THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Certified Finance and Accounting Professional Stage Examination

Tax Practices and Planning

Examiners' Comments **Summer 2026**

PASSING %

Question-wise							Overall
1	2	3	4	5	6	7	
29%	28%	42%	28%	37%	61%	23%	33%

GENERAL COMMENTS

The overall pass percentage for this attempt has shown improvement over the previous session. However, performance in the income tax area remained below expectations, particularly in the tax planning question (Q.2), where many examinees approached it as a conventional tax computation exercise rather than evaluating and comparing the available alternatives. As a result, they failed to identify the most tax-efficient option and provide a well-reasoned recommendation.

QUESTION-WISE COMMON MISTAKES OBSERVED

Question 1

- The eligibility of SSL and RFL to form a fiscal unit and PAL to surrender losses under group relief was not specified.
- The required 20% disallowance on local purchases for non-deduction of withholding tax was not applied.
- The restriction based on the maximum allowable vehicle cost was not applied to lease rentals.
- A tax gain/loss was recognized on the transfer of machinery between wholly owned group companies, where no tax gain/loss is recognized.
- Tax depreciation was computed incorrectly due to errors in determining the tax written-down value (WDV). Common mistakes included ignoring the initial allowance, applying incorrect depreciation rates, computing WDV for the incorrect number of years, and claiming depreciation in SSL instead of RFL.
- The adjustment was computed without grossing up sales for withholding tax and excluding sales tax.
- Purchases from suppliers holding an NTN but not registered under the Sales Tax Act, 1990 were treated as inadmissible.
- While claiming group relief:

    - Capital loss was also surrendered to SSL.

  - the surrendered loss was computed at 100% instead of being restricted to the 80% shareholding.

- Inter-corporate dividend was not treated as exempt income.
- Capital gain on disposal of shares of a private limited company was not treated as income under the Normal Tax Regime (NTR).
- The loss on disposal of Pakistan Investment Bonds (PIBs) was incorrectly set off against the capital gain on private company shares.
- Profit on Sukuks was included in FTR income without grossing up for the applicable withholding tax.
- Incorrect tax rates were applied to capital gain from listed shares and profit on Sukuks.

Question 2

Option 1: Single company

- Incorrect tax regimes were applied to export income, local sales, and training services.
- The higher of normal tax and minimum tax under section 113 was not determined under the single-company option.
- The tax liability under this option was not computed, with calculations limited to the two separate companies' option.

Option 2: Two separate companies

- The corporate training services company was treated as an SME, whereas SME status applied only to the manufacturing company.
- The SME's option to choose between the NTR and the FTR was not properly evaluated. In many cases, only one regime was considered, resulting in an incomplete comparison.
- Corporate training services were treated as exports of IT or IT-enabled services, leading to an irrelevant discussion on Pakistan Software Export Board (PSEB) registration.
- The prescribed tax rate of 0.5% applicable to SME exports was not applied. Instead, examinees applied the tax rate prescribed for exports of IT or IT-enabled services.
- The non-applicability of minimum tax under section 113 to an SME was overlooked.
- The eligibility for small company status was assessed without considering the capital threshold of less than Rs. 50 million and the other prescribed conditions.
- The concessional tax rates of 15% for the SME under NTR and 20% for the small company were not applied.

Question 3

- The income tax and sales tax implications of each transaction were not analyzed separately. Instead, many focused only on the withholding tax rates without identifying the nature of the tax, such as whether it was final or adjustable.
- The digital platform was incorrectly treated as the withholding agent instead of the relevant payment intermediary or courier company.
- The sales tax treatment of the transactions was overlooked, or failed to distinguish between the treatment of goods and services.
- The requirement for filing statements by withholding agents and the digital platform was not properly distinguished.

Question 4

- **Export of Services**

  The FTR treatment of export of services was identified, but it was overlooked that expenses attributable to FTR income are not deductible in computing taxable business income.

- **Head Office Expenses**

  - Management fee charged by the head office was allowed as a deductible expense.
  - Non-deductible management fee and other allocable head office expenses were not distinguished, resulting in an incorrect tax treatment.
  - The Pakistan branch-to-global turnover ratio was overlooked or computed incorrectly, resulting in an incorrect allocation of head office expenses.

- **Donation to SIUT**

  Although the eligibility of the donation for tax credit was generally identified, the 20% of taxable income limit was overlooked or applied incorrectly in computing the tax credit.

- **Depreciation**

  The amount of tax depreciation to be disallowed was computed incorrectly by failing to distinguish between assets purchased from local manufacturers and commercial importers.

- **Other Income**

  - Interest income was treated as income subject to the FTR instead of being classified under the head "Income from Other Sources" and taxed under the NTR.
  - The treatment of the technical support fee was applied incorrectly by failing to recognize that only the reimbursement of actual expenditure is taken into account in determining taxable income.
  - Although income from sub-letting was classified correctly under the head "Income from Other Sources", it was overlooked that the 20% repair allowance applies only to income from property, whereas actual repair expenditure is deductible under "Income from Other Sources".
  - The bad debt deduction on the partial recovery of a previously written-off debt was computed incorrectly by failing to compare the amount recovered with the balance of the debt not previously allowed as a deduction and allow the resulting shortfall.

- **Remittance of profit to head office**

  It was overlooked that remittance of profit by branch to head office falls within the definition of a dividend and it does not affect the taxable income of the branch.

- **Computation of tax liability**

  While commenting on the tax liability computation, either super tax was altogether ignored or taxable income for super tax purposes was not adjusted for imputable income, resulting in an incorrect computation of the revised super tax liability.

Question 5 (a)

Examinees commonly overlooked the statutory requirements for initiating an audit, including recording and communicating reasons in writing, and ensuring audit selection is based on scrutiny of available records and identified risk factors rather than general verification or the Commissioner's discretion. Many also incorrectly considered a prior hearing mandatory and overlooked the validity of requiring access to electronic records and the statutory record retention period.

Question 5 (b)

(i) Termination of taxable activity

Examinees overlooked that, on termination of a taxable activity, inventory held in stock is treated as a deemed taxable supply. Many determined the value of supply at cost or the higher of cost and market value instead of market value, resulting in the sales tax liability being omitted or incorrectly computed.

(ii) Transfer to an unregistered person

Examinees concluded that the transfer of a business to an unregistered person was not taxable or applied the provisions relating to further tax. The implications of unpaid sales tax, including its status as the first charge on the business assets and the transferee's liability to discharge such tax, were also frequently overlooked.

Transfer to a registered person as a going concern

Examinees commonly treated the transfer of a business as a going concern as an exempt supply or no taxable event instead of a zero-rated supply. Many also overlooked the transferee's responsibility to account for sales tax on subsequent taxable supplies.

Question 6

- Ginger powder was treated as taxable instead of exempt supplies.
- Goods imported under the Duty and Tax Remission Rules were not treated as zero-rated supplies.
- Input tax on protective shoes purchased for the factory staff of the dairy division was treated as inadmissible.
- Corn flour was treated as a Third Schedule item, resulting in sales tax being computed on the retail price instead of the purchase price.
- Cottonseed oil cake was subjected to sales tax at the standard rate of 18% instead of the reduced rate of 10%.
- Input tax on purchases from unregistered Tier-1 retailers was claimed as admissible.

- The retail price was used to determine the value of imported processed turkey meat. In addition, the enhanced rate of 25% was not applied, and the applicability of value addition tax on its import was overlooked or incorrectly determined.
- Import of buffaloes for use in fresh milk production was treated as exempt. Moreover, the exemption from value addition tax on the import of buffaloes was overlooked.
- Sales tax on imported coffee was computed by failing to adjust it to 130% of the given value. The exemption from value addition tax on imported coffee was overlooked.
- Provincial sales tax on billboard advertisement services was computed at an incorrect rate or considered inadmissible.
- Input tax on cold storage services was claimed despite being inadmissible under the applicable provincial sales tax.
- The supply price instead of the retail price was used to compute sales tax on milky drinks and powdered drinks.
- Supply of uncooked poultry meat was incorrectly treated as a taxable supply instead of an exempt supply.
- The free distribution of flavored milk was treated as an exempt supply. Further, retail price instead of supply price was used for computing sales tax.
- The adjustment relating to the cancellation of the order was overlooked. It was also observed that the adjustment of cancellation of supply was made in input tax rather than output tax.
- Withholding tax on purchases from unregistered Tier-1 retailers was overlooked or computed incorrectly.
- Further tax was incorrectly applied on the supply of exempt goods.

Question 7

It was correctly identified that representation before the Appellate Tribunal Inland Revenue (ATIR) gives rise to an advocacy threat. However, many responses failed to apply the ethical requirements to distinguish between continuing an existing representation that had substantially concluded before the firm's appointment as statutory auditor and accepting a new representation after the audit appointment, resulting in incorrect conclusions on the permissibility of the two engagements.

(THE END)