.
  - Input tax was claimed on the entire amount of purchase of plastic bottles despite the fact that only 80% of the sales tax on these purchases was deposited with the government treasury.
  - In respect of purchase of sugar syrup from an associated company, concessional price instead of open market price was taken.
  - Punjab sales tax @ 16% related to transportation charges pertaining to Lahore was not computed.
  - Sindh sales tax at 13% on advance payment to Karachi based trainers for conducting doctors' training program was not computed.

- Federal excise duty on payment for air tickets was ignored.
- Over the counter medicines were subject to sales tax at rate of 17%.
- Import of glucose testing equipment was subject to value addition tax of 3% whereas import of protein bars was not subject to value addition tax.
- Sindh sales tax at 13% on royalty payment was ignored.
- While computing output tax for the month, following observations were noted:
  - Sale of medicines was not considered as zero-rated supplies. Consequently, input tax pertaining to all types of supplies, was not apportioned between taxable supplies and zero-rate supplies.
  - While calculating value of supply in respect of sale of imported protein bars to online medical stores, additional trade discount for promoting online sales was also deducted.
  - Sale of hospital scrubs to hospital owned and managed by the Federal Government was considered as exempt.
- Input tax was restricted to 90% of output tax despite the fact that zero rated supplies were in excess of 50% of the total taxable supplies for the month.
- Withholding of sales tax on purchase of taxable supplies from unregistered persons was ignored.
- Further tax at 3% on supplies to unregistered persons was charged despite the fact that supplies comprised of zero-rated supplies.

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

Many examinees failed to state that higher of two retail prices will be applicable for the purpose of computing sales tax. Further, applicability of reduced rate of 16% on goods supplied from tax exempt area of PATA to Karachi was not discussed.

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

- Many examinees ignored the fact that imports were made to Border Sustenance Market. Therefore, these imports were exempt from sales tax subject to the conditions. Many examinees who identified that these imports were exempt, failed to mention the related conditions.
- Discussion on chargeability of sales tax in respect of supplies within and outside the Border Sustenance Market was missed.

#### **Question 6(c)**

- Discussion on validity of notice in respect of tax period for which tax was demanded was ignored. Many examinees who attempted to discuss, could not draw the right conclusion in this regard.
- Penalty was ignored.

#### **Question 7**

- Incorrect sales tax rates were taken. Some examinees just reproduced the rates and did not calculate the impact in terms of amount. Further discussion in respect of non-chargeability of value addition tax at import stage was ignored.
- Implications under income tax was ignored.

***(THE END)***