ICAP

Certified Finance and Accounting Professional Stage Examination

5 June 2025
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 exam software website 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**.

Babur Packaging Limited (BPL), a listed company, is engaged in the business of manufacturing and marketing of packaging under the brand name of PackSmart, across Pakistan. The following information has been extracted from BPL's records for the year ended 30 June 2025:

	Rs. in million
Sales	3,450
Cost of sales	(2,600)
Gross profit	**850**
Operating expenses	(500)
Finance costs	(70)
Other income	110
Profit before taxation	**390**

Additional information:

(i) Sales include a duty drawback of Rs. 20 million relating to the export of films and foils to Afghanistan during the tax year 2024.

(ii) Cost of sales include:

- import of eco-friendly shopping bags valued at Rs. 228 million, sold to departmental stores in the same condition for Rs. 300 million (included in sales).
- accounting depreciation of Rs. 235 million.

(iii) Operating expenses include an amortization expense of Rs. 5 million for the right to use a trademark acquired from a Dutch company for a period of five years. The right was acquired on 31 May 2025 for Rs. 25 million, and BPL intends to introduce it in the market after 31 July 2025.

(iv) Finance costs include:

- interest expense of Rs. 50 million paid to a commercial bank on a working capital loan. No withholding tax was deducted by BPL on this payment.
- interest expense of Rs. 7.60 million related to machinery acquired on a finance lease. Total lease rentals paid during the year amounted to Rs. 38 million. The lease term ended on 20 June 2025, on which date BPL acquired the machinery for a residual value of Rs. 15.20 million. The market value of the machinery at the time of its transfer to BPL was Rs. 21.50 million.

(v) Other income comprise of:

- royalty income of Rs. 84 million received from Cartofine France, a packaging company based in France. This royalty was earned under an agreement for the provision of industrial and commercial knowledge and expertise. The amount received was after deductions of Rs. 1 million in withholding tax by the collecting local bank and equivalent to Rs. 15 million in foreign tax withheld by Cartofine France. BPL incurred expenses of Rs. 4.5 million in connection with earning this royalty income, which have been included under operating expenses.
- interest income of Rs. 9.45 million and capital gain of Rs. 4.4 million related to investment in corporate TFCs. BPL purchased and sold these TFCs during the current tax year.
- capital gain of Rs. 12.15 million on disposal of shares of a company, listed on the Pakistan Stock Exchange, which were purchased on 1 March 2013.

Further information:

(i) Tax depreciation for the year on assets existing as of 1 July 2024 is Rs. 250 million.

(ii) BPL has fully complied with all filing requirements under income tax and sales tax laws.

(iii) Brought forward losses are as follows:

	Rs. in million
Unabsorbed depreciation	9
Capital loss on disposal of listed securities – Tax Year 2021	5
Tax Year 2022	3

Required:

Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder:

(a) compute under the correct head of income, the total income, taxable income and tax liability of BPL for the tax year 2025. **(17)**

Notes: ▪ ***Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax and default surcharge, if any.***
▪ ***Show all relevant exemptions, exclusions, and disallowances.***

(b) what would be the change in your answer to part (a), if BPL failed to comply with the filing requirements? ***(Revised computation is not required)*** **(03)**

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

Fateh Agro (FA) is an association of persons formed by Hatf Fields (Pvt.) Ltd. (HFPL) and Asad Khan to carry out the business of processing and selling branded rice in the local market. HFPL contributed capital and machinery, while Asad Khan provides access to raw material and valuable insights into local market dynamics. HFPL and Asad Khan agreed to share profits in the ratio of 70:30 respectively.

Relevant information for the tax year 2025:

(i) FA's statement of profit or loss for the year ended 30 June 2025 is as follows:

	Rs. in million
Sales	300
Cost of sales	(180)
Operating expenses	(42)
Finance cost	(10)
Other income	7
Profit before tax	**75**

Additional information:

- Cost of sales include raw rice with a market value of Rs. 55 million, which was cultivated on FA's own land.
- Operating expenses include a salary of Rs. 2 million paid to Asad Khan for his active role in managing day-to-day operations.
- Finance cost represents interest paid to HFPL on a loan provided to FA.
- Other income comprises rent received from land leased out by FA for agriculture purposes.

(ii) HFPL has the following income for the year ended 30 June 2025:

	Rs. in million
Operating profit	240
Other income	12

Other income comprises of dividend (net of tax) from a mutual fund primarily investing in government and fixed income securities.

(iii) Asad Khan earned consultancy income of Rs. 6 million from freelancing agricultural consultancy services to local farmers and agri-businesses.

Required:
Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder:

(a) compute the total and taxable income of FA for the tax year 2025. **(03)**

(b) compute the total and taxable income, and tax liability of HFPL and Asad Khan for the tax year 2025. **(05)**

Notes:
- ***Show all relevant exemptions, exclusions, and disallowances.***
- ***Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax, and super tax, if any.***

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

Zerb Apparels Limited (ZAL) is an unlisted public company engaged in the business of manufacturing, importing and distributing apparels, including luxury handbags, coats, scarves and gloves, across Pakistan.

On 1 July 2024, ZAL acquired 100% ownership of Ababeel Textiles (Pvt) Limited (ATPL), a company specialized in providing contract-based stitching and embroidery services to direct exporters with confirmed orders, as well as to other sellers in the local market. Moreover, ZAL already holds 80% shareholding in Nasr Fabric Limited (NFL).

ZAL's tax department is in the process of finalizing the group's tax return for the tax year 2025. The tax manager has compiled the following data, along with the explanatory notes, for management's review and approval for the year ended 30 June 2025:

ZAL and its group companies
Computation of total and taxable income for the tax year 2025

	ZAL	ATPL	NFL	Consolidated
	-------------- Rs. in million --------------			
Income from business:				
Sales to direct exporters	-	147	-	147
Sales to other than direct exporters *[See explanatory note (i)]*	1,400	63	650	2,113
	1,400	210	650	2,260
Expenses *[See explanatory note (ii)]*	(1,082)	(230)	(480)	(1,792)
	318	(20)	170	468
Income from other sources:				
Gain on disposal of office premises *[See explanatory note (iii)]*	-	8	-	8
Total / taxable income	**318**	**(12)**	**170**	**476**
Tax on taxable income at 29%				**138**

Explanatory notes:

(i) ZAL's sales include Rs. 18.8 million from the sale of 40 rolls of premium silk fabric to Bright Fashions, priced at Rs. 470,000 per roll. The fabric was purchased from NFL at Rs. 415,000 per roll. ZAL incurred freight and transport charges of Rs. 3,000 per roll and received a quantity discount of Rs. 1,000 per roll, resulting in a total net purchase cost of Rs. 16.680 million. ZAL typically purchases similar fabric from Rahat Fabric Limited, which does not offer quantity discounts. ZAL sells such fabric at a standard gross profit margin of 20% on sales.

(ii) ZAL's expenses include the following amounts related to the development of an innovative, temperature-regulating coat and gloves:

Description	Amount Rs. in million	Period incurred
Feasibility studies and initial prototype development before approval from the board	5	Jul - Oct 2024
Renovation of the upper floor of head office – 60% allocated to research and development department, and 40% to marketing and branding department	17	Jul - Oct 2024
Purchase of textile simulation machine	14	Jan 2025
Salaries of engineers and laboratory consumables	9	Jan - Jun 2025
Cost incurred to obtain a patent for the innovation developed during the project	4	Jun 2025
	49	

The board formally approved the product development on 1 November 2024.

(iii) The gain represents the difference between the fair market value and the written down value (WDV) of the office premises. On 1 March 2025, ATPL sold the premises to ZAL. At the time of sale, the premises had the WDV of Rs. 25 million and the fair market value was Rs. 33 million. ZAL continues to use the premises for its operations. The premises was originally acquired through a bank loan of Rs. 50 million by ATPL, of which 60% remains outstanding.

Required:
Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder:

(a) provide comments on each element of the above computation of total and taxable income alongwith the explanatory notes prepared by the tax manager for the tax year 2025. Provide suggestion(s), wherever necessary. **(18)**

(b) what would be your response to part (a), if the group does not opt to be taxed as one fiscal unit? **(06)**

Notes:
- ***Revised computation is not required.***
- ***Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax, and super tax, if any.***

Q.4 (a) Ghauri Limited, based in Pakistan, owns 60% of the shares in Bartania Tech (Private) Ltd. (BTPL), a newly incoporated company in the United Kingdom. BTPL holds 80% of the share capital of Langkawi Consultants Sdn. Bhd. (LCS), a Malaysian private company, which in turn owns 85% of the shares in Sarkozy Trading Limited, a private company based in France.

Income details of each of the abovementioned companies for the tax year 2025 are as follows:

	Income	Foreign tax paid
	Equivalent to Rs. in million	
Bartania Tech (Private) Ltd.		
▪ Software development fee from LCS	1.5	0.1
Langkawi Consultants Sdn. Bhd.		
▪ Consulting services to third parties	12	2.0
▪ Interest income	17	2.5
Sarkozy Trading Limited		
▪ Income from sale of goods	2	0.3
▪ Rental income from property	18	1.2
▪ Capital gain on disposal of shares, listed on Euronext Paris	3	0.2

Required:
Based on the group's foreign income and structure, determine what amount Ghauri Limited is required to include in its taxable income for the tax year 2025 under the provisions of the Income Tax Ordinance, 2001. **(06)**

(b) Baqir Malik, the eldest son of Zeenat Malik, has been working in the United Kingdom for several years. On 30 March 2025, he remitted GBP 13,300 to his mother in Pakistan through a money transfer operator. The exchange rate on 30 March 2025 was Rs. 360 per GBP.

Additionally, Zeenat Malik made an international payment of USD 100 (at Rs. 280 per USD) using her Pakistani credit card to access an online communication platform that she uses to communicate with Baqir Malik. The bank applied a 4% service fee on this online transaction.

Required:
Under the applicable tax laws, discuss the tax implications of the above transactions for Zeenat Malik. **(04)**

Q.5 Shaheen Goods Enterprise (SGE) is a family-owned business engaged in the manufacturing and distribution of fast-moving consumer goods across Pakistan. SGE is registered with the sales tax authorities as a manufacturer, importer and distributor.

The following information has been extracted from SGE's records for the month of May 2025:

(i) Purchases made from registered suppliers:

- 200,000 kg of white crystalline sugar for Rs. 39 million, used in the manufacture of various products.
- 300,000 kg of wheat flour for Rs. 24 million, used in the manufacture of various products.
- Grated processed cheese for Rs. 2.5 million, purchased from a dealer located in FATA.
- Inland carriage of edible oil by air, from Karachi to Multan, for Rs. 0.75 million.
- Advertising services from a cable TV network in Lahore for Rs. 4 million, used to promote SGE's products in rural Punjab.
- 1,500 kg of whole cardamom in retail packaging, purchased from a wholesaler under the trade name 'Pari elaichi' for Rs. 3.2 million, used in the production of cardamom oil. The retail price of whole cardamom in the market is Rs. 3,000 per kg.

(ii) Purchases made from unregistered wholesalers comprising 9,000 bottles of syrups and squashes for Rs. 1,000 each. The retail price of each bottle is Rs. 1,200.

(iii) Imports of following goods for onward distribution to retailers and end-consumers:

- Cans of frozen vegetables imported from Turkey, valued at Rs. 3.5 million.
- 2,000 packets of premium tea imported from Sri Lanka at Rs. 800 per packet. The retail price of each packet is Rs. 1,000.

(iv) Supplies made to registered persons:

- 16,000 kg of loose assorted biscuits worth Rs. 21.8 million, sold to wholesalers in Lahore. The retail price for these biscuits is Rs. 1,575 per kg.
- Fruit buns and rusks supplied to a retailer operating as part of a national bakery chain, amounting to Rs. 4.5 million, and to various sweet shops operating as kiosks in multiple shopping plazas, totalling Rs. 2.1 million.
- Cardamom oil supplied to a food processing company located in Karachi's Export Processing Zone, amounting to Rs. 3.9 million.
- Old Kentucky chocolates supplied to a departmental store in Karachi, amounting to Rs. 1.2 million. These chocolates were purchased in April 2025 from a commercial importer at a cost of Rs. 0.9 million.

(v) Supplies made to unregistered persons:

- Protein shakes and bars for children supplied under a government-backed agreement in small towns, sold at a discounted price of Rs. 3 million. The remaining Rs. 1.6 million to be reimbursed by the Federal Government, against a total value of Rs. 4.6 million.
- Cardamom oil supplied to a cottage industry in Multan, amounting to Rs. 1.7 million.
- 70% of imported cans of frozen vegetables as mentioned in point (iii) above, were supplied to Tier-1 retailers in Lahore for Rs. 3.4 million, while the remaining 30% were fully damaged.

Further information (not included above):
Credit note was issued to a customer on 18 May 2025 for 300 kg of premium coffee blend sold on 15 November 2024 at Rs. 4,200 per kg.

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

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 SGE, and the amount of input tax to be carried forward, if any, for the tax period May 2025. Also compute withholding tax, wherever applicable. ***(Show all relevant exemptions, exclusions and disallowances)*** **(20)**

Q.6 (a) Barq Traders (BT), a registered person under the Sales Tax Act, 1990, is engaged in the wholesale and retail business of consumer electronics. BT failed to submit its sales tax return from the tax period of February 2025 and onwards.

On 10 May 2025, the Assistant Commissioner of Inland Revenue (ACIR) issued a 15-day notice to BT, requiring the submission of the pending returns alongwith relevant records for examination. Despite the lapse of the notice period, BT neither filed the return nor provided any explanation, records, or data to justify its failure to comply.

In light of BT's continued non-compliance, ACIR is now considering the appropriate method for determining BT's tax liability for the said periods.

Required:
Under the provisions of the Sales Tax Act, 1990, and the Rules made thereunder, discuss the legal course available to the ACIR, and explain how the tax liability should be determined in the above-mentioned circumstances. **(05)**

(b) Ra`ad Electric Mobility (Pvt.) Ltd. (REM) is a registered manufacturer and importer of electric motorcycles, operating a production facility in Karachi. During the tax year 2025, REM undertook the following activities:

(i) Imported electric motorcycles in CKD condition, which were assembled locally and subsequently sold to unregistered dealers in Karachi.

(ii) Imported electric motorcycles in CBU condition, which were sold to corporate customers. REM also incurred packaging and utility service expenses related to these motorcycles.

(iii) To establish its new electric vehicle production line for four-wheeler vehicles, REM acquired plant and machinery.

Required:
Under the provisions of the Sales Tax Act, 1990, and the Rules made thereunder, discuss the sales tax implications of each of the above activities undertaken by REM. **(06)**

Q.7 Atif Ali is the tax partner at a firm of Chartered Accountants. He has been engaged by Ghaznavi Limited (GL), a long-standing client, to file an appeal against an amended assessment order involving the disallowance of significant business expenses.

GL's chief financial officer (CFO), citing urgency, provides Atif with a draft appeal prepared by the GL's in-house legal advisor. Upon reviewing the draft, Atif identifies the following concerns:

- Several arguments are based on misinterpretation of a case law; and
- One of the grounds includes a claim for tax exemption under a provision that is not applicable to GL's business activities.

The CFO insists that the appeal be submitted without any changes, stating that the intention is merely to buy time from the tax authorities while GL pursues a separate settlement. He further adds that GL's future compliance work worth over Rs. 10 million annually depends on Atif's cooperation.

Atif is also aware that if he refuses, the CFO may approach another firm and potentially allege professional incompetence to justify the switch.

Required:
In light of ICAP's Code of Ethics for Chartered Accountants, discuss the potential threat(s) and the fundamental principles of code of ethics that may be breached by Atif in the above situation. Also, suggest corresponding safeguard(s) available to Atif to mitigate the threat(s). **(07)**

(THE END)

Rough Sheet

Rough Sheet