THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN CERTIFIED FINANCE AND ACCOUNTING PROFESSIONAL (CFAP) EXAMINATION EXAMINERS' COMMENTS	
SUBJECT Advanced Taxation	**SESSION** Winter 2020

Passing %

Question-wise							Overall
1	2	3	4	5	6	7	
43%	2%	24%	26%	28%	28%	1%	10%

General comments

Abysmal performance was observed in Winter 2020 attempt as the passing ratio significantly declined to a mere 10% from 46% in Winter 2019. Answers not only lacked completeness but also exhibited poor conceptual knowledge and skills. Except for question 1, on which the examinees performed comparatively well, answers to rest of the questions remained disappointing, particularly questions 2 and 7 proved to be very challenging for the examinees as about 70% examinees secured barely 30% marks on these questions.

Question-wise common mistakes observed

Question 1

- Many examinees instead of using direct method for the computation of taxable income under different tax regimes, used more complex way of computing taxable income by adjusting profit before tax figure for admissible/inadmissible expenses, and in doing so multiple errors were committed.
- Toll manufacturing services were considered to be taxable under final tax regime.
- Instead of grossing up export sales proceed of Rs. 11,300,000 the amount of foreign withholding tax of Rs. 1,832,000 was deducted from the tax liability under FTR.
- Accounting depreciation on specialized machinery was ignored while apportioning tax depreciation between cost of goods sold and administrative expenses.
- While computing tax depreciation on specialized machinery, initial depreciation was ignored. Similarly, examinees did not appreciate that tax depreciation on professional books was inadmissible due to non-deduction/collection of tax at the time of payment for the books.
- Examinees failed to comprehend that it was a small company and tax rate of 22% was applicable to it.
- Tax credit u/s 64C for employing fresh graduates was either ignored or incorrectly computed.

Question 2(a)

- Examinees were unaware of the fact that necklace received by Anjum was not to be treated as other source income as gifts received by a person from parents is excluded from the ambit of other source income.
- While computing gain or loss on sale of necklace, some examinees considered Rs. 325,000 to be the cost of necklace in the hands of Anjum.
- Examinees did not appreciate that Jamila and Anjum were not required to pay any tax as their respective incomes were below the minimum threshold of Rs. 400,000.

Question 2(b)

- Majority of the answers were incomplete and limited only to the imposition of penalty of 0.1% of the tax payable by NB for non-furnishing of return for tax year 2021 and NB's restoration to ATL after the payment of surcharge of Rs. 10,000.
- Examinees offered no comments with regard to the collection of advance tax at the rate of 4% by NBFC as NB's name was not appearing in ATL.
- Similarly, no comments were offered with regard to the issue of notice by Commissioner under subsection 4 of section 114, filing of return by NB in compliance with the above notice, consequences of failure to file the return in compliance with the notice and making of best judgement assessment and issue of assessment order to NB by the Commissioner etc.

Question 2(c)

- Examinees failed to identify the head of income to which gain on disposal of office building was to be charged.
- Examinees were of the opinion that since consideration received was more than the cost of the building, the cost of the building was to be treated as consideration received instead of the amount of consideration to be treated as cost of the building.

Question 3(a)

- Examinees were divided with regard to the chargeability of output tax on the insurance claim received by FL. Some of them were of the opinion that since it is an actionable claim no output tax will be charged whereas others were of the view that output tax will be levied subject to the transfer of ownership of goods to the insurance company.
- Similarly in case of input tax, examinees opined that input tax will be adjusted if the ownership of the goods has been transferred to the insurance company.

Question 3(b)

- Examinees failed to appreciate that since foam was supplied for industrial purposes it was outside the purview of Third Schedule and as such retail taxation was not applicable.
- Examinees also failed to comprehend that in addition to 17% sales tax, 3% value addition tax was also to be charged at import stage.

Question 3(c)

- Most of the answers were incomplete and limited to the statement that credit note must be issued within 180 days of the date of supply. Some of the examinees thought that it is the date of invoice instead of the date of supply.
- Except for few, examinees were unaware of the fact that the time period for the issuance of credit note may be extended by the collector, on obtaining reasons in writing, for another 180 days.

Question 4

- Examinees were unaware of the requirements that sales tax on import of tea was to be charged on retail price which was not to be less than 130% of the custom value, inclusive of all applicable taxes and charges but excluding sales tax.
- Examinees did not appreciate that since ZL was not registered under Provincial Services Act, it was eligible to adjust service tax paid on consultancy charges of Rs. 480,000 against its federal sales tax liability.
- Examinees failed to comprehend that input tax on purchase of toothpastes, covered under Third Schedule, was to be charged on its retail price of Rs. 112 instead of the purchase price of Rs. 98 per unit.
- Examinees also ignored to reverse input tax of Rs. 43,520 claimed in September 2020 on purchase of goods later supplied to a 250 beds teaching hospital as such supply was exempt from the levy of sales tax.
- Output sales tax was charged on supply of meat offal ignoring the fact that such supply was covered under Sixth Schedule of the Sales Tax Act, 1990.
- Output tax on supply of rice flour and meslin flour was charged on their gross values instead of discounted values.
- Supply of chemicals to Central Asian Republic countries through Afghanistan was treated as zero rated.
- Further tax was charged on supply of toothpastes to unregistered wholesaler ignoring the fact that it was covered under Third Schedule.
- Examinees also failed to withhold sales tax at the rate of 5% on purchase of goods, later supplied to exporters under DTRE.

Question 5

- With regard to unadjusted foreign tax credit, examinees were unaware of the fact that any unadjusted foreign tax credit cannot be refunded, carried back or carried forward to next tax period.
- The taxability of profit on debt was linked to the presence of permanent establishment whereas the same was subject to withholding tax regardless of the existence of PE.
- In respect of payment to a non-resident lawyer, examinees did not mention that the payer was personally liable to pay the amount of tax to the Commissioner.
- In relation to exchange loss, examinees did not appreciate that the amount of loss, by which the liability was increased, was to be added to the cost of machinery in the year of occurrence. Similarly, very few examinees knew that depreciation would be charged on the amount added to the cost of machinery at the rate of 15% p.a.

- Examinees wasted time in explaining the provisions relating to amortization of intangibles. They considered that amortization of trademark was admissible from the date of acquisition instead of the date when it was put to use in the business.
- While computing gain on sale of shares, majority of the examinees did not comprehend that under Rule 13P of the Income Tax Rules, 2002 the cost of shares received as specie dividend was to be taken as zero. Further, many examinees ignored that the gain would be treated as separate block of income and charged to tax at the rate of 15% under the head "capital gain" on securities.
- While commenting on the write off of an interest free loan, most of the examinees did not compute the correct amount of accounting provision of Rs. 3,845,000 which was to be added back to income before tax.

Question 6

- Majority of the answers were incomplete and examinees either failed to acknowledge or give reasons for the potential threats faced by Majid.
- Accept for one or two, examinees also failed to ponder on the application of various safeguards for mitigating the risks to acceptable levels.
- Some examinees identified self-review threat and intimidation threat as the potential treats faced by Majid.

Question 7(a)

- Majority of the examinees were of the view that supply of crude vegetable oil was exempt from duty despite the fact that the oil underwent a process of adding antioxidants for increasing its shelf-life.
- Most of the examinees also failed to comprehend that duty on crude vegetable oil was leviable at the rate of 15% instead of 16%.
- Only few examinees were aware of the fact that further duty at the rate of 2% was to be collected from the dealers who did not obtain registration number.

Question 7(b)

- Examinees failed to appreciate that cigarettes were subject to FED at the rate of 65% of the taxable value instead of 17%.
- Examinees also calculated output duty on 35,000 packs of cigarettes, sold on one-month credit to a departmental store, without considering the fact that FED was applicable only on receipt basis.
- Similarly, examinees considered input duty on toll manufacturing charges as admissible without appreciating that it was inadmissible being not paid.

Question 7(c)

- While computing the amount of duty on supply of aerated waters, majority of the examinees had no idea about the components of costs to be included/excluded from the price structure for determining the retail price of the aerated waters.
- Examinees also failed to comprehend that FED was payable on the higher of the two prices prevailing in Sukkur and Hyderabad.

(THE END)