

| INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS' COMMENTS | |
|---|--|
| SUBJECT Tax Practices | SESSION Certificate in Accounting and Finance (CAF) Spring 2025 |

Passing %

| Question-wise | | | | | | | | Overall |
|---------------|-----|-----|-----|-----|-----|-----|-----|---------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | |
| 28% | 51% | 70% | 11% | 13% | 73% | 05% | 33% | 34% |

General

The overall performance in this session has shown a slight improvement compared to Autumn 2024 (33%).

It was noted that a significant number of examinees continue to struggle with basic taxation concepts. For instance, in Question 4(a), many examinees were unable to correctly compute total and taxable income from a given set of income elements. Further, in question 3(a), many examinees confused the concept of permanent establishment with that of residential status and provided irrelevant comments related to residency, an entirely separate and distinct concept. This highlights the need for examinees to strengthen their grasp of fundamental principles, as a sound understanding of the basics is critical for successfully tackling both computational and theoretical questions.

It is also suggested that the examinee must read the question carefully. For example, in question 7(a), many failed to recognize that the input tax entitlement of AE was to be addressed; instead, they focused on the input tax entitlement of BE.

Question-wise common mistakes observed

Question 1

- The sales tax amount was either incorrectly calculated or it was not deducted from the profit before tax.
- Although it was stated in the question that the sales amount of Rs. 10,620,000 was net of trade discount, a trade discount was nevertheless computed and incorrectly adjusted into the profit before tax.
- The damaged machinery, imported from China, was incorrectly treated as a depreciable asset.
- Expenses incurred in lodging the insurance claim were not added back to profit before tax.
- The payment made for the ingredient mixer machine was either not added back or was taken at an incorrect amount. Additionally, customs duty was incorrectly included in the cost of the mixer while calculating the initial allowance and depreciation on the machine.
- Inadmissible expenses such as bearer cheque payments, security deposits, and personal expenses were not disallowed or added back into profit before tax.

- Interest expense relating to the bank loan was incorrectly classified as a business expense.
- Income from property (net of expenses) was not properly excluded from business income.
- While computing income from property:
 - Non-adjustable security deposits were incorrectly included in rental income.
 - Repair allowance was treated as admissible against rental income.
 - Interest expense on the bank loan was either omitted or calculated incorrectly.
- The brought forward minimum tax credit was either ignored or not properly adjusted in computing net tax liability.
- Minimum tax under Section 113 was either overlooked or incorrectly computed.

Question 2(a)

- The 20% disallowance for non-deduction of withholding tax on raw material purchases was not considered.
- Rent paid to Adeeb was considered an inadmissible expense.
- Dividend income subject to the Final Tax Regime (FTR) was either not grossed up or grossed up incorrectly.
- Brokerage expense was not taken into account while calculating the capital gain for Manzoor.
- The incorrect tax rate was applied to Manzoor's capital gain.
- Adeeb's income from property was either overlooked or inaccurately computed.
- The incorrect amount on account of the share of profit from AOP was added to Adeeb's taxable income for rate purposes.

Question 2(b)

- Medical allowance was incorrectly treated as exempt, while medical reimbursement was considered taxable.
- The value of the furnished accommodation was incorrectly calculated by applying the lower of the fair market value and 45% of the basic salary.
- Income from self-hired property (i.e., property owned and rented to the employer) was either ignored or incorrectly taxed based on its fair market value.
- The exemption amount applicable under the unapproved gratuity scheme was miscalculated.
- While computing capital gain from the disposal of shares of MPL, the incorrect cost was considered.

Question 3(a)

- A liaison office was incorrectly classified as constituting a Permanent Establishment.
- Providing services in Pakistan through employees was incorrectly recognized as not constituting a Permanent Establishment.

Question 3(b)

- In respect of Delta Limited, it was not mentioned that, to qualify as a public company, an entity must be listed on the stock exchange as of the last day of the tax year.
- Gamma Ltd. was incorrectly treated as a public company, as it was not recognized that ownership by a foreign government must be at least 50% to meet the qualification criteria.

Question 4(a)

- Total and taxable income were not computed separately. Furthermore, while calculating taxable income, relevant income was omitted, and irrelevant income was incorrectly included.
- Several errors were observed in setting off capital losses on the disposal of shares of private and public companies. Furthermore, the treatment for carrying forward such losses was also incorrectly stated.
- It was unable to identify that the loss from other sources could be set off with the gain on the sale of jewelry. Further, it was unable to recognize that unutilized losses from other sources could not be carried forward.
- Instead of discussing foreign business loss, irrelevant comments were made about speculative and non-speculative business.

Question 4(b)

A complete list was not provided, and many examinees identified only two or three correct individuals.

Question 5(a)

It was not recognized that, although Safdar Malik became a resident in tax year 2024, his foreign-source income remains exempt for both 2024 and 2025 due to his status as a returning expatriate.

Question 5(b)

Although the salary received by Robert Neil was treated as exempt, the rationale for this treatment was incorrect. Furthermore, the associated conditions were overlooked.

Question 5(c)

- The implications of deemed income under section 7E were not identified, and instead, comments were made on the allowability of depreciation on the office building, capital gain on disposal of asset, exemption of income from agricultural land, etc.
- Since the answer to the first case, where Sohail was assumed to be on the ATL, was not discussed according to Section 7E, it was not recognized in the second scenario, where Sohail was assumed not to be on the ATL—that all properties are subject to tax except agricultural land.

Question 6

- Input tax was treated as admissible on raw material purchases from suppliers against which a CREST discrepancy was identified.
- Input tax was claimed on purchases from a supplier whose registration was suspended.
- Input tax was claimed on building materials for the head office.
- Input tax was not claimed on goods purchased from Roshan Enterprise, even though the goods were made available in February 2025.
- The value of supply to an associate, provided at a special 30% discount, was incorrectly calculated.

- Output tax was not computed on the insurance claim related to destroyed raw material, as BS had surrendered the right of disposal of the consignment to the insurance company.
- Advance payment received for a future delivery was not accounted for as output tax.
- The output tax on taxable goods auctioned by the bank was calculated using an incorrect value.
- Goods used at the CEO's residence were not treated as taxable supplies.
- Input tax was not apportioned correctly between taxable and zero-rated supplies.
- The input tax on the machine was not apportioned correctly between taxable and zero-rated supplies.
- Further tax was applied on the supply of goods to the cottage industry.
- The 4% further tax on the supply of goods to unregistered retailers was incorrectly combined with the 18% output tax, rather than being calculated separately as required.

Question 7(a)

- In the case where BE is not registered under the Sales Tax Act, 1990, it was not recognized that AE is not entitled to claim input tax attributable to taxable supplies exceeding Rs. 10 million.
- In cases where BE is a retailer, many examinees failed to recognize the distinction between Tier-1 and non-Tier-1 retailers, and therefore did not discuss the applicable tax treatment for each category.

Question 7(b)

Many examinees failed to address the provisions concerning best judgment assessment, and instead focused on unrelated actions such as suspension of registration, SIM blocking, etc., that the CIR may take against JE.

Question 8(a)

Many examinees listed down the principles but failed to discuss these principles.

Question 8(b)

Many examinees were able to identify the pillars of tax administration, but did not provide any description of them.

(THE END)