Certified Finance and Accounting Professional Stage Examination

The Institute of Chartered Accountants of Pakistan

7 December 2024
3 hours and 30 minutes – 100 marks

Tax Planning and Practices

CRN:

Name: ____________________

INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > **(NEXT)** or < **(BACK)** symbols.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, below the RTF editor, a spreadsheet is provided, where necessary, to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to use only digital copies of the permissible books. Keeping a hard copy of any book or notes is not permissible and will be considered a violation under the policy on the use of unfair means.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than Assessment Master and the digital copies of permissible books is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means.

Q.1 For this question, **assume that the date today is 30 September 2025**.

Mazboot Tyres (Pvt) Limited (MTPL) is a manufacturer, dealer and supplier of radial tyres for trucks and buses across Pakistan. It was incorporated on 15 May 2024, with a paid-up capital of Rs. 90 million on a land located on the outskirts of Karachi. MTPL is 60% owned by Osaka Rubber Technologies Limited (ORTL), a foreign company.

On 30 June 2024, MTPL received the status of greenfield industrial undertaking from the FBR.

The following information has been extracted from MTPL's records for the year ended 30 June 2025:

	Rs. in million
Sales	600
Cost of sales	(399)
Gross profit	**201**
Administrative and selling expenses	(46)
Financial charges	(25)
Other income	13
Profit before taxation	**143**

Additional information:

(i) Sales include:

- exports amounting to Rs. 60 million, with the associated cost of these items totalling Rs. 58 million, which is already included in the cost of sales above. No additional expenses were incurred in relation to the exports.
- sales of radial tyres amounting to Rs. 23.6 million (inclusive of an 18% sales tax). These tyres were purchased locally at a wholesale price of Rs. 13 million from a commercial importer in Karachi. They were sold to registered retailers in the same condition as when purchased. These retailers are registered under the Sales Tax Act, 1990. No tax was collected or deducted at the time of purchasing and selling the tyres.

(ii) The cost of sales includes Rs. 38 million for accounting depreciation and Rs. 1 million for the amortization of quality control software.

(iii) Administrative and selling expenses include Rs. 3.1 million incurred by MTPL for providing meals and refreshments to customers during seminars held at a local hotel to promote product awareness.

(iv) Financial charges include profit on debt on a loan of USD 0.6 million (equivalent to PKR 180 million) obtained from ORTL on 1 July 2024 for the construction of a factory building. The profit on debt, at a rate of 5% per annum, is due monthly in arrears. The factory building, with a total cost of Rs. 187 million, was completed and became operational on 1 January 2025. Repayment of the principal loan amount is scheduled to commence in July 2026.

(v) Other income comprises of:

- a dividend of Rs. 1.6 million received from Particle Energy Limited (PEL), an independent power producer. MTPL acquired 80,000 shares in PEL on 15 January 2025.
- a gain of Rs. 11.4 million resulting from the sale of 260,000 shares in Good Transport Limited (GTL), a listed company, at Rs. 90 per share on 15 June 2025. MTPL initially purchased 200,000 shares of GTL at Rs. 60 per share on 1 November 2024. Additionally, MTPL received 100,000 bonus shares issued by GTL on 30 April 2025. The market price of each share on the date of entitlement to the bonus shares and the date when bonus shares were credited to MTPL's account was Rs. 65 and Rs. 75 respectively.

Further information:

- The following assets were acquired/installed by MTPL during the tax year 2025:

	Rs. in million
Plant and machinery imported from Japan	105
Used machinery	15
Furniture and fixtures	6
Computer hardware	8
Quality control software **(Note)**	5
Office vehicles	18

Note: The software, developed in-house, with a useful life of 5 years, was ready for use from 1 October 2024.

- During the year, the tax withheld under section 153 amounted to Rs. 20 million.

Required:
Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, compute under the correct head of income, the total income, taxable income and net tax payable by or refundable to MTPL for the tax year 2025. **(20)**

Notes: ▪ ***Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax, super tax and default surcharge, if any.***
▪ ***Show all relevant exemptions, exclusions and disallowances.***
▪ ***Round off all figures to two decimal places.***

Q.2 (a) For this question, **assume that the date today is 30 September 2025**.

Falah-e-Atfaal Foundation (FAF), established in the tax year 2023 and registered as a not-for-profit company under the Companies Act, 2017, is committed to delivering basic education and healthcare facilities to underprivileged children in rural Sindh. The following information has been extracted from FAF's records for the year ended 30 June 2025:

	Rs. in million
Income:	
Grants, donations and subscriptions	95
Rent from house property	3
Profit from government securities	2
Business income (net of all business related expenses)	20
Expenditures:	
Administrative and management	32
Project	40

Additional information:

- FAF is in full compliance with all tax laws and regulations.
- From its business income, FAF spent 60% on education and health care activities in Pakistan which is included in project expenses above.

Required:
Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, calculate the tax liability of FAF for the tax year 2025. **(06)**
Note: Ignore minimum tax u/s 113 and alternative corporate tax.

(b) Sun Solutions (Pvt) Limited (SPL) is engaged in the business of providing software development and system integration services to its clients. SPL is registered with the Pakistan Software Export Board (PSEB).

During the tax year 2025, SPL received a net amount of Rs. 15 million from a foreign telemedicine company for providing software development services. The full amount of the export proceeds were received in Pakistan in foreign exchange, equivalent to USD 53,956, through the normal banking channel.

Withholding tax at a rate of 5% of the gross service charges was deducted by the foreign company while making the payment to SPL.

Required:
Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implications of the above transaction. Also, discuss the consequences if SPL was not registered with the PSEB. **(07)**

Q.3 For this question, **assume that the date today is 30 September 2025**.

Fun Factory Limited (FFL), an unlisted public company, is engaged in the business of manufacturing toys designed for children's entertainment. 50% of FFL's shares are owned by Kids Creations Limited (KCL), a company specializing in entertainment toys as well as educational games for children.

The tax manager of FFL is currently preparing the tax return for the tax year 2025 (financial year ended 30 June 2025) and has compiled the following data along with accompanying notes and additional information for management's review and approval:

Income from business:	**Note**	**Rs. in million**
Profit before tax		300.0
Adjustments:		
Fee for technical services – FTR income	(i)	(4.8)
Deemed income	(ii)	3.0
Donation	(iii)	(26.0)
Capital gains (net) – Separate block of income	(iv)	(9.0)
Tax depreciation on machinery	(v)	(6.5)
Capital gain:		
Capital gains (net) – Separate block of income	(iv)	9.0
Total income		**265.7**
Less: Business loss surrendered by KCL in favour of FFL, during the tax year 2025 (Rs. 170 million × 50%)		(85.0)
Taxable income		**180.7**

Notes to the computation:

(i) The amount received from KCL for providing technical expertise was net of a 4% withholding tax, with an expenditure of Rs. 2 million incurred to generate this income.

(ii) This represents 1% of the fair market value of two plots. Both plots were purchased in the last tax year for expansion to meet future business requirement. The fair market values of the plots were Rs. 140 million and Rs. 160 million respectively, as on 30 June 2025. The work was scheduled to start this year but due to unforeseen circumstances, no work has yet commenced.

(iii) Donations reflect the educational games worth Rs. 26 million, provided to government schools. These games were initially purchased by FFL from KCL.

(iv) The capital gain is the net amount derived from the disposal of the following investments:

Description	**Fair market value**	**Sale proceeds**	**Cost**	**Gain/ (loss)**	**Holding period in years**
	------------ **Rs. in million** ------------				
Shares of a company, listed on the London Stock Exchange	44	44	32	12	3
Shares of a private limited company, based in Pakistan	24	20	17	3	6
Shares of a company, listed on the Pakistan Stock Exchange	58	58	64	(6)	2
				9	

(v) The depreciation relates to a machine that was sold and leased back by FFL on 1 July 2024, for five years. Under the sale and leaseback arrangement, the annual lease rental of Rs. 10 million is payable in arrears.

At the time of the sale and leaseback, the machine had a book value of Rs. 50 million and a fair market value of Rs. 75 million. FFL sold the machine at its fair market value and recorded a gain of Rs. 14.6 million. During the year, it recorded depreciation of right of use asset and interest expense of Rs. 2.6 million and Rs. 5.6 million respectively. The tax written down value of the machine on 1 July 2024, was Rs. 43 million.

Additional information:

Profit before tax includes a payment of Rs. 8.4 million made to an advertising agency for promoting its entertainment toys through digital marketing and social media management. Moreover, a royalty of Rs. 12 million was paid to KCL by FFL in the last tax year for the use of design patents for some entertainment toys.

You may assume that:

- all transactions between FFL and KCL are based on arm's length pricing.
- tax and accounting depreciation for the year are the same, except for the machine stated in note (v) above.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, comment on each element of the above computation of total and taxable income, prepared by the tax manager for the tax year 2025. Provide suggestions where necessary. **(22)**

Notes:
- ***Revised computation is not required.***
- ***Ignore WWF, WPPF, minimum tax u/s 113 and alternative corporate tax.***
- ***Ignore the discussion on tax liability.***

Q.4 Consider the following independent situations:

Entity	Order passed by	Date of receipt of order	Value of assessment of tax / (refund) (Rs. in million)
A	Deputy Commissioner	5 November 2024	25
B	Additional Commissioner	10 November 2024	(19)
C	Commissioner (Appeals)	21 November 2024	18
D*	Deputy Commissioner	25 November 2024	22
E	Appellate Tribunal Inland Revenue	30 November 2024	14
****State-owned enterprise***			

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, for each of the abovementioned independent situations, identify the available immediate appeal forum along with the deadlines for submission of appeal. **(05)**

Q.5 Masoom Textile (Pvt) Limited (MTL) is an audit client of Farhan & Co (FNC), Chartered Accountants. Mustafa, the tax partner at FNC, has been responsible for preparing MTL's income tax returns for several years. In line with the amendment introduced through the Finance Act, 2024, MTL is now required to file its return under normal tax regime instead of final tax regime. Considering the complexities of preparing accounting entries for current and deferred tax for the first time, the CFO of MTL approached Mustafa to provide additional services related to these accounting entries.

Required:
In light of ICAP's Code of Ethics for Chartered Accountants, advise whether the firm should accept to provide the additional services as requested by the CFO. **(06)**

Q.6 Hayaat Pharma Limited (HPL) is engaged in the business of manufacturing and supplying pharmaceutical products, skin care products and prostheses, with its principal place of business located in Lahore. HPL is registered with the Sales Tax Authorities as an importer, manufacturer and distributor. The following information has been extracted from HPL's records for November 2024:

(i) Purchases from registered persons:

- Rs. 30 million paid for the purchase of raw materials. 70% of these materials have been certified by the Drug Regulatory Authority of Pakistan (DRAP) for the manufacture of medicines.
- Rs. 2.5 million paid to a wholesaler in the area of PATA for the purchase of ginger in bulk packaging, and Rs. 3 million for turmeric under a brand name. Both ginger and turmeric are used in the production of beta blockers and anti-inflammatory medicines, respectively.
- Rs. 1.62 million paid for the purchase of 3600 insulin cartridges in retail packaging from a distributor in Quetta. The retail price of each cartridge is Rs. 500.
- Rs. 1.4 million paid to a legal consultant in Lahore for defending HPL's patent rights against infringement by a competitor.
- Rs. 0.48 million paid to an insurance agent in Faisalabad for arranging fire insurance for one of HPL's warehouses.
- Rs. 3.2 million paid for purchasing 4 business class air tickets for staff members to attend training sessions in Germany.

(ii) Rs. 8 million paid to unregistered wholesalers for the purchase of 2000 non-medicated tubes of face and skin creams in retail packaging. The retail price of each tube in the market is Rs. 5,000. These items are not registered under the Drugs Act, 1976.

(iii) Imports:

- Raw materials worth Rs. 7 million for the basic manufacture of active pharmaceutical ingredients (APIs). The customs duty was charged at the rate of twenty per cent ad valorem under the Customs Act, 1969. DRAP certified HPL's item-wise requirement for these materials for the manufacture of APIs and provided all relevant information to the Pakistan Customs Computerized System.
- Artificial limbs worth Rs. 6 million for supplying to private hospitals.
- Non-medicated health supplements, not registered under the Drugs Act, 1976, worth Rs. 4 million. HPL sells these supplements in the same condition as they are imported.

(iv) Supplies to registered persons:

- Rs. 9.55 million worth of APIs supplied to a pharmaceutical company that manufactures pain relief medicines.
- Rs. 0.95 million received from a distributor in the Gwadar Special Economic Zone for the sale of 2000 insulin cartridges. HPL met all the conditions imposed by the FBR.
- Rs. 4.95 million received from pharmacies operating in large malls for the sale of 1100 tubes of face and skin creams.
- Rs. 26 million worth of medicines supplied to various hospitals and clinics in Karachi, Lahore and Rawalpindi.
- Rs. 3.55 million worth of artificial limbs supplied to various hospitals and surgical stores in Punjab.

(v) Supplies to unregistered persons:

- Rs. 0.8 million for the supply of 1600 insulin cartridges to small pharmacies in Hyderabad.
- Rs. 4.5 million for the supply of 900 tubes of face and skin creams to private beauty clinics in Islamabad.
- Rs. 5.7 million for the supply of health supplements to various retail pharmacy stores in the Bahawalpur region.

All payments were made by cross cheque or pay order. Unless otherwise specified, the figures mentioned above are **exclusive of sales tax and excise duty**.

All medicines and drugs purchased and supplied by HPL, unless specified otherwise, are registered under the Drugs Act, 1976.

Required:
In light of the provisions of the Sales Tax Act, 1990, Federal Excise Act, 2005 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to HPL and the amount of input tax to be carried forward, if any, for the tax period November 2024. Also compute withholding tax, wherever applicable. **(22)**

Notes:
- ***Show all relevant exemptions, exclusions and disallowances.***
- ***All figures should be rounded off to two decimal places.***

Q.7 (a) Golden Crust Bakers (GCB) operates a bakery business with retail outlets in Karachi, Lahore, and Islamabad. GCB is registered as an importer, manufacturer, and distributor with the Sales Tax Authorities.

The following transactions have been extracted from GCB's records for the month of November 2024:

(i) GCB imported 2000 loaves of Turkish bread, 'Ekmek Loaf', from Istanbul at Rs. 3,100 per loaf. Fifty per cent of the Ekmek loaves were sold in Karachi for Rs. 3,600 per loaf, and the remainder were sold in Islamabad for Rs. 3,800 per loaf. The loaves were sold in the same condition as they were imported. The retail price of an Ekmek loaf is Rs. 3,900.

(ii) GCB purchased 1500 packets of vermicelli from the Border Sustenance Market, established in cooperation with Iran, at Rs. 400 per packet. GCB sold 800 packets directly to grocery stores in Karachi for Rs. 600 per packet, while 700 packets were sold through its air-conditioned mall outlet in Lahore for Rs. 650 per packet.

Required:
Under the Sales Tax Act, 1990, and the Rules made thereunder, discuss the chargeability of sales tax on the above transactions. **(07)**

(b) Parwaz Engineering Limited (PEL) is engaged in the manufacture and local supply of mechanical tools. In October 2024, PEL filed refunds claim for excess input tax, which has not been approved to date. The Officer Inland Revenue issued a show cause notice to PEL to verify the invoices issued by its suppliers during the refund period. The Chief Accountant of PEL believes that since refund applications are filed and processed electronically, the notice has been issued merely to delay the refunds. The Chief Accountant has engaged you as a tax adviser to look into the matter and expedite the refunds processing.

Required:
Under the Sales Tax Act, 1990, and the Rules made thereunder, guide the Chief Accountant on the provisions relating to refunds. **(05)**

(THE END)

Rough Sheet

Rough Sheet