THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certificate in Accounting and Finance Stage Examination

Taxation Principles and Compliance

Examiners' Comments **Autumn 2026**

PASSING %

Question-wise								Overall
1	2	3	4	5	6	7	8	
51%	68%	11%	51%	13%	35%	58%	43%	39%

GENERAL COMMENTS

The overall performance in this session improved compared with Spring 2026. Performance in Question 1 (MCQs) improved significantly from the previous attempt. However, weak performance was observed in the area of the syllabus grid titled "Income Tax Laws – Administration and Compliance", as reflected in the result of Question 3.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- MCQs (v), (vi) and (viii) were least performed.

Question 2

Under the head of 'salary', the following observations were noted:

- Basic salary and utility allowance were calculated for seven or twelve months instead of the relevant six-month period.
- For furnished accommodation, the wrong salary base was used, or 45% of basic salary was not compared with the fair market value of Rs. 135,000 per month.
- The benefit arising from the interest-free loan was either omitted or incorrectly calculated. The amount of the loan waived by the employer was also either omitted from salary or incorrectly computed.
- The taxable difference between the market value of the vehicle and its book value at the time of purchase was either omitted or incorrectly treated as a capital gain.

- Under the head 'Income from property', the following observations were noted:
  - Rent from the apartment was not computed for the relevant ten-month period, and the related repair allowance was either omitted or incorrectly calculated.
  - Notional interest expense relating to the loan used to finance the apartment was omitted or incorrectly calculated for the relevant four-month period.
- The redundancy payment was not taxed using the average tax rate of the preceding three tax years.

Question 3 (a)

- Many examinees were unable to determine the eligibility of the candidates for appointment as members of the ATIR. They did not adequately support their conclusions by comparing each candidate's qualifications or professional experience with the prescribed statutory requirements.

Question 3 (b)

- Many examinees failed to recognise that the Commissioner could issue a provisional assessment order even though complete information regarding the source, acquisition and value of the seized assets was not available. They also failed to explain the subsequent finalisation of the provisional assessment order.

Question 4(i)

- The prescribed threshold for salary payments made in cash was overlooked.
- The exception applicable to cash payment of electricity expenses exceeding Rs. 250,000 under a single account head was not considered.
- The rent paid through the proprietor's personal bank account was incorrectly treated as an allowable deduction.

Question 4(ii)

Although the research and development expenditure resulted in an intangible asset, some examinees stated that the entire expenditure should be deducted immediately. Others used an incorrect amortisation period instead of 15 years where the useful life could not be ascertained, or calculated amortisation from a date other than the date on which the asset became available for use.

Question 5(a)

- It was not recognised that non-integration with the FBR's POS system disqualifies Atif Khan from claiming the tax credit. Where examinees correctly identified this issue, they often overlooked the limit for the tax credit.
- It was overlooked that 8% of total expenditure attributable to sales will be disallowed.
- It was not recognised that Tier-1 retailers are required to integrate their retail outlets with the FBR's computerized system for real-time reporting of sales. In case of non-compliance, 60% of the input tax claim would be disallowed.

Question 5(b)

Many examinees stated only a few of the taxes that the Federal Government is empowered to levy under the authority of Parliament.

Question 5(c)

Generic safeguards were discussed without addressing the specific situation presented in the question.

Question 5(d)

Many examinees identified only one or two exceptions to the general rule that exports of goods are zero-rated, instead of stating all the relevant exceptions.

Question 6(a)

In part (i),

- many examinees failed to identify Maria as a short-term resident individual or recognise that the portion of her foreign-source income received in Pakistan is taxable.

In part (ii),

- foreign tax paid on salary was incorrectly treated as eligible for a tax credit instead of recognising the exemption applicable to foreign-source salary income.

Question 6(b)

- The net interest income was not correctly grossed up by dividing it by 85% to determine the gross amount chargeable to tax.

- The capital gain was incorrectly calculated by using the actual consideration instead of the higher of the actual consideration and fair market value, or by deducting an incorrect value for the shares.
- Interest income and/or the capital gain were incorrectly treated under the Final Tax Regime (FTR), rather than being included in taxable income under the Normal Tax Regime (NTR).

- Tax deducted at source from the interest income was overlooked when calculating the tax payable with the return of income.

Question 7

- The advance against the sale of consumer goods was not eliminated from profit before tax.

- Penalty for late filing of return and interest on personal loan were incorrectly treated as admissible expenses, whereas damages for delayed delivery were incorrectly treated as inadmissible.

- Expenditure on in-house scientific research and research equipment was incorrectly treated, due to a failure to distinguish between revenue and capital expenditures.

- Errors were made in calculating initial allowance and tax depreciation on imported plant, particularly in the treatment of installation costs, advance tax and the applicable rates. In addition, depreciation was incorrectly claimed on scientific equipment and on a motor vehicle disposed of during the year.

- Dividend income was not treated under the FTR, and the gain on disposal of shares was not treated as income subject to the separate block of income. This resulted in errors in the computation of total income and taxable income.

- While calculating rental income, the taxable amount of the non-adjustable security deposit and the repair allowance were incorrectly computed.

- Zakat was deducted directly from dividends instead of total income.

- Incorrect tax rates were applied when calculating tax on the gain from the sale of shares and dividend income.

Question 8

- Input tax was incorrectly claimed on payments made from the accountant's bank account, cash deposited into suppliers' bank accounts, and purchases from a cottage industry.

- Input tax on raw materials used exclusively for zero-rated supplies was not claimed.

- Input tax on July electricity was not claimed despite the invoice having been received during the tax period.

- A credit note issued to correct the supplier's invoice was adjusted against output tax instead of being considered in determining input tax.

- Input tax relating to raw materials used exclusively for exempt supplies and exclusively for zero-rated supplies was not excluded when determining residual input tax.

- The time-of-supply rules were not correctly applied to supplies to local registered wholesalers, particularly in relation to payments received during June 2026, payments received during July 2026 and amounts outstanding at the end of July 2026.

- The advance received against the supply of goods, which became taxable following the withdrawal of exemption, was not considered in computing output tax.

- Further tax was not charged on taxable supplies made to unregistered distributors. Some examinees incorrectly applied further tax to exempt supplies made to unregistered distributors.

- The refundable input tax attributable to zero-rated exports was not accounted for separately to determine refundable input tax.

(THE END)