

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
Certified Finance and Accounting Professional Stage Examination
Tax Planning and Practices

Examiners' Comments

Winter 2025

PASSING %

Question-wise							Overall
1	2	3	4	5	6	7	
47%	14%	36%	20%	46%	16%	50%	28%

GENERAL COMMENTS

The overall pass percentage for this attempt has shown only a marginal improvement over the previous session's 27%. In this attempt, performance in the comments-based question (Q.3) demonstrated improvement, whereas performance in the sales tax question (Q.5) deteriorated compared to previous attempts.

It was observed that many examinees were not up to date with the applicable changes in tax laws. For instance, online domestic sales were brought under the Final Tax Regime (FTR) through the Finance Act, 2025; however, many examinees were unaware of this change and classified these sales under the Normal Tax Regime (NTR).

Another issue observed was that many examinees failed to address all aspects of the scenarios provided in the questions, resulting in an incomplete answer. For example, in Question No. 2, the second scenario covered three distinct aspects, i.e., inheritance of the apartment, rental income from the apartment, and sale of the apartment. However, many examinees addressed only one or two of these aspects and did not comprehensively cover all three.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- Online sales were not considered as FTR income, and export sales were not considered as MTR income.
- The allocation of common expenses between different tax regimes was omitted.
- Expenditure on the AI-based system was incorrectly treated, as it was not added back and amortized under the cost of sales related to online sales.
- Accounting loss on the automated calibration machine relating to exports was not adjusted in the cost of sales attributable to exports. In addition, the tax loss was incorrectly computed, as fair market value was taken into consideration instead of insurance proceeds.
- Allowable commission of Rs. 1 million was not identified as a specific operating expense relating to domestic sales other than online sales. Moreover, the allowable commission was incorrectly computed by taking the retail price instead of the supply price.

- The requirement to add 75% of the dealer's margin to MEL's income on the supply of refrigerators (Third Schedule items) to an unregistered dealer was overlooked.
- Proper adjustments were not made to common operating expenses. Packing material was disallowed by more than 10%, amortization on manufacturing-related software was not calculated over a five-year useful life or prorated for the period of use, and allowable expense related to warranty was incorrectly calculated.
- Finance costs specific to exports were not identified. Total finance costs were apportioned between different tax regimes.
- Interest income on PIBs was subject to tax under FTR.
- The following errors were observed in the calculation of tax liability:
 - Calculation of turnover for minimum tax was incorrect.
 - The alternative corporate tax calculation was either overlooked or incorrect.
 - A tax rate of 25% was not applied to capital gain from the disposal of mutual fund units.
 - An incorrect tax rate was applied to dividend income earned from a debt-based mutual fund investment.

Question (2)(i)

- The applicable rates of advance tax on the import of paper and machinery were either not stated or stated incorrectly. Additionally, the nature of the tax collected, being minimum in the case of paper and adjustable in the case of machinery, was not correctly identified.
- The collection of advance tax by SBL on the sale of paper to Naran Traders was ignored, and consequently, the adjustable nature of the tax collected in the hands of Naran Traders was also overlooked.

Question (2)(ii)

- Non-applicability of advance tax in case of transfer of inherited property was ignored.
- Pakistan-source income from leasing of the apartment was not recognized, and withholding tax obligations of the tenant were not discussed. Rather, the availability of repair allowance under the head 'income from property' was discussed.
- On the sale of the apartment, the applicability of advance tax for both seller and buyer was either ignored or incorrect rates were mentioned. Moreover, the nature of the tax being adjustable for the seller and final for the buyer was not identified.

Question (2)(iii)

Payment to the foreign advertising agency being subject to withholding tax at 20%, was not identified. In addition, the withholding tax rate on payment to the local advertising agency was stated incorrectly. Moreover, the amount of commission was calculated by applying Section 233, despite the commission amount being provided in the question.

Question (3)(a)**Finalization of tax return****Income from remote monitoring services – Foreign clients**

Many examinees confined their responses to merely stating that the income is subject to FTR and either ignored or inadequately discussed the related conditions. Additionally, many failed to realize that the tax deducted at source is treated as income; therefore, they did not gross up the net of tax income amount. Moreover, the option of NTR was also not discussed.

Income from performance optimization services

Examinees demonstrated correct understanding of the tax treatment under the minimum tax regime (MTR).

Unrealized fair value gain on investment property:

This part was also well attempted, with examinees providing relevant comments; however, it was omitted to mention that the warehouse constituted a capital asset in the given scenario, and the deduction of repairs should be restricted to 1/5 of the rent amount.

Purchase of raw materials (tempered glass)

This part was only partially addressed. Examinees correctly identified the 20% disallowance due to failure to deduct withholding tax. However, they did not address the issue of payments exceeding Rs. 250,000 under a single head of account made from a business bank account to a personal bank account, which results in the disallowance of the entire expenditure.

Question (3)(b)**Tax planning for next year:****Finance lease**

Under this option, responses correctly stated that only lease rentals were allowable as an expense.

Foreign currency loan:

- Many examinees restricted their response to discuss thin capitalization under section 106 and failed to address the restriction on deduction given in section 106A. Those who attempted the computation under section 106A failed to compute the amount correctly.
- Exchange loss on foreign currency loan was not added to the cost of plant and machinery.

Question 4(a)

- With respect to tax liability for 1st quarter, tax to turnover ratio was computed incorrectly by including tax on dividends in the calculation. In addition, actual turnover for the quarter was not used in computing the advance tax liability.
- While computing the tax liability for the 2nd quarter, the required 50% of the estimated tax liability for the year was ignored. Instead, calculations were made on the basis of estimated annual turnover.
- Similar to the 2nd quarter, it failed to recognize that advance tax for the 3rd and 4th quarters is required to be computed on the basis of the revised estimated tax liability. Consequently, advance tax continued to be calculated on estimated turnover.

Question 4(b)

Most examinees failed to compute advance tax paid up to the 4th quarter and, consequently, were unable to determine the resulting shortfall and related default surcharge. In cases where the shortfall was identified, the discussion was generally limited to the applicability of the default surcharge, without any supporting calculations of the amount involved.

Question 5

- Organic surface-active agents were exempt from tax.
- Coconuts for in-house manufacturing were not exempt from tax.
- Tax on computer hardware and printers was not considered inadmissible.
- Non-applicability of value addition tax on imported fragrance oils, being Third Schedule items, was overlooked.
- In the case of tissue paper, the higher of customs-assessed value or retail price was not considered. Further, a higher tax rate of 25% was not applied. Moreover, the non-applicability of the value addition tax was also not recognized.
- The treatment of the debit note issued by the supplier was incorrect, with many examinees either ignoring it or wrongly classifying it as output tax.
- Punjab sales tax on services at the standard rate was incorrectly treated as inadmissible.
- Islamabad Capital Territory sales tax on software upgradation was either incorrectly treated as inadmissible or charged at an incorrect rate.
- Finished mops cleared from the free zone to the tariff area were not included as input tax, or were incorrectly charged as output tax.
- Toll manufacturing charges were wrongly subject to tax, despite being inapplicable in the given scenario.
- The computation for excluding mark-up in determining the taxable value of the supply of air fresheners was incorrect.
- The supply of disinfectants to government hospitals was incorrectly treated as exempt.

- Retail price was not used to determine the value of the supply of laundry detergent.
- The effect of the credit note issuance was ignored.
- Withholding of sales tax on the purchase of plastic waste and/or pine oil concentrate was either ignored or incorrectly calculated. Additionally, the non-applicability of sales tax withholding on cottage industry supplies was not mentioned.
- The exemption from further tax on sales to government hospitals and sales of third schedule items was overlooked.

Question 6(a)

- The duty rate for concentrate and aerated water was incorrect.
- Duty on bank charges and royalty were not treated as inadmissible.
- An incorrect value and rate were used for white crystalline sugar.
- Retail price was not used for charging duty on local sales of carbonated soft drinks. In addition, sales return was overlooked.
- Duty drawback on exports was either ignored or incorrectly calculated.

Question 6(b)

Examinees failed to relate their discussion to the given scenario. Instead, they merely reproduced legal provisions without linking them to the facts.

Question 7

Examinees merely listed the fundamental principles and threats without relating them to the given situation or explaining them adequately. In addition, relevant safeguards were not identified, and only generic safeguards were provided.

(THE END)