

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN
CERTIFIED FINANCE AND ACCOUNTING PROFESSIONAL (CFAP) EXAMINATIONS
EXAMINERS' COMMENTS

SUBJECT Advanced Taxation	SESSION Summer 2019
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Passing %

Question Wise							
1	2	3	4	5	6	7	Overall
17%	15%	7%	39%	18%	17%	2%	6%

General comments

It was the first time that examinees were allowed to use Acts/ Ordinance relating to income tax, sales tax, excise duty and Rules made thereunder during the examination. Although the nomenclature of the paper was more or less the same, with the exception of theoretical questions which were replaced by questions requiring practical application of theoretical knowledge, the overall performance remained disappointing. Specially question numbers 3 and 7 proved to be very challenging to the examinees.

Examinees are advised that they should not underestimate the preparation needed for an open book examination. Open book exam demands more technical and analytical evaluation from them.

Question-wise common mistakes observed

Question 1

- Taxable income was computed by using profit before tax figure of Rs. 7,022,000 as a starting point instead of constructing profit or loss account using direct method.
- The major reason for examinees' underperformance in this question was their failure to correctly identify the schemes of taxation relating to various revenue streams. For instance, IT enabled services are exempt under Second Schedule to the Income Tax Ordinance, 2001. However, examinees attributed it to NTR income and in some cases to FTR income. Similarly beverages and paint sales were treated as NTR income.
- Common expenses were either not computed or allocated in the sales ratio.
- Examinees could not comprehend that due to non-deductibility of withholding tax, 20% of the paint purchases became inadmissible under section 21 of the Income Tax Ordinance, 2001.
- Examinees failed to compute the correct amount of gain on sale of securities in MTL as they considered the cost of securities to be Rs. 78 instead of 75 per share.
- Tax on sale of securities in MTL was computed at the rate of 15% instead of 7.5%.
- Examinees also failed to realize that tax on sale of beverages was to be computed on the gross value of sales. (i.e. inclusive of sales tax)

Question 2(a)(i)

- Examinees failed to realize that a manufacturer cannot claim input tax on purchases from unregistered persons because unregistered persons cannot issue a tax invoice.

Question 2(a)(ii)

- Majority of the examinees were of the view that after the expiry of six months input tax credit cannot be claimed.
- Examinees who identified that input tax can be claimed by filing an application to the Commissioner having jurisdiction, failed to appreciate the conditions which the Commissioner should verify before granting extension to claim input tax.

Question 2(b)(i)

- Examinees failed to appreciate that sales tax was to be calculated as a fraction of the value of supply.
- Although examinees correctly computed the amount of default surcharge, they failed to compute penalty for not depositing sales tax in time as well as for not issuing the tax invoice.

Question 2(b)(ii)

Examinees satisfactorily described the circumstances in which the company would have been absolved from payment of any penalty and default surcharge.

Question 3(a)

This question consisted of three sub-parts. In part (i) examinees were required to advise the company with regard to the implications of withholding tax, in part (ii) they were required to compute the tax liability and in part (iii) requirement was to state the amount of tax to be carried forward to the next tax year.

- Most of the examinees were seemed to be unaware of the difference between the concepts of withholding tax deducted and tax deductible.
- Examinees failed to comprehend that service charges retained by the agent, serving as a special purpose vehicle, was to be treated as having been paid the service charges.
- Examinees also did not appreciate that the company was liable to pay withholding tax of Rs. 2,640,000 on the balance of receipts of Rs. 33,000,000 in addition to Rs. 840,000 which was withheld by company's clients on gross receipts of Rs. 10,500,000.
- Except for few, none of the examinees realized that since the tax withheld on web design and hosting services was more than tax under normal tax regime, withholding tax was to be payable as minimum tax.
- Examinees also failed to identify that it was a small company and tax rate of 24% was applicable instead of 29%.

Question 3(b)

Examinees correctly computed the amount of provision to be made during the year. However, majority of them could not compute the amount of bad debts to be carried forward from tax year 2018 to tax year 2019.

Question 3(c)(i)

Many examinees could not comprehend that after the merger, the cost base of new shares would remain the same.

Question 3(c)(ii)

This part was performed well by majority of the examinees.

Question 4

- Input tax on purchase of raw material from MA was considered to be inadmissible on the grounds of not falling under the active tax payers' list. As a result, no withholding was made by majority of the examinees.
- Input tax on fork lifter was considered to be inadmissible by many examinees.
- In contradiction to the requirements of clause (ca) of sub-section (1) of section (8) of the Sales Tax Act, 1990 input tax was claimed on advance made against purchase of detergents.
- Extra tax was computed on sale of auto parts and accessories.
- Output tax on supply of rock phosphate was charged at the reduced rate of 10% without realizing the fact that necessary conditions for reduced rate were not met.
- Iron bars were considered to be taxable at the rate of 17%.
- Supply of parts and components for LED bulbs was incorrectly considered to be exempt from the levy of sales tax.
- Supply of finished fabrics to un-registered persons was considered to be chargeable at the normal rate of 17% instead of 9%.
- Many examinees allocated input tax on exempt supply of iron bars without appreciating that there was no residual input tax relating to iron bars.
- Further tax was charged on supply of second-hand and worn footwear which in fact is exempt from such tax.

Question 5

- Some examinees gave generalised answers and explained all the fundamental principles of ICAP's Code of Ethics.
- Many examinees, though identified the principles that were breached, failed to provide any reason(s) in support of their conclusion as why they considered that those principles were breached.
- Some of the examinees also failed to deliberate on the appropriate safeguards which Salman Abbas would have taken under the circumstances.

Question 6(i)

- Examinees correctly identified that excise duty on cooking oil would be levied in sales tax mode. However, they could not comprehend that the process of packing falls within the ambit of manufacturing process and as such cooking oil would be exempt from the levy of excise duty.
- Some examinees were of the view that since cooking oil is supplied to the export processing zone, excise duty would be levied at the rate of zero percent.

Question 6(ii)

Most of the answers were limited to the fact that excise duty would be charged at the rate of 16%. Examinees ignored the fact that since provincial sales tax was already paid on brokerage services, excise duty on such services shall not be levied.

Question 6(iii)

- Most of the examinees answered this part in view of the requirements of Sales Tax Act, 1990 instead of Federal Excise Act, 2005 and as such treated the item as zero rated.
- Some of the examinees were of the view that excise duty would be charged at the rate of 60% of retail price.

Question 7(a)

- Receipts from donation, contribution and subscription were considered as business income.
- No adjustment was made in respect of non-adjustable deposit of Rs. 204,000.
- Fire alarm and watchman's salary were treated as admissible expenses.
- Examinees failed to identify the criteria on the basis of which VTF was not eligible for 100% tax credit.
- Minimum tax under section 113 of the Income Tax Ordinance, 2001 was not computed.

Question 7(b)

- Majority of the examinees left this part un-answered.
- Those who answered this part, failed to comprehend that additional donation would make VTF eligible for claiming 100% tax credit under section 100C of the Income Tax Ordinance, 2001.
- Examinees were unaware of the fact that VTF shall have to pay tax @ 10% of the surplus funds.
- No adjustment was made with regard to restricted funds.

(THE END)