

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Tax Planning and Practices	Certified Finance and Accounting Professional (CFAP) Examination Summer 2023

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
17%	27%	10%	75%	54%	64%	44%	27%

General comments

The overall passing percentage in this attempt has shown improvement compared to the previous session's result of 20%. Nevertheless, the performance in income tax-related questions, particularly in Q.1 and Q.3, fell short of expectations, as depicted in the above question-wise analysis.

In comment-based questions, it was observed that examinees mentioned provisions that they seemed to have a basic understanding of, without delving deep into the analysis of the situation. As a result, their responses were limited to a few provisions, and they failed to discuss all the relevant regulations applicable to the given scenario.

Question-wise common mistakes observed

Question 1

- The criteria of a 'Small and Medium Enterprise' being met by CPL went unrecognized. Consequently, the computation under the FTR option was missing.
- It was not identified that alternate corporate tax and minimum tax under section 113 are not applicable to SMEs.
- Expenses between NTR and FTR (exports) were not apportioned.
- While applying the thin capitalization rule, it was not mentioned that Section 106A is not applicable in this case because the foreign profit on debt claimed as a deduction is less than Rs. 10 million.
- Advance receipt against an export order was not liable for the 1% tax.
- Pre-commencement expenditure was amortized over 25 years.
- While applying 20% on account of repair allowance under 'Income from property', the non-adjustable security deposit was ignored.
- It was not mentioned that the tax credit related to the greenfield project could be carried forward for up to two years.
- Government grant was considered exempt from tax.

Question 2 (a)

- Dividend income was also considered eligible income for a 100% tax credit.
- While assessing qualification for a 100% tax credit in respect of all four companies, the tests were confined to one or two criteria.
- The evaluation of whether the surplus funds are liable for a 10% tax is omitted.
- While computing the tax liability of Companies A, B, and C, incorrect tax rates were applied.

Question 2 (b)

Despite the question explicitly asking to evaluate the situation with reference to FHL, many examinees provided answers in relation to LRPL. The majority of the examinees seemed to overlook the fact that the import of generators by the UAE-based entity is part of an overall arrangement for the supply of goods, installation, or principal activities undertaken by the associates. Furthermore, many examinees failed to grasp that the Commissioner had the authority to disregard an entity or corporate structure that does not have an economic or commercial substance or was created as part of the tax avoidance scheme.

Question 3

- The loan provided to the CEO, which falls under the definition of dividend, was not identified, and therefore, dividend taxation was not applied.
- It was not mentioned that when third-schedule items are sold to an unregistered dealer, 75% of the dealer margin shall be disallowed. Additionally, some examinees who considered this point mistakenly took 20% instead of 10% as the dealer margin.
- Interest income on government debt securities was subject to FTR taxation rather than NTR.
- The showroom was misclassified as a capital asset instead of a depreciable asset, resulting in the gain from its sale being categorized under capital gains rather than income from business.
- While computing gain on the sale of the showroom, sale proceeds were not treated as the cost of it.
- A period of 6 instead of 3 years was mentioned for carrying forward capital loss related to securities listed in section 37A
- Gain on sale of unlisted shares was subject to tax under a separate block of income instead of NTR.
- While offering comments on adjusting brought forward losses/unabsorbed depreciation, an incorrect order was followed. Further, the cap of 50% of taxable income for adjusting unabsorbed depreciation was ignored.

Question 4

- The conditions required to apply the reduced sales tax rate of 1% were not specified.
- Multi-vitamins and/or artificial flavors were also subjected to the reduced sales tax rate of 1%.
- The discussion on value addition tax at the import stage was either omitted or inaccurately presented.

Question 5

- Input duty related to exempt supplies and/or zero-rated supplies were not computed.
- Payment of marine insurance was not considered as exempt.
- Entire purchases instead of 80% of unmanufactured tobacco were subjected to FED. Further, it was subjected to FED at the rate of Rs. 10 instead of Rs. 390 per kg.
- Sale of unmanufactured tobacco to another cigarette manufacturer located in the Export Processing Zone was subjected to zero rate duty instead of being considered exempt from duty.

Question 6

- Specified plant and machinery were not considered as exempt.
- Supply of ambulance vehicles to a charitable hospital was not considered as exempt.
- Import and supply of electric vehicles were subjected to normal sales tax rate i.e., 17% instead of a reduced rate of 12.5%.
- The application of value addition tax on various imports was carried out inaccurately.
- Retail price instead of the invoice price of car batteries was subjected to tax.
- Incorrect amount of electricity bill was subject to tax.
- Rather than accounting for Rs. 14 million as the input tax carried forward from the previous tax period, only Rs. 9 million was taken into consideration.
- Further tax was not applied on supplying motorcycle parts to distributors whose names did not appear in the active taxpayers' list.

Question 7

While the correct principles were identified, many examinees struggled to provide a clear explanation of how these principles could be violated in the provided scenario.

(THE END)