Certificate in Accounting and Finance Stage Examination

Taxation Principles and Compliance

21 August 2026
100 marks
3 hours and 15 minutes (including 15 minutes' reading time)

ICAP

Instructions to examinees:
(i) Answer all **EIGHT** questions.
(ii) Answer in **black** pen only.
(iii) Use the first page of the answer script to answer the Multiple-Choice Questions.
(iv) Tax rates are given on the last page.

SECTION A

QUESTION 1

Select the most appropriate answer from the options provided for each of the following Multiple-Choice Questions.

(i) Aamir Saeed, a resident individual and the author of the historical novel 'Creation of Pakistan', completed the novel over a period of 30 months. During tax year 2026, he received a lump-sum royalty of Rs. 3,600,000 in respect of the novel.

Assuming that Aamir Saeed elects to avail the beneficial tax treatment available under the Income Tax Ordinance, 2001, how shall the royalty be treated for tax purposes?

(a) The entire royalty of Rs. 3,600,000 shall be taxed in tax year 2026, as royalty is taxable on a receipt basis.
(b) The royalty shall be treated as having been received equally in tax years 2024, 2025 and 2026, with Rs. 1,200,000 allocated to each year.
(c) The royalty shall be treated as having been received equally in tax years 2025 and 2026 only, with Rs. 1,800,000 allocated to each year.
(d) The royalty shall be treated as having been received equally in tax years 2023, 2024 and 2025, with Rs. 1,200,000 allocated to each year. **(01 mark)**

(ii) Shaista, a resident individual, sold her private motor vehicle during tax year 2026, realizing a gain of Rs. 250,000. She also disposed of her personal jewellery, resulting in a loss of Rs. 80,000.

Under the provisions of the Income Tax Ordinance, 2001, what amount, if any, is to be taken into account for tax purposes in respect of these transactions?

(a) Rs. 250,000
(b) Rs. 170,000
(c) (Rs. 80,000)
(d) Nil **(01 mark)**

(iii) Mehdi purchased 80 tons of cement, a Third Schedule item under the Sales Tax Act, 1990, from a manufacturer at a wholesale price of Rs. 22,000 per ton. The retail price of the cement is Rs. 25,000 per ton, exclusive of Federal Excise Duty of Rs. 4,000 per ton and sales tax at the rate of 18%.

Under the provisions of the Sales Tax Act, 1990, what is the correct value of supply of the cement?

(a) Rs. 2,320,000
(b) Rs. 2,080,000
(c) Rs. 2,000,000
(d) Rs. 1,760,000 **(01 mark)**

(iv) A person may be granted temporary sales tax registration under specified circumstances. Such temporary registration shall remain valid for a period of:

(a) 30 days (b) 45 days
(c) 60 days (d) 120 days **(01 mark)**

(v) Under the Income Tax Ordinance, 2001, which of the following cases is **NOT** eligible for the agreed assessment mechanism?

(a) Where the Commissioner does not allow taxpayer to file an offer for settlement.
(b) Where the tax liability is less than Rs. 1 million.
(c) Where the taxpayer is a listed company.
(d) Where the case involves the interpretation of a question of law. **(01 mark)**

(vi) Under the provisions of the Income Tax Ordinance, 2001, which of the following statements regarding the taxation of an Association of Persons (AOP) are correct?

(I) An AOP is treated as a separate taxable entity, distinct from its members.
(II) The taxable income of an AOP is subject to tax at the same rates as those applicable to non-salaried individuals.
(III) A member's share of income from an AOP is exempt from tax in the hands of the member, provided that the AOP has paid tax on its income.
(IV) A member's share of loss from an AOP is deductible against the member's other income.

(a) I, II and III (b) I and III
(c) II and IV (d) I, III and IV **(1.5 marks)**

(vii) Under the provisions of the Income Tax Ordinance, 2001, which of the following persons is/are required to furnish a wealth statement along with their return of income for tax year 2026?

(I) A resident individual deriving taxable salary income of Rs. 1,200,000. No tax is payable with the return, as the applicable tax has already been deducted and deposited by the employer.
(II) A non-resident Pakistani citizen deriving only foreign-source income who voluntarily files a nil return of income in Pakistan to obtain filer status.
(III) A resident individual whose only income is dividend received from AB Limited (ABL). No tax is payable with the return, as the applicable tax has already been deducted and deposited by ABL.
(IV) A resident individual filing a return for the first time, although his taxable income is Rs. 500,000.

(a) I and III only (b) I only
(c) I, II and IV (d) I, III and IV **(1.5 marks)**

(viii) Football Associates (FA) leased an open plot of land to an individual at an annual rent of Rs. 3,600,000. The annual letting value of comparable land in the same locality was Rs. 4,000,000. During the tax year, FA also received a non-adjustable deposit of Rs. 900,000 in connection with the lease. The following expenses were incurred in relation to the land:

- Property tax: Rs. 180,000
- Rent collection charges: Rs. 210,000

Under the provisions of the Income Tax Ordinance, 2001, what amount shall be included in the FA's taxable income for the tax year?

(a) Rs. 3,746,400 (b) Rs. 3,276,000
(c) Rs. 2,860,000 (d) Rs. 3,660,000 **(02 marks)**

QUESTION 2

Jalal Haider has been employed by Goalkeeper Technologies Limited (GTL), a company listed on the Pakistan Stock Exchange, for several years. To rationalize its workforce, GTL introduced a voluntary redundancy scheme. Jalal opted for the scheme and resigned with effect from 1 January 2026.

The details of his remuneration during tax year 2026 are as follows:

(i) Monthly salary of Rs. 490,000 comprising the following:

	Rupees
Basic salary	425,000
Utility allowance	65,000

(ii) A rent-free furnished accommodation was provided. The fair market rent of the accommodation was Rs. 135,000 per month.

(iii) A company-maintained motor vehicle was provided for both official and personal use. The vehicle was acquired by GTL on 1 July 2023 at a cost of Rs. 7,200,000.

(iv) On 1 July 2025, an interest-free loan of Rs. 4,000,000 was granted to Jalal by GTL, repayable in December 2026. Jalal utilized the loan proceeds to partly finance the purchase of an apartment costing Rs. 36,000,000. The apartment was let out with effect from 1 September 2025 at a monthly rent of Rs. 185,000.

Upon his resignation, he received the following benefits:

- compensation equivalent to 12 months' basic salary under the redundancy scheme.
- 30% of the loan amount was waived by GTL, while the remaining balance was recovered from Jalal's final settlement.
- Jalal was allowed to purchase the company vehicle at its book value of Rs. 4,250,000. Immediately thereafter, he sold the vehicle in the open market for Rs. 5,000,000.

In addition to the above, Jalal received gratuity of Rs. 2,800,000 from an unapproved gratuity fund.

The details of his taxable income and tax paid thereon during the preceding three tax years are as follows:

	2023	2024	2025
	---------------------- Rupees ----------------------		
Taxable income	3,400,000	3,600,000	4,000,000
Tax liability	350,000	440,000	750,000

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute Jalal's taxable income and tax payable or refundable, if any, for tax year 2026 in the most tax efficient manner for Jalal. ***(Show all relevant exemptions, exclusions and disallowances, if any)*** **(10 marks)**

QUESTION 3

(a) The Federal Government intends to appoint a new member of the Appellate Tribunal Inland Revenue (ATIR). The Selection Committee is considering the following candidates:

(i) Mr. Asif has been an advocate of a High Court for the last 12 years. Prior to becoming an advocate, he served as a legal officer in a multinational company for 8 years.

(ii) Ms. Jamila is a chartered accountant and has been employed by a firm of practicing chartered accountants for the last 11 years. During this period, she has held various positions and currently serving as Senior Manager Taxation. She became a member of the Institute of Chartered Accountants of Pakistan 9 years ago and has never practiced independently.

(iii) Mr. Baqir is a cost and management accountant and has been providing consultancy services through his own professional practice for the last 9 years. Before establishing his practice, he worked in the finance department of a manufacturing company for 12 years.

(iv) Mr. Quresh is an officer of Inland Revenue in BS-20. He has served in BS-20 for 2 years and previously served in BS-19 for 6 years.

(v) Ms. Saima is an officer of Inland Revenue who has recently been promoted to BS-21.

Required:
Under the provisions of the Income Tax Ordinance, 2001, determine whether each of the above candidates is eligible for appointment as a member of ATIR. Give reasons in support of your answer. **(05 marks)**

(b) Chaudhry Zaheer, a businessman, regularly files his income tax returns and wealth statements. During an operation conducted by an agency of the Federal Government, certain assets belonging to him, which had not been disclosed in his wealth statements, were impounded.

The agency communicated the matter to the income tax authorities, but complete information regarding the source, acquisition and value of those assets is not yet available. No assessment order under section 121 or amended assessment order under section 122 had been issued.

Required:
Under the provisions of the Income Tax Ordinance, 2001, discuss whether the Commissioner may issue any order at this stage on the basis of the available information. Also state the nature of the order, and how it is subsequently to be dealt with. **(04 marks)**

QUESTION 4

You are a manager in a tax consultancy firm. While reviewing the tax computation and supporting working papers of Offsite Textiles (OT), a sole proprietorship owned by Murad Anjum, for the year ended 30 June 2026, you identified the following transactions whose tax treatment requires further consideration:

(i) OT claimed the following expenses and no disallowance or add-back was made in respect of these expenses, while computing its taxable income:

- A salary of Rs. 50,000 per month was paid in cash to a foreman throughout the year.
- One of the electricity bills for May 2026, amounting to Rs. 300,000 was paid in cash. All other electricity bills during the year were paid through banking channels.
- Office rent amounting to Rs. 150,000 per month was paid for all 12 months through online transfer from Murad's personal bank account.

(ii) OT incurred research and development expenditure of Rs. 5 million, which resulted in the development of a new production process that improved the quality of its products. The new process was available for use with effect from 1 May 2026; however, the management decided to commence using it from July 2026. The useful life of the new process cannot be determined.

No amortization was claimed for tax year 2026 on the ground that the new process was not actually used during that tax year.

Required:
Under the provisions of the Income Tax Ordinance, 2001, advise Murad Anjum on the correct tax treatment of each of the above transactions for tax year 2026. Also quantify the amounts, if any, that should be allowed as deductions or added back in computing taxable income. **(08 marks)**

QUESTION 5

(a) During tax year 2026, Atif Khan has purchased one point-of-sale (POS) machine for each of his three departmental stores at a cost of Rs. 220,000 per machine. He was required to integrate the POS machines with the FBR's computerized system but failed to do so by the end of the tax year.

Required:
Briefly state **three** adverse consequences arising from the non-integration under the Income Tax Ordinance, 2001 and the Sales Tax Act, 1990. ***(Ignore default surcharge and penalties)*** **(05 marks)**

(b) State the taxes that the Federal Government is empowered to levy under the authority of Parliament. **(04 marks)**

(c) In the light of the ICAP's Code of Ethics for Chartered Accountants, briefly explain the safeguards that should be applied to reduce threats to independence to an acceptable level where an audit firm provides tax-calculation services involving the preparation of accounting entries for an audit client that is not a public interest entity. **(03 marks)**

(d) Under the provisions of the Sales Tax Act, 1990, export of goods is generally charged to tax at the rate of zero percent. State the exceptions to this general rule. **(03 marks)**

QUESTION 6

(a) Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the taxability of the foreign source income derived by each of the following individuals for tax year 2026:

(i) Maria, a Spanish national, has been employed as a research consultant by Header (Pvt) Limited, a Karachi-based pharmaceutical company, since October 2023. Apart from this employment, she does not carry on any business activity in Pakistan.

During tax year 2026, she let out her flat in Spain at an annual rent of EUR 48,000. On her request, the tenant has paid EUR 8,000 to her Pakistani bank account, while the remaining balance was paid in her Spanish bank account. **(04 marks)**

(ii) Zahid, a Pakistani national, departed Pakistan on 1 August 2025 to join a Canada-based logistics company at a monthly salary of CAD 15,000. His Canadian employer deducted income tax from his salary at the applicable rates and deposited it to the relevant Canadian tax authority.

Due to a family emergency, Zahid returned to Pakistan on 15 January 2026 and remained there until 30 June 2026. During tax year 2026, he remitted 50% of his foreign salary into his Pakistani bank account. **(03 marks)**

(Ignore the provisions of any applicable tax treaty)

(b) Ahuja Kumar was employed by Final Whistle Limited (FWL), an unlisted company, up to tax year 2025. He has provided the following information for tax year 2026:

(i) Interest income of Rs. 4,590,000 was received on Special Saving Certificates issued by the National Savings Centre, after deduction of tax at source at 15%.

(ii) On 22 March 2026, 25,000 shares of FWL were sold at Rs. 200 per share.

The shares had been acquired under an employee share scheme, under which 30,000 shares were allotted to Ahuja Kumar on 15 April 2023 at Rs. 90 per share, subject to a restriction that the shares could not be sold for two years from the date of allotment.

The fair market value of each FWL's share on the relevant dates is as follows:

		15 April 2023	**15 April 2025**	**22 March 2026**
Fair market value	(Rs.)	150	175	205

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the taxable income under the appropriate heads of income and the tax payable by Ahuja Kumar with the return of income for tax year 2026. **(05 marks)**

SECTION B

QUESTION 7

Defender Enterprises (DE) is a sole proprietorship business owned by Bahlol Danish. DE is engaged in the manufacture of fast-moving consumer goods. The following information has been extracted from DE's financial records for the year ended 30 June 2026:

	Rs. in '000
Sales	148,000
Cost of sales	(103,600)
Gross profit	44,400
Administrative and selling expenses	(18,711)
Financial charges	(3,690)
Other income	9,330
Profit before taxation	**31,329**

Additional information:

(i) Sales include an advance of Rs. 2,695,000 received from a trader against the sale of consumer goods. DE has agreed to supply the goods in August 2026.

(ii) Cost of sales includes:

- damages of Rs. 205,000 paid for breach of a supply contract with a customer due to the delayed delivery of goods; and
- a penalty of Rs. 125,000 imposed by the Commissioner Inland Revenue for the late filing of DE's income tax return for tax year 2025.

(iii) Administrative and selling expenses include the following expenditures incurred on in-house scientific research relating to DE's business:

- Salaries of Rs. 1,880,000 paid to research staff;
- Other revenue expenditures of Rs. 230,000; and
- The cost of second-hand scientific research equipment amounting to Rs. 1,785,000. The equipment was purchased from an institution in Multan, and payment was made in cash on the seller's request. At the date of acquisition, the equipment had a remaining useful life of 8 years.

(iv) Financial charges include profit on debt of Rs. 290,000 paid to a scheduled bank on a loan obtained by Bahlol Danish to finance his son's education in the United Kingdom.

(v) Other income includes:

- dividend income of Rs. 2,670,000 received from a company listed on the Pakistan Stock Exchange. The amount was received after deduction of income tax at the rate of 15% and Zakat of Rs. 390,000 under the Zakat and Ushr Ordinance, 1980.
- rental income of Rs. 1,680,000. On 1 July 2025, DE rented out a portion of its business office to Substitute Enterprises at a monthly rent of Rs. 140,000. DE also received a non-adjustable security deposit of Rs. 850,000, of which Rs. 500,000 was utilised to refund the non-adjustable security deposit received in July 2020 from the previous tenant. In May 2026, DE incurred repair expenditures of Rs. 400,000 on the rented portion of the office, which has been included in administrative and selling expenses.
- a gain of Rs. 880,000 on the disposal of shares of Captain (Pvt) Ltd. (CPL) in May 2026. The Federal Government holds 55% of CPL's share capital. DE had acquired these shares in June 2024.

(vi) DE follows accrual accounting system in preparing its financial statements.

Other information:

(i) A second-hand plant was imported from Italy at a cost of Rs. 3,800,000. Advance income tax of Rs. 228,000 was paid at the import stage. The plant was installed in September 2025. DE incurred installation expenditure of Rs. 760,000, which has been charged to administrative and selling expenses. No depreciation has been charged on the plant.

(ii) A motor vehicle was sold on 1 June 2026 for Rs. 925,000, which was equal to its carrying value. The vehicle had been purchased on 15 June 2024 for Rs. 1,500,000 and was used 80% for business purposes. No depreciation has been charged on the motor vehicle in the accounts for tax year 2026.

(iii) Assume that the tax depreciation for the current year on all assets acquired prior to 1 July 2025 is equal to the corresponding accounting depreciation.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the appropriate heads of income, DE's total income, taxable income and tax liability for tax year 2026.

(18 marks)

Notes:
- ***Ignore minimum tax under section 113.***
- ***Show all relevant exemptions, exclusions and disallowances, if any.***

QUESTION 8

Assume that today's date is 1 August 2026.

Corner Associates (CA) is registered under the Sales Tax Act, 1990 as a manufacturer and exporter. The following information has been extracted from its records for the tax period July 2026:

(i) Purchases of taxable raw materials / goods from registered suppliers:

- Raw materials used exclusively in making taxable supplies, other than zero-rated supplies, amounting to Rs. 1,540,000. This amount includes an invoice of Rs.190,000 paid by cheque from the bank account of CA's accountant.
- Taxable goods used in making taxable supplies (including zero-rated supplies) and exempt supplies amounting to Rs. 2,304,300. The payment details are as follows:

	Rupees
Online transfers from CA's bank account to the suppliers' bank accounts	1,160,000
Cash deposited into the supplier's bank account	65,500
Crossed cheques issued from CA's bank account in favour of suppliers	1,078,800

- Raw material used exclusively in making exempt supplies amounting to Rs. 900,000.
- Raw material used exclusively in making zero-rated supplies amounting to Rs. 1,600,000.

(ii) Taxable goods marketed under the brand name 'GoalSpring' were purchased from an unregistered wholesaler for Rs. 1,500,000 and used in the manufacture of taxable supplies.

(iii) Taxable goods amounting to Rs. 1,400,000 were purchased from a cottage industry.

(iv) Taxable goods worth Rs. 7,070,000 were supplied to local registered wholesalers. The payment details are as follows:

	Rupees
Payment received during July 2026	6,350,000
Payment outstanding as at 31 July 2026	500,000
Payment received during June 2026	220,000

(v) Exempt goods of Rs. 1,175,000 and taxable goods of Rs. 1,235,000 were sold to unregistered distributors.

(vi) Taxable goods worth Rs. 2,220,000 were exported to the Middle East.

Additional information:

(i) An electricity bill of Rs. 305,000 for June 2026 was paid in July 2026 but the related input tax was not claimed in June 2026. The electricity bill for July 2026 amounting to Rs. 410,000 was received on 28 July 2026 and will be paid by the due date in August 2026.

(ii) On 22 June 2026, CA entered into a contract and received the full contract amount in advance to supply exempt goods amounting Rs. 600,000 to a registered customer in August 2026. However, through a notification dated 28 July 2026, the government withdrew this exemption with immediate effect.

(iii) Taxable goods amounting to Rs. 694,000, sold to a registered customer in March 2026, were returned by the customer in July 2026. Both parties issued the appropriate debit and credit notes.

(iv) On 18 July 2026, CA issued a credit note for Rs. 170,000 in response to a debit note issued by the supplier in respect of its invoice dated 15 May 2026, to rectify an error in that invoice.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above amounts are exclusive of sales tax at 18%, unless specified otherwise.

Required:
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to CA and the amount of input tax to be carried forward, if any, for the tax period July 2026. ***(Show all relevant exemptions, exclusions and disallowances, if any)*** **(18 marks)**

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

Tax rates for non-salaried individuals and AOP

S. No.	Taxable income	Rate of tax
4.	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Tax rates for salaried individuals

S. No.	Taxable income	Rate of tax
4.	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 116,000 + 23% of the amount exceeding Rs. 2,200,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 346,000 + 30% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 4,100,000	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000

Capital gains on disposal of securities

S. No.	Holding period	Rate of Tax on disposal of securities acquired between 1 July, 2022 to 30 June, 2024	Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024
1.	Where the holding period does not exceed one year	15%	15% for persons appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities.
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	
3.	Where the holding period exceeds two years but does not exceed three years	10%	
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	

Initial allowance and depreciation rates

- The rate of initial allowance shall be 25% for plant and machinery.
- The rate of depreciation on plant and machinery and motor vehicles shall be 15%.

Other rates

- The tax rate for dividend shall be 15%.
- The tax rate for profit on debt shall be 15%.