

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Tax Planning and Practices	SESSION Certified Finance and Accounting Professional (CFAP) Examination Winter 2024

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
32%	29%	19%	26%	60%	55%	30%	31%

General comments

The overall pass rate for this attempt has slightly declined from the previous session's 34%. Notably, performance in the Income Tax section was weaker, particularly in the computational and comment-based questions, compared to the previous session.

Many examinees overlooked key details in the question paper, leading to errors. For instance, in Question 1, a significant number of examinees unnecessarily allocated cost of sales and administrative and selling expenses between sales subject to normal tax and minimum tax, despite the question clearly stating that no additional expenses were incurred for export sales—meaning the associated cost was the only expense attributable to exports. Moreover, many examinees failed to understand the requirement of the question, with examinees ending the question in calculating taxable income and tax liability. These examinees did not calculate tax payable or refundable as required.

Similarly, in Question 3, the overall quality of responses fell below expectations, with many examinees providing only basic comments rather than demonstrating a higher-level analytical approach. For instance, when addressing donations, most focused solely on calculating the tax credit using the formula under section 61. However, examinees were expected to provide more in-depth insights, such as discussing the relevance of tax avoidance under section 109 in this context.

Question-wise common mistakes observed

Question 1

- Exports were not subject to tax under MTR.
- Entertainment was considered an allowable expense.
- The foreign debt-to-equity ratio used to calculate the allowable profit on debt for the loan from the foreign company was incorrect. Additionally, the non-applicability of Section 106A was not mentioned.
- While calculating tax depreciation, the building was ignored.
- Amortization on quality control software was either ignored or computed incorrectly.

- While computing total income, deemed income from bonus shares was ignored.
- Incorrect tax rates were applied to capital gain, income from bonus share and/or dividend income.
- Total income was treated as taxable income and a 29% tax rate was applied to the total income amount.
- Eligible investment for tax credit and/or the tax credit were not correctly calculated.
- Advance tax on exports under section 147 at 1% was overlooked.
- Adjustments of tax collected/deducted at source were either not made or were incorrect. Accordingly, tax refundable to MTPL was also incorrectly calculated.

Question 2(a)

- Instead of performing computations, the provisions of section 100C were discussed in a descriptive manner.
- Incorrect income was computed as eligible for the tax credit.
- The 10% tax on surplus funds, exceeding 25% of the receipts, was not calculated.

Question 2(b)

- Many examinees limited their answers to discussing only the FTR regime and overlooked mentioning the NTR regime.
- Conditions for taxation under FTR were half-heartedly discussed.
- While discussing the consequences of not being registered with PSEB, the additional requirement to file federal or provincial sales tax return was overlooked.

Question 3

- Fee for technical services was chargeable to tax under NTR instead of MTR. Further, the amount was not grossed up.
- Many examinees failed to realize that only one property was subject to tax, rather than both. Additionally, it was not highlighted that taking 1% of the property's value as income was incorrect; instead, 5% of the value should have been added to the income. Furthermore, other relevant provisions of Section 7E were also overlooked.
- Many examinees were unable to address the tax avoidance scheme in the given scenario, focusing instead on discussing the provisions and calculating the tax credit on donations.
- Following errors were observed while commenting on capital gain on disposal of investments:
 - The capital gain from the disposal of shares in a company listed on the London Stock Exchange was taxed under a separate block of income instead of the normal tax regime.
 - The sale proceeds from the disposal of shares in a private limited company were treated as consideration received, despite the fair market value being higher.
 - The loss from the sale of shares in a company listed on the Pakistan Stock Exchange was considered adjustable against capital gains taxed under the normal tax regime (NTR).
- With reference to a machine that was sold and leased back, treatment of tax and accounting gains were ignored.

- Many examinees correctly considered advertisement expense as an admissible expense. However, they failed to calculate it on a gross basis (Rs. 8.75 million instead of Rs. 8.4 million). Additionally, they did not account for the 25% disallowance and allocation to the associate if FFL fails to provide the required evidence.

Question 4

Incorrect appellate forums and/or corresponding deadlines were identified.

Question 5

Most examinees correctly identified the self-review threat and relevant safeguards. However, factors for evaluating level of self-review threat were not discussed in most cases.

Question 6

- DRAP certified raw material was also chargeable to tax at 18%.
- Purchase of ginger from PATA was not considered exempt and purchase of turmeric was subject to tax at other than 16%.
- FED on air tickets was not considered inadmissible.
- Provincial sales tax for fee paid to an insurance agent was not considered inadmissible.
- Import of raw material for APIs was not chargeable to tax at 18%.
- Import and subsequent supply of artificial limbs were not considered exempt.
- Value addition tax was not applied to the import of non-medicated health supplements.
- APIs supplied to registered persons were not charged at 1%.
- Supply of medicine was not charged at 1%.
- Output tax related to APIs and medicines were not considered as final discharge with no input adjustment.

Question 7(a)

- Most examinees only discussed either input tax to be charged at the import stage or exemption on local supply of bread. Many examinees failed to discuss the inadmissibility of input tax due to exempt supply.
- Examinees provided comments restricted to exempt supply within Border Sustenance Market (BSM). Few commented on chargeability at 10% on supply as vermicelli was brought outside the limits of BSM. Most examinees missed commenting on sales through grocery stores in Karachi and Tier 1 retailers in Lahore.

Question 7(b)

- Electronic submission and processing of refund applications through Risk Management System was not discussed.
- The duration of audit proceedings was not mentioned correctly.
- Charging of interest in case of delayed refund was not discussed.

(THE END)