

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Tax Planning and Practices (Examination held on 9 Dec 2023)	Certified Finance and Accounting Professional (CFAP) Examination Winter 2023

Passing %

Question-wise							*Overall
1	2	3	4	5	6	7	
22%	55%	48%	24%	27%	41%	65%	33%

*based on consolidated result 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 pertinent to mention that the comment-based question consistently exhibits underperformance. The main reason is that examinees could not cover all aspects of the situations given in the question. For example, concerning the recoupment of expenditure in Q.4, the tax treatment of such recoupment depends on the tax regime under which such exports were taxed in the tax year 2023. However, many examinees simply assert that since the expenses were reimbursed in the current year, they should be subject to tax.

Question-wise common mistakes observed

Question 1

- Special discount on the sale of IT products to charitable schools was considered an admissible expense.
- Export of IT-enabled services to Turkey was subject to tax under FTR.
- Gain on the sale of shares in Karobari Limited was subject to tax under a separate block of income.
- While computing gain or loss on the sale of shares in Micro Limited and Chip Limited, incorrect costs of shares were taken, and/or incidental expenses @ 0.5% of consideration was ignored.
- Prize on account of sales promotion was subject to tax under NTR.
- While computing minimum tax u/s 113, turnover was not adjusted with the discount allowed to the school. Further, the share in AOP's turnover was ignored.
- While computing alternative corporate tax, accounting profit was not adjusted with income subject to FTR or separate block of income.
- Incorrect tax rate was applied on capital gain on sales of shares in Micro Limited and Chip Limited.
- Tax credit on donation was not computed.

Question 2

- Many of the examinees were unable to recognize that CPL cannot utilize the losses of BPL because of its status as a trading company.
- Business loss of BPL was offered to be offset against APL's income without adjusting it with income from other sources.
- Many examinees could not recognize that brought forward losses related to tax year 2022 could not be available to set off for tax year 2024.

Question 3(a)

- 3% was applied to receivables instead of interest income.
- Actual expense instead of lower of actual expense or reserve was considered as an allowable expense.

Question 3(b)

- Many examinees omitted to state that shareholders must own at least 10% of the company's paid-up capital.
- Many examinees did not mention that Murad would be entitled to recover the tax paid from the company or any other shareholder owning not less than 10% of the paid-up share capital in proportion to their shareholding.

Question 4

- While computing gain or loss on the disposal of the warehouse, consideration was based on the fair market value of the warehouse rather than insurance compensation.
- Many examinees failed to recognize that Shine LLC, a UAE-based entity, is the controlled foreign company of GCPL. Consequently, rather than solely taxing its dividend income, GCPL's share in the entire income of Shine LLC is subject to taxation in Pakistan. Tax paid in the foreign country can be claimed as a tax credit in Pakistan.
- A repair allowance of 20% was claimed against the lease rental of the factory building along with plant and machinery. Further, it was also not recognized that instead of 4% of the gross rental income, actual expense on account of brokerage fees shall be an allowable expense.
- It was not realized that since the plant and machinery were purchased from a commercial importer, there was no requirement for the deduction of withholding tax at the time of payment.
- Comments on adjustment for depreciation expense on the factory building and plant and machinery were not made. Since the corresponding income is subject to tax under 'income from other sources', the related expense should similarly be accounted for under the same head rather than under business income.
- Loss from discontinued business was considered a disallowed expense.
- Many examinees were unable to realize that the tax implications of recouping expenditures depended on how those expenditures were treated in the year they were initially incurred.

Question 5(a)

Time of supply for advance payment was considered incorrectly, and the entire amount was subject to sales tax at 18%.

Question 5(b)

Many examinees struggled to address the duty drawback in the given scenario. Among those who did, they were unable to present the relevant conditions associated with it.

Question 6

- Import and supply of deep freezers were subject to sales tax at 18% instead of 25%. Further, instead of its retail price, other values were offered for tax.
- The application of value-added tax to various imported items was inaccurately implemented.
- The incorrect value of plastic, imported from the associated company, was offered for tax.
- Inadmissible input tax on account of supplies made to unregistered persons over the threshold was not calculated.
- Replacement of faulty units of microwave ovens was also offered for sales tax.
- Commercial ovens were subject to tax at retail price.
- Sales of solar panels through the online marketplace were offered for tax at a discounted price.
- Donation of refrigerators to a hospital was not considered an exempt supply.
- Application of further tax to various supplies to unregistered persons was inaccurately implemented.
- Application of withholding tax on purchases from unregistered persons was inaccurately implemented.
- Incorrect amount of input tax was apportioned between taxable and exempt supplies.

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. Moreover, many examinees just mentioned one or two safeguards.

(THE END)