

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

SUBJECT Advanced Taxation	SESSION Winter 2019
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Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
53%	63%	40%	34%	36%	23%	47%	46%

General comments

The overall performance exhibited remarkable improvement and the passing ratio increased to 46% from 6% in the previous attempt. One of the main reasons for the improvement in results can be attributed to examinees getting acquainted with the pattern of questions asked in open book examination.

Question-wise common mistakes observed

Question 1(a) (i) and (ii)

Majority of the examinees performed well in this part of the question.

Question 1(b)

- Examinees offered no comments with regard to the cost of 3,000 new shares in GL that the cost base of Rs. 150,000 will remain the same.
- Some examinees thought that extinguishment of 6,000 shares in DL shall be treated as disposal of shares.

Question 1(c)

- Majority of the examinees offered no comments with regard to the extent to which the amount of loan would have been treated as dividend.
- Some examinees were of the opinion that whenever a loan is provided to a shareholder, irrespective of the nature of company whether public or private, it is always considered as dividend.
- Few examinees also opined that withholding tax is not required to be deducted on a loan to shareholder.

Question 1(d)

- Most of the examinees failed to compute penalty for late filing of return of income.
- Similarly, many examinees did not compute penalty at the rate of 5% for not depositing tax within the stipulated time.
- While computing default surcharge, examinees ignored the fact that grant of an extension of time for the submission of return does not change the due date for the payment of income tax under section 137. As a result number of days of default was wrongly computed by most of the examinees.
- Few examinees wrongly considered taxable income as the basis for the computation of penalty for late filing of return of income instead of tax payable.
- Only few examinees were able to point out that in addition to financial consequences, the late filer would be removed from the active taxpayers' list and could only be included therein on filing the return of income and payment of surcharge of Rs. 1,000.

Question 1(e)

- Majority of the answers were limited to the statement that interest of Rs. 228,000 is an inadmissible expense whereas lease rentals of Rs. 475,000 are admissible deduction.
- Barely any examinee was able to identify that the machinery would not be eligible for initial allowance of depreciation.
- Most of the examinees thought that if the sum of residual value and total lease rentals paid during the term of lease towards the cost of the asset is not less than the original cost of the asset, then machinery would be recognized at its residual value, otherwise the machinery would be recognized at its market value of Rs. 868,000.

Question 2

- Input tax on purchase of packing material from distributor was treated as admissible without considering the fact that the vendor was inactive.
- Paint was treated as Third Schedule item, falling under retail price mechanism, whereas it was taxable on ad valorem basis.
- The import value of 1,700 litres of paint was grossed up by the amount of custom duty of 20%. Some examinees did not appreciate that import value mentioned in the question was inclusive of custom duty. Additional tax at the rate of 3% was also not charged on the assertion that the paint was imported in bulk quantities.
- Input tax on tiles was calculated on the premise that it was transferred from specified goods to Third Schedule, although tiles were purchased in June 2019. Similarly, some examinees claimed input tax paid on tiles to manufacturers in June 2019 as bottom line figure.
- Similarly, input tax on cooking oil which was purchased in October 2019 was wrongly claimed in November 2019.
- Majority of the examinees wrongly computed the un-adjustable amount of input tax on paint supplied to EPZ.
- Some examinees considered input tax on fiscal cash register as part of residual input tax whereas few of them considered the entire amount of input tax as residual input tax.
- Output tax on supply of 800 and 600 litres of paint were wrongly computed on the basis of retail price considering it to be the item covered under retail price mechanism.
- Some examinees also computed further tax on supply of tiles to un-registered contractors without appreciating the fact that further tax is not applicable on Third Schedule items.
- Some examinees considered sales tax paid on cold storage facility under Punjab Revenue Authority as Federal levy.

Question 3(i)

The answers were limited to the statement that Ali Ahmad was in breach of professional competence and due care. Majority of the examinees failed to provide any reason for their conclusion. Some examinees also expressed the opinion that Ali Ahmad should revise the return of income.

Question 3(ii)

Only few examinees were able to identify all the three breaches i.e. integrity, professional competence and professional behaviour.

Question 4(a)

- Majority of the answers were incomplete and examinees failed to acknowledge that input duty on services is not allowed to be claimed.
- Examinees also failed to identify that input tax is inadmissible in cases where input duty is not paid.
- Most of the examinees did not appreciate that since provincial sales tax on services is paid on franchise fees, no duty under the Excise Duty Act, 2005 shall be levied on it.

Question 4(b)

- Majority of the answers were confined to the statement that duty at the rate of zero percent shall be charged on 10,000 bottles of aerated waters exported out of Pakistan.
- Most of the examinees were ignorant of the fact that Dexo Corporation can claim duty drawback on fruit juices used in the manufacture of aerated waters manufactured in and exported out of Pakistan.
- Barely any examinee was aware of the conditions which are necessary to be fulfilled with regard to the admissibility of excise duty paid on fruit juices.

Question 5

- Deemed income of Rs. 225,000 was treated as part of business income instead of other source income.
- Though examinees identified that Rs. 1,500,000 would be capitalized, most of them failed to acknowledge that it would be amortised over a period of twenty five years.
- Similarly, most of the examinees considered advertisement expense of Rs. 5,310,000 to be capital in nature and suggested that it must be amortised over the period of twenty five years.
- Majority of the examinees did not appreciate that capital loss of Rs. 600,000 was to be carried forward to the next tax year and set off against the capital gain chargeable under the head capital gains for that year.
- Most of the examinees ignored to comment on the taxability of the loss of Rs. 900,000 sustained by DPL on discontinuance of vaccine units whereas some of examinees considered it to be an admissible deduction.
- Many examinees did not comprehend that there would be no gain on sale of machinery as both DPL and TPL belonged to a wholly owned group of companies at the time of disposal of machinery.
- With regard to gain on disposal of shares in a private company, majority of the examinees did not appreciate that since the shares were held for more than one year, twenty five percent of the gain would be exempt from tax.

- The provision of section 21(c) was wrongly applied by majority of the examinees to the entire amount of purchases of Rs. 1,200,000 whereas it was only applicable to local goods of Rs. 450,000
- With regard to unabsorbed depreciation majority of the examinees were unaware of the provision that unabsorbed depreciation would be applied against fifty percent of the balance income chargeable under the head income from business and that such loss shall be set-off against hundred percent of the said balance income provided the taxable income for the year is less than Rs. 10,000,000.
- Most of the examinees did not comprehend that loss of Rs. 675,000 which was surrendered by DPL in favour of TPL was not valid as TPL was engaged in trading business and was not entitled to avail group relief.

Question 6(a)

- Many examinees considering salt to be covered under Third Schedule under spices, charged sales tax on supply of salt at retail price.
- Majority of the examinees failed to comprehend that SA could have disclosed the purchase of salt in its October 2019 return, as it did not carry any input tax adjustment.
- Some examinees, ignoring the requirements of serial number 107 of the Sixth Schedule, treated the supply of salt as exempted.

Question 6(b)

- Majority of the examinees did not appreciate that the refund claim filed by Taj Saeed was valid as it was filed within one year of the date of payment of input tax on raw material exported to Iran.
- Many examinees combined the amount of default surcharge with the amount of refund due while computing further amount due on delayed refund.
- Few examinees computed further amount after deducting the amount of default surcharge from the amount of refund due to Taj Saeed.

Question 6(c)

- Majority of the examinees considered the placement of water and soap dispensers as taxable supply and concluded that DE must pay the amount of Rs. 23,800 to the Inland Revenue Department.
- Some examinees considered the dispensers as advertisement material and as such exempt under the Sixth Schedule.

Question 7(a)

Some examinees used the face value of shares of Rs. 10 each instead of the fair value of shares of Rs. 20 each for computing the number of shares to be issued to Moiz Bilgrami.

Question 7(b)

- Many examinees considered fair market value of assets instead of the written down value of assets as the basis for computing BHPL's cost of acquisition.
- Many examinees ignoring the provisions of section 95(2) of the Income Tax Ordinance, 2001 deducted total liabilities from the total cost of assets for computing cost of acquisition of assets.

Question 7(c)

Many examinees erroneously considered 5,000,000 shares as the basis for the computation of cost of shares received by Moiz Bilgrami as consideration.

(THE END)