INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS	
SUBJECT Tax Practices	**SESSION** Certificate in Accounting and Finance (CAF) Spring 2024

Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
33%	83%	19%	36%	11%	27%	70%	49%	35%

General comments

The overall performance in this session has declined compared to Autumn 2023 (43%), mainly due to poor / below-average performance in Q.3, Q.5, and Q.6.

It has been observed that examinees struggled with fundamental concepts, including the understanding of various terms. For instance, in question 5, many examinees failed to recognize the gift of a coin collection as a disposal, thereby overlooking the capital gain associated with this transaction. Additionally, many examinees incorrectly classified an executive table used at Ashfaq's residence as a capital asset, leading to an incorrect computation of capital loss upon its disposal.

To address these issues, examinees are encouraged to focus on understanding the precise definitions of key terms such as "disposal" and "capital asset". Reviewing study materials thoroughly, seeking clarification on unclear concepts, and practicing with varied examples can help in mastering these fundamental principles. Additionally, participating in study groups or discussions can provide further insights and reinforce learning.

Question-wise common mistakes observed

Question 1(a)(i)

- Adjustment regarding bad debts recovered was made with an incorrect amount.
- Loss on energy derivative contract was not classified as speculation loss and consequently it was not realized that it shall not be adjusted with non-speculation income.
- Moving office furniture to Sultana's residence for personal use was not classified as disposal and consequently gain or loss on disposal was not computed.

Question 1(a)(ii)

- The share of profit from AOP was not included in Sultana's income for rate purposes.
- Non-adjustable deposit was also subject to tax under income from property.

- While computing capital gain on disposal of shares, Rs. 45 instead of Rs. 120 was considered the cost of the shares. Further, the capital gain was subject to tax as a separate block of income instead of NTR.
- The tax credit for foreign tax paid was ignored. Many examinees who claimed the foreign tax credit overlooked the requirement to consider the lower of the foreign tax or Pakistan tax.

Question 1(b)

While discussing the alternative option for taxation of royalty income, the points were discussed half-heartedly.

Question 2(a)

The following income was either ignored and/or an incorrect amount was offered for tax:
- The remaining loan was waived by PGAL.
- The difference between fair market value and written down value of the laptop.
- Watch as a gift received from PGAL.

Question 2(b)

- In the case of an unrecognized provident fund, the entire contribution instead of only the employer contribution was offered for tax.
- In the case of an unapproved gratuity fund, it was not considered that a lower of Rs. 75,000 or 50% of the gratuity amount would be exempt.

Question 3(a)

- In response (i), it was overlooked that during the relevant tax year of 2024, Arshad's stay in Pakistan was only 92 days, resulting in his classification as a non-resident.
- In response (ii), it was not recognized that Chang Li followed the special tax year, leading to his classification as a resident.

Question 3(b)

In each of the given situations, the explanations provided were half-hearted.

Question 4(a)

- While computing gain on sale of bungalow, the values determined by the FBR were taken.
- Gift to a friend was not considered a disposal of an asset.
- Fair market values being higher than sale proceed of the antique, were not considered as consideration received.
- It was not recognized that the table which was in the personal use of Ashfaq is not a capital asset so no gain or loss shall be recognized.

Question 4(b)

Either one or two documents were mentioned.

Question 5(a)

It was not recognized that Usman's income shall be chargeable to tax as the income of his parent with the highest taxable income for the tax year 2024. Further, an incorrect response was provided regarding the filing of an income tax return by Usman.

Question 5(b)

It was not recognized that net loss from the foreign source shall be carried forward to the subsequent tax year. Further, no comments were made regarding foreign tax credits in respect of tax paid in Kuwait.

Question 5(c)

Many examinees failed to correctly treat all properties. Properties that were supposed to be subject to tax were not, and those that were not subject to tax were incorrectly taxed. Further incorrect reason(s) were provided for excluding any of the properties from the computation of total income.

Question 6(a)

Many examinees failed to correctly classify the activities as taxable or non-taxable. Further, many provided incorrect reasoning for their answers.

Question 6(b)

- While responding (i), many examinees failed to mention that BA and RE are jointly and severally liable for payment of such unpaid amount of tax.
- When responding to (ii), many examinees were unable to specify the threshold of Rs. 10 million for sales to unregistered persons, beyond which input tax is not allowed.

Question 6(c)

Many examinees just offered one to two bases.

Question 7

Registered Person A

- Cash discount was not subject to tax.
- While applying the rule for lower of total input tax or 90% of output tax, input tax on the machine was also considered.

Registered Person B

- Retail value of supplies containing third schedule items was incorrectly computed.
- Input tax of machines was apportioned between taxable and exempt supplies.
- Supplies to the cottage industry were also subject to further tax @4%.

Registered Person C

- Purchases from the cottage industry were also subject to tax.
- Input tax on the machine was apportioned between exempt, zero-rated and other than zero-rated taxable supplies despite that it was mentioned that the machine is used exclusively for taxable supplies.

Question 8(a)

Many examinees failed to address both scenarios: what the answer would be if such calculations are material to the financial statements and what it would be if they are immaterial. Further, those who addressed the immaterial aspect overlooked the safeguards.

Question 8(b)

Some points were related to revenue collection despite the question requires the ways beyond revenue collection.

(THE END)