THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN CERTIFICATE IN ACCOUNTING AND FINANCE (CAF) EXAMINATIONS EXAMINERS' COMMENTS	
SUBJECT Principles of Taxation	**SESSION** Autumn 2019

Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	
47%	42%	32%	4%	26%	25%	73%	49%	31%

General comments

Although, the difficulty level of the paper was moderate and even though some of the examinees performed well, the overall performance declined as the passing ratio decreased to 31% from 35% in the previous attempt. Question number 4 particularly proved to be very challenging for most of the examinees. The apparent decline in performance was due to the following reasons:

- Selective study.
- Lack of understanding of requirement of the question.
- Producing irrelevant workings thereby creating time constraint.
- Lack of communication and presentation skills.

Question-wise common mistakes observed

Question 1

- Incomes were not classified under appropriate heads.
- Salary received by Saeed from DSL and car facility provided to him for personal use were offered to tax on the basis of 12 months instead of 9 months of actual receipt / use.
- Examinees also failed to acknowledge that exempt salary does not form part of salary income.
- Car provided wholly for official purposes was wrongly offered to tax at the rate of 5% of the value of car.
- Bonus received after the year-end was included in taxable income.
- Free food provided in lunch was treated as exempt.
- Many examinees, without appreciating the rule for the computation of deductible allowance, considered the entire amount of mark-up on loan obtained from a scheduled bank, as direct deduction.

- Exemption on employer's contribution to provident fund was wrongly considered at Rs. 75,000 instead of Rs. 150,000.
- Withholding tax deducted at source on dividend was wrongly deducted from total income.
- Majority of the examinees failed to compute the correct amount of gross dividend.
- Some of the examinees wrongly adjusted the tax withheld u/s 149 from total salary.

Question 2(a)

- Examinees failed to appreciate that rent is charged to tax on accrual basis.
- Many examinees did not acknowledge that non-adjustable deposit received by the owner of building from the tenant is also considered as rent.

Question 2(b)

- Many examinees offered 11 months' rent to tax instead of 12 months.
- Expenses relating to residential property were considered to be admissible in case of individuals.
- Rent from factory building together with plant and machinery was wrongly considered under the head 'Income from property'.
- Many examinees computed initial depreciation on both building and plant and machinery. Only few examinees correctly computed depreciation for the period of 6 months instead of the whole year.
- Gain arising on sale of plot in Quetta was wrongly treated as taxable gain.
- Some examinees considered the gain to be taxable under the head 'Income from property'.
- Some examinees offered the rent received in advance for two years to be taxed under the head Income from property.

Question 3(a)

Majority of the examinees ignored the fact that Jean Francois was allowed to use special tax year by Commissioner-IR and wrongly determined his residential status based on normal tax year as resident individual.

Question 3(b)

Good performance was observed in this part of the question.

Question 3(c)

Most of the examinees were ignorant of the fact that tax depreciation would be computed without considering the effect of revaluation.

Question 3(d)

- Majority of the examinees failed to acknowledge that the amount by which the loan liability would be increased or reduced, due to exchange rate fluctuations, would be added to or reduced from the cost at which the asset was booked.
- Some examinees instead of discussing the cost unnecessarily deliberated on charging of initial and normal depreciation on such machinery.

Question 3(e)

- Majority of the examinees could not identify the conditions under which Farhan and Imran would have been assessed as an association of persons. They considered that both of them would share the rent equally.
- Some of the examinees thought that since Farhan and Imran jointly own a building in Quetta, rent received from the company will be chargeable to tax under the head income from property and no deduction would be allowed to them against such income.

Question 4(a)

The answers were varied in nature. Most of the examinees thought that sale day book, purchase day book, double entry book, sales tax paid and received, inward and outward books etc. shall be maintained at business premises.

Question 4(b)

- Most of the examinees instead of explaining the provisions of law relating to income subject to FTR, deliberated on the types of income which may be regarded as FTR income.
- In view of some of the examinees, FTR income was the income which was received after deduction of tax and was to be added to assessee's total income for rate purposes only.

Question 4(c)

- Majority of the answers were incomplete. Many examinees thought that special audit panel(s) may be appointed by the Commissioner Inland Revenue and an advocate of High Court and two retired civil judges may be appointed on the panel.
- One of the aspects which was generally missed by almost all the examinees was that the functions performed by the officer of Inland Revenue as member of special audit panel shall be treated as having been performed by the special audit panel itself.

Question 5(a)

Majority of the answers revolved around one or two points. Many examinees failed to appreciate that distribution of assets on dissolution of AOP and on liquidation of company are also the situations in which fair market value is deemed to be the cost of the asset.

Question 5(bi)

- Examinees failed to identify the correct head of income.
- Many examinees failed to restrict the cost of vehicle to Rs. 2.5 million.
- Errors were made in restricting the sales proceeds in the same ratio in which the cost was restricted.

Question 5(bii)

- The examinees were of the opinion that the gain on disposal of machine would either be considered under business income or under income from other sources.
- Some examinees also wrongly calculated initial allowance and normal depreciation allowance for computing gain on disposal.

Question 6(a)(i)

Most of the examinees failed to understand the requirement of the question and incorrectly deliberated on the time of supply.

Question 6(a)(ii)

- Majority of the answers were incomplete and covered only one or two instances of treatment where there was a change in tax rate.
- Most of the examinees failed to comprehend that a separate return has to be furnished for each portion of the tax.
- Few examinees thought that if duty is paid to custom authorities for import of goods and rate is changed, further tax shall be paid, if there is an increase in tax rate, or on the other hand refund would be claimed if there is a decrease in tax rate.

Question 6(b)

- Most of the examinees identified the authorities who may accord permission for destruction of goods or may supervise the destruction of goods as Commissioner Inland Revenue and Additional Commissioner Inland Revenue respectively.
- Examinees were also of the view that if goods are destroyed in the aforesaid manner than input tax claim becomes admissible.

Question 6(c)

- Majority of the examinees seemed to be unaware about the persons who may file various returns and the timeline within which such returns may be filed.
- In case of electronic filing of monthly return, many examinees did not appreciate that the due date of filing the return is 18th of next month, whereas sales tax payable with the return can be paid till 15th day of next month.
- In case of special returns few examinees were aware that it is to be filed on the date specified by the Commissioner.
- In case of final return, many examinees failed to appreciate that such return is to be filed by a person who applied for de-registration.

- In case of annual return, majority of the examinees mixed it up with the filing of annual income tax return and as a results produced irrelevant answers.

Question 7

- Input tax was wrongly computed on purchase of goods worth Rs. 1,200,000 against which a discrepancy was indicated by the CREST.
- Ignoring the definition of time of supply, no input tax was computed on 60% of goods which were not supplied during the tax period.
- Some examinees misunderstood the requirements of section 8B of the Sales Tax Act, 1990 and considered that 10% of the output tax would be payable in all cases.
- Many examinees ignored unclaimed invoice of 15 March 2019. Whereas some examinees treating it as a bottom line figure deducted it from the amount of sales tax payable.
- Input tax on machine B was ignored as it was not used to produce taxable goods.
- Further tax was wrongly computed at the rate of 2% on supply of taxable goods to un-registered end-consumers.
- Sales return was ignored while computing residual input tax. In some cases examinees failed to allocate residual input tax between exempt and taxable supplies.

Question 8(a)

Some of the examinees failed to comprehend the requirement of the question and deliberated on the canons of taxation. Whereas, few examinees could not distinguished between the concepts of 'Ability to pay principle' and 'Equal distribution principle'.

Question 8(b)

Majority of the examinees performed well in this part of the question. However, responses in respect of Federal Excise Duty were mostly incorrect as examinees were unaware of the basis of its chargeability. Some examinees erred and mixed up direct taxes with that of indirect taxes.

(THE END)