

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Tax Practices	Certificate in Accounting and Finance (CAF) Spring 2023

Passing %

Question-wise								Overall
1	2	3	4	5	6	7	8	Overall
64%	15%	30%	6%	9%	44%	52%	24%	29%

General comments

The overall performance in this session has declined compared to Autumn 2022 (38%), mainly due to poor performance in Q.2, Q.4, and Q.5.

It has been observed that examinees were unable to apply their theoretical knowledge to practical situations. For example, in Q.3, examinees were provided with different brought forward losses and were expected to adjust them wherever applicable, carrying forward the remaining amount to the subsequent year, along with mentioning the maximum period up to which such losses may be carried forward. However, despite being aware of the treatment, as observed in the previous session, in knowledge-based questions on the same area, examinees failed to effectively demonstrate their understanding in practice.

Question-wise common mistakes observed

Question 1

- The entire medical allowance was subject to tax, and it was not exempt up to 10% of the basic salary.
- The company-maintained car was subject to tax by considering its fair value instead of cost. Further, the calculated tax amount was not adjusted to reflect the duration of use.
- The entire gratuity was considered exempt, rather than having a limit of Rs. 75,000.
- The payment of Cheng's loan, payable to HL, was not subject to tax.
- Interest on loan at the benchmark rate of 10%, being deemed income, was not subject to tax under 'Salary'. On the other end, the same was not deducted as an allowable expense under 'Income from property'.
- The amounts related to the share of a business in China and dividend income were included in the total income on a net-of-tax basis.
- The calculation of the foreign tax credit was ignored.

Question 2

Several errors were made relating to the head of income, tax regime, and/or admissibility of associated expenses. For persons whose income falls under the final tax regime, the column denoting the head of income incorrectly indicated "income from other sources." Similarly, in the column specifying the admissibility of related expenses, the entry was incorrectly marked with a "yes."

Question 3

- The loss on the disposal of new machinery during shipment was not classified under 'Capital gain'.
- Cash payment for the purchase of air tickets was considered an inadmissible expense.
- The shortfall in the recovery of bad debts was not allowed as a deduction in computing FB's income.
- Tax depreciation for the year was considered prior to deducting carried-forward business losses.
- The entire unabsorbed tax depreciation or 50% of it was adjusted against income from business, rather it should be up to 50% of income from business.
- The carried forward capital loss from the sale of listed securities, related to the tax year 2019, was utilized to offset capital gain for the current year, even though the maximum allowable period for adjusting this loss had already elapsed. Furthermore, the capital loss related to the tax year 2020 was adjusted against capital gain from the sale of unlisted securities, which was incorrect.
- Incorrect tax rates were applied to compute tax liability related to income subject to a separate block, i.e., capital gain on the sale of modaraba certificates and shares of a listed company.
- The cost of the plant was not adjusted for foreign exchange gain/loss that arose on the corresponding liability.

Question 4(a)

Many examinees failed to recognize that the provided contract was specifically excluded from the definition of speculation business. As a result, they based their answers on provisions related to speculation business.

Question 4(b)

Examinees were unable to acknowledge the requirement for Kulsoom to file a tax return since she started her business during the year. Furthermore, many examinees were uncertain about the minimum threshold limit for filing the return and/or making tax payments.

Question 5(a)

- Examinees failed to mention the cases that are eligible for settlement through the ADR mechanism.
- Examinees failed to mention the composition of the members comprising the ADR committee.

Question 5(b)

Examinees were unable to provide all the provisions pertaining to the filing of a revised return of income by a taxpayer.

Question 5(c)

Examinees failed to provide a complete list of particulars to be mentioned in the foreign income and assets statement.

Question 6(a)

Examinees were able to correctly identify the time (month) of supply for given transactions, but they failed to state the reasons behind it.

Question 6(b)

Examinees failed to state the procedure for the recovery of short payment of sales tax.

Question 7(a)

- Wires and cables were not considered subject to tax.
- Raw material given to the factory engineer was considered subject to tax. Consequently, input tax related to this purchase was not disallowed.
- Input tax was not reduced by purchase return.
- Supplies made under the warranty period were considered subject to tax.
- Goods withdrawn by the owner for personal use were not considered subject to tax.
- Sales to the cottage industry were not considered subject to tax.
- A sales tax invoice dated 15 July 2022, which was erroneously not declared in the sales tax return for the month of July 2022 and onwards, was not considered subject to tax in the current month. The 180-day rule shall not be applicable to this transaction as the output tax has increased.
- A further tax percentage was applied to sales to the cottage industry.

Question 7(b)

Many examinees failed to provide the reasons for all exemptions, exclusions, and disallowances considered when calculating sales tax liability.

Question 8

Upon reviewing the examples provided by examinees, it became evident that they lacked a comprehensive understanding of the clear differentiation between tax avoidance and tax evasion. Some examinees provided definitions of tax avoidance and tax evasion that were not the requirement of the question.

(THE END)