

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Tax Planning and Practices (Examination held on 19 Dec 2023)	Certified Finance and Accounting Professional (CFAP) Examination Winter 2023

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
34%	34%	7%	34%	52%	55%	51%	33%*

*Based on consolidated results of both papers

General comments

The overall pass rate for this attempt has demonstrated improvement compared to the previous session's 27%. However, the area that continues to underperform is Income Tax, as reflected in the question-wise passing percentages provided above.

It is important to note that examinees overlooked the verbs used in the question requirements and/or the allocated marks. For instance, in question number 4 (a), which carried 9 marks, examinees were asked to discuss the tax regimes available to MSL for determining its tax liability. Many examinees just mentioned one or two available regimes along with basic discussion without delving into the relevant provisions applicable to these regimes.

Question-wise common mistakes observed

Question 1

- Sale of leather jackets to Baramad Enterprises was not subject to tax under FTR.
- While computing the amortization of advertising expenses, the number of days was not taken into account.
- Tax depreciation was claimed before adjusting brought forward business loss.
- Depreciation in respect of technical books was not computed.
- While adjusting unabsorbed tax depreciation, either 50% of taxable income was disregarded or 50% of unabsorbed tax depreciation was utilized.
- While computing gain on the sale of shares in ML, a cost of Rs. 45 per share instead of zero was considered.
- Capital loss relating to the tax year 2020 was also adjusted with capital gain for the year.
- Dividend from an associate was not subject to tax under FTR.
- While computing the turnover for minimum tax u/s 113, TL's turnover was also taken into account.
- While computing alternative corporate tax, accounting profit was not adjusted with income subject to FTR.

Question 2(a)

- While computing the disallowance of expenditures related to sales to unregistered dealers under section 21(q), the following mistakes were observed:
 - All unregistered dealers were included in the application of the aforementioned provision, despite the provision's stipulation that it only applies when sales to an unregistered dealer exceed Rs. 100 million.
 - the ceiling of 10% of the total claimable deductions was either ignored or incorrectly computed.
- While determining the disallowance in respect of commission, an incorrect amount of commission expense was computed.
- Many examinees were unable to recognize that an amount equal to 75% of the dealer's margin to unregistered dealers shall be added to the income of the GBPL.

Question 2(b)

While discussing the unavailability of input tax attributable to taxable supplies to unregistered dealers, "D" was not recognized as a prospective dealer to whom the said provision applies.

Question 3

- Incorrect turnover amount for the quarter ended 30 September 2023 was computed.
- Either the estimate for the tax year 2024 was disregarded or an incorrect amount was used as the estimate.
- While determining advance tax liability, deduction at source was altogether ignored.

Question 4(a)

- Many examinees failed to recognize that MSL qualifies as a 'Small and medium enterprise' (SME). Consequently, they were unable to discuss the provisions related to SMEs, such as:
 - Its entire business turnover (both local sales and exports) can be subject to tax under FTR.
 - Income subject to tax under the Normal Tax Regime (NTR) is taxed at a rate of 15%, while income under the Final Tax Regime (FTR), including exports, is taxed at 0.5%.
 - Minimum tax under section 113 and alternate corporate tax do not apply to MSL due to its SME status.
- It was not recognized that MSL could opt the normal tax regime for its exports business and under this option the tax deducted at the time of exports is considered as minimum tax.

Question 4(b)

- It was not recognized that exchange loss related to foreign currency loans shall be added to the cost of the machinery in the year of occurrence. Consequently, the taxable income should have been adjusted to account for the initial allowance and depreciation associated with this increased cost.

- In respect of computing/treating tax gain on the sale of the building, the following errors were made:
 - the consideration received was not treated as the cost of the building as the consideration received exceeded the cost of the building.
 - Depreciation was calculated even though no depreciation expense is allowed in the year of disposal.
 - It was not recognized that the gain arose from the sale of a building to the REIT Scheme is exempt from tax under the Second Schedule of the ITO-2001.
- While discussing thin capitalization, it was not recognized that provisions of section 106A are not applicable in the given scenario, as the total foreign profit on debt claimed as a deduction is less than Rs. 10 million.
- It was not recognized that withholding tax is required to be deducted at the time of payment, not on the basis of accrual.

Question 5

Many examinees simply jumped to the conclusion that the presence of a self-interest threat in the given scenario conclusively prohibits the firm from accepting a contingent fee. They overlooked discussing possible scenarios where contingent fees could be permissible. Moreover, many failed to address the advocacy threat altogether.

Question 6(a)

The discussion lacked coverage of the definition of cottage industry. Those who attempted to address it failed to encompass all the conditions associated with the cottage industry. Moreover, regarding Rabia's export expansion plan, many simply mentioned that she would need to register with the sales tax authorities, neglecting to note that she must register to claim sales tax refunds against zero-rated supplies.

Question 6(b)(i)

- Tax fraction was not applied for calculating sales tax amount.
- Incorrect period of default was taken while computing default surcharge.

Question 6(b)(ii)

Many examinees failed to recognize that placing electric coolers in the leading departmental store for advertising purposes and/or receiving security deposits does not constitute a supply nor does it fall within the scope of taxable activity. As a result, incorrect conclusions were drawn.

Question 7

- Wood polish was taxed based on its retail price.
- Incorrect amount of milling machine was subjected to tax.
- Artificial leather and hand-carved doors were subjected to sales tax at an incorrect rate of 18% instead of 15% and 16% respectively.
- Specialized foam was taxed based on its retail price.
- The value-added tax to imports was inaccurately applied.

- Import of RTA furniture was subject to tax at 18% instead of 25%.
- The entire sale amount of household furniture was taxed instead of considering only 60% of the amount.
- Donation to a welfare organization was considered an exempt supply.
- Supply of office furniture to a blacklisted customer, was not subjected to further tax at 4%

(THE END)