

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Tax Planning and Practices	SESSION Certified Finance and Accounting Professional (CFAP) Examination Summer 2025

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
36%	56%	10%	11%	55%	18%	75%	27%

General comments

The overall pass percentage for this attempt has declined from the previous session's 31%. Performance in the income tax section, particularly on comment-based questions, was notably weaker. Many examinees demonstrated selective preparation, focusing on pre-learned topics rather than the specific requirements of the scenario. For instance, in a comment-based question (Q.3), many examinees wrote generally about group taxation and group relief, reproducing whatever they knew, rather than restricting their discussion to the specific provisions of this area that were actually required by the question.

Question-wise common mistakes observed

Question 1

- Income from commercial imports was not subject to tax under MTR, and common expenses were not apportioned.
- The amount of royalty was not correctly calculated. Further, it was not treated as FTR income.
- Initial allowance was computed for machinery acquired at the maturity of the lease. Additionally, depreciation was based on the market value of the machinery rather than its residual value.
- Brought forward capital loss on disposal of listed securities from the tax year 2021 was not treated as expired.
- Tax liability on capital gains from the sale of investments in TFCs was not calculated at the rate of 29%.
- The super tax was altogether ignored.
- While responding to part (b) of the question, examinees failed to identify the implications of non-compliance with filing requirements. Instead, most focused on penalties for non-filing, which was not relevant. The change in the tax regime for royalty from FTR to NTR, along with its implications, was overlooked.

Question 2

- Market value of rice from own land was treated as inadmissible.
- Rental income from agricultural land was taxed under income from property instead of exempt income.
- Share of AOP's partners was not correctly calculated.
- An incorrect tax rate was applied to dividends.

Question 3

Applicability of one fiscal unit

Although many examinees correctly discussed the applicability of one fiscal unit, they failed to mention the associated conditions, such as the requirement to maintain consolidated group accounts and compliance with corporate governance requirements by group companies. Moreover, many did not address the tax treatment of ATPL's sales to local market sellers.

Comments on each explanatory note:

(i) Transfer Pricing

Although many examinees discussed that the arm's length price would be determined, they failed to mention the applicable method, i.e., the resale price, and to explain how it is specifically determined under this method. Some merely stated that a discount would be subtracted, while others confused the adjustments under the resale price method with those under the cost-plus method.

(ii) Expenses incurred in respect of product development:

Instead of classifying the expenditure into its respective categories, pre-commencement costs, depreciation of tangible assets, and amortization of intangible assets, many examinees treated the entire amount as either fully allowable or fully disallowable. Moreover, while suggesting amortization of pre-commencement expenditure, some applied the asset's useful life rather than the prescribed 20% rate. In addition, several computed depreciations are only based on the portion of the renovation related to R&D, rather than on the entire renovation cost.

(iii) Disposal of assets between wholly owned companies

Examinees failed to realize that the gain on disposal of an asset between wholly owned group companies should not be recognized.

If the group does not opt to be taxed as one fiscal unit:

Examinees merely stated that, since the group had not opted for taxation as a single fiscal unit, each company would be taxed separately. However, they failed to explain the manner in which the companies would be taxed, particularly the application of the Small and Medium Enterprise regime to ATPL in respect of its sales to local market sellers.

Question 4(a)

- Examinees were not able to identify the scenario as a Controlled Foreign Company (CFC).
- In cases where examinees were able to identify the CFC, the criteria were either not applied or incorrectly applied. Many restricted themselves to computing the holding percentage of Ghauri Limited in Bahria Tech (Private) Limited and Langkawi Consultants Sdn. Bhd. only.

Question 4(b)

- It was not identified that the amount remitted is below Rs. 5 million and therefore will not be required for explanation of source and nature.
- Application of advance tax on the provided transaction was not discussed.
- Implications of FED and provincial sales tax on the transaction were not discussed at all.

Question 5

- FED was ignored in calculating the value of supply for sales tax purposes in the case of white crystalline sugar.
- Wheat flour was not taken as exempt.
- Grated cheese was not subject to tax at a reduced rate of 16%.
- Inland carriage by air was not identified as being covered under FED in the 'not under sales tax mode'.
- Retail price was not applied to cardamoms, despite being a third-schedule item.
- The value addition tax on the import of tea was incorrectly applied.
- Reversal of input tax related to damaged goods was either ignored or incorrectly calculated.
- Input tax related to zero-rated supplies was either ignored or adjusted with an incorrect amount.
- Buns and bread were not subject to the reduced tax rate of 10%.
- Output tax was reduced due to a sales return, despite that the credit note was issued after 180 days.
- Non-applicability of sales tax withholding on advertisement services was not mentioned.
- Non-applicability of further tax on supplies to end consumers and the cottage industry was not stated.

Question 6 (a)

Examinees failed to recognize that the provisions relating to best judgment assessment apply in the given scenario and that the minimum tax liability is to be determined by the ACIR. Even those who identified this point did not explain the basis for determining the minimum tax liability.

Question 6 (b)

- Examinees correctly identified the exemption applicable to the import of CKD kits, but the implications related to local supply were incorrect or ignored.
- Examinees were unable to identify that the import in the CBU condition is subject to a reduced rate of 12.5%. However, implications on local supply were ignored. Furthermore, the input tax adjustment for packaging and utility services expenses was also not discussed.
- Acquisition of plant and machinery was not treated as exempt.

Question 7

Examinees listed fundamental principles and threats, but failed to relate them to the given situation and describe them adequately. Further, not all safeguards were provided.

(THE END)