THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certified Finance and Accounting Professional Stage Examination

Tax Practices and Planning

Examiners' Comments **Autumn 2026**

PASSING %

Question-wise							Overall
1	2	3	4	5	6	7	
66%	13%	27%	21%	14%	17%	67%	27%

GENERAL COMMENTS

The overall pass percentage for this attempt was slightly lower compared with the previous session.

Questions 1 and 7 recorded relatively better performance, as these questions followed a more familiar computational pattern. However, performance in the remaining questions was comparatively weak, particularly those requiring examinees to analyse different scenarios and apply various statutory provisions at different levels. This indicates difficulty in interpreting the given circumstances and appropriately applying the relevant tax provisions.

Examinees are encouraged to strengthen their understanding of the relevant statutory provisions and practise applying them to varied and scenario-based questions.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- Freight charges of Rs. 1 million paid in cash were incorrectly capitalised as part of the cost of the coating machine instead of being treated as admissible revenue expenditure.
- Tax depreciation on the compression machine was not recognised as inadmissible.
- The excess contribution of Rs. 14 million, representing 50% of the contribution to the gratuity fund, was not treated as inadmissible. Instead, the restriction was incorrectly applied to the contribution to the recognised provident fund.
- The total refund of Rs. 2 million, which was not taxable as business income, was not excluded from business income. Instead, only the additional amount of Rs. 0.15 million received for the delayed refund was excluded.

- The closing stock was not identified as overvalued. Where it was identified as overvalued, the amount of overvaluation was incorrectly calculated.

- Income from the UAE company was not excluded from income taxable under the normal tax regime and separately taxed at 15%.

- Deemed income arising from bonus shares was incorrectly calculated or was not taxed under the final tax regime at 10%.

- Turnover attributable to the AOP was omitted or incorrectly calculated when determining allowable sales promotion expenses and minimum tax under section 113.

Question 2

- Pakistan-source salary was not correctly distinguished from foreign-source salary. The entire salary of Rs. 6 million was often treated as Pakistan-source income merely because it was received in Pakistan, without considering where the employment was exercised. Consequently, withholding tax was incorrectly applied to the entire salary, and the adjustable nature of the tax deducted against the employee's final tax liability was not properly addressed.

- The service fee was incorrectly classified as an ordinary payment for services rather than profit on debt. Its Pakistan-source status and eligibility for the conditional exemption were also incorrectly determined, resulting in an incorrect assessment of its taxability and the related withholding tax obligation.

- The rent was incorrectly treated as Pakistan-source income solely on the basis of the payer's residential status, without considering the location of the property. As a result, its taxability and the related withholding tax obligation were incorrectly determined.

- Income from letting out the building together with installed machinery was incorrectly classified as income from property. Errors were also observed in identifying the applicable withholding tax provisions. Some examinees also incorrectly treated the tax deducted at source as the recipient's final tax liability.

- The interest payment was incorrectly treated as foreign-source income. Some examinees also incorrectly assumed that the recipient was exempt from tax in Pakistan because it did not have a permanent establishment in Pakistan.

Question 3

- The tax written-down value of the machine was not recognised as its cost for depreciation purposes, as applicable to a depreciable asset acquired from a wholly owned subsidiary. Furthermore, initial allowance was incorrectly claimed on the machine despite its prior use in Pakistan.

- While determining the tax gain or loss on the export of machinery, the actual sale proceeds of Rs. 500 million or the fair market value of Rs. 600 million was considered instead of the deemed consideration of Rs. 1,000 million, equal to the cost of the machinery.

- It was not recognised that the deduction for due diligence fees and other professional advisory services relating to an amalgamation is available only to an amalgamated company. Since the proposed merger was abandoned, TCPL did not qualify as an amalgamated company, and the expense was therefore inadmissible.

- Tax amortisation was calculated using the actual consideration of Rs. 5 million instead of the fair market value of Rs. 50 million. Errors were also observed in applying the amortisation formula and calculating the time-apportioned deduction for 181 days.

- The exchange gain of Rs. 80 million was incorrectly suggested to be treated as taxable income in the year of settlement instead of being adjusted against the cost or tax written-down value of the relevant asset.

- Dividend income received from the UK was offered under the normal tax regime instead of the final tax regime.

- The incorrect treatment of the gain on disposal of the factory building under the separate tax regime in the provided calculation was not identified. Examinees did not recognise that the factory building is a depreciable asset and that the resulting gain is taxable as income from business. Errors were also observed in determining the deemed consideration where the disposal proceeds exceeded the original cost and in calculating the taxable gain using the tax written-down value.

- Although the separate tax regime for capital gains on listed securities was correctly identified, the applicable rate of 12.5% was overlooked. Instead, the zero per cent rate applicable to securities acquired up to 30 June 2013 was incorrectly applied to securities acquired on 1 July 2018.

Question 4(a)

- Software development services were not identified as information technology (IT) services.

- The service contract with APL was incorrectly construed as an employment contract.

- Normal tax liability was not compared with the minimum tax to determine the tax payable.

- For the service contract with RL, although the applicability of the final tax regime was recognized, the distinction between the tax rates applicable to PSEB-registered and non-registered persons was overlooked, resulting in the incorrect application of the respective rates of 0.25% and 1%.

- The impact of compliance with specific conditions or opting for the normal tax regime was not analyzed.

Question 4(b)

- Only one or two adverse effects relating to income tax and sales tax were discussed in total.

- It was not recognized that shaving cream is a Third Schedule item, whereas cigarette filter rods are not. Consequently, the applicability of the disallowance and deemed income provisions under the Income Tax Ordinance, 2001, was incorrectly extended to cigarette filter rods.

- The restrictions on input tax relating to supplies to unregistered persons exceeding the prescribed limit and supplies of specified goods (cigarette filter rods) were not correctly distinguished.

- The restriction on input tax claims where invoices for supplies to unregistered dealers did not include the recipient's NTN or CNIC was overlooked.

Question 5(a)

- The expiry date of the prescribed period was incorrectly determined, leading to an incorrect calculation of the delay period.

- The entitlement to an additional amount on a delayed refund at the applicable KIBOR rate was not correctly determined. The amount was calculated from the date of filing the refund claim instead of the day following expiry of the prescribed period.

- The effect of the tax department's investigation on entitlement to the additional amount was overlooked. In particular, examinees failed to recognise that no additional amount was payable for the investigation period up to 15 August 2026.

Question 5(b)

- The time limit for amending the assessment order was not identified.

- The unexplained investment relating to the Sialkot plot was allocated to a tax year other than Tax Year 2019. As a result, the limitation period was incorrectly determined, and its expiry on 30 June 2025 was overlooked.

- The unexplained investment in the Dubai flat was included in the tax year to which the investment related, instead of the tax year immediately preceding its discovery. Consequently, Tax Year 2026 was not correctly identified with reference to the notice dated 3 September 2026, and the CIR's authority to amend the assessment for that year was not correctly addressed.

Question 6

Examinees identified only two or three ethical issues, with some merely listing the issues without explaining how they arose in the given scenario. The safeguards proposed were either inappropriate or inadequately explained.

Question 7

- Input tax on purchases from registered persons was not correctly determined in relation to the advance paid for copper wire, the advance against which input tax had already been claimed, and purchases on which the supplier had not charged sales tax.

- Input tax was incorrectly claimed on the invoice dated 15 November 2025, although the prescribed time limit had expired.

- Input tax on the balance of the silicon carbide purchase was overlooked.

- Input tax on the electricity bill for the rented premises was incorrectly treated as admissible.

- The debit note dated 15 June 2026 was incorrectly treated as time-barred, and the related input tax adjustment was not reversed.

- The exemption for the employee's medical treatment under the Punjab Sales Tax on Services Act, 2012, was not correctly recognised.

- The input tax on the plant was not claimed, although installation is not a condition for admissibility.

- The Murabaha transaction was incorrectly treated as a taxable supply.

- Warehouse services were incorrectly treated as exempt in some cases, while in others input tax was claimed at 16% without considering the applicable reduced rate and input tax restriction under the Punjab Sales Tax on Services Act, 2012.

- Tax on sales to registered persons was incorrectly calculated because the advance received for the supply of valves and the prescribed retail price of batteries were incorrectly treated.

- Tax was incorrectly adjusted against a credit note issued to a customer, although the prescribed 180-day time limit had expired.

- Tax on wheels provided to the Director Finance for personal use was overlooked.

(THE END)