Certified Finance and Accounting Professional Stage Examination

Tax Practices and Planning

4 September 2026
100 marks

ICAP

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 **seven** questions are compulsory. There is no specific time allocated for individual questions.
4. 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.
5. Each question provides a designated answer area with a Rich Text Format (RTF) editor for writing your answers. You must answer each question within its respective RTF editor only. **Answers written in another RTF editor instead of the designated RTF editor for the question or more than one question answered in a single RTF editor shall not be considered for marking.**
6. Below the RTF editor, a spreadsheet is provided 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.**
7. 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.
8. 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 this page will not be uploaded with your exam for marking.
9. 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.
10. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
11. 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.

QUESTION 1

Prompt Pharmaceuticals Limited (PPL) is engaged in the manufacture of pharmaceutical products. The following information has been extracted from PPL's records for the year ended 30 June 2026:

	Rs. in million
Sales	500
Cost of sales	(300)
Gross profit	**200**
Operating expenses	(110)
Other income	50
Profit before tax	**140**

Additional information:

(i) Cost of sales includes:

- Rs. 3 million relating to depreciation charged on a tablet coating machine purchased on 31 August 2025 for Rs. 30 million. During testing, the machine malfunctioned and was returned to the supplier without having been put to use in PPL's business. The supplier replaced the defective machine at no additional cost; however, PPL incurred freight charges of Rs. 1 million on the replacement machine, which were paid in cash and charged to cost of sales. The replacement machine was installed and put to use in PPL's business on 31 March 2026.
- Rs. 3.5 million relating to depreciation charged on a compression machine purchased for Rs. 35 million. While making payment, the accountant did not, inadvertently, deduct tax from the payment.
- Rs. 6 million relating to cost of software acquired by PPL for managing the expiry date of its products. The software has an estimated useful life of eight years. It was delivered by the developer on 1 February 2026 but, following completion of required testing, became available for use and was first put to use by PPL on 1 April 2026.
- Rs. 28 million relating to a contribution towards an approved gratuity fund and Rs. 32 million relating to a contribution towards a recognized provident fund.
- Rs. 0.07 million relating to the purchase of gelatin from Mr. Khiljee. The amount was paid on 30 June 2026 without deduction of tax at his request, on the ground that this was his only supply to PPL during the financial year ended 30 June 2026.

(ii) Operating expenses include:

- Rs. 80 million relating to sales promotion, advertisement and publicity expenses incurred by PPL.
- Rs. 5.5 million relating to provision for doubtful debts for the year. The details of provision for doubtful debts account are as follows:

	Rs. in million
Opening balance	8.0
Provision for the year	5.5
Written off during the year	(4.5)
Recovery of a bad debt allowed as a deduction in an earlier tax year	1.3
Closing balance	**10.3**

(iii) Other income includes:

- Rs. 2 million relating to an income tax refund received by PPL for tax year 2023, including Rs. 0.15 million received as an additional amount on account of delayed payment of the refund.
- Rs. 48 million representing PPL's 30% share of the taxable income of an AOP, the turnover of AOP is five times its taxable income.

(iv) In May 2026, PPL incurred Rs. 18 million on the construction of an internal access road within its factory premises. PPL capitalized the expenditure as part of the cost of the factory premises, considering it to be a structural improvement rather than a revenue expense. Accounting depreciation at 10% has been charged.

(v) At 30 June 2026, PPL held 60,000 grams of Sodium Benzoate used in the manufacture of oral liquid medicines. The closing inventory was recorded at Rs.32 per gram. The inventory was readily identifiable by lot, as follows:

- **Lot 1:** 300,000 grams purchased at Rs. 30 per gram on 26 September 2025, of which 280,000 grams were issued to production; and
- **Lot 2:** 250,000 grams purchased at Rs. 32 per gram on 26 March 2026, of which 210,000 grams were issued to production.

(vi) During the year, PPL established a wholly owned unquoted company in the UAE. The subsidiary did not commence trading operations and earned only Rs. 12 million in interest income, on which no tax was paid in the UAE. No dividend was declared by the subsidiary.

(vii) In October 2025, PPL received 400,000 bonus shares of Algorithm Investment Limited (AIL), a listed company. Each share had a par value of Rs. 10. The day-end quoted market prices of AIL's shares were:

- Rs. 19 per share on the first day of closure of AIL's books; and
- Rs. 18 per share on the date of AIL's annual general meeting at which the issue of bonus shares was approved.

(viii) Assume that accounting depreciation and tax depreciation are the same for the depreciable assets acquired before 1 July 2025.

Required:
Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, compute, under the appropriate heads of income, total income, taxable income and income tax liability of PPL for tax year 2026. **(19 marks)**

Notes:

- ***Ignore WWF, WPPF, alternative corporate tax, super tax and default surcharge, if any.***
- ***Show all relevant exemptions, exclusions, and disallowances, if any.***

QUESTION 2

Z-score (Private) Limited (ZPL) undertook the following transactions during the year ended 30 June 2026:

(i) ZPL seconded one of its employees, Faisal Shah, a citizen of Pakistan, to its associated company in China with effect from 1 September 2025. During July and August 2025, Faisal performed his duties for ZPL in Pakistan. From September 2025 to June 2026, he was present in China and performed his duties for the associated company under the secondment arrangement. During tax year 2026, he was a tax resident of China.

Throughout the year, ZPL credited a monthly salary of Rs. 0.5 million to Faisal's bank account in Pakistan, aggregating to Rs. 6 million.

(ii) ZPL entered into a loan agreement with Sinodebt LLC (Sinodebt), an international lender, to finance a proposed public-private partnership project for the development of low-cost housing societies in Pakistan. Both Sinodebt and the loan agreement were specifically approved by the Federal Government.

Before ZPL drew any amount under the loan agreement, the Government postponed the project due to certain political developments. Consequently, ZPL terminated the loan agreement. Following its termination, Sinodebt raised an invoice of Rs. 10 million for loan-processing and service charges relating to the unutilized credit facility. ZPL paid the invoiced amount during the year.

(iii) ZPL established a branch in the UAE and rented business premises in Dubai from a landlord who was a resident of the UAE. ZPL paid rent equivalent to Rs. 5 million for the use of the premises by its UAE branch.

(iv) ZPL rented a factory in Karachi from Machine Learning Limited (MLL). The factory comprised a building and installed machinery, which were rented together under a single agreement. ZPL paid rent of Rs. 25 million to MLL in respect of the factory.

(v) ZPL paid profit on debt of Rs. 20 million in June 2026 to its parent company, which was resident in Denmark, in respect of a loan utilized exclusively for ZPL's business operations in Pakistan. The parent company had no permanent establishment in Pakistan.

Required:
Under the provisions of the Income Tax Ordinance, 2001, and the Rules made thereunder, discuss the tax implications for each recipient of the above amounts and ZPL's related withholding obligations. **(15 marks)**
(Ignore filing and reporting requirements)

QUESTION 3

Trans Chemical (Private) Limited (TCPL) is engaged in the manufacture of chemicals. While preparing TCPL's annual income tax return for tax year 2026, its accountant compiled the computation of taxable income for the year ended 30 June 2026, together with the accompanying notes, as follows:

	Note	**Rs. in million**
Income from business		
Accounting profit before tax		2,000.0
Adjustments to accounting profit		
Accounting depreciation (Rs. 70m × 10%)	(i)	7.0
Tax gain on export of machinery (Rs. 500m – Rs. 450m)	(ii)	50.0
Consultancy fee relating to the proposed merger	(iii)	20.0
Accounting amortization of intellectual property (IP) rights	(iv)	1.0
Tax amortization of IP rights	(iv)	(0.5)
Other income (Rs. 500m – Rs. 80m)	(v)	(420.0)
		1,657.5
Income from other sources		
Dividend received from a company listed on the London Stock Exchange		70.0
Capital gains		
Gain on disposal of factory building		250.0
Gain on disposal of shares listed on the Pakistan Stock Exchange (PSX)		100.0
Total income		**2,077.5**
Gain on disposal of factory building – subject to separate tax regime		(250.0)
Gain on disposal of shares listed on PSX – subject to separate tax regime		(100.0)
Taxable income subject to the normal tax regime		**1,727.5**

Notes:

(i) The machine was acquired by TCPL in April 2026 for Rs. 70 million from Adaptive (Private) Limited (APL), a wholly owned subsidiary of TCPL. APL had originally acquired the new machine for Rs. 120 million in March 2025 and had placed it in service in Pakistan for the first time in the same month.

(ii) The machinery was originally acquired for Rs. 1,000 million. In May 2026, it was exported to a customer in China for Rs. 500 million. The sale proceeds was equal to its accounting written-down value (WDV) at the date of disposal; therefore, no accounting gain or loss was recognized. Its tax WDV as at 30 June 2025 was Rs. 450 million, while its fair market value at the time of export was Rs. 600 million. No depreciation was charged in the accounts for the year ended 30 June 2026 in respect of this machinery.

(iii) TCPL incurred fees of Rs. 20 million for due diligence and other professional advisory services in connection with a proposed merger involving TCPL. Following the findings contained in the advisers' reports, TCPL abandoned the proposed merger.

(iv) On 1 January 2026, Advanced Communications (Private) Limited (ACPL) transferred IP rights to TCPL for a consideration of Rs. 5 million. TCPL holds an 80% shareholding in ACPL. TCPL began using the IP rights in its business on the date of transfer. The IP rights had an estimated useful life of five years at the time of transfer. The fair market value of the IP rights at the time of transfer was Rs. 50 million.

(v) Other income comprises:

Particulars	Rs. in million	Comments/treatment
Exchange gain arising on the final settlement of a foreign currency loan used to acquire machinery	80	No adjustment was made as the gain was included in income from business.
Dividend received from a company listed on the London Stock Exchange	70	No tax was withheld in the UK. The dividend was included under the head 'Income from other sources' and subjected to the normal tax regime.
Gain on disposal of factory building	250	The gain was not offered to tax because the building had been held for more than 4 years. TCPL received consideration of Rs. 600 million. The building had been acquired for Rs. 500 million, and tax depreciation of Rs. 205 million had been allowed up to 30 June 2025.
Gain on disposal of shares listed on PSX	100	The shares were acquired on 1 July 2018. The gain was not offered to tax because the shares had been held for more than six years
Total	**500**	

Except as otherwise stated, the accounting depreciation charged and the tax depreciation allowable for the year were the same.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, comment on each element of the accountant's computation. Provide suggestions where necessary. **(19 marks)**
(Revised computation of taxable income is not required)

QUESTION 4

(a) Asim Mubeen, a Pakistan-resident individual, is an independent software developer. He has received the following two alternative offers for providing software development services:

Offer (i):
Asim has received an offer from Apex Logic (Private) Limited (APL), a company incorporated and operating in Pakistan. The services will be provided to APL under a contract as an independent service provider, and APL will pay the consideration to Asim in Pakistan.

Offer (ii):
Asim has also received an offer from Robotics LLC (RL), a company incorporated and resident in the UAE. The services will be provided to RL, and RL will remit the consideration to Asim in foreign currency through an authorized dealer in foreign exchange in Pakistan.

Under either offer, he will receive annual consideration of Rs. 5 million. Asim estimates that he will incur Rs. 1 million of business expenditures wholly and exclusively for the purpose of providing the services under either offer.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, determine Asim's tax liability under each offer. **(06 marks)**

(b) Amin Sheikh, a registered person and an active taxpayer, is engaged in the manufacture of shaving cream and filter rods for cigarettes. He supplies these products to distributors, wholesalers and dealers, as well as through commission agents.

Amin's customers and commission agents comprise registered (active and inactive), and unregistered under the relevant tax laws. Some of the unregistered persons are unwilling to provide copies of their CNICs/NTNs, despite requests from Amin.

Required:
Advise Amin on the tax consequences, if any, arising from the supplies to, or through, the above persons that may increase his tax liability under:

(i) the Income Tax Ordinance, 2001; and **(03 marks)**
(ii) the Sales Tax Act, 1990. **(04 marks)**

(Note: Ignore the provisions of withholding tax / advance tax)

QUESTION 5

(a) Oracle Textiles Limited (OTL), a registered manufacturer-cum-exporter of textile products, exported goods during the tax period May 2026. On 15 June 2026, OTL filed a refund claim of Rs. 18 million with the relevant tax authorities in respect of input tax attributable to its exports.

On 15 July 2026, the tax authorities initiated an investigation regarding the admissibility of the refund claim. The investigation was completed on 15 August 2026, and the refund claim was found admissible in full.

The refund amount of Rs. 18 million was received by OTL on 1 September 2026.

Required:
Under the provisions of the Sales Tax Act, 1990, discuss the implications arising from the refund claim and determine the amount OTL was entitled to receive on 1 September 2026. **(06 marks)**
(Assume that the applicable KIBOR for the relevant period is 12% per annum)

(b) Gulzar Khan is a salaried individual and a resident taxpayer who has regularly filed his income tax returns, along with wealth statements, since 1992. None of his assessments has previously been amended.

The Commissioner Inland Revenue (CIR) obtained information that Gulzar owned a plot situated in Sialkot, Pakistan, and a flat situated in Dubai, UAE. Neither of these assets had been disclosed by Gulzar in his wealth statements. The plot situated in Sialkot was acquired by Gulzar on 7 November 2018, while the flat situated in Dubai was acquired by him on 16 January 2015.

On 3 September 2026, the CIR served a notice on Gulzar requiring him to explain the non-disclosure of the above assets and the nature and source of the funds used for their acquisition. Gulzar failed to satisfactorily explain the nature and source of the funds used for their acquisition.

Required:
Under the Income Tax Ordinance, 2001, explain whether the CIR is empowered to amend Gulzar's assessment in respect of the above assets. Support your answer with reference to the relevant tax year and the applicable time limit for amendment. **(05 marks)**

QUESTION 6

You are a tax partner in a firm of Chartered Accountants. Dialogue Limited (DL) has engaged you to provide ongoing tax advisory services in relation to its business.

DL proposes to transfer commercial land, which is no longer required for its operations, to Reasoning Limited (RL), another company within the same group that intends to use in its business. The transfer is to be made at a value substantially below its fair market value.

During your engagement, the CEO of DL informs you that an independent valuation indicates a fair market value substantially higher than the agreed transfer price and that the management of both DL and RL have agreed to the arrangement with the intention of understating DL's taxable gain and tax liability. He instructs you to keep the valuation and intended tax treatment confidential from RL's advisers.

Subsequently, another partner of your firm is engaged by RL to advise on the tax implications of the acquisition. RL's management does not disclose the above arrangement to that partner, who asks you whether you possess any information concerning the valuation or proposed transaction.

Required:
In light of the ICAP's Code of Ethics for Chartered Accountants, identify and explain the ethical issues faced by you arising from the above circumstances and recommend appropriate safeguards. **(06 marks)**

QUESTION 7

Dataset Mobility Limited (DML) is engaged in the manufacture of auto parts for vehicles. DML supplies its products mainly to vehicle manufacturers and is registered under the Sales Tax Act, 1990.

The newly appointed accountant of DML has prepared the following computation of sales tax liability for the tax period June 2026:

Description	Note	Value of supply	Sales tax
		------ Rs. in million ------	
Input tax:			
Purchases from registered persons	(i)	280.00	50.40
Sales tax invoice dated 15 November 2025 for purchase of raw materials, in respect of which input tax was not claimed in the return of November 2025		40.00	7.20
Purchase of silicon carbide from Generative Enterprises, delivered on 1 January 2026	(ii)	30.00	5.40
Electricity bill relating to rented premises, showing the particulars of the owner of the premises only		2.80	0.50
Debit note issued on 15 June 2026 in respect of goods purchased from Chatbot Limited against a sales tax invoice dated 2 December 2025. No extension of the prescribed period was obtained.		8.00	1.44
Payment to plastic surgeon for treatment of burn injury sustained by a DML's employee following a fire at its Multan factory		1.30	0.07
Purchase of plant	(iii)	20.00	3.60
			68.61
Output tax:			
Sales to registered persons	(iv)	350.00	63.00
Sales to unregistered persons		56.00	12.32
Credit note dated 15 June 2026 issued to a customer for timing belts against an invoice dated 1 December 2025. No extension of the prescribed period was obtained.		(8.20)	(1.48)
Wheels provided free of cost to Director Finance of DML for use in his personal luxury vehicle		0.50	-
			73.84
Sales tax payable			**5.23**

Notes to the computation:

(i) Purchases from registered persons include:

- an advance of Rs. 5 million, paid to IdeaQ Associates (IA) for copper wire to be supplied in October 2026. However, IA did not issue advance receipt invoice (ARI) by the end of June 2026.
- plastic resins having total value of Rs. 9 million, delivered by Prediction Brothers in June 2026, against which an advance equal to 20% of the total value had been paid in May 2026 against an ARI. The accountant included the entire value of Rs. 9 million in purchases for June 2026.
- tempered glass worth Rs. 7.9 million, purchased from GPT Limited (GPT) on 29 June 2026, on which, due to an oversight, GPT did not charge sales tax. The accountant believes that the supplier's omission does not adversely affect DML's input tax claim.

(ii) An advance of Rs. 18 million was paid in November 2025 against an ARI for the purchase of silicon carbide. The balance amount of Rs. 12 million became payable upon delivery of the goods on 1 January 2026. Due to inadvertence, DML did not claim the related input tax either on the advance in November 2025 nor on the balance in January 2026.

(iii) A new plant was imported by DML for the extension of its existing plant. The installation of the new plant was completed on 12 July 2026.

(iv) Sales to registered persons include:
- an advance of Rs. 8.8 million, received from Precision Enterprises (PE) on 27 June 2026 for the supply of valves. However, DML did not issue ARI to PE.
- 1,000 storage batteries, sold to wholesaler at an invoice value of Rs. 25,000 per battery, having a retail price of Rs. 30,000 per battery.

Additional information relating to June 2026 (not included in the above computation):

(i) Raw material worth Rs. 7 million was purchased from Model Limited against an advance paid in April 2026. The raw material was exempt from sales tax when the advance was paid; however, its exemption was withdrawn with effect from 10 June 2026 through a notification issued by the FBR. The raw material was delivered on 22 June 2026.

(ii) Steel worth Rs. 22 million was purchased by DML under a Murabaha financing arrangement with a bank. Under the arrangement, the bank purchased the steel from Token (Private) Limited, a manufacturing company, for delivery to DML.

(iii) DML availed warehouse storage services in Lahore for its products at a cost of Rs. 1.5 million. Sales tax at 16% was charged by the warehouse owner. However, the accountant did not claim any input tax on the ground that such services are exempt and the sales tax was charged in error.

All payments were made through banking channels. Unless otherwise specified, all amounts are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 18%, unless specified otherwise.

Required:
Under the provisions of the Sales Tax Act, 1990, the Rules made thereunder and the Punjab Sales Tax on Services Act, 2012, compute the revised amount of sales tax payable by or refundable to DML and the amount of input tax to be carried forward, if any, for the tax period June 2026. **(17 marks)**
(Show all relevant exemptions, exclusions and disallowances, if any)

(THE END)

Rough Sheet

Rough Sheet