

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Tax Practices

Examiners' Comments

Autumn 2025

PASSING %

Question-wise								Overall
1	2	3	4	5	6	7	8	
27%	39%	12%	40%	49%	67%	25%	40%	35%

GENERAL COMMENTS

The overall performance in this session showed a marginal improvement compared to Spring 2025 (34.3%), with several key weaknesses persisting across most questions. Performance in Question 1 remained unsatisfactory, indicating that income tax computation continues to be a weak area for many examinees. Frequent errors in basic adjustments, classification, and tax treatment reflected inadequate practice and weak command of core computational skills. Another common issue was excessively long and irrelevant answers, particularly in Questions No. 3 and 4, where many failed to address specific requirements and included unnecessary explanations or references, demonstrating poor time management and a lack of focus.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- Disallowance relating to payment made to Ghous Associates for non-deduction of withholding tax was incorrectly computed.
- Capital expenditure of Rs. 8 million on new office space and Rs. 3 million on software renewal was not added back to profit before tax.
- Interest on TDRs was not classified under "Income from Other Sources" and the gross amount of Rs. 8 million was deducted from profit before tax instead of the net amount of Rs. 6.8 million.
- Monetary award received from the Provincial Minister was incorrectly treated as exempt, whereas it was taxable.
- The bad debts written off against the advance to the supplier were also considered as an admissible expense.
- Unpaid rent waived off was incorrectly classified under "Income from Property" or "Income from Other Sources".
- Cost of new motor vehicle was not restricted to Rs. 7.5 million, and the initial allowance was incorrectly claimed on it.
- Computation of tax loss on sale of motor vehicle was either totally ignored or the following errors were made:
 - Market value was treated as consideration.
 - Consideration was not apportioned in the ratio of the cost restriction limit (Rs. 7.5 million) to the original cost (Rs. 10 million).
 - Tax WDV of the motor vehicle was either incorrectly computed or not calculated.
- In calculating tax liability, interest on term deposit receipts was not taxed under the Normal Tax Regime.

Question 2(a)

- Rent from the house was calculated for twelve months instead of the correct period of six months.
- No treatment was provided for the non-adjustable amount received against the house.
- Rent from the flat was taxed on the actual rental amount rather than its fair rental value. Moreover, the fair value of the security deposit was also subject to tax.
- It was overlooked that repair allowance is allowable only on constructed properties; hence, repair allowance was incorrectly claimed on rent from an open plot.
- Repair charges reimbursed to the tenant were incorrectly treated as deductible expenses or netted off against rent from the flat, even though actual repair expenses are not allowable since a 20% repair allowance has already been claimed.
- Rent collection charges were not correctly taken as the lower of 4% of rent chargeable to tax or the actual amount of Rs. 300,000.
- Loss on sale of the generator was incorrectly computed using the regular price of Rs. 8.5 million instead of the cost of Rs. 8 million. Moreover, the generator was not considered a capital asset; hence, loss on its disposal was not classified under the head of capital gain.
- Rent from generator was incorrectly classified under “Income from Property” or “Income from Business” instead of “Income from Other Sources.”
- An incorrect tax rate was applied in computing tax on the gain from the sale of a house.

Question 2(b)

- Although examinees correctly reproduced the definition of speculation business, they failed to mention the specified exclusions.
- In explaining the distinction between speculation and non-speculation business, many overlooked that losses from a non-speculation business can be set off against certain heads of income.

Question 3(a)

- While examinees correctly identified the consequences, they failed to explain that the Federal Board of Revenue is empowered to issue an Income Tax General Order (ITGO) and the conditions that must be met before including a person's name in such an order.
- Some examinees discussed general penalties and prosecution under different sections, despite the question specifically instructing them to ignore those provisions.

Question 3(b)

- Examinees failed to discuss the taxability of Olivia's foreign source income in the light of her residential status, which was clearly evident from the facts provided.
- Some examinees incorrectly concluded that the income was not taxable by treating Olivia as a short-term resident.
- In requirement (ii) of this part, only a few examinees correctly referred to the relevant exemption requirements; the majority incorrectly discussed provisions relating to foreign-source income of a short-term resident, which did not apply to the given scenario.

Question 3(c)

- Examinees failed to grasp this straightforward question, where filing of an income tax return depended on whether the individual had income chargeable to tax. Most responses were limited to a simple “yes” or “no,” without discussing the applicable income threshold.
- In the case of sales tax returns, many examinees failed to identify the correct category of person—such as a Tier-1 retailer or a non-Tier-1 retailer—and, consequently, did not address the applicable return filing requirement. Most responses were limited to a simple “yes” or “no” without a supporting explanation.

Question 4(a)

It was correctly identified that none of the transactions constituted a dividend; however, appropriate explanations to support the conclusions in each case were not provided.

Question 4(b)

- In (i), it was not identified that the reverse is not correct, as a Pakistan source loss can be set off against foreign source income.
- In (ii), it was incorrectly stated that a loss from other sources cannot be set off under any head, or was wrongly treated as eligible for carry forward.
- In (iii), the treatment of losses on shares of private and public companies was confused, with the mistaken consideration that a loss on shares of a private company cannot be set off against a gain on shares of a public company, despite no such restriction.
- In (iv), a uniform six-year carry-forward period was applied for all capital losses, ignoring that losses on the sale of public securities can only be carried forward for three years.
- In (v), the statement was treated as false, as it was wrongly assumed that members of an AOP could adjust their share of the AOP's loss against personal income.

Question 5(a)

- The annual bonus adjusted against the loan was not included as part of taxable salary.
- School fee reimbursement was either computed incorrectly or incorrectly treated as a deductible allowance under Section 60D, which was not applicable in the given case.
- The loan waiver and interest (at the benchmark rate) were not calculated correctly.
- Surcharge was ignored even though Bilal's income exceeds Rs. 10 million.
- The tax borne by the employer was computed incorrectly due to the use of an incorrect gross-up rate. Even where the reciprocal method was applied, it was performed only partially, resulting in an incomplete computation.

Question 5(b)

- An uncle was wrongly treated as outside the definition of a relative, resulting in the gift in kind being taxed, while a cash gift from the father was incorrectly treated as exempt.
- The relevant head of income, i.e., income from other sources, was not specified where the gift is treated as taxable.

Question 6

- Input tax on raw material from registered suppliers in Azad Jammu and Kashmir was incorrectly treated as inadmissible.
- Input tax on raw material from the cottage Industry was incorrectly treated as admissible.
- Third schedule items were not subject to tax at retail price.
- Input tax relating to goods destroyed, which was not adjustable, was not reversed.
- Input tax was incorrectly claimed on raw materials purchased from registered suppliers used in the manufacture of exempt supplies.
- Impact of debit note received from supplier was either not taken into input tax or it was erroneously deducted from input tax.
- Supply of taxable goods on board a plane en-route to Lahore was incorrectly treated as zero-rated.
- Free distribution of samples was treated as exempt from tax.
- Advance payment and goods taken for personal use were incorrectly treated as not chargeable to tax.
- Free replacement of goods under warranty was incorrectly taken as chargeable to tax.
- The non-applicability of further tax on supplies made to unregistered end consumers was overlooked.

Question 7

Many examinees showed only a limited understanding of the concept of temporary registration. Their responses were somewhat half-hearted, providing incomplete explanations of the circumstances under which it is granted, omitting key conditions relating to its validity and requirements, and failing to mention important procedural aspects such as its issuance, restrictions, and compliance obligations.

Question 8(a)

Several examinees failed to recall the key characteristics of a taxation system, providing general or incomplete explanations without linking them to the underlying characteristics. Many also overlooked that the question required justification for incorrect statements, rather than mere agreement.

Question 8(b)

Many examinees discussed the fundamental principles of ICAP's Code of Ethics instead of addressing the ethical responsibilities of tax implementing authorities. Several examinees also failed to provide the complete statement, merely writing one or two words as a heading.

(THE END)