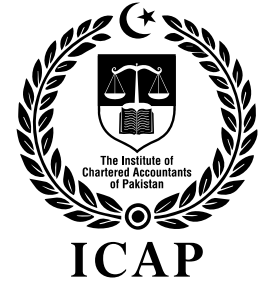


Certified Finance and Accounting Professional Stage Examination

Tax Practices and Planning

6 June 2026

100 marks



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. 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 questions 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 page 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

For this question, **assume that the date today is 30 September 2026.**

Suez Canal Sports Limited (SSL), a listed company, holds 100% of the shares in Rupert Fitness Limited (RFL) and 80% of the shares in Pemba Athletic Limited (PAL). Both shareholdings have been held since many years. All companies are resident in Pakistan and are engaged in the manufacturing and supply of sporting goods across the country. The group has opted to be taxed as one fiscal unit and all group companies meet the requirements for this treatment or group relief, as applicable, under the Income Tax Ordinance, 2001.

The following information has been extracted from the records of these companies for the year ended 30 June 2026:

Description	SSL	RFL	PAL
	----- Rs. in million -----		
Sales	660	1,050	380
Cost of sales	(490)	(680)	(342)
Gross profit	170	370	38
Operating expenses	(224)	(190)	(86)
Financial charges	(20)	(30)	-
Other income	66	-	(4)
Profit/(loss) before taxation	(8)	150	(52)

Additional information relating to individual companies:**SSL:**

- (i) Cost of sales includes purchases of Rs. 44 million from Balabac Enterprises, including imported goods amounting to Rs. 20 million. No withholding tax was deducted by SSL at the time of payment. These goods were sold for Rs. 60 million (included in sales above) in the same condition as acquired.
- (ii) Financial charges include interest expense of Rs. 8 million relating to lease. On 31 December 2025, lease rentals of Rs. 3 million per vehicle were paid to an approved Modaraba company in respect of five vehicles acquired under a finance lease for staff use. Each vehicle cost Rs. 12 million and the lease term is six years. SSL has not recorded depreciation on these vehicles.
- (iii) Other income comprises of:
 - return on investment in Sukuks amounting to Rs. 18 million (net of tax) from a public company.
 - loss of Rs. 14 million on the sale of machinery to RFL for Rs. 16 million on 30 June 2026. The machinery had been purchased by SSL at a cost of Rs. 60 million on 1 July 2022.
 - gain of Rs. 12 million on disposal of shares of a public company, listed on the Pakistan Stock Exchange. These shares were acquired during tax year 2026.
 - dividend income of Rs. 50 million from RFL.

RFL:

- (i) Sales include Rs. 14 million from supplies made to a customer registered under the Sales Tax Act, 1990. The amount is inclusive of sales tax and net of withholding tax.
- (ii) Cost of sales includes purchases of Rs. 30 million from suppliers holding National Tax Numbers but are not registered under the Sales Tax Act, 1990.

PAL:

- (i) Sales include Rs. 38 million made to various wholesalers. Each transaction was invoiced separately at Rs. 0.5 million, and the amounts were received in cash against such invoices. The expenditure attributable to these sales amounts to Rs. 24.6 million.
- (ii) Other income comprises of:
 - gain of Rs. 7 million on disposal of shares in a private company.
 - loss of Rs. 11 million on disposal of Pakistan Investment Bonds.

Assume that:

- there are no transactions among the group companies, other than those stated above.
- accounting and tax depreciation for the year are the same, except to the extent affected by the above transactions.

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 SSL Group for the tax year 2026. **(22 marks)**

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

QUESTION 2

Rashid Hussain intends to commence business operations in Pakistan through a corporate structure, with available capital of Rs. 100 million to be utilized as follows:

- Establishment of a consumer products manufacturing facility requiring Rs. 75 million; and
- Setup of corporate training services to be rendered within Pakistan, requiring Rs. 25 million.

No external financing is available; therefore, all business structuring decisions must be made within the available capital. Rashid Hussain is considering either operating both activities through a single company or establishing separate companies for the manufacturing and corporate training services operations.

Rashid Hussain has prepared the following projected results for the first year of operations:

Particulars	Manufacturing operations		Corporate training services
	Local sales	Exports	
	----- Rs. in million -----		
Revenue	150	60	70
Taxable income	34	8	12

The above first-year projections are considered representative of the expected business operations and business model for the foreseeable future.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, advise Rashid Hussain on the most tax-efficient corporate arrangement for the proposed business operations. **(09 marks)**
(Show all necessary calculations)

QUESTION 3

Dardanelles Bazaar Limited (DBL) operates a leading e-commerce marketplace in Pakistan through its website and mobile application, where local businesses sell digitally ordered goods and digitally delivered services to customers across the country.

During tax year 2026, the following transactions were carried out through DBL's platform:

- (i) A Lahore-based clothing manufacturer sold apparel to customers in Karachi. Customers made payment through debit and credit cards using the payment gateway infrastructure of a local bank, which processed the payments and transferred the net proceeds to the seller's business bank account.
- (ii) A cottage industry sold handmade products under cash-on-delivery (CoD) arrangements. The courier company collected cash from customers and subsequently transferred the net proceeds, to the seller's bank account.
- (iii) A Karachi-based graphic design company provided digitally delivered logo design and branding services to customers in Islamabad. Payments were made through various local mobile wallets, such as JazzCash and EasyPaisa, integrated with DBL's platform.

Required:

Under the provisions of the Income Tax Ordinance, 2001, and the Sales Tax Act, 1990:

- (a) briefly discuss the following in respect of each transaction:
 - Chargeability of tax (including applicable tax rates) for seller/service provider
 - Withholding/collection of tax **(06 marks)**
- (b) discuss the requirement for filing statements by the withholding agent and DBL. **(02 marks)**
(Particulars of the statements are not required)

QUESTION 4

For this question, assume that the date today is 30 September 2026.

Endeavour Engineering Consultancy Pte. Ltd. (EEC), a company incorporated in Singapore, operates in Pakistan through its registered branch and provides engineering consultancy services to corporate clients. EEC also maintains a presence in other countries through its branch network.

The tax manager of EEC Pakistan branch is preparing the tax return for the tax year 2026 and has compiled the following computation, together with supporting notes, for review:

	Notes	Rs. in million
Income from business		
Profit before tax		560
Less: Export of services – FTR	(i)	(150)
Expenses allocated to Pakistan branch by head office	(ii)	205
Donation to Sindh Institute of Urology and Transplantation (SIUT)		60
Excess of tax depreciation over accounting depreciation	(iii)	(100)
Other income	(iv)	(215)
Branch profit remittance to head office		(120)
		240
Income from Property		
Rental income from subletting a portion of the rented branch premises to another company – net of repair allowance (30 × 80%)	(iv)	24
Total income		264
Less: Deductible allowance on donation to SIUT		(60)
Taxable income – NTR		204
Tax liability		
Tax liability @ 29%		59.2
Exports of services (150 × 1%)		1.5
Interest income (50 × 20%)		10.0
		70.7
Super tax (204 × 1.5%)		3.1
		73.8

Notes to the computation:

- (i) Services worth Rs. 150 million were rendered to Torres LLC, a customer located in Dubai. The cost of providing the services amounted to Rs. 20 million, and no other expenses were incurred in relation to these services.
- (ii) The following expenses were incurred/charged by the head office and allocated to Pakistan branch:

Particulars	Rs. in million
Management fee for centralized management services	100
Accommodation and travelling cost of head office employees in connection with training/supervision of Pakistan branch operations	45
Group professional indemnity and cyber risk insurance premium paid to an insurance company based in Singapore, covering the Pakistan branch	60
	205

The global revenue of the EEC Singapore is equivalent to Rs. 50,000 million, while total head office expenses incurred by EEC Singapore are equivalent to Rs. 5,000 million. Revenue of Pakistan branch for the year is Rs. 1,000 million.

- (iii) Tax depreciation amounting to Rs. 250 million has been claimed. This includes depreciation on additions made during the year in respect of computers and equipment costing Rs. 600 million, details of which are as follows:

Purchases from:	Rs. in million
Commercial importers	400
Local manufacturers	200
	600

No tax was withheld by Pakistan Branch on payments made to the suppliers against these purchases.

- (iv) Other income comprises the following:

Particulars	Rs. in million	Tax treatment considered by the tax manager
Interest earned on saving accounts maintained in Pakistan	50	Subject to FTR
Technical support fee charged to Japan branch for providing technical support services (net of payment made to a local consultant, i.e. Rs. 35 million)	75	Treated as not chargeable to tax in Pakistan
Income earned from subletting a portion of the rented branch premises to another company	30	Taxable under the head "Income from property"
Full and final recovery against total bad debts of Rs. 80 million, for which Rs. 15 million had previously been allowed as a deduction	60	Treated as not chargeable to tax
	215	

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, comment on each element of the above computation. Provide suggestions where necessary. **(23 marks)**
(Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax and default surcharge, if any)

QUESTION 5

- (a) The Commissioner Inland Revenue issues a notice to Florida Distributors (FD), a registered person, for the audit of its sales tax affairs without providing any prior opportunity of being heard. The notice states that the audit is being conducted for the verification of input tax, output tax, and general compliance with the provisions of the Sales Tax Act, 1990.

Upon request, the tax department informs FD that selection for audit is at the discretion of the Commissioner.

During the audit proceedings, the authorized officer requires access to the electronic records maintained by FD and also demands documents relating to purchase transactions carried out during the last ten years, stating that such information is necessary for proper verification.

Required:

Under the provisions of the Sales Tax Act, 1990, discuss whether the Commissioner is justified in taking the actions described in the above situation. **(05 marks)**

- (b) Bab el-Mandeb Traders (BMT) is registered under the Sales Tax Act, 1990. It operates multiple business divisions dealing in taxable goods. Due to financial constraints, BMT has decided to undertake the following:
- To discontinue one of its divisions on 15 June 2026. At the time of discontinuation, the division is expected to hold taxable inventory costing Rs. 8 million with a market value of Rs. 5 million.
 - To transfer its remaining business operations and assets to Lombok Associates (LA) with effect from 10 August 2026.

Required:

Under the provisions of the Sales Tax Act, 1990, explain the following:

- (i) The sales tax implications arising on discontinuance of the division.
- (ii) The sales tax implications on the transfer of business in the following situations:
 - Where LA is not a registered person.
 - Where LA is a registered person and the business is transferred as a going concern.

(06 marks)

QUESTION 6

Bering Foods Limited (BFL) is an agro-based company engaged in the production of dairy and processed poultry products through two separate divisions. BFL is registered under the Sales Tax Act, 1990 as a manufacturer, importer and exporter.

The following information has been extracted from BFL's records for the month of May 2026:

- (i) Purchases from registered suppliers:
 - Rs. 20 million for ginger powder and red chillies purchased in loose bulk quantities for use in the manufacture of chicken nuggets and sausages.
 - Rs. 18 million for goods purchased under the Duty and Tax Remission for Export (DTRE) scheme for the poultry division.
 - Rs. 1.2 million for protective shoes purchased for the factory staff of the dairy division.
 - Rs. 4 million for corn flour purchased for use as a coating agent in the manufacture of chicken popcorn and drumsticks. The retail price of the corn flour was Rs. 4.8 million.
 - Rs. 3.5 million for cottonseed (banola) oil cake purchased from traders for use as livestock feed in the dairy division.
- (ii) Purchases from unregistered Tier -1 retailers amounted to Rs. 1.9 million for use in the packing of chicken kebabs and nuggets.
- (iii) Imports:
 - Rs. 4.2 million for processed turkey meat imported from the USA. The retail price of the imported meat was Rs. 5.5 million.
 - Rs. 15 million for the import of 25 buffalos from Australia for use in fresh milk production in the dairy division.
 - Rs. 3 million for coffee imported from Colombia in retail packaging for use in the production of coffee yogurt.
- (iv) Supplies to registered persons:
 - Rs. 8.7 million for milky drinks (lassi and buttermilk) and powdered drinks (malted milk powders) supplied to wholesalers. The retail price of these products was Rs. 9.5 million.
 - Rs. 5 million for processed turkey meat supplied to international franchises.
 - Rs. 6.5 million for grated processed cheese supplied to distributors.
- (v) Supplies to unregistered persons:
 - Rs. 2.8 million for uncooked poultry meat supplied to a distributor. The meat had originally been purchased in April 2026 for use in sausage production; however, due to its limited shelf life, it was sold for immediate consumption.
 - Rs. 1.1 million for 300 ml retail packs of flavoured milk under BFL's own brand name distributed free of charge to orphaned children at a school in celebration of Children's Mental Health Awareness Day. The retail price of these packs was Rs. 1.5 million.
- (vi) Exports of prepared chicken meat products supplied to Qatar amounted to Rs. 12 million.

Further information:

- Rs. 2 million was paid to Miyako Associates located in Lahore for billboard advertising.
- Rs. 6 million was paid for the purchase of 10 economy plus air tickets to Saudi Arabia for employees eligible to perform Umrah under BFL's policy, with all related expenses borne by the company.
- An advance of Rs. 6 million had been received in February 2026 against an order from Gibraltar Airline (GA), a newly launched domestic airline, expected to commence operations in April 2026. However, due to delays in obtaining the required approvals, GA cancelled the order and requested a refund on 10 May 2026 in accordance with the agreement. All necessary documentary formalities were duly completed by both parties.
- An invoice of Rs. 1 million was received from a cold storage facility in Lahore for storage services provided in respect of BFL's frozen poultry products.

All payments were made through crossed cheques or pay orders. Unless otherwise specified, all amounts are **exclusive of federal excise duty and sales tax, wherever applicable**.

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 BFL and the amount of input tax to be carried forward, if any, for the tax period May 2026. Also, compute the amount of withholding tax, wherever applicable. **(21 marks)**
(Show all relevant exemptions, exclusions, and disallowances)

QUESTION 7

Davis & Company, Chartered Accountants (the firm), has recently been appointed as the statutory auditor of Hudson Publishing (Private) Limited (HPPL) for the year ending 31 December 2026. Prior to this appointment, the firm had been providing taxation services to HPPL, including representation in tax litigation matters.

In a recent meeting, management requested the following:

- (i) The firm to continue representing HPPL before the Appellate Tribunal Inland Revenue (ATIR) in respect of the appeal for tax year 2022 until the final order is issued. The firm has represented HPPL in this case throughout the proceedings. The matter had been heard before the firm's appointment as auditors. During the last hearing, ATIR asked certain additional supporting documents, and indicated that, upon receipt of those documents, the proceedings would be concluded and the order would be issued.
- (ii) Management has also requested the firm to represent HPPL in appeals before ATIR relating to tax year 2025 and earlier years, during which the firm was not acting as the statutory auditors.

Required:

In the light of ICAP's Code of Ethics for Chartered Accountants, advise whether the firm may continue or accept representation before ATIR in each of the above requests. **(06 marks)**

(THE END)

