

**INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Tax Practices	Certificate in Accounting and Finance (CAF) Autumn 2023

**Passing %**

Question-wise								Overall
1	2	3	4	5	6	7	8	
73%	58%	53%	37%	7%	21%	58%	41%	43%

**General comments**

The overall performance in this session has improved compared to Spring 2023 (29%). However, a downside of the result is that examinees did not concentrate on the question's requirements leading to a waste of time in producing material that was not required in the question. Further, many examinees overlooked the importance of the verbs used in the requirement. For instance, in question numbers 5(b) and 6, the verb "discuss" implies the expectation to provide not only the conclusion but also the basis or reason for it, rather than directly jumping to the conclusion.

**Question-wise common mistakes observed**

**Question 1**

- Free meals while on duty were not considered exempt and/or staff discounts were considered exempt.
- In the calculation of total income, interest income was considered after deducting withholding tax rather than including it in its gross form.
- Incorrect amounts of provident fund contribution and profit were offered for tax.
- In respect of the employee share scheme, FMV on the date of grant of options instead of exercising the options were taken.
- Health insurance was subject to tax.

**Question 2**

- Non-adjustable security deposit from Rashid was either ignored or offered for tax with an incorrect amount.
- Security and electricity charges were classified under Income from property instead of income from other sources.

### **Question 3(a)**

- In respect of transaction (i):
  - Applying a business asset (stock) for personal use was not treated as a disposal of the asset.
  - The cost of the furniture was not claimed as an allowable expense against the consideration received.
  - Income from the disposal of furniture was not considered income from business.
- In respect of transaction (ii), it was not realized that the loss on disposal of the antique shall not be recognized.

### **Question 3(b)**

Most of the examinees presented one or two valid exceptions and the remaining responses pertained to the other exceptions, either being incorrect or half-hearted.

### **Question 4(a)**

- Rental income was not excluded from business income.
- Depreciation on POS machines was calculated, despite that tax credit was also claimed for the purchase of POS machines.
- Rental income from agricultural land was not considered exempt.
- While adding back an amount due to the inadmissible purchase of raw materials, on which no withholding tax was deducted at the time of payment, the maximum cap of 20% was applied to Rs. 24 million instead of Rs. 200 million.
- Depreciation of the van was computed by taking Rs. 6 million.
- Amortization related to the development of an application was claimed in computation whereas the same is available to use after the year's end.
- The market value of eggs utilized as a raw material in the production of bakery products was not acknowledged as an admissible expense.

### **Question 4(b)**

Many examinees failed to mention that the said tax credit is available to start-up businesses only. Further many were unable to recognize that since not all partners are women, Sweet Bakers is not eligible for the said tax credit.

### **Question 5(a)**

This was the worst attempted question as just 7% of examinees were able to secure passing marks in this part of the question. The reason was that many examinees directly jumped to the conclusion that since Akbar's stay in Pakistan was less than 183 days, he is classified as non-resident and consequently his foreign source salary is not chargeable to tax in Pakistan. However, they failed to analyze the scenario by considering other criteria related to the residential status of the individual. As a result, the discussion regarding the chargeability of Akbar's foreign source salary, if he is classified as a resident, was neglected.

**Question 5(b)**

Many examinees struggled to provide the correct basis or reason for determining whether the persons in question are required to furnish the return of income for the tax year 2023.

**Question 5(c)**

Many examinees confined their responses to indicating the time frame for the original assessment order and ignored specifying the period for the amended assessment order.

**Question 6(a)**

Many examinees were unable to offer a valid reason for determining whether the persons given in the question were associates of Sarfraz or not.

**Question 6(b)**

Many examinees presented the due dates for filing income tax returns across various types of tax years instead of the due date for filing various types of sales tax returns. Some produced just one or two types of returns along with their due date and ignored the rest of them.

**Question 7**

- Glass bottles provided free of cost were not subject to sales tax.
- 60% of the entire machine cost was subject to sales tax.
- Sales return was taken into account in August 2023 despite that the related debit/credit notes were issued on 5 September 2023.
- Purchase return of packaging material was taken into account in August 2023 despite that the period of 180 days had lapsed.
- Purchase of raw materials omitted in sales tax returns for February 2023 and onwards were not claimed in August 2023.
- Perfumes provided to the marketing staff as part of a promotional campaign were not offered for tax.
- Input tax related to both local supplies as well as exports were not apportioned between them.

**Question 8(a)**

- Principles were just stated without their explanation.
- The explanation provided did not align with the corresponding heading.

**Question 8(b)**

Many examinees simply listed the fundamental principles without describing any two of them, as specified in the question.

***(THE END)***