THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS’ COMMENTS	
SUBJECT Tax Planning and Practices	**SESSION** Certified Finance and Accounting Professional (CFAP) Examination Winter 2022

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	20%
28%	3%	11%	70%	41%	26%	50%	

General comments

The overall passing percentage in this attempt has declined as compared to the previous session’s result of 25%. This is mainly due to poor performance in income tax-related questions, especially Q.2. It is always advised that examinees should cover all aspects of the given scenario in a question that requires comments on the situation. Most of the examinees failed to cover all the aspects in Q.2. For example, many examinees commented on the taxation of dividend income and tax losses of the 100% owned subsidiary by considering just one of the possible options. However, the situation involves different aspects like 1) whether the group opts for group taxation as one fiscal unit or not; and 2) under each of the aforementioned options whether ATL opts for NTR for taxation of its income or not.

Question-wise common mistakes observed

Question 1 (a)

- Costs of imported high-end TVs and penalty for late delivery were also apportioned among all types of sales or services despite that they were specific cost/expense against the sale of imported TVs only.
- Expenses related to sales to unregistered person were considered allowable. Some of those who disallowed these expenses ignored the cap of 10% of total deductions.
- Brought forward minimum tax was ignored.
- While computing turnover for the purpose of minimum tax u/s 113, the share in AOP’s turnover was ignored. Further, those who included shares in AOP’s turnover also included shares in the turnover of the associate, Jahangir Limited.
- While computing alternate corporate tax, accounting profit was not adjusted with bonus dividend, income related to exports and share of profit from an associate.

Question 1(b)

- While computing 2nd quarter tax, 50% of the estimated amount of tax payable was ignored.
- While computing the 4th quarter tax, 1.25% was applied to estimated turnover instead of actual turnover.
- While discussing consequences, an incorrect period in respect of the default surcharge was mentioned.

Question 2

- Building A and/or B were not classified as capital assets. Further, comments about whether their fair values are subject to tax as deemed income or not under section 7E were also ignored.
- Fair value of building A was subject to tax as deemed income despite that one capital asset is excluded from the ambit of the section related to tax on deemed income.
- Fair value of building B was subject to tax as deemed income despite that its rental income is chargeable to tax under the head 'Income from property'.
- Purchases from a commercial importer were disallowed on account of non-deduction of withholding tax.
- Toll manufacturing services were subject to NTR instead of MTR.
- Interest income was subject to FTR instead of NTR.
- Tax credit for employment generation by the manufacturer was ignored. Those who discussed did not mention all the conditions for availing the tax credit.

Question 3(a)

- Taxable income subject to enhanced rate of tax was either ignored or computed incorrectly.
- Super tax was ignored.

Question 3(b)

- Rental income from the shop from 1 July 2022 to 30 April 2023 was included in Uzma's income despite the shop being transferred to Uzma for no consideration.
- Rental income of the bungalow from 1 July 2022 to 30 April 2023 was included in the income of either Uzma or Sara despite it being provided by way of a revocable transfer.
- Income from the bakery business of a minor (Sara) was included in Uzma's income instead of Shariq who has higher taxable income.
- Discussion on the settlement of Shariq's tax liability was ignored.

Question 4

Input tax:

- Fabric dyes were subject to tax at a retail price despite the fact that they were purchased in bulk packaging.
- Fabric cutting machine was subject to tax at other than its fair market value.
- Organic cotton yarn was subject to value addition tax.
- Packaging material imported from the USA for subsequent exportation charged to zero rate was not considered exempt from sales tax.
- Solar panels from a service provider were subject to tax at 17%.
- K-Electric bill was subject to tax at a subsidized amount.

Output tax:

- Yarn supplied to a manufacturer in the export processing zone was not considered zero-rated supplies.
- Supplies from the factory outlet were subject to tax at a normal rate of 17% instead of a reduced rate of 12%.
- Further tax % was applied on supplies to end consumers.
- Withholding sales tax on purchases from unregistered persons was either ignored or calculated incorrectly.

Question 5(a)

- Akbar Jewelers was not identified as a Tier 1 retailer.
- Requirements related to its registration and integration of its retail outlet with FBR's computerized system were missing. Further, the discussion on related consequences did not cover all points.

Question 5(b)

- Gifted jewelry was subject to sales tax despite the fact that it is not covered under the definition of supply. Consequently, input tax related to gifted jewelry was also considered claimable.
- Supply of locally manufactured articles of jewelry was subject to sales tax at 17%.
- In the exchange transaction, the incorrect value of supply was offered for sales tax.

Question 6(a)

Examinees were unable to discuss the course of action that AL should follow in the given situation. Instead, many examinees diverted their answers towards discussing the procedure of appeal, establishing whether purchases of wires and cable are eligible to claim input tax or not, whether AL's decision to stop claiming input tax was correct or not, etc. Further, some restricted their discussion to future purchases of wires and cables only and ignored previous purchases or vice versa.

Question 6(b)

- Cement was subject to tax at a retail price despite that it was supplied in bulk packaging.
- Tax fraction formula was not applied for computing sales tax amount.
- Incorrect period of default was taken for computing default surcharge.

Question 7

Although the self-review threat was identified correctly, a discussion on factors on which the significance of the threat is dependent and available safeguards to address the threat was missing. Further, with regard to tax-related services after the listing of BL, many examinees were unable to mention that the firm should not continue to give these services to BL if the current and deferred tax entries for the year are material to the financial statements.

(THE END)