

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Tax Planning and Practices	Certified Finance and Accounting Professional (CFAP) Examination Summer 2024

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	34%
40%	29%	4%	31%	28%	58%	53%	

General comments

The overall pass rate for this attempt has shown a slight improvement from the previous session's 33%. Notably, in the Income Tax area, there has been progress in the two major questions i.e., computational and comment-based, compared to past few attempts.

However, it is important to note that many examinees did not adequately focus on the specific requirements of the questions. For example, in Question 1, many examinees spent time calculating the minimum tax under Section 113 and the Alternative Corporate Tax (ACT), despite the instructions explicitly stating to ignore these elements. Conversely, in Question 4, where the exclusion of minimum tax and ACT was not specified, examinees failed to address these aspects.

Question-wise common mistakes observed

Question 1

- Sales amount was not adjusted with withholding tax.
- The arm's length price of the plastic table was incorrectly computed. The cost of the warranty was not excluded from the sale price.
- Amount paid to commodity dealer was treated as a disallowed expense.
- Total amount of gratuity was considered as allowable expense instead of 50% of contribution.
- The entire commission expense was disallowed, instead of calculating and disallowing only the excess over 0.2% of sales made to Bari Associates whose name does not appear in the active taxpayer list.
- While computing gain/loss on the sale of passenger transport vehicles, cost was not restricted to Rs. 7.5 million. Consequently, sales proceeds were not proportioned to the restricted cost.
- While computing taxable income, the impact of tax depreciation was taken before adjustment of brought forward losses.

- Brought forward losses for tax year 2023 were under appeal and thus not available for set off. However, they were incorrectly set off. Similarly, unabsorbed depreciation for the tax year 2023, being part of business income, was also not available for set-off. However, it was also incorrectly set off.
- Group relief was either ignored or an incorrect amount was taken into account.

Question 2(i)

- Repair allowance on income from property was not discussed.
- Foreign tax credit was ignored.
- The impact of withholding tax was incorrectly considered, even though it is inapplicable because Iqbal is a non-resident.

Question 2(ii)

- Salary was incorrectly classified as foreign source income, leading to an incorrect suggestion to account for a foreign tax credit.
- Withholding tax implication was not discussed.

Question 2(iii)

- Profit on debt was incorrectly classified as Pakistan source income for UAE Bank.
- The deduction of profit on debt as an expense against UAE branch income was not addressed.
- Withholding tax implication was not discussed.

Question 3

- In discussing the validity of serving an order, the various modes along with their associated requirements were not covered. For example, details on when an order sent via email is considered served were missing.
- Many examinees failed to discuss the course of action available to DFL if it does not agree with the passed order. They overlooked the possibility of DFL filing a written application with the Commissioner Appeals to request condonation of the delay and acceptance of the appeal after the prescribed deadline. Additionally, the option of requesting a stay of tax demand was not discussed.

Question 4

- Provisions related to FTR income were not discussed i.e., FTR income shall not be chargeable to tax under any head of income and no deduction shall be allowable for any expenditure incurred in deriving the income. Moreover, the option to opt out of FTR was ignored.
- The threshold of Rs. 32,000 was not taken into account while commenting on cash salaries.
- Dividend from an agriculture enterprise was not considered as exempt.
- A loss of Rs 2.5 million was not considered a speculation loss. Consequently, the provisions related to the set-off of speculation loss were not discussed.

- Discussion on minimum tax and/or alternate corporate tax (ACT) was either ignored or the following errors were made:
 - While discussing minimum tax u/s 113, the turnover was not adjusted to exclude FTR income or include the turnover of an AOP.
 - While discussing Alternate Corporate Tax (ACT), accounting profit was not adjusted for the following:
 - Exclusion of share of profit from associate.
 - Inclusion of AOP's income.
 - Exclusion of exempt dividend income.
 - Exclusion of income from exports (being FTR income).
- Apportionment of common expenses to FTR, MTR, and NTR was not discussed.

Question 5(a)

Many examinees limited their answer to stating that the input tax should be reduced by 60% and addressing only the disconnection of electricity and gas connections while ignoring the penalty provisions.

Question 5(b)

- Marine insurance was not considered exempt.
- Outstanding amount was also subject to duty.
- Advance received was not subjected to duty.
- Supply of cement to a company in the Export Processing Zone for the construction of a factory building was subject to duty at zero percent.
- The uncollected duty amount in April 2024 was not calculated, and neither was the default surcharge associated with it.

Question 6

- Input on wood pulp and/or sanitary fittings was considered admissible.
- Value-added tax on testing equipment was ignored.
- The reversal of input tax on goods destroyed by fire was not accounted for.
- Input tax on purchases of tyres, lift cylinders and drive axles for the forklifts was considered inadmissible.
- Specific input tax, in addition to common input tax, was also allocated between zero-rated and other taxable supplies.
- Provincial sales tax was incorrectly included when calculating output tax for the federal return.
- Promotional giveaways were not subject to sales tax.
- Withholding tax was applied to purchases from the cottage industry, but it was either not applied or applied incorrectly to the purchase of cane molasses from an unregistered dealer.
- Further tax was applied on supplies to the cottage industry and/or end consumers.

Question 7

Many examinees limited their responses to discussing only the threat of familiarity and the potential breach of confidentiality. They did not address the threat of self-interest or the principles of integrity and objectivity. Additionally, only one or two relevant safeguards were mentioned.

(THE END)