

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Advanced Taxation	SESSION Certified Finance and Accounting Professional (CFAP) Examination - Winter 2017

General:

The examination consisted of seven questions. Approximately, 58 percent of the marks were allocated for computational skills and remaining 42 percent for essay based questions. In this attempt, there was a sharp decline in overall performance compared to previous examinations. Particularly, extremely disappointing performances were witnessed in question numbers 2, 4 and 6.

Once again, lack of thorough understanding and selective studies seems to be the main obstacle in passing the examinations.

Question-wise comments are as under:

Question 1

This question required candidates to compute the amount of tax payable by a private limited company (LPL) for the given tax year along with the amount of tax, if any, to be carried forward. It was a simple question and candidates' overall performance remained satisfactory. Following mistakes were however found in most of the answer scripts:

- Some candidates, without knowing the significance of paid up capital provided in the question, treated LPL as a small company and rate of 25% was applied for computing tax on income under NTR as the candidates did not know that a company with share capital in excess of Rs. 50 million cannot be considered as a small company.
- Many candidates did not split total turnover between various tax regimes such as NTR, MTR and FTR and as a result, common expenses remained unallocated.
- Majority of the candidates could not identify that Engineering services of Rs. 2,000,000 were covered under minimum tax regime (MTR). It was either treated under normal tax regime (NTR) or in some cases under final tax regime (FTR) and as such correct tax liability on the income could not be computed.
- Majority of the candidates could not calculate the correct amount of discount and sales tax related to the sale of goods to a customer in Balakot.
- Many candidates also treated trade discount of 30% on the above sales as inadmissible for computing taxable income. They did not appreciate that such discount was to be ignored only for computing the amount of sales tax and for the purpose of computing turnover for minimum tax purposes but was an admissible expense under the income tax laws.
- The amount of tax of Rs. 49,500 paid under section 148 on packing material was wrongly considered to be tax payable along with the return.

- Majority of the candidates did not club together the minimum tax paid/payable under different provisions of the Ordinance for comparing it with the tax liability under NTR and determining corporate tax payable.
- Some candidates considered tax refund of Rs. 125,000 as taxable under NTR.
- While computing turnover for the purpose of minimum turnover tax, majority of the candidates failed to exclude the amount of discount on Balakot sale from the total turnover. Similarly, while computing adjusted accounting profit for the purpose of ACT, candidates failed to adjust accounting income on export sales.
- In few cases other income was also allocated to incomes under NTR, MTR and FTR on turnover basis. Moreover, few candidates allocated common expenses to other income as well.
- Majority of the candidates failed to carry forward the excess of minimum tax over tax under NTR for adjustment against tax liability for next five tax years.

Question 2

This question was divided into three parts. The overall performance remained disappointing as only 10% of the candidates secured passing marks.

Question 2(a)

In this part, the candidates were required to compute the amount of tax depreciation on plant & machinery, factory building and furniture in the given scenario. The performance on this part of the question remained below average. Following mistakes were observed in most cases:

- Many candidates could not acknowledge that insurance premium and repair cost did not form part of the cost of machinery as these were not incidental in acquiring the machinery.
- Majority of the candidates deducted the entire amount of government grant from cost of machinery without realizing that it was the actual sum spent which had to be deducted from the cost of machinery.
- Many candidates also computed depreciation on assets for tax year 20X5. They did not appreciate that a deduction for tax depreciation/initial allowance is allowed in the year in which the asset was first put to use or the tax year in which commercial production commenced, whichever period is later.
- Many candidates ignored initial depreciation.

Question 2(b)

The performance on this part remained unsatisfactory. Most of the responses were incomplete, especially in relation to judicial members, and seemed to be the product of guesswork. Majority of the candidates could not differentiate between the judicial and accountant members as they produced a combined list of persons who may be appointed as member of the Appellate Tribunal. Most common errors were that officers of the Federal/Foreign/Provincial Governments, any person having accounting experience, a registered person, a reputable taxpayer or a tax practitioner, were declared to be eligible for appointment as members of the Tribunal. Some candidates who mentioned correctly that chartered accountants and cost and cost and management accountants are eligible for appointment as accountant members, did not specify the experience requirement of 10 years.

Question 2(c)

This part consisted of two sub-parts and the requirement was to state the date of acquisition in case of a security acquired on account of a nomination under section 80 of the Companies Ordinance, 1984 under bequest and in the case of a borrowed security.

The performance in this part of the question was the worst among all the questions. Almost all the responses produced were irrelevant and seemed to be the outcome of guesswork. In sub-part (i) many candidates thought that date of acquisition is the date on which security is transferred in the name of recipient. In sub-part (ii), there were instances where the candidates even thought that a person cannot borrow securities.

Question 3

This question required candidates to compute the total income, taxable income and tax payable by or refundable to an individual taxpayer in the given scenario.

This was the best attempted question of the paper and 45% of the candidates secured passing marks. The mistakes observed were as follows:

- While computing share in AOP's profit for rate purposes, majority of the candidates did not appreciate that it will be the profit before tax and not profit after tax which would be included in the taxable income. Further, exempt income earned by the AOP was erroneously deducted from AOP's profit for computing the share in AOP's profit.
- Many candidates wrongly interpreted holding in shares of Lucky Inc. as securities defined under section 37A of the Income Tax Ordinance, 2001 and considered the gain arising on sale of shares in Lucky Inc. to be covered under FTR.
- Many candidates thought that zakat paid to an approved NGO meets the criteria of a deductible allowance. They did not appreciate that a person is entitled to a deductible allowance for the amount of zakat paid only if it is paid under the Zakat and Ushr Ordinance, 1980. Moreover, many candidates computed rebate treating the amount of zakat as donation which was also incorrect as the amount was paid in cash.
- While computing the amount of foreign tax credit, instead of using the average rate of Pakistan tax which had already been computed, many candidates used a different rate based on tax excluding the impact of share in AOP's profit.

Question 4

This question was divided into three parts and was based on Federal Excise Act, 2005 and Rules made thereunder. The overall performance remained unsatisfactory while approximately 15% candidates did not attempt the question at all. Historically, this area has been neglected by the students probably because of the low weightage assigned to it in the syllabus. However, it was noted that a large number of those candidates who ended up with more than 40 marks could have passed the paper had they performed well in this question. Comments on each part are given below:

Question 4(a)

This part required the candidates to describe the provisions of Federal Excise Rules, 2005 related to the cancellation of registration of a person who was not registered for sales tax purposes and had ceased to provide or render excisable services. The performance on this part remained average. Most of the answers, though incomplete, qualified the passing criteria. However, some of the candidates thought that it is the FBR or the Federal Government instead of the Collector who may cancel the registration.

Question 4(b)

The performance on this part was quite unsatisfactory as majority of the candidates, while identifying the authority providing exemptions, named only the 'Board'. There were only few candidates who could acknowledge that the Board may accord exemption with the approval of the Federal Minister-in-charge and pursuant to the approval of the Economic Coordination Committee.

With regard to the circumstances under which exemption may be granted, very few candidates were able to specify more than one or two circumstances. Points such as national security, natural disaster or national food security were rarely mentioned.

Question 4(c)

Although it was a very easy and straight forward question, but performance in this part remained below average. In relation to sales tax mode, majority of the candidates restricted their answers to explaining the allowability of input tax whereas the definition of sales tax mode is much wider in its scope. Moreover, with regard to the type of goods and services on which excise duty is liable to be charged in sales tax mode only few candidates were able to write that goods specified in Second Schedule are liable to be paid in sales tax mode.

Question 5

This question required the candidates to compute sales tax payable by or refundable to a registered person (QFL) in a given tax period. The performance in this question remained below average as approximately 19% of the candidates managed to score passing marks. Following errors were commonly observed in the answer scripts:

- Majority of the candidates considered that input tax on oil purchased from oil marketing company is inadmissible on the ground that extra tax has been paid on it. However, they failed to appreciate that the same is allowable in pursuance of proviso to Rule 58T(1) of the Sales Tax Special Procedure Rules, 2007.
- Input tax on raw material of Rs. 390,000 purchased from SL on 6 November 2017 was considered to be inadmissible on the pretext of suspension of SL's registration by the Commissioner. The candidates failed to appreciate that input tax credit is allowed on invoices prior to suspension of registration. Probably, they got confused with the rule related to black listing where input tax adjustment is not available even on invoices issued prior to black listing.

- Value addition tax of Rs. 18,000 on import of wheel alignment machine was considered to be exempt in view of its in-house use without appreciating the fact that such exemption is available only to registered persons and QFL was not entitled for such exemption as it was not registered as a service provider.
- Goods supplied to a manufacturer for onward sale to an exporter holding concessions under DTRE scheme was incorrectly considered to be zero-rated as the candidates failed to appreciate that such zero rating is available only in case of direct sale to persons enjoying benefits under DTRE scheme.
- Many candidates failed to withhold sales tax on purchase of raw material from SL subsequent to its suspension.
- Majority of the candidates also failed to appreciate that further tax inadvertently collected from an un-registered wholesaler on supply of taxable goods covered under third schedule was not to be reversed since the incidence of tax had been passed on to the customers in terms of section 3B(1) of the Sales Tax Act, 1990.

Question 6

This question was divided into two parts and related to the constitutional provisions contained in Article 160 of the Constitution. The performance in this question was very poor as 54% of the candidates did not attempt the question at all. Performance in each part is discussed below: Part (a) required candidates to describe how National Finance Commission (NFC) is constituted and who may become the members of such Commission. Part (b) asked candidates to list any three recommendations which NFC makes to the President about the matters relating to finance. Although this topic was thoroughly studied by the candidates at CAF stage, their performance in both the parts remained dismal.

Question 6(a)

Only few candidates who attempted the question were able to identify that President constitutes the Commission and that Federal Finance Minister is one of the members of the Commission. Majority of the answers lacked completeness and seemed to be the product of guess work. Most of the candidates thought that not only the Prime Minister but also the Chief Ministers, Governors of all provinces, members of Parliament, Senate and Provincial Assemblies can be the members of the Commission.

Question 6(b)

In this part, most of the candidates correctly included the distribution of net proceeds of taxes between the Federation and the Provinces in the list of recommendations. However, the remaining points were seldom stated correctly.

Question 7

This question was divided into three parts. Performance in each part is discussed below:

Question 7(a)

This part required candidates to define the meaning of the term 'Tier-1 retailers' and state the provisions of the Sales Tax Act, 1990 relating to payment of sales tax by such retailers. Majority of the candidates defined the term 'Tier-1 retailer and secured high marks on it. However, most of them failed to describe the payment mechanism as envisaged in section 3(9A) of the Sales Tax Act, 1990. Majority of the answers were incomplete and confined to the statement that 'Tier-1 retailers shall pay sales tax at the rate of seventeen percent'. Only few candidates were able to also write that 'such retailers shall have an option to pay sales tax under the turnover regime at the rate of two percent of their total turnover'. Many candidates covered matters such as registration, maintenance of FECD, which were totally irrelevant.

Question 7(b)

This part was further divided into two sub-parts. The performance in each of the sub-parts was as under:

- (i) Here, the requirement was to describe the persons who are not entitled to represent a taxpayer before the Appellate Tribunal. The performance in this sub-part was satisfactory and majority of the candidates secured passing marks and many of them obtained full marks also.
- (ii) In this sub-part the candidates were required to describe the circumstances in which the Board may cancel the registration of the user authorized to use the computerized system. The performance on this sub-part was poor and most of the answers were based on guesswork and remained incomplete.

Question 7(c)

This part was also divided into two sub-parts. The performance in each of the sub-parts is discussed below:

- (i) In this sub-part candidates were required to describe the activities which have specifically been excluded from the ambit of 'Economic activity'. The performance on this part remained average as majority of the candidates were able to write at least one out of the two activities considered to be excluded from the ambit of economic activities.
- (ii) This sub-part asked candidates to describe the term 'Person'. It was very well attempted and majority of the candidates secured high marks.

(THE END)