



Certified Finance and Accounting Professional Stage Examination

8 December 2025

3 hours and 30 minutes – 100 marks

Tax Planning and Practices

CRN:

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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 **seven** 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 MS Excel for rough working. However, please remember that any work performed in this application 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 31 December 2026.**

Murree Electronics (Pvt.) Limited (MEL) is engaged in the manufacturing and selling of consumer home appliances in both the domestic market and through exports to international markets. MEL also conducts online sales across Pakistan via its own e-commerce platform.

The following information has been extracted from MEL's records for the year ended 30 June 2026:

	Rs. in million
Sales	5,200
Cost of sales	(3,550)
Gross profit	1,650
Operating expenses	(900)
Finance costs	(220)
Other income	172
Profit before taxation	702

Additional information:

(i) Break-up of sales and cost of sales is as follows:

	Sales	Cost of sales
	----- Rs. in million -----	
Domestic – Other than online sales	3,340	2,490
Domestic – Online	*780	440
Exports	1,080	620

**60% digital collections and 40% cash on delivery*

(ii) Cost of sales include:

- expenditure of Rs. 75 million, paid to a Malaysian firm for the development of an AI-based product recommendation system for MEL's e-commerce platform. The related benefits are expected to extend over a long period.
- a loss of Rs. 5 million arising from destruction of an automated calibration machine. The machine, costing Rs. 60 million, was installed on 1 July 2024 for exclusive use in export-related quality control. It was destroyed in June 2026 due to an electrical short circuit. An insurance claim of Rs. 35 million was received in the same month. The fair value of the machine at that time was Rs. 45 million. MEL does not charge depreciation in the year of disposal.

(iii) Operating expenses include:

- commission payment of Rs. 2,500 per unit, paid to Hunza Traders (HT) as an incentive on the sale of 1,000 refrigerators. MEL has a dealership arrangement with HT under which refrigerators are sold at a dealer price of Rs. 0.5 million per unit (retail price: Rs. 0.7 million). HT is not listed on the Active Taxpayers List (ATL) under the Income Tax Ordinance, 2001, and is not registered under the Sales Tax Act, 1990.
- payments of Rs. 140 million for the purchase of packaging materials from suppliers who did not possess National Tax Number (NTN).
- expenditure of Rs. 30 million incurred on the purchase and implementation of manufacturing-related software. The software was implemented on 1 April 2026 and has a useful life of five years.
- warranty expense of Rs. 120 million, based on historical claim patterns and expected warranty service costs. Actual claims settled during the year amounted to Rs. 68 million, including Rs. 38 million relating to prior year sales. Insurance recoveries during the year amounted to Rs. 56 million.

(iv) Finance costs include interest expense of Rs. 76 million on borrowings obtained under the State Bank's export finance scheme. No other finance cost relates to exports.

(v) Other income comprises of:

- interest income of Rs. 46 million earned on Pakistan Investment Bonds (PIBs).
- dividend income of Rs. 32 million and capital gain of Rs. 94 million earned from a mutual fund investment comprising 20% equity exposure and 80% in debt securities. The investment in the mutual fund was made on 1 July 2024.

(vi) Accounting depreciation and tax depreciation for the year are the same.

Required:

Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, compute under the appropriate heads of income, the total income, taxable income and tax liability of MEL for the tax year 2026.

(22)

Notes: ▪ *Ignore WWF, WPPF, and Super Tax.*

- *Show all relevant exemptions, exclusions, and disallowances.*

Q.2 Consider the following independent cases:

(i) Skardu Books Limited (SBL), a manufacturer of notebooks, greeting cards, and paper bags, imported the following items from Germany:

- Paper valued at Rs. 200 million; and
- Book-binding machinery costing Rs. 50 million

SBL sold a portion of the imported paper, costing Rs. 60 million, to a local distributor, Naran Traders, in the same condition as imported. The remaining paper was consumed in the manufacturing of SBL's finished products.

(04)

(ii) Rizwan, a Pakistani citizen residing in the United Kingdom (UK), inherited an apartment located in Karachi from his late father. He transferred the property in his name within three months of his father's death. The apartment's original cost was Rs. 12 million, while its fair market value at the time of inheritance was Rs. 50 million.

During the first year after inheritance, the apartment remained vacant. In the second year, Rizwan leased the apartment to Usman, a resident individual, under a one-year tenancy agreement at an annual rent of Rs. 2 million.

Upon expiry of the tenancy agreement, Rizwan sold the apartment to Kazim, a Pakistani national residing in the UK, for its fair market value of Rs. 60 million. The transaction was settled through transfer of funds from Kazim's Foreign Currency Value Account (FCVA) to Rizwan's FCVA, both maintained with authorized banks in Pakistan.

(04)

(iii) Neelum (Private) Limited (NPL), a manufacturer of health and wellness products, engaged a Turkish advertising agency, AdVision Global, to develop a video commercial for the Pakistani market and paid the equivalent of Rs. 30 million for the project.

After receipt of the completed video, NPL engaged Kalam Associates (KA), a local advertising agency, to manage its placement and scheduling across Pakistan. KA arranged for the commercial to be aired on Fairy Meadows (FM), a local television channel, and invoiced NPL for the following:

- Rs. 17 million for FM's charges, and
- Rs. 3 million as KA's commission.

(04)

Required:

Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, discuss the withholding / advance tax implications for both the payer and recipient in respect of the amounts involved in each of the above transactions. (*Show all relevant amounts*)

Notes: ▪ *Ignore filing requirements.*

- *Ignore tenth schedule of the Income Tax Ordinance, 2001.*

Q.3 For this question, **assume that the date today is 1 October 2026.**

Rawalakot SolarTech Pakistan Limited (RSPL) is engaged in the manufacturing and sale of renewable-energy products, and the provision of performance-optimization services. RSPL is a 60% owned subsidiary of Aurora SolarTech Limited, a Chinese company involved in the renewable energy business. In addition to serving the domestic market, RSPL also provides remote monitoring and performance-optimization services to foreign clients.

In your capacity as the tax consultant for RSPL, the following matters require your attention:

(a) **Finalisation of Tax Return**

Your team is in the process of finalizing the return of income for the year ended 30 June 2026. The following computation has been prepared for your review:

Income from Business:	Note	Rs. in million
Profit before tax	(i)	210
Adjustments:		
▪ Tempered glass (Rs. 40 million × 20%)	(ii)	8
▪ Tax depreciation exceeds accounting depreciation		(22)
Taxable income		196
Tax on taxable income – NTR [196 @ 29%]		56.8

Notes to the computation:

- (i) Profit before taxation has been arrived at after inclusion/adjustment of the following:
 - USD 198,000 (net of tax), equivalent to Rs. 59.4 million, received for remote-monitoring services rendered to foreign clients. The authorized dealer deducted 1% withholding tax at the time of realization of foreign-exchange proceeds. Foreign clients also deducted withholding tax of USD 8,000, equivalent to Rs. 2.4 million, at the time of making payment to RSPL.
 - Revenue from performance-optimization services provided to local clients during the year amounted to Rs. 88 million. Local clients deducted applicable withholding tax at the time of making payment to RSPL.
 - An unrealized fair value gain of Rs. 30 million on an investment property (a warehouse held for rental purposes). On 1 July 2025, RSPL rented out this warehouse for an annual rent of Rs. 16 million, which is included in profit before tax. RSPL incurred Rs. 5 million on repairs after the warehouse was severely damaged due to fire in June 2025.
- (ii) RSPL purchased tempered glass worth Rs. 40 million from a local trader, Global Associates (GA), for use as raw material in the manufacture of solar panel. Payment was made through online bank transfer from RSPL's business account to the personal bank account of one of GA's partners, without deduction of withholding tax amounting to Rs. 2.2 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, comment on each element of the above computation of taxable income, including all adjustments and accompanying notes, prepared by your team for the tax year 2026. Give suggestion(s), wherever necessary.

(13)

Notes: ▪ *Revised computation is not required.*

- *Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax, default surcharge and super tax, if any.*

(b) Tax Planning for the Next Year

To meet the increasing demand for renewable-energy products, RSPL plans to expand its production capacity by installing an additional manufacturing line. The total financing required for the new plant and machinery is estimated at Rs. 1,500 million. Management is evaluating two alternative financing options:

- (i) RSPL has received an offer from a local leasing company to provide the required plant and machinery under a finance lease arrangement. The lease term would be 5 years, with annual lease rentals of Rs. 375 million, at an interest rate of 8% per annum.
- (ii) Aurora SolarTech Limited would provide a foreign-currency loan of CNY 40 million (equivalent to Rs. 1,500 million) at an annual interest rate of 5%. The principal amount would be repayable after 5 years.

The following forecasted information has been provided for tax year 2027 by RSPL:

	Rs. in million
RSPL's equity at start of the tax year	600
Net profit for the year	*480
Accounting and tax depreciation for the year	*100
<i>*Excluding the impact of above alternatives, if any.</i>	
Exchange rate as on 30 June 2027 (PKR/CNY)	Rs. 40

Required:

Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, evaluate the tax implications for RSPL in the tax year 2027, following the investment under each of the above financing alternatives.

(06)

Q.4 For this question, assume that the date today is 16 July 2026.

The following information relates to Ayubia (Private) Limited (APL), which follows the tax year ending on 30 June:

	Rs. in million
Tax year 2025	
Annual turnover	1,400
Taxable income for the year	600
Tax on taxable income	160
Tax on dividend income at 15%	18
Tax year 2026	
1 st quarter turnover	500
Annual turnover – estimated before end of 2 nd quarter	2,400
Annual turnover – estimated before end of 3 rd quarter	1,800
Tax on taxable income for the year – estimated before end of 2 nd quarter	280
Tax on taxable income for the year – estimated before end of 3 rd quarter	200

APL fully complies with all regulatory requirements for preparing and filing the provided estimates.

Required:

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

- (a) Calculate APL's advance tax liability for each of the four quarters for the tax year 2026. *(Ignore withholding taxes deducted at source)*
- (b) Assume APL has paid its advance tax liability based on the information provided in part (a). Following the conclusion of its annual audit on 30 September 2026, APL's actual tax liability on taxable income for the tax year 2026 amounts to Rs. 300 million, which would be discharged upon filing of return on the due date.

(05)

Discuss APL's obligations and the tax implications.

(02)

Q.5 Banjosa Care Limited (BCL), registered under the Sales Tax Act, 1990, is engaged in the manufacture and distribution of home care products. The following information has been extracted from BCL's records for the tax period November 2025:

- (i) Purchases from registered suppliers:
 - Rs. 15 million for organic surface-active agents used in the manufacture of detergents and surface cleaners.
 - Rs. 10 million for aluminium mop handles and microfiber mop heads.
 - Rs. 4 million for coconuts used in oil extraction for in-house manufacturing.
 - Rs. 2 million for plastic waste used in preparing packing material.
 - Rs. 3 million for computer hardware and printers for the administrative staff.
- (ii) Purchases from unregistered suppliers:
 - Rs. 8 million for pine oil concentrate from a wholesaler.
 - Rs. 5 million for household disinfectant liquid from a cottage industry.
- (iii) Imports:
 - Rs. 7.8 million for fragrance oils procured from Dubai for floor cleaner production.
 - Rs. 5.2 million for tissue paper procured from China, the retail price of which is Rs. 6.2 million.
- (iv) Supplies to registered persons:
 - Rs. 18 million received as advance from Nomal Associates for goods to be delivered in the following month.
 - Rs. 22 million for supply of air fresheners to a Tier-1 retailer on three-month credit. The price is inclusive of mark-up at 20% per annum.
- (v) Supplies to unregistered persons:
 - Rs. 7 million for supply of floor-cleaning liquid to a 100-bed government hospital in Lahore under a special tender.
 - Rs. 8.5 million for supply of laundry detergent supplied to a wholesaler in Peshawar. The retail price in the market is Rs. 9.5 million.

Additional information (not included above):

- (i) A supplier issued a debit note of Rs. 1.2 million relating to price variation for goods supplied in June 2025.
- (ii) BCL paid Rs. 6 million to a Lahore-based media agency for social-media and online store promotional campaigns.
- (iii) BCL paid Rs. 3.5 million to a software firm in Islamabad to upgrade its manufacturing ERP system, including hardware installation and commissioning.
- (iv) BCL granted a performance rebate of Rs. 1.5 million to a major distributor (a registered person) upon achievement of the agreed sales target. The rebate is customary in the industry and forms part of the normal business practice; a corresponding credit note was issued to the distributor.
- (v) BCL supplied aluminium mop handles and microfiber mop heads valued at Rs. 10 million to Ziarat Enterprises (ZE), a contract-based manufacturer located in the Gwadar Free Zone, for assembly into finished household mops under BCL's brand.

ZE charged a processing fee of Rs. 2 million for this job. BCL exported 60% of finished mops valued at Rs. 14 million to Sri Lanka. The remaining 40%, having assessed value of Rs. 4.8 million, were cleared from the Free Zone into the tariff area for BCL's onward distribution.

All payments were made through normal banking channels. Unless otherwise specified, the figures mentioned above are **exclusive of sales tax**.

Required:

Under the provisions of the Sales Tax Act, 1990, and the Rules made thereunder, compute the amount of sales tax payable by or refundable to BCL, and the amount of input tax to be carried forward, if any, for the tax period November 2025. Also compute withholding tax, wherever applicable. *(Show all relevant exemptions, exclusions and disallowances)*

(20)

- Q.6 (a) Kaghan Beverages Limited (KBL), a Karachi-based manufacturer and seller of a foreign brand of carbonated beverages, supplies its products both locally and internationally. The tax manager has provided you with a computation of Federal Excise Duty (FED) for November 2025, which was prepared by a recently-appointed fresh graduate. The details of the computation are as follows:

Particulars	Value of supply (Rs.)	Duty rate	Amount of duty (Rs.)
Input Duty			
Import of concentrate	22,000,000	15%	3,300,000
Purchase of 50,000 liters aerated water at Rs. 80 per liter (retail price: Rs. 100 per liter)	4,000,000	15%	600,000
Payment of bank charges	300,000	15%	45,000
50% payment against purchase of 50,000 kg of white crystalline sugar at Rs. 175 per kg	4,375,000	15%	656,250
Royalty paid to foreign brand owner	8,100,000	15%	1,215,000
			5,816,250
Output Duty			
Local sale of 980,000 Carbonated Soft Drink (CSD) bottles to distributors at Rs. 80 per liter	78,400,000	15%	11,760,000
Export of 200,000 CSD bottles to Iran	18,000,000	15%	2,700,000
Return of 17,500 CSD bottles from distributors due to packaging defects	-	-	-
			14,460,000
FED payable			8,643,750

Notes:

- The retail price of each CSD bottle is Rs. 90.
- All the above figures appearing in the value of supply column are exclusive of FED.
- Unless specified otherwise, all payments were made through normal banking channels.

Required:

Under the provisions of the Federal Excise Act, 2005, and the Rules made thereunder, prepare a revised computation of the FED payable by or refundable to KBL for the month of November 2025. *(Show all relevant exemptions, exclusions and disallowances)*

(07)

- (b) Deosai Limited (DL) filed an appeal before the Appellate Tribunal challenging an order passed by the Commissioner Inland Revenue (Appeals). While the appeal was still pending, DL submitted an application to the Federal Board of Revenue (FBR) seeking alternative dispute resolution, pursuant to which a Dispute Resolution Committee (DRC) was constituted to resolve the matter.

Required:

Under the provisions of the Sales Tax Act, 1990, and the Rules made thereunder, discuss the implications for existing orders, decisions, and the appeal pending before the Appellate Tribunal in each of the following independent situations:

- The DRC finalizes the matter, reducing DL's tax liability by 30%, and DL makes the payment in accordance with the DRC's recommendations.
- The DRC fails to issue its decision within the prescribed time limit.

(04)

(02)

- Q.7 Hammad Jamil is the tax partner at HM & Co., Chartered Accountants. The firm also serves as an external auditor of Babusar Construction Limited (BCL), a long-standing audit client.

The CFO of BCL approaches Hammad with a new tax-planning proposal for the next year. Under the plan, certain production-related activities will be shifted to a newly formed related party located outside Pakistan. This related party will charge service fees to BCL, which BCL intends to claim as a deductible expense in order to significantly reduce its taxable income in Pakistan. Furthermore, the CFO requests Hammad to issue a tax advisory letter supporting the proposed treatment, for which a fee will be charged.

During the review, Hammad identifies following two key concerns:

- (i) The pricing of the arrangement does not appear to be at arm's length and may be regarded as an arrangement designed primarily to reduce BCL's tax liability.
- (ii) The letter requested by the CFO may be used to legitimate the arrangement that could later be subject to scrutiny.

Required:

In light of ICAP's Code of Ethics for Chartered Accountants, evaluate the potential threat(s) that arise for Hammad in the above situation. Also, suggest corresponding safeguard(s) available to Hammad to mitigate the threat(s).

(07)

(THE END)

