CHAPTER – 16
SET OFF AND CARRY FORWARD OF LOSSES

LEARNING OBJECTIVES

After studying Chapter 16, you shall be able to understand:

- the concept of set off losses
- the concept of carry forward of losses
- set off provisions after carry forward of losses
- conditions and limitations of carry forward of loss
- the concept of unabsorbed depreciation
- difference between business loss and unabsorbed depreciation

16.1 INTRODUCTION

Income tax is a tax which is charged on the total income of an assessee. Therefore, headwise income has to be aggregated to determine the total income. It may so happen that the net result of certain heads of income may be loss. It would now be pertinent question whether the loss in one head may be aggregated with the income of other heads. The extent to which it may be adjusted against the income of other heads and what are the consequences, if it could not be fully adjusted in an income year are issues connected with this. The Income Tax Ordinance, 1984 contains certain provisions (Section 37 to Section 42) regarding the set off and carry forward of such kind of losses in a particular manner.

16.2 SET OFF OF LOSSES

Set off of losses means adjustment of losses from some heads with income of some other head(s) to get the net taxable income. According to Section 37 of the ITO, 1984, where, in respect of any assessment year, the net result of computation of income under any head is a loss, the assessee shall, subject to some provisions of the Ordinance, be entitled to set off the loss against his income, if any, assessable for that assessment year under any other head.

Illustration: Mr. Anwar has income from house property Tk. 315,000 and losses from Agriculture Tk. 45,000. Now to calculate taxable income, losses from agriculture are allowed to adjust with the income from house property. So, taxable income for Mr. Anwar will be Tk. 270,000 (315,000 – 45,000). Adjustment of agricultural losses with income from house property is set off of losses.

16.2.1 Conditions, procedures and limitations of setting off losses in respect of an Individual Assessee:

An individual assessee is entitled to set off the losses of a head against the income under other heads subject to some conditions. The conditions, procedures and limitations of setting off losses in respect of an individual assessee are as follows:

1. The loss of any sources under a particular head can be set off against the other sources of income, if any, under the same head. For example, Loss of cloth business can be set off against the income from egg business, as both the sources are recorded under the same head i.e. "Income from Business and Profession".
2. No set off of losses is allowed for any loss computed under any source, income of which is exempted from tax.

3. Any loss in respect of any income from any head shall not be so set off against any income from manufacturing of cigarette, bidi, zarda, chewing tobacco, gul or any other smokeless tobacco or tobacco products.
4. If the loss of a head cannot be fully set off against the income of other sources under the same head, it can be set off against the income of other heads subject to some conditions in an assessment year.
5. Loss of any speculation business can only be set off against income from some other speculation businesses and not against income from any other heads.
6. Any loss under the head "Capital gain" i.e. Capital loss can only be set off against any other income under the same head only.
7. For the purpose of set off of losses the DCT shall, in computing any loss, deduct any amount received in cash as subsidy from the government.
8. Any loss under the head "Income from Business or Profession" cannot be set off against any income from house property.
9. In case of loss sustained by a firm under any head can be set off only against the income of the firm under any other head and not against the income of any of the partners of the firm [Section 42(3)(a)]
10. Income or loss computed in accordance with section 82C(d) where minimum tax is applicable, shall not be set off with loss or income, respectively, computed for any regular source.

The summery of the provisions of set off can be depicted as follows:

Losses under the heads	Set off is possible against income
(a) Salaries	generally loss is not generated
(b) Interest on securities	from any head
(c) Income from house property	from any head
(d) Agricultural income	from any head except "Capital Gain"
(e) Income from business or profession	from any head except from house property and capital gain; but if the loss is from speculation business, it can only be set off against income of any other speculation businesses.
(f) Capital gain	under the head "Capital gain"
(g) Income from other sources	generally loss is not generated

16.3 CARRY FORWARD OF LOSSES

When losses under a head is not possible to set off wholly against same year's income from same or some other allowable head(s), it is allowed to transfer such unadjusted amount of losses to next year(s) for set off. This types of transfer of losses for set off against next year's income is known as carry forward of losses.

Illustration: Mr. Anwar has income from house property Tk. 315,000 and losses from agriculture Tk. 345,000. To calculate taxable income, losses from the agriculture are allowed to adjust with the income from house property. So, taxable income results a loss of Tk. 30,000 (315,000 – 345,000). Mr. Anwar is allowed to transfer such Tk. 30,000 unadjusted loss to next year. In the next year he can set off this Tk. 30,000 loss with income from agriculture. Here such transfer of loss is known as carry forward of losses.

As per the provisions of the ITO, 1984, the losses from the following heads can be carried forwarded for the subsequent six years:

1. Losses under the head "Income from Business and Profession" [Section 38];
2. Loss in Speculation Business [Section 39];

3. Loss under the head "Capital Gain" [Section 40]; and
4. Loss under the head "Agricultural income" [Section 41].

As per the provisions of the ITO, 1984, carry forward is not possible for any loss computed under the head 'Income from Securities' and 'Income from House Property'. So a detail discussion about carry forward and set off of losses after carry forward is given below:

16.3.1 Conditions, procedures and limitations of Carrying forward of losses in respect of an Individual Assessee:

An individual assessee is entitled to carry forward some of his losses up to a certain time period, if it is not possible to set the losses off wholly in a particular assessment year subject to some conditions. The conditions, procedures and limitations of carrying forward of losses in respect of an individual assessee are as follows:

1. Losses generated under the head "Income from Business and Profession", "Speculation Business", Capital Gain" and "Agricultural Income" can be carry forwarded up to a period of **six** years [Section 38 – 41].
2. In any assessment year, if the business losses (excluding losses of speculation businesses) have not been wholly set off, it can be carried forwarded to set off from the income of the same sources in subsequent six years [Section 38].
3. The loss from any business or profession can be carried forwarded only if such business or profession is continued to be carried on by the assessee in the subsequent income years [Section 38(a)].
4. Losses from speculation business can only be carried forwarded to set it off only against income from speculation businesses in subsequent six years [Section 39].
5. Capital losses can be carried forwarded to set it off against the incomes under the head "Capital gain" in subsequent six years. But the carried forwarded amount will only be the excess of Tk. 5,000 [Section 40].
6. Losses under the head "Agricultural income" can be carried forwarded for a period of six years and set off against agricultural income in subsequent six years [Section 41].
7. A successor-in-Business otherwise than by inheritance cannot claim to carry forward the loss incurred by his predecessor-in-Business [Section 42(4)]

16.4 SET OFF AND CARRY FORWARD OF BUSINESS LOSSES [SECTION 38]

According to Section 38 of the ITO, 1984, where for any assessment year the net result of income under the head "Income from business or profession" is a loss to the assessee (except losses from speculation business) and such loss has not been wholly set off against income from other sources (except income from capital gain and income from house property) shall be carried forward to the next following assessment year, and –

(a) it shall be set off against the income of the same business (if any), provided that the business will continue in the said income year.

(b) if the loss cannot be wholly so set off, the amount of the loss not so set off shall be carried forward to the next assessment year and so on for not more than six successive assessment years.

Example: Mr. Peter furnishes his income under different heads for the income years 2015 – 2016 and 2016 – 2017 as: Salary income Tk. 105,000 and 105,000; income from rice business Tk. (125,000) and 70,000; income from capital gain Tk. 15,000 during the year 2015 - 2016. In the income year 2015 – 2016, Mr. Peter set off his rice business loss with salary income but even after that he has loss of Tk. 20,000.

He can carry forward this figure to next year to set off only against income from rice business. In the same year (2015 – 2016), he got capital gain but he cannot set off any losses computed under the head business or profession with income from capital gain. On the other hand in the next year (2016 – 2017), he showed only Tk. 50,000 income from rice business after set off of previous year's loss which was carried forward to this year. But if in the year 2016 – 2017 no income from rice business was reported, he can't set off Tk. 20,000 loss with any income computed under any other heads in this year.

2015 – 2016			2016 – 2017	
Income from salary	Tk. 105,000		Income from salary	Tk. 105,000
Income from rice business	(125,000)		Income from rice business	
	(20,000)		[70,000 – set off of previous	
Carry forward	20,000	-	year's loss Tk. 20,000]	50,000
Income from Capital Gain		15,000	**Total**	**155,000**
Total		**15,000**		

SELF REVIEW 16 – 1

Income from Salary for Mr. Habib for the year ended 30th June, 2017 is Tk. 440,000. In the said year he has a loss of Tk. 25,000 from his fish business. In the last year he also had some loss from fish business and he carried forward Tk. 7,000 to this year. But in the current year his garments business generated a profit of Tk. 40,000. Calculate taxable income for Mr. Habib for the income year ended 30th June, 2017 and also state how much loss he should carry forward to next year.

16.5 SET OFF AND CARRY FORWARD OF LOSS IN SPECULATION BUSINESS

According to Section 39 of the ITO, 1984, where, for any assessment year, the result of any speculation business carried on by the assessee is a loss, it shall be set off only against the income (if any), from any other speculation business carried on by him and assessable for that assessment year. But when such loss is not wholly so set off, the assessee can carry forward that portion of loss not so set off, to the next following assessment year and –

(a) it shall be set off against the income (if any), from any speculation business carried on by him and assessable for that assessment year; and

(b) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the next assessment year and so on for not more than six successive assessment years.

Example: Income of Mr. Peter for the income year 2015 – 2016 and 2016 - 2017 includes: Salary income Tk. 105,000 & Tk. 105,000; income from speculation business Tk. 10,000 & Tk. 70,000. Besides in 2015 – 2016, he had a loss from another speculation business Tk. 30,000 and capital gain Tk. 15,000. In the income year 2015 – 2016 Mr. peter can set off his speculation business loss only by Tk. 10,000 though he has income from other speculation business. He is allowed to carry forward unadjusted speculation business loss to next year. Thus in 16 – 17, he showed only Tk. 50,000 income from speculation business.

Sources of income	2015 – 2016		2016 – 2017	
Income from salary		105,000		105,000
Losses from speculation business	(30,000)		-	
Income from speculation business	10,000		70,000	
Less: set off previous year's loss	-		20,000	
	(20,000)			50,000
Carry forward	20,000	-		
Capital gain		15,000		
Total income		**120,000**		**155,000**

According to Section 2(61) of the ITO, 1984 "speculation-business" means business in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scripts, but does not include business in which –

(a) a contract in respect of raw materials or merchandise is entered into by a person in the course of his manufacturing or mercantile business to guard against loss through future price fluctuations for the purpose of fulfilling his other contracts for the actual delivery of the goods to be manufactured or the merchandise to be sold by him;

(b) a contract of stocks and shares is entered into by a dealer or investor therein to guard against loss in his holdings of stocks and share through price fluctuations; and

(c) a contract is entered into by a member of a forward market or a stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against loss which may arise in the ordinary course of his business as such member;

SELF REVIEW 16 – 2

Mr. Hannan states his income in 2015 – 2016 and 2016 – 2017 as: Income from salary Tk. 200,000 and Tk. 200,000; losses from speculation business – 1 Tk. 35,000 and 15,000; income from speculation business – 2 Tk. 20,000 and Tk. 44,000. In 2014 – 2015 his capital gain was Tk. 22,000. Calculate taxable income for Mr. Hannan for both the income years.

16.6 SET OFF AND CARRY FORWARD OF LOSS FROM 'CAPITAL GAINS'

Where, in respect of any assessment year, the net result from any source under the head "Capital gains" is a loss, it shall be set off only against income from any other source falling under the same head and assessable for that year. But when such loss is not wholly so set off, the assessee can carry forward that portion of loss not so set off, to the next following assessment year and –

(a) it shall be set off against income (if any), of the assessee under the same head and assessable for that year; and

(b) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the next assessment year and so on for not more than six successive assessment years.

It is to be noted here that, where, in respect of any assessment year, the loss computed under the head "Capital gains" does not exceed **Tk. 5,000** it shall not be carried forward and where it exceeds Tk. 5,000 only so much of such loss shall be carried forward as exceeds Tk. 5,000 [Sec 40(3)].

Example: Mr. Peter furnishes his income under different heads for the income year 2015 – 2016 and 2016 – 2017 as: Income from rice business Tk. 25,000 and Tk. 105,000; Income from agriculture Tk. (35,000) and Tk. 5,000 and Income from Capital Gain Tk. 15,000 and Tk. (12,000). Taxable income of Mr. Perter for the years should be as follows:

Sources of income	2015 – 2016		2016 – 2017	
Income from rice business		25,000		105,000
Income from agriculture	(35,000)		5,000	
Less: set off previous year's loss	-		5,000	
Carry forward (35,000 – 25,000)	10,000	(25,000)		
		-		
Capital gain		15,000	(12,000)	
Carry forward 7,000 + 5,000 non allowable loss		-	12,000	-
Total		**15,000**		**105,000**

SELF REVIEW 16 – 3

Mr. Hamid's income from business and profession is Tk. 450,000 and capital gain is Tk. (18,000). Identify how much loss Mr. Hamid can set off and can carry forward to next year? If Mr. Hamid has another capital gain of Tk. 14,000 in the same year what will be your answer?

16.7 SET OFF AND CARRY FORWARD OF LOSS UNDER THE HEAD 'AGRICULTURAL INCOME' [SECTION 41]:

According to Section 41 of the ITO, 1984, where, for any assessment year, the net result of income under the head "Agricultural income" is a loss to the assessee, and such loss has not been wholly set off against income from other sources (except income from capital gain) shall be carried forward to the next following assessment year, and –

(a) it shall be set off against agricultural income (if any), of the assessee assessable for that assessment year; and

(b) if the loss cannot be wholly so set off the amount not so set off shall be carried forward to the next assessment year and so on for not more than six successive assessment years.

16.8 CARRY FORWARD OF LOSSES OF PARTNERSHIP FIRM [SECTION 42]

The provisions relating to set off of losses and carry forward of losses regarding a firm are:

1. Where the assessee is a firm, the loss sustained by the firm under any head of income shall be set off only against the income of the firm under any other head(s) and not against the income of any of the partners of the firm [Section – 42(3a)].
2. Where the assessee is a partner of the firm, he shall not be entitled to carry forward and set off any loss sustained by the firm against his own income [Section – 42(3b)]
3. In the case of a firm where any change in the constitution has occurred-
   (a) the firm shall not be entitled to set off any retired or deceased partner's share of loss [Section – 42(5a)]; and
   (b) a partner of the firm shall not be entitled to the benefit of any portion of the said loss as is not apportioned to him [Section – 42(5b)].

16.9 CARRY FORWARD OF LOSSES OF A JOINT STOCK COMPANY

If the company has more than one business, the loss of one business can be set off against the income from other businesses. If the loss cannot be wholly set off in an assessment year or if the company does not have other businesses, the loss can be carried forwarded to the next assessment year and so on for not more than six successive assessment years. In this regard the company must be a resident assessee. Moreover, there is no binding that in case of a company having more than one businesses, all the business should be carried on in a single place or should be under the territory of the same DCT. If any Bangladeshi company has business in abroad, the loss from local source can be set off against the income from abroad and vice versa. But in case of amalgamation or absorption between companies, the losses of the old companies cannot be set off or carry forwarded to set off from the income of the new company.

16.10 CONDITIONS AND LIMITATIONS OF CARRY FORWARD OF LOSS –

All the provisions relating to set off of losses and carry forward of losses that has been discussed in the above section of this chapter shall have effect subject to some conditions and limitations.

1. Where the assessee is a firm, the loss sustained by the firm under any head of income shall be set off only against the income of the firm under any other head(s) and not against the income of any of the partners of the firm [Section – 42(3a)].
2. Where the assessee is a partner of the firm, he shall not be entitled to carry forward and set off any loss sustained by the firm against his own income [Section – 42(3b)].
3. No person shall be entitled to set off loss from business or profession against his income under any other head except he/she is the person who was incurring the loss or succeeded the business by inheritance [Section – 42(4)].
4. In the case of a firm in the constitution of which a change has occurred –
   (a) the firm shall not be entitled to set off any retired or deceased partner's share of loss [Section – 42(5a)]; and
   (b) a partner of the firm shall not be entitled to the benefit of any portion of the said loss as is not apportioned to him [Section – 42(5b)].
5. Where after charging allowance for depreciation results of any business becomes a loss, no such charge is allowed but can charge so much allowance that will not show any loss for the business. In such a situation any allowance that is not possible to charge against profit of a business can be carried forward to next year. The allowance or part of the allowance to which effect has not been given shall be added to the amount of the allowance for depreciation for the following year or if there is no such allowance for that year the carry forwarded portion will consider as allowance for that year and so on for succeeding years [Section – 42(6)].
6. Where depreciation allowance is also to be carried forward, effect shall first be given to the provisions of carry forward of business losses and carry forward of loss in speculation business [Section – 42(7)].

16.11 SET OFF AND CARRY FORWARD OF UNABSORBED DEPRECIATION

According to Section 42(6) of the ITO, 1984, it is not possible to charge allowable depreciation allowance against income if it results loss for a business or profession. But such allowance can be charged against income until the result is not a loss. That portion of allowable depreciation which is not possible to charge against income is known as unabsorbed depreciation. Followings are the key points that explain features of unabsorbed depreciation:

1. Because of allowable depreciation allowance one cannot show negative profit in his/her business or profession.
2. When there is a profit before depreciation, one can only charge that much of allowable depreciation allowance against such profit which does not results a loss for the business or profession.
3. Unabsorbed depreciation can be carried forward for unlimited time period.
4. After carry forward effects shall first be given for business losses and losses from speculation business before giving effect of unabsorbed depreciation.

Example: Consider the following situations for three different companies relating to depreciation allowance:

	Company		
	X	Y	Z
Profit before depreciation	Tk. (30,000)	Tk. 40,000	Tk. 50,000
Allowance for depreciation	45,000	45,000	45,000
Profit after depreciation	(75,000)	(5,000)	5,000

Here, X Company is not allowed to charge depreciation allowance which results an increase in the loss figure. But it is allowed to show this depreciation allowance in full in the next year (if enough profit is available) in addition to depreciation allowance applicable for next year. Y Company can show only Tk. 40,000 as depreciation allowance because profit before depreciation for Y Company is Tk. 40,000. But Y Company can show unabsorbed depreciation of Tk. 5,000 in next year (if enough profit is available) in addition to depreciation allowance applicable for next year. Z Company can charge all depreciation allowance because it will not result a loss for the company. So the ultimate result will be as follows:

	X	Y	Z
Profit before depreciation	Tk. (30,000)	Tk. 40,000	Tk. 50,000
Allowance for depreciation	-	40,000	45,000
Tax payable income	(30,000)	-	5,000
Unabsorbed depreciation carried forward	45,000	5,000	-

16.12 DIFFERENCES BETWEEN BUSINESS LOSS AND UNABSORBED DEPRECIATION

Loss can be a business loss i.e. trading, manufacturing or agricultural and because of allowable depreciation on fixed assets used in business, profession or agriculture. In broader sense, loss includes depreciation too where a separation thereof does not make any business sense, but for taxation purpose, the distinction is important because of the following:

1) Unabsorbed depreciation can be carried forward without any time limit where as other loss can be carried forward for six years.
2) The unabsorbed depreciation as such forming a part of subsequent year's income can be set off against any income under any head in the same year (other than capital gain and speculative profit).
3) The unabsorbed depreciation is deemed part of the depreciation allowance for a subsequent year and will enter into the income of such subsequent year. Carried forward loss does not enter into such computation, and is deducted from the subsequent year's income.

Illustration 16 – 1:

Based on the particulars for Mr. Azad relating to income year 16–17, calculate his taxable income considering provisions relating to set off and carry forward of losses: Income from – Agriculture Tk. (30,000); speculation business Tk. 15,000 & other business Tk. 10,000; capital gain Tk. 10,000.

Solution 16 – 1:

Mr. Azad

Income year: 2016 – 2017; Assessment year: 2017 – 2018

	Tk.	Tk.
Income from Agriculture		(30,000)
Income from business and profession:		
From speculation business	15,000	
Others	10,000	25,000
		(5,000)
Carry forward of agricultural loss		5,000
		-
Income from capital gain		10,000
Total income		**10,000**

Illustration 16 – 2:

Calculate taxable income for Mr. Alam relating to the income year 2016 – 2017 considering: Income from – tax free government securities Tk. 10,000; Agriculture Tk. 55,000; speculation business Tk. 150,000 and other business Tk. (80,000); and Capital Gain Tk. 35,000

Solution 16 – 2:

Mr. Alam

Income year: 2016 – 2017; Assessment year: 2017 – 2018

	Tk.	Tk.
Income from securities	10,000	
Less: exemption (full)	10,000	-
Income from Agriculture		55,000
Income from Business or Profession:		
From speculation business	150,000	
Others	(80,000)	70,000
Income from Capital Gain		35,000
Total income		**160,000**

Illustration 16 – 3:

Calculate taxable income for the income year 2016 – 2017 of Mr. Rafi considering income from: salary Tk. 200,000; securities (net) Tk. 10,000; house property Tk. 45,000; agriculture Tk. (175,000); speculation business Tk. (20,000); other business Tk. (90,000); capital gain Tk. (12,000) and other sources Tk. 80,000.

Solution 16 – 3:

Mr. Rafi

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Income from Salary		Tk. 200,000
Income from Securities (net)		10,000
Income from House Property		45,000
Income from Agriculture		(175,000)
Income from Business or Profession: From speculation business	(20,000)	
Carry forward	(20,000)	-
Other business or profession income		(90,000)
Income from Capital Gain	(12,000)	
Carry forward 7,000 + 5,000 non allowable loss	12000	-
Income from Other Sources		80,000
Total income		**70,000**

Illustration 16 – 4:

Compute taxable income for the income year 2015 – 2016 and 2016 – 2017 of Mr. Mahid considering his income from: salary Tk. 160,000 (both the years); approved securities Tk. 60,000 (both the years); agriculture Tk. (80,000) for 15-16 and Tk. 120,000 for 16-17; electronics business Tk. (100,000) for 15-16 and Tk. 50,000 for 16-17; garments business Tk. (50,000) for 15-16 and Tk. 15,000 for 16-17; speculation business Tk. 10,000 for 15-16 and Tk. (30,000) for 16-17; capital gain Tk. (12,000) for 15- 16 and Tk. 10,000 for 16-17. Mr. Mahid decided to carry forward any losses from garments business (if required) to next year.

Solution 16 – 4:

Mr. Mahid

Assessment year: 2017 – 2018

Income Year:	2015 – 2016		2016 – 2017		
	Tk.	Tk.	Tk.	Tk.	Tk.
Income from salary		160,000			160,000
Income from approved securities	60,000		60,000		
Less: exemption	20,000	40,000	20,000		40,000
Income from agriculture		(80,000)			120,000
Income from business or profession:					
Income from electronics business	(100,000)		50,000		
Income from garments business	(50,000)		15,000		
Less: set off of previous year's loss	-		15,000	-	
Income from speculation business	10,000		(30,000)		
Carry forward of speculation losses		(140,000)	30,000	-	50,000
		(20,000)			370,000
Carry forward [losses from garments business]		20,000			-
		-			-
Income from Capital Gain	(12,000)			10,000	
Less: set off of previous year's loss	-			7,000	
Carry forward 7,000 + 5,000 non allowable loss	12,000	-		-	3,000
Total income		**Nil**			**373,000**

Illustration 16 – 5:

Mr. Sojib has the following income in different income year. Calculate his taxable income after considering provisions relating to set off and carry forward of losses.

	2014 – 2015	2015 – 2016	2016 – 2017
Income from Securities	10,000	10,000	10,000
Income from House Property	100,000	110,000	120,000
Income from Agriculture	(120,000)	(20,000)	40,000
Income from Capital gain	25,000	-	-

Solution 16 – 5:

Mr. Sojib

Income year: 2016 – 2017; Assessment year: 2017 – 2018

	14-15		15-16	16-17	
Income from Securities	10,000		10,000		10,000
Income from House Property	100,000		110,000		120,000
Income available to set off losses from agriculture	110,000		120,000		130,000
Income from Agriculture	(120,000)		(20,000)	40,000	
Set off: Losses carried forward from 2014 – 2015				(10,000)	30,000
Income available after set off	(10,000)		100,000		160,000
Carry forward [losses from agriculture]	10,000	10,000	-		-
Income after set off & carry forward of losses	-		100,000		160,000
Income from Capital gain	25,000		-		-
Total	**25,000**		**100,000**		**160,000**

Illustration 16 – 6:

Mr. Faisal states sources of income and information for different income year as:

2014 – 2015: Income from – house property Tk. 120,000; agriculture Tk. 20,000; electronic business Tk. 10,000; garments business Tk. (80,000); speculation business Tk. 40,000; and Capital gain Tk. (18,000). **2015 – 2016:** Income from – house property Tk. 120,000; agriculture Tk. (100,000); electronic business Tk. 20,000; garments business Tk. (50,000); speculation business Tk. (30,000); and Capital gain Tk. 8,000. **2016 – 2017:** Income from – house property Tk. 120,000; agriculture Tk. 50,000; electronic business Tk. (10,000); garments business Tk. 40,000; speculation business Tk. 100,000; and Capital gain Tk. 18,000. Mr. Faisal likes to carry forward (if required) any losses arising from garments business to next year. He carried forward a loss of Tk. 25,000 from speculation business from 2012 – 13 income year to 2013 – 14 income year. Calculate taxable income for Mr. Faisal.

Solution 16 – 6:

Mr. Faisal
Income year: 2014 – 2015
Assessment year: 2015 – 2016

	Tk.	Tk.	Tk.
Income from house property			120,000
Income from agriculture			20,000
Income from business or profession:			
Income from electronics business		10,000	
Income from garments business		(80,000)	
Income from speculation business	40,000		
Less: set off pervious loss	25,000	15,000	
		(55,000)	
Less: carry forward		35,000	(20,000)
Income from Capital Gain		18,000	
Carry forward 13,000 + 5,000 non allowable loss		18,000	-
Total income			**120,000**

Mr. Faisal
Income year: 2015 – 2016; Assessment year: 2016 – 2017

	Tk.	Tk.	Tk.
Income from house property			120,000
Income from agriculture			(100,000)
Income from business or profession:			
Income from electronics business		20,000	
Income from garments business		(50,000)	
Income from speculation business	(30,000)		
Less: carry forward	(30,000)	-	
		(30,000)	
Less: carry forward		30,000	-
Income from Capital Gain		8,000	
Less: set off previous loss		8,000	-
Total income			**20,000**

Mr. Faisal
Income year: 2016 – 2017; Assessment year: 2017– 2018

	Tk.	Tk.	Tk.
Income from house property			120,000
Income from agriculture			50,000
Income from business or profession:			
Income from electronics business		(10,000)	
Income from garments business	40,000		
set off previous loss	(65,000)		
	(25,000)		
Carry forward of loss	25,000	-	
Income from speculation business	100,000		
Less: set off previous loss	(30,000)	70,000	60,000
Income from Capital Gain		18,000	
Less: set off previous loss		5,000	13,000
Total income			**243,000**

Illustration 16 – 7:

Calculate taxable income of .Mr. Arif for the income year 2016 – 2017 considering his income from: Salary Tk. 360,000; Agriculture Tk. (35,000); Revenue from: Garments Business Tk. 40,000, Electronics Business Tk. 30,000, Potato Business Tk. 25,000, Speculative Business Tk. (8,000). Mr. Arif is the owner of a house property that has an annual value of Tk. 180,000 and was let out for residential purpose and remains vacant for four months period during the year. Admissible expense of the house is Tk. 30,000 except repair and maintenance. Four month's rent become uncollectible during the year.

Other information: (1) Mr. Arif received subsidy of Tk. 15,000 from government against losses from agriculture. **(2)** Expenses relating to the businesses include depreciation and other expenses. For Garments it was Tk. 5,000 and 41,000; for electronics it was Tk. 2,000 and 20,000 respectively; and for potato business there was no depreciation but other expenses was Tk. 15,000. **(3)** Unabsorbed depreciation carried forward from previous years total Tk. 2,000 (electronics business). **(4)** Previous year's losses carried forward to this year includes –

Garments Business	Tk. 3,000	Year of origin: 2014 – 2015
Electronics Business	4,500	Year of origin: 2015 – 2016
Potato	1,500	Year of origin: 2009 – 2010
Speculation Business	2,800	Year of origin: 2015 – 2016

Solution 16 – 7:

Mr. Arif
Income year: 2016 – 2017; Assessment year: 2017 – 2018

	Tk.	Tk.	Tk.
Income from Salary			360,000
Income from House Property:			
Annual Value		180,000	
Less: Admissible expenses: Repair and maintenance	45,000		
Vacancy allowance	60,000		

Uncollectible rent	60,000		
Other	30,000	195,000	(15,000)
Income from Agriculture		(35,000)	
Less: subsidy received		15,000	(20,000)
Income from Business or profession: Garments		(1,000)	
Electronics		1,500	
Potato		10,000	10,500
Speculation Business		(8,000)	
Carry forward		8,000	-
Total Income			**335,500**

Income from Business or Profession:

Particulars	Garments	Electronics	Potato
Revenue	40,000	30,000	25,000
Less: expenses - Depreciation	-	2,000	-
Other expenses	41,000	20,000	15,000
Profit (loss)	(1,000)	8,000	10,000
Set off previous year's loss	-	4,500	-
Set off previous year's unabsorbed depreciation		2,000	
Income from business	(1,000)	1,500	10,000
Unabsorbed depreciation	5,000	-	-

KEY POINTS

1. Losses from one head are allowed to adjust with income from some other head(s).
2. It will reduce total taxable income.
3. Set off is not applicable for 'Income from Salary' and 'Income from other sources'.
4. Any losses computed under any head, income of which is exempted from tax shall not be set off against income from any other sources.
5. Some exceptions are their to set off losses for some specific heads, like – **(a)** Losses from Speculation business cannot be set off against income from any other head(s) but can be set off only against income from some other speculation business. **(b)** Losses from "Income from Business or Profession" cannot be set off against income from house property. **(c)** Losses from Capital gain cannot be set off against income from any other head(s) but only against some other capital gain. **(d)** Income from capital gain cannot be used to set off losses from the head Agriculture and Business or Profession (including speculation business).
6. When set off of losses are not completely possible against same year's income from other allowable heads, it is allowed to transfer such amount of losses to next year for set off.
7. Carry forward of losses is not possible for more than six successive assessment years.
8. All the provisions relating to set off of losses and carry forward of losses shall have effect subject to some conditions and limitations.
9. Depreciation allowance is not possible to charge against profit if it results a loss, but can charge up to that much which does not result any loss for the business or profession.
10. Unabsorbed depreciation can be carried forward for unlimited time period.

SUMMARY TABLE:

Sources of Income	Set off of losses	Carry forward	Set off of losses after carry forward
1. Income from Salary	Not applicable	Not applicable	Not applicable
2. Income from Securities	With income from *any* other heads	Not possible	
3. Income from House Property	With income from *any* other heads	Not possible	
4. Income from Agriculture	With income from any other heads ***except*** income from the head capital gain.	Possible	*Only* against income from the head Agriculture
5. Income from Business or Profession (except speculation business)	With income from any other heads ***except*** income from the head capital gain and income from house property.	Possible	*Only* against income from the ***same*** business
(Speculation business)	*Only* with income from some other speculation business	Possible	*Only* against income from speculation business
6. Income from capital Gain	*Only* with income from some other capital gain	Possible only by the amount ***exceeds*** taka five thousand	*Only* against income from the head capital gain
7. Income from other sources	Not applicable	Not applicable	Not applicable

Multiple choice questions:

1. In the year of loss, set off of losses is possible for any head except –
   (a) income from agriculture
   (b) income from business or profession
   (c) income from salary
   (d) income from capital gain
2. Carry forward of losses is possible to next –
   (a) five successive assessment year
   (b) six successive assessment year
   (c) next assessment year only
   (d) none
3. If you have losses from garments business, you can set it off in the year of loss against income from –
   (a) any other heads
   (b) any other business only
   (c) any other garments business only
   (d) none of the above
4. Losses from capital gain can be carried forward by the amount –
   (a) of five thousand
   (b) exceeding five thousand
   (c) of losses
   (d) nothing
5. Losses from speculation business can be set off against income from –
   (a) any other heads
   (b) any other business only
   (c) any other speculation business only
   (d) none
6. Losses from the head capital gain can be set off against income from –
   (a) any other heads
   (b) any other capital gain only
   (c) any other heads except speculation business
   (d) none
7. After carry forward agricultural losses can be set off against income from –
   (a) any other heads
   (b) any other heads except capital gain
   (c) agricultural income only
   (d) same agricultural product
8. After carry forward, losses from business or profession can be set off against income from –
   (a) same business only
   (b) any business only
   (c) any heads
   (d) any heads except capital gain
9. Where the assessee is the partner of a firm he/she can –
   (a) carry forward or set off firm losses against his/her own income
   (b) carry forward firm losses to set off against his/her own income in next year
   (c) set of firm losses against his/her income
   (d) do nothing to set off or carry forward firm's losses against his/her own income.

10. Unabsorbed depreciation can be carried forward for –
    (a) next six successive years
    (b) next year only
    (c) unlimited years
    (d) none

Identify the following statements as True (T) or False (F):

1. If set off is possible in the same year even then you can carry forward losses to next year.	T	F
2. Income from speculation business can be used to set off losses from other sources except losses from capital gain.	T	F
3. Cash subsidy received from government will reduce amount of losses.	T	F
4. Income from capital gain can be used to set off losses resulted from any other sources.	T	F
5. Losses of any partnership firm can set off against income of any of the partners.	T	F

Discussion Questions:

Question 16 – 1: Define set off and Carry forward of losses according to the Income Tax Ordinance, 1984.

Question 16 – 2: Explain the provisions regarding losses arising under the head "Income from Business or Profession".

Question 16 – 3: **"Set off and Carry forward of losses is not possible for any losses arising under the head capital gain"** – do you agree? Explain.

Question 16 – 4: Explain the provisions regarding losses arising under the head income from agriculture.

Question 16 – 5: State the similarities and differences between Section – 38 (carry forward of business losses) and Section – 39 (carry forward of loss from speculation business).

Question 16 – 6: State the conditions and limitations of carry forward of losses.

Question 16 – 7: What is unabsorbed depreciation? What are the provisions of carry forward in this regard?

Question 16 – 8: Write short note on:
(a) Set off of losses
(b) Carry forward of losses
(c) Unabsorbed depreciation
(d) Speculation business

Problem 16 – 1:

For the assessment year 2017 – 18 Mr. Baki has: Loss in business Tk. (150,000); Agricultural income Tk. 40,000; Capital gain Tk. 40,000; Loss in speculative business Tk. (20,000); Property income Tk. 50,000 and Income from other sources Tk. 32,000. What would be the order of setting off the losses as shown here with the income under various heads?

Problem 16 – 2:

Calculate taxable income of Mr. Anik who is an accountant for the income year ended 30th June, 2017 considering his income from: salary Tk. 360,000; approved securities Tk. 20,000; sole proprietorship business Tk. 200,000; and agriculture Tk. 25,000.

Problem 16 – 3:

Considering given information calculates taxable income for Mr. Alok for the year ended 30th June, 2017: Income from – Securities Tk. 30,000 (60% interest from tax free government securities); garments business Tk. (25,000); speculation business Tk. 15,000; capital gain Tk. (9,000). Mr. Alok carries forward losses of Tk. 7,000 from last year incurred in garments business.

Problem 16 – 4:

Considering given information calculate taxable income for Mr. Hasan for the income year ended 30th June, 2017: Income from salary Tk. 240,000; Annual rent received from house property Tk. 120,000; Losses from electronics business Tk. 200,000; Losses from speculation business Tk. 50,000; Losses from capital gain Tk. 17,000; and Interest from savings account Tk. 9,000

Problem 16 – 5:

Calculate taxable income for Mr. Shamol considering following income for different years.

	2014 – 2015	2015 – 2016	2016 – 2017
Income from Securities	12,000	12,000	12,000
Income from House Property	1,20,000	1,40,000	160,000
Income from Agriculture	(135,000)	(20,000)	40,000
Income from Capital gain	(25,000)	22,000	-

Problem 16 – 6:

From the following particulars of Mr. Alam compute taxable income for the income years:

Sources of income	2015 – 2016	2016 – 2017
Income from salary	Tk. 256,000	Tk. 268,000
Income from approved securities	40,000	40,000
Income from Agriculture	(80,000)	120,000
Income from electronics business	(130,000)	50,000
Income from garments business	(50,000)	15,000
Income from speculation business	10,000	(30,000)
Income from capital gain	(12,000)	10,000

Mr. Alam received Tk. 10,000 cash subsidy from government against losses incurred in agricultural sector and in the year 2015 – 2016 he has unabsorbed depreciation of Tk. 3,000 in electronics business and Tk. 10,000 in garments business which he carried forward to year 16–17.

Problem 16 – 7:

From the following particulars of Mr. Elahi Boksh compute taxable income for the income years:

Sources of income	2014 – 2015	2015 – 2016	2016 – 2017
Income from Agriculture	Tk. 55,000	Tk. 40,000	Tk. (62,000)
Income from electronics business	(80,000)	20,000	25,000
Income from garments business	15,000	21,000	17,000
Income from speculation business	8,000	(11,000)	35,000
Income from capital gain	(4,000)	(7,000)	17,000

Mr. Elahi Boksh carries speculation business losses of Tk. 20,000 and electronics business losses of Tk. 12,000 from the income year 2012 – 2013.

Answers:

Multiple choice questions				True/False	
1.	c	6.	b	1.	F
2.	b	7.	c	2.	T
3.	d	8.	a	3.	T
4.	b	9.	d	4.	F
5.	c	10.	c	5.	F

Self review 16 – 1:

		Tk.
Income from Salary		440,000
Income from Business or Profession:		
Income from garments business	Tk. 40,000	
Losses from fish business	(25,000)	
		15,000
Taxable income for the year ended 30th June, 2017		**455,000**

Mr. Habib can carry forward Tk. 7,000 to next year because he cannot set off last year loss with income from any other head except income from fish business. On the other hand in current year losses from fish business is allowed to set off against income from any head except income from capital gain. So current year's loss need not to be transferred to next year.

Self review 16 – 2:

	2015 – 2016		2016 – 2017	
Income from salary		200,000		200,000
Income from business:				
Speculation business – 1	(35,000)		(15,000)	
Speculation business – 2	20,000		44,000	
	(15,000)		29,000	
Carry forward last year loss	15,000		(15,000)	
		-		14,000
Income from capital gain		22,000		-
Taxable income		**222,000**		**214,000**

Self review 16 – 3:

In this year Mr. Hamid cannot set off any losses because loss from the head capital gain is not possible to set off with income from any other head(s). He needs to carry forward this loss but he can carry forward any losses from the head capital gain only above Tk. 5000. So he can carry forward Tk. 13,000.

In the second case Mr. Hamid cannot carry forward any loss because his losses from the head capital gain is below Tk. 5,000 (18,000 – 14,000 = 4,000).

CHAPTER – 17
RETURN OF INCOME

LEARNING OBJECTIVES

After studying Chapter 17, you shall be able to understand:

- who is required to file a return of income
- who is authorized to sign and verify return of income
- when should submit return of income
- what should accompany with return of income
- role of DCT to send notice
- production of information regarding payment of salary, interest, dividend etc.

17.1 WHO IS REQUIRED TO FILE A RETURN? (U/S - 75)

An individual is required to file a return in 3 situations whereas every company is required to file the same irrespective of income under section 75.

17.1.1 For Individuals

(1) ***If income exceeds maximum exemption limit:*** If the total taxable income during the income year exceeded the maximum amount, which is not chargeable to tax under IT Ordinance, a person is required to file a return.

> **Example**: Suppose, if the taxable income exceeds taka 250,000, a person is required to file a return in the assessment year 2017 – 18. Because, taka 250,000 is the maximum exemption limit for the assessment year 2017 – 18.

(2) ***If assessed in any one of the three immediate preceding years:*** If any person was assessed to tax for any one of the three years immediately preceding the income year, he is also required to file a return.

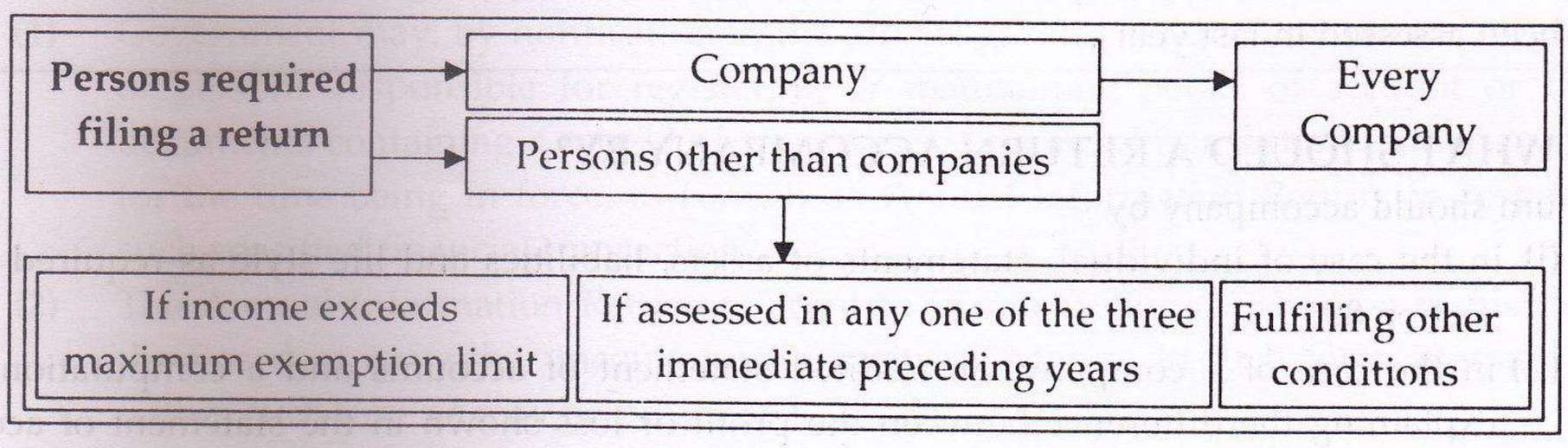
Note: *Any non-resident Bangladeshi may file his return of income along with bank draft equivalent to the tax liability, if any, on the basis of such return, to his nearest Bangladesh mission and the mission will issue a receipt of such return with official seal and send the return to the Board.*

(3) ***Fulfilling other conditions:*** Where a person is not required to file a return of income under conditions 1 & 2, he will file a return of his income during the income year if he-

- **(a)** owns a motor car; or
- **(b)** owns a membership of a club registered under Value Added Tax Act 1991; or
- **(c)** runs any business or profession having trade license from a city corporation, a paurashava or a union parishad; or
- **(d)** has registered with a recognized professional body as a doctor, dentist, lawyer, chartered accountant, cost and management accountant, engineer, architect or surveyor or any other similar profession; or
- **(e)** has registered with the Board as an income tax practitioner; or
- **(f)** has a membership of a chamber of commerce and industries or a trade association or body; or
- **(g)** runs for an office of any paurashava, city corporation, or a Member of Parliament;

(h) participates in a tender floated by the government, semi-government, autonomous body or a local authority; or
(i) serves in the board of directors of a company or a group of companies; or
(j) a shareholder director or a shareholder employee of a company; or
(k) a partner of a firm; or
(l) an employee of the government or an authority corporation, body or units of the government or formed by any law, order or instrument being in force, if the employee, at any time in the income year, draws a basic salary of taka sixteen thousand or more; or
(m) an employee holding an executive/management position in a business/profession.

Provided that any non-resident Bangladeshi may file his return of income along with bank draft equivalent to the tax liability, if any, based such return, to his nearest Bangladesh mission and the mission will issue a receipt of such return with official seal and send the return to the Board.



17.1.2 Person Other than Individuals –

Submission of return is mandatory for the following persons:

(a) a company;
(b) a non-government organization registered with NGO Affairs Bureau;
(c) a co-operative society;
(d) a firm;
(e) an association of persons

17.2 PERSON NOT REQUIRED TO SUBMIT RETURN

A return of income shall not be mandatory for-

(a) an educational institution receiving government benefits under Monthly Payment Order (MPO); or
(b) a public university; or
(c) a fund; or
(d) any class of persons which the Board, by order in official gazette, exempt from filing the return.

17.3 WHO IS AUTHORIZED TO SIGN A RETURN?

A return should be duly signed and verified by the respective individuals who hold the rights to do so as per the rules to make it a valid and complete one. A return, which is not signed and verified, is not merely an inaccurate or incomplete return, but it is not a return at all. *(Beharilal Chatterjee V. CIT [1934] I.T.R. 377)*

(i) **In the case of an individual** - the individual himself; if absent, the authorized person; if mentally incapacitated, the guardian or any other person competent to act on his behalf;

(ii) **In the case of Hindu undivided family (HUF)** - the Karta, if absent or mentally incapacitated, any other adult member of such family;

(iii) **In the case of a company or local authority** - the principal officer thereof;

(iv) **In the case of a firm** - any partner thereof, not being a minor;

(v) **In the case of any other association** - any member of the association or the principal officer thereof; and

(vi) **In the case of any other person** - that person or some person competent to act on his behalf;

SELF REVIEW 17 – 1

Consider the given income with other particulars of assessees during the income year 2016 – 17. Identify who is required to file return of income: **P** - Tk. 360,000 (did not assessed before); **Q** - Tk. 120,000 (resides within city corporation area); **R** - Tk. 120,000 (owns a motor car); **S** - Tk. 120,000 (has been assessed in last year).

17.4 WHAT SHOULD A RETURN ACCOMPANY BY?

A return should accompany by –

(i) in the case of individual, statements of assets, liabilities and life style as required under section 80;

(ii) in the case of a company, an audited statement of accounts and a computation sheet explaining the difference between the profit or loss shown in the statement of accounts and the income shown in the return.

17.5 WHEN TO FILE A RETURN?

The return is required to be filed within the time as mentioned below, provided that the DCT has not extended the time for a further period.

(i) **For company:** By the fifteenth day of July next following the income year or, where the fifteenth day of July falls before the expiry of six months from the end of the income year, before the expiry of such six months; and

(ii) **For all other cases:** on or before the Tax Day which is November 30 next following the income year.

Provided that an individual being Government official engaged in higher education or training on deputation or leave or employed under lien outside Bangladesh shall file return or returns for the period of such deputation or lien, at a time, within three months from the date of this return to Bangladesh. U/s 75, the last date for the submission of return as specified above may be extended by the DCT in respect of any person or class of persons for a period of two months and he may further extend the date up to two more months with the approval of the Inspecting JCT. An application for extension of time to submit the return of income can be filed even after the expiry of the date prescribed for filing the return *(Karan Singh (Punj) 1977, 110 I.T.R. 726).*

17.6 SUBMISSION OF RETURN OF WITHHOLDING TAX (U/S – 75A)

In the following cases, submission of return of withholding tax is required:

(1) Every person, being a company, shall file or cause to be filed, with the Deputy Commissioner of Taxes where he is being assessed, a return of withholding tax collected or deducted as per provisions of Chapter VII of this Ordinance.

(2) The return under sub-section (1) shall be-

(a) furnished in the prescribed form setting forth therein such particulars and information as may be required thereby;
(b) signed and verified by the principal officer thereof;
(c) filed half-yearly by the following dates:
  (i) First return: by Thirty-first January of the year in which the deduction or collection was made;
  (ii) Second return: by Thirty-first July of the next year following the year in which the deduction or collection was made

Provided that the last date for the submission of a return a specified in this sub-section may be extended by the Deputy Commissioner of taxes upto fifteen days from the date so specified.

17.7 OBLIGATION TO FURNISH ANNUAL INFORMATION RETURN (U/S– 75B)

The provisions regarding obligation to furnish annual information return are as follows:

(1) Government may, by notification in the official gazette, require any person or group of persons responsible for registering or maintaining books of account or other documents containing a record of any specified financial transaction, under any law for the time being in force, to furnish an Annual Information Return, in respect of such specified financial transaction.

(2) The Annual Information Return referred to in sub-section (1) shall be furnished to the Board or any other income tax authority or agency, in such form, manner and within such time as may be prescribed.

17.8 FILING OF RETURN IN RESPONSE TO NOTICE (U/S - 77)

The DCT may, at any time after expiry of the date specified u/s 75, by a notice in writing, require-

(a) Any person, other than a company, to file a return of his total income if in his opinion, such income exceeds the maximum exemption limit.
(b) Any company to file a return of its total income, if it is not filed.

The return in response to the notice as served shall be filed within such period, not being less than **twenty-one** days, as may be specified in the notice or within such extended period as the DCT may allow. The assessee is under an obligation to file return in response to a notice under this section even where the assessee claims that his income is exempt from tax for it is not the Department to determine whether the income is entitled to exemption (Lala Gopi Mal Kusiala Charitable Trust v. I.T.O. [Punj] 1962, 76 I. T. R. 436).

17.9 FILING OF REVISED RETURN (U/S - 78)

Any person who has not filed a return as required under section 75 or 77 or who, having filed return, discovers any omission or incorrect statement therein, may file a return or a revised return, as the case may be, at any time before the assessment is made *(Esthuri Aswathiah v. I. T. O. [1961])*, *41 I.T.R. 539 (S.C.))*. But a person who has earlier filed a false return knowing it to be false cannot claim the benefit of this provision *(C.I.T. v. Badridas Ramrai Shop [1939] I.T.R. 613)*. If the assessee discovers any omission or any wrong statement in such revised return, he is entitled to furnish a revised return. *(Niranjan Lal Ram Chandra V. CIT [1982] I.T.R. 352)* Because once a return is revised and filed, it gets the status of original return. An application by the assessee to the Deputy Commissioners of Taxes asking him to add certain income to the income already disclosed in the return would not be furnishing a revised return within the meaning of this sub-section (Gopaldas Purshottamdas v. C.I.T. [1941] I. T. R. 130).

17.10 NOTICES FOR PRODUCTION OF ACCOUNTS AND DOCUMENTS

Under section – 79, the Deputy Commissioner of Taxes may, by notice in writing, require an assessee who has filed a return under Chapter VIII, or to whom a notice has been issued to file a return, to produce or cause to be produced such accounts, statements, documents, data or electronic records, not being earlier than three years prior to the income year, as he may consider necessary for the purpose of audit or assessment under this Ordinance.

The DCT may specify in the notice that the accounts, statements, documents, data or electronic records or any part thereof shall be produced in such electronic form or by such electronic media as may be mentioned in the notice. The accounts, statements, documents, data or electronic records shall be produced on or before the date as may be specified in the notice.

The assessee must comply with the notice, even if he thinks that the accounts or documents required by the DCT are irrelevant *(Tulsi Das Nagin Chand v. C.I.T. [1938] I. T.R. 385)*. Because, The DCT is the sole judge of what is relevant. His discretion to issue a notice under this section is unfettered *(Kunwariji Ananda v. C.I.T. 5 I.T.C. 417, 430)*. But the assessee must be given reasonable time within which to produce his books (C.I.T v. Bombay Trust Corporation Ltd. [1936] I.T.R. 323, 338 (P.C.); Sadaram Puranchand v. C.I.T. 5 I.T.C. 459, 464). Upon the refusal or failure to comply with the notice under this section, the DCT would have a right to enter on the assessee's business premises to examine the accounts (U/s – 116(3)).

17.11 STATEMENT OF ASSETS, LIABILITIES AND LIFE STYLE

Every individual assessee shall furnish statements in the forms and manners as prescribed in respect of the total assets, liabilities and expenses of the person or the spouse, minor children and dependents of the person as on the last date of the income year if the person –

(a) has, in the last date of the income year, a gross wealth exceeding taka twenty lakh; or
(b) owns a motor car; or
(c) has made an investment in a house property or an apartment in the city corporation area:

Provided that any person, being an individual assessee, who is not required to submit the statement mentioned in this sub-section may voluntarily submit such statement.

Every individual assessee shall furnish a statement of expenses relating to the life style of such person in the forms and manners as prescribed. An individual, not being a shareholder director of a company, having income from salary or from business or profession may opt not to submit such statement if his total income does not exceed three lakh taka in the income year.

17.12 PRODUCTION OF OTHER INFORMATION AT THE TIME OF SUBMISSION OF RETURN OR IN OTHER CIRCUMSTANCES:

17.12.1 Information regarding payment of salary (U/s – 108 & Rule - 23) –

Every person responsible for making any payment constituting income classifiable under the head "Salaries" not being payment made by the Government, and the prescribed officer in cases where such payments are made by the Government, shall, before the first day of September each year (the DCT may extend the date), furnish to the DCT if the payment of salary during the preceding financial year exceeds Taka 20,000 or the maximum amount not liable to tax whichever is higher, a statement prepared in the prescribed form as per Rule 23 (Persons responsible for making payments under the head 'Salaries') and verified in the prescribed manner so as to give the following information, namely:

(a) The name and address of every person to whom such payment has been made, or was due;
(b) The amount of payment so made, or due;
(c) The amount deducted as tax from such payment; and
(d) Such other particulars as may be prescribed.

17.12.2 Information regarding payment of interest (U/s – 109 & Rule - 20) –

Every person responsible for making any payment of interest constituting income not classifiable under the head "Interest on securities" shall, if such payment exceeds Taka 15,000, before the first day of September each year, furnish to a prescribed officer a statement prepared in the prescribed form as per Rule 20 (Statement regarding payment of interest other than interest on securities) and verified in the prescribed manner so as to give the following information, namely:

(a) Name and address of every person to whom such payment has been made/was due;
(b) The amount of payment so made or due; and
(c) Such other particulars as may be prescribed.

17.12.3 Information regarding payment of dividend (U/s – 110 & Rule - 19) –

The principal officer of every company shall, before the first day of September each year, furnish to the prescribed officer, a statement prepared in the prescribed form as per Rule 19 (Company to furnish a statement regarding payment of dividend) and verified in the prescribed manner, so as to give the following information, namely:

(a) Name and address of every shareholder, as entered in the register of shareholders, to whom a dividend or the aggregate of dividends has been paid or distributed;
(b) The amount of dividend or dividends so paid or distributed; and
(c) Such other particulars as may be prescribed.

Note: The statement should be submitted only if the aggregate amount of dividend exceeds Taka 1 in the case of a company shareholder and Taka 20,000 in case of any other shareholder.

17.12.4 Particulars to be furnished on interest on securities by a person other than the Government (Rule - 10) –

For income under "Interest on securities", where the deduction is not made by or on behalf of the Government, the person responsible for paying the interest shall, at the time of deduction send to the concerned DCT, a statement showing the following particulars:

(a) Description of securities,
(b) Period for which interest is drawn,
(c) Numbers of securities,
(d) Amount of interest,
(e) Dates of securities,
(f) Amount of tax; and
(g) Amounts of securities,
(h) Date on which tax was deducted.

17.12.5 Particulars to be furnished by persons making deductions at source (Rule - 12) –

The person making deductions in accordance with the provisions of sections 49(I)(g), 54 and 56 shall, at the time of deduction, send to the concerned DCT a statement showing the following particulars;

(a) Name and address of the non-resident on whose behalf the tax is deducted.
(b) The date of payment and, in the case of dividend, the date of the declaration of the dividend by the company.
(c) The nature of payment.
(d) The amount paid –

(i) As interest, the rate percent per annum, the period for which the interest has been paid and the amount on which the interest had been computed,

(ii) As dividend, the amount before deduction of tax.

(e) The amount of income tax deducted.

17.12.6 Statement of deduction of tax under the head "Salaries" where such deduction is not made by or on behalf of the Government (Rule - 21) –

In the case of income chargeable under the head "Salaries" where deduction is not made by or on behalf of the Government, the person making the deduction shall send to the DCT within whose jurisdiction the deduction is made (or where there is more than one DCT having jurisdiction in the same area to the DCT specified by the Commissioner) a statement in the form as prescribed in Rule – 21.

SELF REVIEW 17 – 2

What information needs to furnish in cases of – **(a)** Information regarding payment of interest. **(b)** Information regarding payment of dividend.

17.12.7 Form of Return (Rule – 24 , Rule 25 & 25A attached) –

Finance Act 2016 has revised the contents and formats of return form for different categories of individual assessees. A summary of such changes may be given as below:

Form	Purpose	Applicable to
IT 11 GA2016	Return of Income	Individual Assessee
IT 11GHA2016	Return of Income	Company Assessee
IT 11CHA2016	Return of Income	Other than Individual and Company Assessee
IT 11 GAGA	Return of Income	Return under Section 82D (Spot Assessment)
IT 10B2016	Statement of Assets, Liabilities and Expenses	Individual Assessee
IT 10BB2016	Statement of Expenses relating to Life Style	Individual Assessee
Schedule 24A	Particulars of income from salaries	Assessee having income from salaries
Schedule 24B	Particulars of income from house property	Assessee having income from house property
Schedule 24C	Income from business or profession	Assessee having income from business or profession
Schedule 24D	Particulars of tax credit/rebate	Assessee claiming investment tax credit
Schedule 25		To be annexed to the Statement of Assets, Liabilities and Expenses (IT-10B)

Here, only the return form applicable to salaried individual is provided as an example. Other assessees are can download the respective form from NBR website: www.nbr.gov.bd

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IT-11GA2016

RETURN OF INCOME

For an Individual Assessee

The following schedules shall be the integral part of this return and must be annexed to return in the following cases:

Schedule 24A	*if you have income from Salaries*
Schedule 24B	*if you have income from house property*
Schedule 24C	*if you have income from business or profession*
Schedule 24D	*if you claim tax rebate*

Photo

PART I
Basic information

01	Assessment Year 2 0 -		02	Return submitted under section 82BB? (tick one)	
				Yes	No
03	Name of the Assessee		04	Gender (tick one)	M F
05	Twelve-digit TIN		06	Old TIN	
07	Circle		08	Zone	
09	Resident Status (tick one)		Resident		Non-resident
10	Tick on the box(es) below if you are:				
	10A	A gazetted war-wounded freedom fighter	10B	A person with disability	
	10C	Aged 65 years or more	10D	A parent/legal guardian of a person with disability	
11	Date of birth(DD-MM-YYYY) 2 0		12	Income Year to	
13	If employed, employer's name				
14	Spouse Name		15	Spouse TIN (if any)	
16	Father's Name		17	Mother's Name	
18	Present Address		19	Permanent Address	
20	Contact Telephone		21	E-mail	
22	National Identification Number		23	Business Identification Number(s)	

PART II
Particulars of Income and Tax

TIN | | | | | | | | | | | | |

Particulars of Total Income — **Amount ৳**

24	Salaries (annex Schedule 24A)	S.21	
25	Interest on securities	S.22	
26	Income from house property (annex Schedule 24B)	S.24	
27	Agricultural income	S.26	
28	Income from business or profession (annex Schedule 24C)	S.28	
29	Capital gains	S.31	
30	Income from other sources	S.33	
31	Share of income from firm or AOP		
32	Income of minor or spouse under section 43(4)	S.43	
33	Foreign income		
34	Total income (aggregate of 24 to 33)		

Tax Computation and Payment — **Amount ৳**

35	Gross tax before tax rebate	
36	Tax rebate (annex Schedule 24D)	
37	Net tax after tax rebate	
38	Minimum tax	
39	Net wealth surcharge	
40	Interest or any other amount under the Ordinance (if any)	
41	Total amount payable	
42	Tax deducted or collected at source (attach proof)	
43	Advance tax paid (attach proof)	
44	Adjustment of tax refund [mention assessment year(s) of refund]	
45	Amount paid with return (attach proof)	
46	Total amount paid and adjusted (42+43+44+45)	
47	Deficit or excess (refundable) (41-46)	
48	Tax exempted income	

PART III
Instruction, Enclosures and Verification

TIN

49	**Instructions** 1. Statement of assets, liabilities and expenses (IT-10B2016) and statement of life style expense (IT-10BB2016) must be furnished with the return unless you are exempted from furnishing such statement(s) under section 80. 2. Proof of payments of tax, including advance tax and withholding tax and the proof of investment for tax rebate must be provided along with return. 3. Attach account statements and other documents where applicable		
50	If you are a parent of a person with disability, has your spouse availed the extended tax exemption threshold? (tick one)	Yes ☐	No ☐
51	Are you required to submit a statement of assets, liabilities and expenses (IT-10B2016) under section 80(1)? (tick one)	Yes ☐	No ☐
52	Schedules annexed (tick all that are applicable)	24A ☐ 24B ☐ 24C ☐ 24D ☐	
53	Statements annexed (tick all that are applicable)	IT-10B2016 ☐ IT-10BB2016 ☐	
54	Other statements, documents, etc. attached (list all)		

Verification and signature

55	**Verification** I solemnly declare that to the best of my knowledge and belief the information given in this return and statements and documents annexed or attached herewith are correct and complete.	
	Name	Signature
	Date of Signature (DD-MM-YYYY) ☐☐-☐☐-20☐☐	Place of Signature

For official use only

Return Submission Information

Date of Submission(DD-MM-YYYY) ☐☐-☐☐-20☐☐	Tax Office Entry Number ☐☐☐☐☐☐

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Individual

ACKNOWLEDGEMENT RECEIPT OF RETURN OF INCOME

Assessment Year	Return under section 82BB? (tick one)	
2 0 -	Yes ☐	No ☐
Name of the Assessee		
Twelve-digit TIN	Old TIN	
Circle	Taxes Zone	
Total income shown (serial 34) ৳		
Amount payable (serial 41) ৳	Amount paid and adjusted (serial 46) ৳	
Amount of net wealth shown in IT10B2016 ৳	Amount of net wealth surcharge paid ৳	
Date of Submission(DD-MM-YYYY) 2 0	Tax Office Entry Number	
Signature and seal of the official receiving the return		
Date of Signature	Contact Number of Tax Office	

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IT-10B2016

STATEMENT OF ASSETS, LIABILITIES AND EXPENSES

under section 80(1)of the Income Tax Ordinance, 1984 (XXXVI of 1984)

1. *Mention the amount of assets and liabilities that you have at the last date of the income year. All items shall be at cost value include legal, registration and all other related costs;*
2. *If your spouse or minor children and dependent(s) are not assessee, you have to include their assets and liabilities in your statement;*
3. *Schedule 25 is the integral part of this Statement if you have business capital or agriculture or non-agricultural property. Provide additional papers if necessary.*

01	Assessment Year **2 0** [ ][ ] -- [ ][ ]	02	Statement as on(DD-MM-YYYY) [ ][ ] [ ][ ] 2 0 [ ][ ]
03	Name of the Assessee	04	TIN

Particulars			Amount ৳
05	Business capital (05A+05B)		
	05A	Business capital other than 05B	
	05B	Director's shareholdings in limited companies (as in Schedule 25)	
06	06A	Non-agricultural property (as in Schedule 25)	
	06B	Advance made for non-agricultural property(as in Schedule25)	
07	Agricultural property (as in Schedule25)		
08	Financial assets value (08A+08B+08C+08D+08E)		
	08A	Share, debentures etc.	
	08B	Savings certificate, bonds and other government securities	
	08C	Fixed deposit, Term deposits and DPS	
	08D	Loans given to others (mention name and TIN)	
	08E	Other financial assets (give details)	
09	Motor car (s) (use additional papers if more than two cars)		

Sl.	Brand name	Engine (CC)	Registration No.
1			
2			

10	Gold, diamond, gems and other items(mention quantity)	
11	Furniture, equipment and electronic items	
12	Other assets of significant value	

Particulars			Amount ৳
13	Cash and fund outside business(13A+13B+13C+13D)		
	13A	Notes and currencies	
	13B	Banks, cards and other electronic cash	
	13C	Provident fund and other fund	
	13D	Other deposits, balance and advance (other than 08)	
14	Gross wealth (aggregate of 05 to 13)		
15	Liabilities outside business(15A+15B+15C)		
	15A	Borrowings from banks and other financial institutions	
	15B	Unsecured loan (mention name and TIN)	
	15C	Other loans or overdrafts	
16	Net wealth (14-15)		
17	Net wealth at the last date of the previous income year		
18	Change in net wealth (16-17)		
19	Other fund outflow during the income year (19A+19B+19C)		
	19A	Annual living expenditure and tax payments (as IT-10BB2016)	
	19B	Loss, deductions, expenses, etc. not mentioned in IT-10BB2016	
	19C	Gift, donation and contribution (mention name of recipient)	
20	Total fund outflow in the income year (18+19)		
21	Sources of fund (21A+21B+21C)		
	21A	Income shown in the return	
	21B	Tax exempted income and allowance	
	21C	Other receipts and sources	
22	Shortage of fund, if any (21-20)		

Verification and signature

23	**Verification** I solemnly declare that to the best of my knowledge and belief the information given in this statement and the schedule annexed herewith are correct and complete.	
	Name	Signature& date

SCHEDULE25

to be annexed to the Statement of Assets, Liabilities and Expenses (IT-10B2016)

01	Assessment Year	02	TIN

03	Shareholdings in limited companies as director		No. of shares	Value ৳
	1			
	2			
	3			
	4			

04	Non-agricultural property at cost value or any advance made for such property (description, location and size)		Value at the start of income year ৳	increased/ decreased during the income year ৳	Value at the last date of income year ৳
	1				
	2				
	3				
	4				

05	Agricultural property at cost value (description, location and size)		Value at the start of income year ৳	increased/ decreased during the income year ৳	Value at the last date of income year ৳
	1				
	2				
	3				
	4				

(Provide additional paper if necessary)

Name	Signature& date

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IT-10BB2016

STATEMENT OF EXPENSES RELATING TO LIFESTYLE

under section 80(2) of the Income Tax Ordinance, 1984 (XXXVI of 1984)

01	Assessment Year **2 0**	02	Statement as on (DD-MM-YYYY) **2 0**
03	Name of the Assessee	04	TIN

Particulars			Amount ৳	Comment
05	Expenses for food, clothing and other essentials			
06	Housing expense			
07	Auto and transportation expenses(07A+07B)			
	07A	Driver's salary, fuel and maintenance		
	07B	Other transportation		
08	Household and utility expenses (08A+08B+08C+08D)			
	08A	Electricity		
	08B	Gas, water, sewer and garbage		
	08C	Phone, internet, TV channels subscription		
	08D	Home-support staff and other expenses		
09	Children's education expenses			
10	Special expenses (10A+10B+10C+10D)			
	10A	Festival, party, events and gifts		
	10B	Domestic and overseas tour, holiday, etc.		
	10C	Donation, philanthropy, etc.		
	10D	Other special expenses		
11	Any other expenses			
12	Total expense relating to lifestyle (05+06+07+08+09+10+11)			
13	Payment of tax, charges, etc. (13A+13B)			
	13A	Payment of tax at source		
	13B	Payment of tax, surcharge or other amount		
14	Total amount of expense and tax (12+13)			

Verification and signature

15	**Verification** I solemnly declare that to the best of my knowledge and belief the information given in this statement is correct and complete.	
	Name	Signature& date

SCHEDULE 24A

Particulars of income from Salaries

Annex this Schedule to the return of income if you have income from Salaries

01	Assessment Year 2 0 _ _ - _ _	02	TIN

Particulars		Amount (A)	Tax exempted (B)	Taxable (C = A-B)
03	Basic pay			
04	Special pay			
05	Arrear pay (if not included in taxable income earlier)			
06	Dearness allowance			
07	House rent allowance			
08	Medical allowance			
09	Conveyance allowance			
10	Festival Allowance			
11	Allowance for support staff			
12	Leave allowance			
13	Honorarium/ Reward/Fee			
14	Overtime allowance			
15	Bonus / Ex-gratia			
16	Other allowances			
17	Employer's contribution to a recognized provident fund			
18	Interest accrued on a recognized provident fund			
19	Deemed income for transport facility			
20	Deemed income for free furnished/ unfurnished accommodation			
21	Other, if any (give detail)			
22	Total			

All figures of amount are in taka (৳)

Name	Signature & Date

SCHEDULE 24B

Particulars of income from house property

Annex this Schedule to the return of income if you have income from house property

01	Assessment Year 2 0 [ ][ ] - [ ][ ]	02	TIN

For each house property

03	**Description of the house property**			
	03A	Address of the property	03B	Total area
			03C	Share of the asessee (%)

Income from house property			Amount ৳
04	Annual Value		
05	Deductions (aggregate of 05A to 05G)		
	05A	Repair, Collection, etc.	
	05B	Municipal or Local Tax	
	05C	Land Revenue	
	05D	Interest on Loan/Mortgage/Capital Charge	
	05E	Insurance Premium	
	05F	Vacancy Allowance	
	05G	Other, if any	
06	Income from house property (04-05)		
07	In case of partial ownership, the share of income		

Provide information if income from more than one house property

08	Aggregate of income of all house properties (1+2+3+- - -) (provide additional papers if necessary)		৳
	1	(Income from house property 1)	৳
	2	(Income from house property 2)	৳
	3	(Income from house property 3)	৳

Name	Signature & Date

SCHEDULE 24C

Summary of income from business or profession

To be annexed to return by an assessee having income from business or profession

01	Assessment Year 2 0 -	02	TIN

03	Type of main business or profession		
04	Name(s) of the business or profession (as in trade licence)	05	Address(es)

Use serial numbers if more names and addresses

Summary of Income

		Amount ৳
06	Sales/ Turnover/ Receipts	
07	Gross Profit	
08	General, administrative, selling and other expenses	
09	Net Profit (07-08)	

Summary of Balance Sheet

		Amount ৳
10	Cash in hand & at bank	
11	Inventories	
12	Fixed assets	
13	Other assets	
14	Total assets(10+11+12+13)	
15	Opening capital	
16	Net profit	
17	Withdrawals in the income year	
18	Closing capital (15+16-17)	
19	Liabilities	
20	Total capital and liabilities (18+19)	

Name	Signature & Date

SCHEDULE 24D

Particulars of tax credit/rebate

To be annexed to return by an assessee claiming investment tax credit

(Attach the proof of claimed investment, contribution, etc.)

01	Assessment Year 2 0 -	02	TIN

Particulars of rebatable investment, contribution, etc. Amount ৳

03	Life insurance premium		
04	Contribution to deposit pension scheme (not exceeding allowable limit)		
05	Investment in approved savings certificate		
06	Investment in approved debenture or debenture stock, Stock or Shares		
07	Contribution to provident fund to which Provident Fund Act, 1925 applies		
08	Self contribution and employer's contribution to Recognized Provident Fund		
09	Contribution to Super Annuation Fund		
10	Contribution to Benevolent Fund and Group Insurance Premium		
11	Contribution to Zakat Fund		
12	Others, if any (give details)		
13	Total allowable investment, contribution etc.		
14	Eligible amount for rebate (the lesser of 14A, 14B or 14C)		
	14A	Total allowable investment, contribution, etc. (as in 13)	
	14B	..... % of the total income [excluding any income for which a tax exemption or a reduced rate is applicable under sub-section (4) of section 44 or any income from any source or sources mentioned in clause (a) of sub-section (2) of section 82C.]	
	14C	1.5 crore	
15	Amount of tax rebate calculated on eligible amount (Serial14) under section 44(2)(b)		

Name	Signature & Date

17.12.8 Particulars for depreciation allowance (Rule - 41)

For the purpose of paragraph 2(3)(a) of the Third Schedule to the Ordinance, the particulars to be furnished shall be in the form as prescribed in Rule 41.

17.12.9 Furnishing abstract of the provident fund account of an employee (Rule - 47)

An abstract for the financial year or other applicable accounting period of the individual account of each employee participating in a recognized PF whose income under "Salaries" is Tk. 20,000 or over per annum, shall be furnished, within 15th September or any other subsequent date fixed by the DCT, in the form specified in rule 46, but shall show only the totals of the various columns thereof for the financial year or other accounting period.

17.9.10 Statement of international transactions to be submitted [Sec- 107EE]: Every person who has entered into an international transaction shall furnish, along with the return of income, a statement of international transactions in prescribed form and manner.

17.9.10 Return, statements, etc., that may be required to be furnished (Rule – 58B) –

The trustees of an approved gratuity fund and an employer who contributes to an approved gratuity fund may be required by notice from the DCT under paragraph 8 of Part C of the First Schedule to the Ordinance to – **(a)** Furnish a return containing such particulars of contributions as the notice may require; **(b)** Prepare and deliver a return containing – **(i)** The name and place of residence of every person in receipt of a gratuity from the fund; and **(ii)** The amount of the gratuity paid to each employee; and **(c)** Furnish a copy of the accounts of the fund together with such other information and particulars as may be reasonable required.

KEY POINTS

1. A person other than a company is required to file a return if his or her tax payable income during the income year 2016 – 17 exceeds Tk. 250,000 or if he/she has been assessed in any one of the three immediately preceding years.
2. Every company has to file a return of income irrespective of their profitability.
3. In the case of an individual the person authorized to sign on the return of income is the individual himself; if absent, the authorized person; if mentally incapacitated, the guardian or any other person competent to act on his behalf.
4. Generally a company is required to file a return by the 15th July next following the income year and for any other assessee by the 30th September next following the income year.
5. The return should be supported with proper documents like statement of assets and liabilities by an individual assessee and audited financial statement for a company.
6. Where the full amount of tax payable has been deducted at source, assessee may, instead of filing a return file a certificate of income along with supplementary documents.
7. The DCT may, at any time after expiry of the last date for filling return by a notice in writing asks the assessee to file a return of income.
8. A person can furnish a revise return at any time before assessment is made when he/she discover any omission or incorrect statement.
9. The DCT may, by notice in writing, require an assessee to produce or cause to produce any accounts, statements or documents at the time specified on the notice.
10. The DCT may extend the date for the delivery of the statement.

Multiple choice questions:

1. Which of the following is not a reason to a person other than a company for filling return –
   (a) owns a motor car
   (b) CA
   (c) has no TIN
   (d) CMA
2. Who is not authorized to sign a return in the case of an individual –
   (a) individual himself
   (b) authorized person
   (c) lawyer of the assessee
   (d) none of the above
3. When an assessee other than a company need to file a return –
   (a) by the 30th June
   (b) by the 30th September
   (c) by the 15th July
   (d) by the 15th August
4. DCT may send a notice to file a return within such days not being less than –
   (a) 21 days
   (b) 30 days
   (c) 60 days
   (d) 7 days
5. An abstract of the provident fund account of an employee need to furnish where each employee participating in a RPF and whose income under the head salary is –
   (a) Tk. 15,000 or over per month
   (b) Tk. 20,000 or over per month
   (c) Tk. 15,000 or over per year
   (d) Tk. 20,000 or over per year
6. When an assessee can file a revise return –
   (a) before assessment is made
   (b) after assessment is made
   (c) at any time
   (d) never
7. Which of the following need not to be submitted by an individual with return of income –
   (a) Particulars of life style
   (b) Statements of assets
   (c) Statements of liabilities
   (d) Audited statement of accounts
8. The last date for the submission of return may be extended by the DCT for a period of –
   (a) 21 days
   (b) 2 months
   (c) 1 month
   (d) 30 days
9. In the case of a company who is authorized to sign on the return –
   (a) Chief accountant
   (b) Principal officer
   (c) Chairmen of the board
   (d) Any official

10. Who can send notice and asks for filling return or to produce accounts and documents –
    (a) Commissioner of Taxes
    (b) Appellate Joint Commissioner
    (c) Deputy Commissioner
    (d) Tax Recovery Officer

Identify the following statements as True (T) or False (F):

		T	F
1.	Every company is required to file a return irrespective of their profitability.	T	F
2.	If someone's (except company) tax payable income does not exceed Tk. 250,000 in the income year 2016 – 17, he/she may required to file return of income in some specific cases.	T	F
3.	The chief accountant shall furnish information regarding payment of dividend to the prescribed officer.	T	F
4.	DCT can extend the period for submission of return.	T	F
5.	DCT can send notice and can ask for accounts and documents.	T	F

Discussion Questions:

Question 17 – 1: **"If someone's income during the income year does not exceeds the maximum amount which is not chargeable to tax, may required to file return"** – do you agree? Explain.

Question 17 – 2: Who is authorized to sign on the return of income and when an assessee should file the return of income?

Question 17 – 3: **"The DCT may, at any time send a notice to the assessee and may ask for filling a return or may asks for accounts and documents"** – explain.

Question 17 – 4: How do you think a non resident Bangladeshi can submit his/her return of income?

Question 17 – 5: When can an assessee submit certificate in place of return?

Question 17 – 6: How do you think an assessee can file a revise return?

Question 17 – 7: When do you think information regarding payment of dividend is required to furnish? What information should be provided in this regard?

Question 17 – 8: Write short note on:
(a) Certificate in place of return
(b) Filling of return by a company
(c) Form of return
(d) Section 77

Answers:

Multiple choice questions		True/False
1. c	6. a	1. T
2. d	7. d	2. T
3. b	8. b	3. F
4. a	9. b	4. T
5. d	10. c	5. T

Self review 17 – 1:

P: Required to file return because his income exceeds maximum amount which is not chargeable to tax.

Q: Need not to file a return because his income does not exceed Tk. 250,000.

R: Required to file return though his income does not exceed Tk. 250,000 but he owns a motor car.

S: Required to file return though his income does not exceed Tk. 250,000 but he has been assessed in last year.

Self review 17 – 2:

Information regarding payment of interest	Information regarding payment of dividend
1. The name and address of every person to whom such payment has been made, or was due;	1. The name and address of every shareholder, as entered in the register of shareholders, to whom a dividend or the aggregate of dividends has been paid or distributed;
2. The amount of payment so made or due; and	2. The amount of dividend or dividends so paid or distributed; and
3. Such other particulars as may be prescribed.	3. Such other particulars as may be prescribed.

CHAPTER – 18
ASSESSMENT

LEARNING OBJECTIVES

After studying Chapter 18, you shall be able to understand:

- the concept of assessment and assessment cycle
- types of assessment
- assessment under special cases
- limitations of assessment
- assessment of –
  - Individuals
  - Firms
  - Companies

The term 'assessment' is very important in income tax literature. Most of the sections of ITO lead to fair assessment of the assessees. Traditionally, assessment may mean to calculate the taxable income with the tax liability. But, in modern sense, assessment is a wider concept. It is not mere calculation rather is a process that starts from the identification of taxpayers and ends with the collection of tax from him to the satisfaction of IT authority. Thus, it covers the full cycle of assessment (discussed later).

18.1 DEFINITION

'Assessment', with its grammatical variations and cognate expressions, includes re-assessment and additional or further assessment [U/s 2(8)]. Thus, IT ordinance gives an inclusive definition that will not serve the ultimate purpose. Here, the respective authority (say, DCT) enjoys every room of interpretation. The word "assessment" must be understood in each section of ITO with reference to the context in which it is used: in some sections it has a comprehensive meaning and includes reassessment and in some sections it has a restricted meaning and is used as distinct from reassessment (e.g. s. 93) *(Lakshman Shenoy vs. I.T.O. and I.T.O. vs. City Tobacco Mart [1958] 34 I.T.R. 275, 289-91 (S.C. of India))*. The word 'assessment' is used in the Ordinance as meaning sometimes the computation of income, sometimes the determination of the amount of tax payable, and sometimes the whole procedure laid down in the Ordinance for imposing liability on the tax-payer *(C.I.T. vs. Khemchand Ramdas 1938 I.T.R. 414, 416 (P.C.))*. Generally, "assessment has to be construed in a wide sense and means not only the computation of income but the entire process of computation of income and tax payable, including re-assessment" *(C.I.T. vs. Balkruitne Maltatra (S.C. of India) 1971, 81, I.T.R. 759)*. Thus, the word assessment is not confined in the statute to the definite act of making an assessment: it also refers to the "course of assessment", i.e. assessment proceedings *(Sir Rajendra Nath Mukterju .... (P.C.) 1934, 21, I.T.R. 71, 77)*.

18.2 ASSESSMENT CYCLE

Assessment cycle is the steps required to complete the full assessment process. It starts with the taxpayer (assessee) and ends with the payment of required tax to the full satisfaction of the IT authority. The same process continues over the years and forms a never-ending loop. Assessment cycle starts with the assessee. In the normal course, Assessee initiates the assessment function. But,

sum. The process starts with serving notice of demand (U/s - 135) in the prescribed form specifying therein the sum payable and the time within which, and the manner in which, it is payable, together with a copy of an assessment order. If the assessee failed to pay tax within the time specified, he will be deemed to be in default and in such circumstances; the Deputy Commissioner of Taxes may forward to the Tax Recovery Officer a certificate for recovery of the tax, under his signature specifying the amount of arrears due from the assessee (U/s - 138). Such recovery may also be made by Collector of District (U/s - 142), Special Magistrate (U/s -142A).

9. Any assessee, if aggrieved, may appeal to higher tax authority in line with the sections 153 to 162 of Chapter 19 of IT Ordinance 1984. The sequence in appeal is given in the following figure.

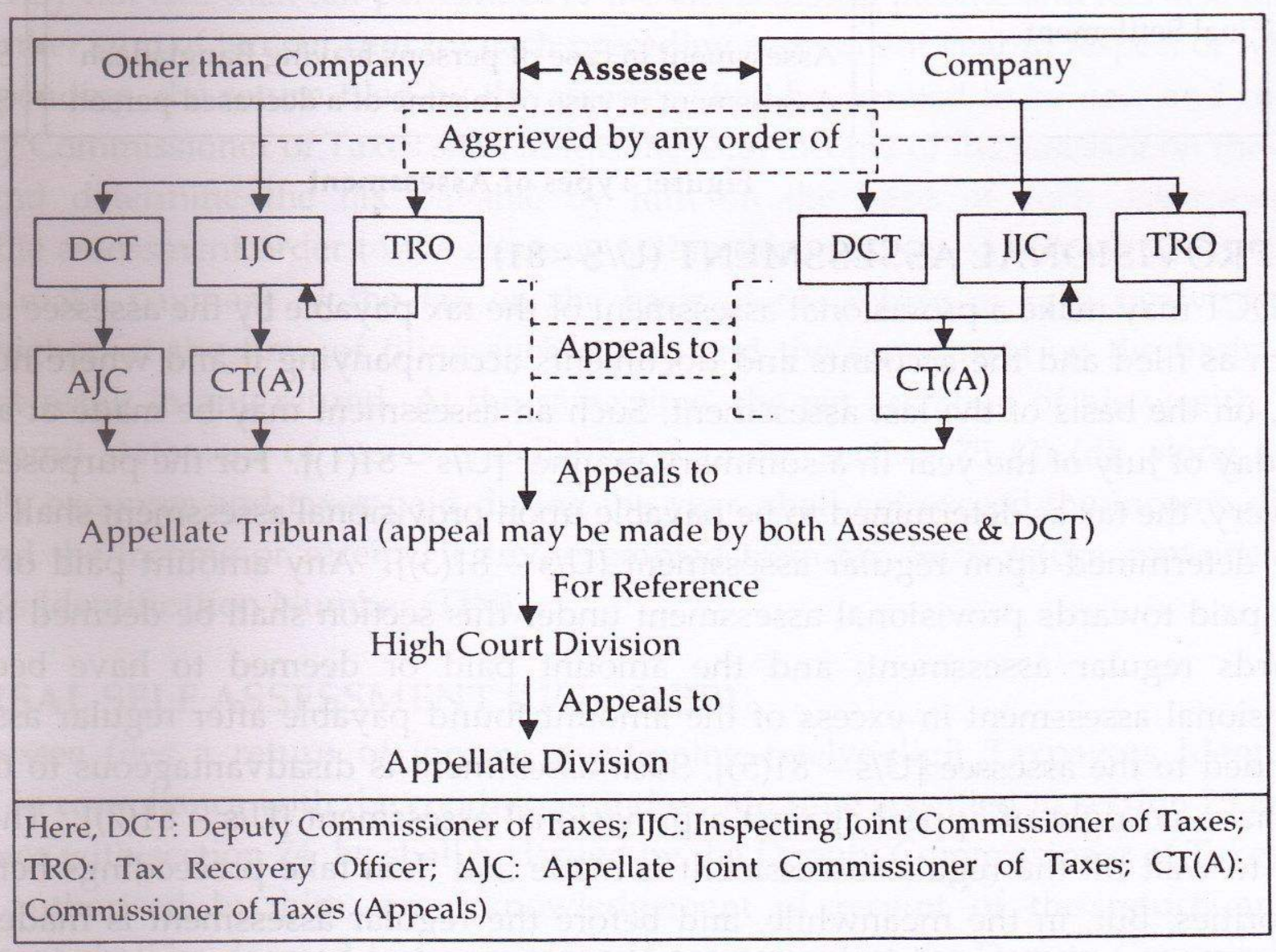


Figure: Procedure of Appeal

10. If the amount of tax paid becomes more than the taxes payable as per assessment, the assessee is entitled to be refunded. Chapter 18 of IT Ordinance 1984 deals with refunds. As the assessee is required to pay tax before the annual assessment by way of tax deducted at sources (TDS), Advance Income Tax (AIT), payment of tax at the time of filing return, payment of tax due to demand notice; the total amount of tax paid may be higher than the amount of tax to be paid.

    Refund may also become due as a result of any order passed in appeal (U/s - 149). However, tax authority may adjust the amount of such refund against other direct taxes (say, gift tax, wealth tax) as payment of tax payable under sections 64 or 74 thereof.

18.3 TYPES OF ASSESSMENT

In a tax assessment cycle, assessment is a very important step and chapter 9 (Sec 81 to 94) of IT Ordinance 1984 is fully dedicated for assessment. Assessment may be provisional and regular. A detail classification is given below:

in case of spot assessment (discussed later), the function is initiated by the DCT (U/s – 82A). The steps are pointed out below in a simplified manner.

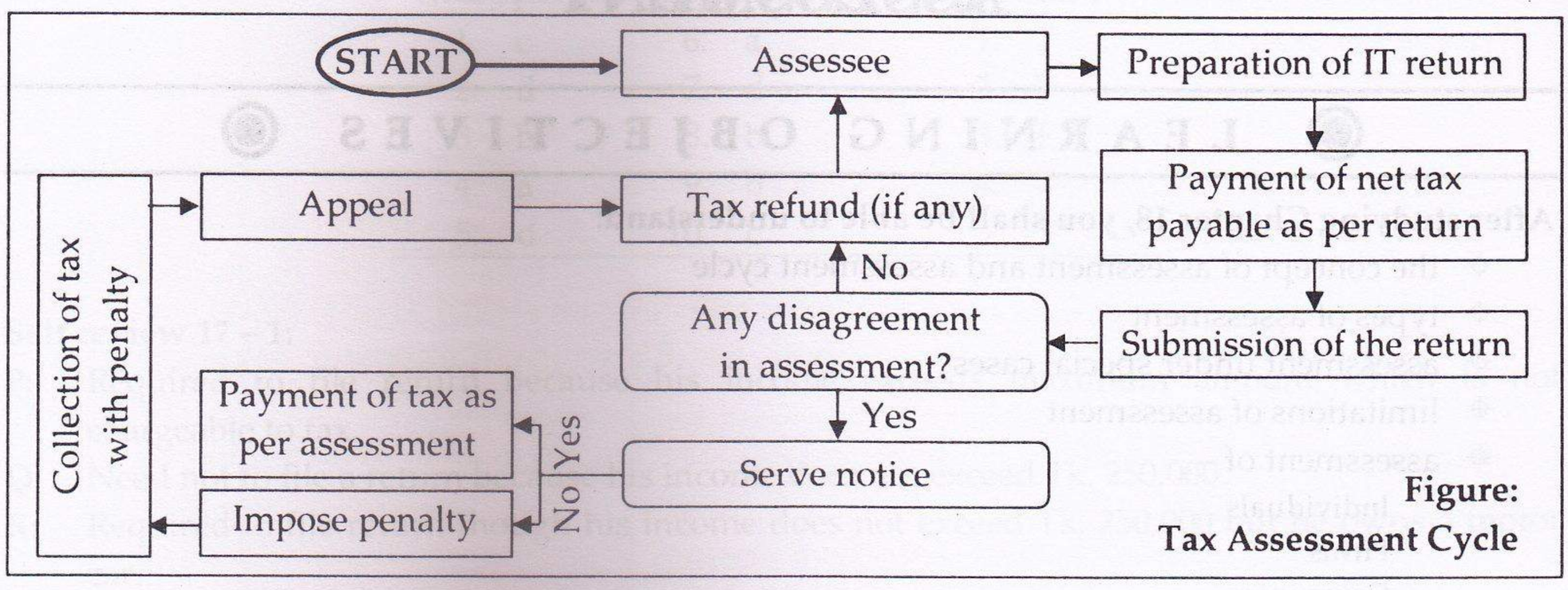
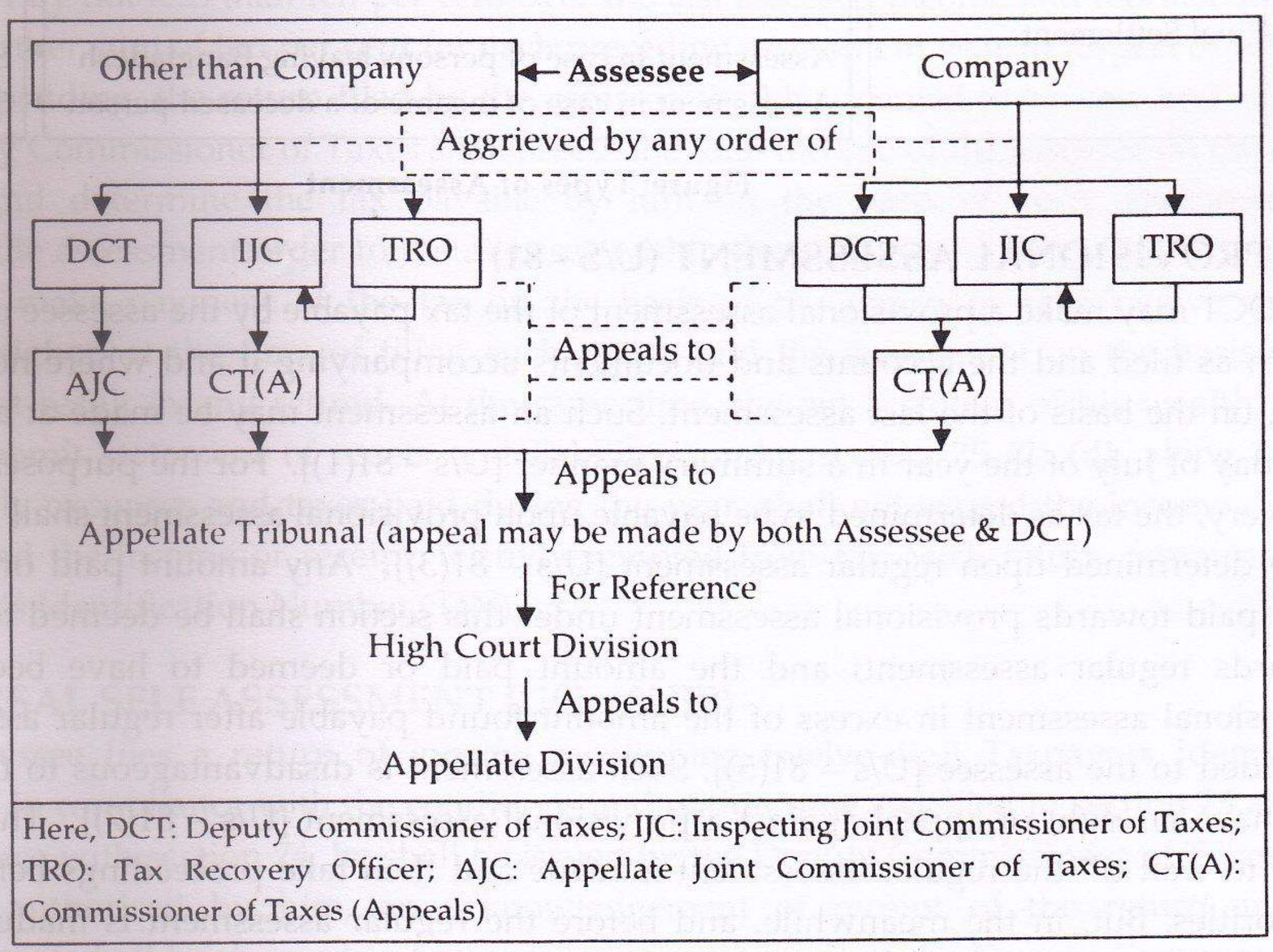


Figure: Tax Assessment Cycle

1. The assessee is required to fill up Income Tax Return under section 75(2). Under Rule 24, the Specimen of Form of Return of Income is followed.
2. Then the assessee is required to compute net tax liability payable by him to the government. The computation is based on the taxable income as shown in income tax return reduced by tax deducted at source (TDS), advance income tax (AIT), tax rebate on investment allowance. At the time of submitting income tax return, the assessee is required to submit documents to show that the tax as computed has already been paid through challan in Bangladesh Bank or Sonali Bank.
3. Once the return is filled up and calculated tax is paid accordingly, the assessee is now required to submit the return to the DCT.
4. Now, the DCT will check the return submitted by the assessee for accuracy. This is called the assessment which may be provisional or regular. If the DCT is satisfied and the assessment process is complete then the DCT will issue an assessment order to the assessee.
5. If the assessment made by the DCT results more tax to be paid by the assessee he will issue a demand notice for the same under section 135 in specified form. If the assessee fails to pay the amount of additional tax within the time, he will be treated as 'assessee in default' and legal actions can be taken against him for collecting tax.
6. After receiving the demand notice from the DCT, the assessee may demand more time from the DCT or may also apply for payment of such additional tax in installment. Then, the assessee is required to pay such tax within the extended time or in installment as per the direction of the DCT.
7. The DCT may impose penalty due to the non-compliance in any manner, say, not abided by the demand notice, violence of any section of the ordinance, non-submission of required documents, non-payment of tax as revised etc. The nature and extent of penalty depends on the type of non-compliance and will be guided by chapter 15 (Sec 123 to 133) and 21 (sec 164 to 171) in most of the cases.
8. Once the penalty is imposed, the assessee is required to pay penalty with the amount of tax (if unpaid). Chapter 16 (sec 134 to 143) of IT Ordinance 1984 explains different prescriptions in this regard. As per sec 134, tax includes any sum imposed, levied or otherwise payable under this Ordinance as penalty, fine, interest, fee or otherwise; and the provisions of the chapter shall accordingly apply to the recovery of any such

sum. The process starts with serving notice of demand (U/s - 135) in the prescribed form specifying therein the sum payable and the time within which, and the manner in which, it is payable, together with a copy of an assessment order. If the assessee failed to pay tax within the time specified, he will be deemed to be in default and in such circumstances; the Deputy Commissioner of Taxes may forward to the Tax Recovery Officer a certificate for recovery of the tax, under his signature specifying the amount of arrears due from the assessee (U/s - 138). Such recovery may also be made by Collector of District (U/s - 142), Special Magistrate (U/s -142A).

9. Any assessee, if aggrieved, may appeal to higher tax authority in line with the sections 153 to 162 of Chapter 19 of IT Ordinance 1984. The sequence in appeal is given in the following figure.



Here, DCT: Deputy Commissioner of Taxes; IJC: Inspecting Joint Commissioner of Taxes; TRO: Tax Recovery Officer; AJC: Appellate Joint Commissioner of Taxes; CT(A): Commissioner of Taxes (Appeals)

Figure: Procedure of Appeal

10. If the amount of tax paid becomes more than the taxes payable as per assessment, the assessee is entitled to be refunded. Chapter 18 of IT Ordinance 1984 deals with refunds. As the assessee is required to pay tax before the annual assessment by way of tax deducted at sources (TDS), Advance Income Tax (AIT), payment of tax at the time of filing return, payment of tax due to demand notice; the total amount of tax paid may be higher than the amount of tax to be paid.

    Refund may also become due as a result of any order passed in appeal (U/s - 149). However, tax authority may adjust the amount of such refund against other direct taxes (say, gift tax, wealth tax) as payment of tax payable under sections 64 or 74 thereof.

18.3 TYPES OF ASSESSMENT

In a tax assessment cycle, assessment is a very important step and chapter 9 (Sec 81 to 94) of IT Ordinance 1984 is fully dedicated for assessment. Assessment may be provisional and regular. A detail classification is given below:

TYPES OF ASSESSMENT			
	Provisional Assessment		Sec. 81
	Regular Assessment	Assessment on new return	Sec. 82
		Assessment under simplified procedure	Sec 82A
		Universal self assessment	Sec. 82BB
		Spot Assessment	Sec. 82D, Rule 38B
		Assessment after hearing	Sec. 83
		Assessment on the basis of a report of a CA	Sec. 83AAA
		Best judgment assessment	Sec. 84
		Income escaping assessment	Sec. 93
	Final Settlement	Assessment in case of partition of a HUF	Sec. 90
		Assessment in case of persons leaving Bangladesh	Sec. 91
		Assessment in case of income of a deceased person	Sec. 92

Figure: Types of Assessment

18.4 PROVISIONAL ASSESSMENT (U/S - 81)

The DCT may make a provisional assessment of the tax payable by the assessee on the basis of the return as filed and the accounts and documents accompanying it and where no return has been filed, on the basis of the last assessment. Such an assessment may be made at any time after the first day of July of the year in a summary manner [U/s – 81(1)]. For the purposes of payment and recovery, the tax as determined to be payable upon provisional assessment shall have effect as if it were determined upon regular assessment [U/s – 81(3)]. Any amount paid or deemed to have been paid towards provisional assessment under this section shall be deemed to have been paid towards regular assessment; and the amount paid or deemed to have been paid towards provisional assessment in excess of the amount found payable after regular assessment shall be refunded to the assessee [U/s – 81(5)]. Such assessment is disadvantageous to the assessee as he will have no right of appeal against a provisional assessment [U/s – 81(7)]. The assessee would have to wait till the regular assessment is made and then take proceedings before the appellate authorities. But, in the meanwhile, and before the regular assessment is made, the tax may be recovered from the assessee as it was determined on regular assessment.

18.5 ASSESSMENT ON NEW RETURN (U/S - 82)

Where a return or a revised return has been filed under Chapter VIII and the Deputy Commissioner of Taxes is satisfied, without requiring the presence of the assessee or the production of any evidence, that the return is new and complete, he shall assess the total income of the assessee and determine the sum payable by him on the basis of such return and communicate the assessment order to the assessee within thirty days next following.

Exceptions: If the assessee is a company not less than thirty per cent of whose paid up capital is owned by persons other than Bangladeshis or a company incorporated by or under any law of a country outside Bangladesh or a public limited company or a body corporate established or constituted by or under any law for the time being in force, or any nationalized banking, insurance or other financial institution, the return shall be deemed to be new and complete if the return is accompanied by a certified copy of the accounts of the assessee audited by a chartered accountant and a certificate as to the correctness of the total income of the assessee signed and issued by the chartered accountant himself in the prescribed form. Such return shall be filed in the case of a company, by the fifteenth day of July next following the income year or, where the fifteenth day of

July falls before the expiry of six months from the end of the income year, before the expiry of such six months; and in all other cases, by the thirtieth day of September next following the income year; the amount of tax payable shall be paid on or before the date on which the return is filed; and such return does not show any loss or lesser income than the last assessed income, or assessment on the basis of such return does not result in refund.

18.6 ASSESSMENT UNDER SIMPLIFIED PROCEDURE (U/S – 82A)

Where, an assessee, other than a public limited company who has previously been assessed for any assessment year ended on or before the thirtieth day of June, 1995, files a return showing income for the income year relevant to the assessment year commencing on or after the first day of July, 1995 and ending on or before the thirtieth day of June, 1997 and the income shown in such return is higher by not less than ten per cent over the last assessed income and has also increased by at least a further sum of ten per cent for each preceding assessment year in respect of which the assessment is pending, the return filed by the assessee shall be deemed to be new and complete, and the Deputy Commissioner of Taxes shall assess the total income of the assessee on the basis of such return and determine the tax payable by him on the basis of such assessment, and communicate the assessment order to the assessee within thirty days next following. The assessee is required to make payment of the tax on the basis of the return or taka twelve hundred, whichever is higher, at the time of filing such return and the assessment on the basis of such return shall not result in any refund. At the same time, the net accretion of his wealth, if he is required to submit statement of assets and liabilities under section 75 (2) (d), along with his disclosed family expenses and taxes paid during the year, shall not exceed the income disclosed for the year and the income or receipt, if any, exempted from tax. Such return contains twelve-digit Taxpayer's Identification Number (TIN).

18.7 UNIVERSAL SELF ASSESSMENT (U/S – 82BB)

Where an assessee files a return of income mentioning twelve-digit Taxpayers Identification Number (TIN) in compliance with the conditions and within time specified in section 75 and pays tax in accordance with section 74, he shall be issued by the Deputy Commissioner of Taxes or any other official authorised by him, an acknowledgement of receipt of the return and such acknowledgement shall be deemed to be an order of assessment of the Deputy Commissioner of Taxes [U/s – 82BB (1)].

On receipt of such return under sub-section (1), the Deputy Commissioner of Taxes shall –

(a) Process such return in the following manner, namely:

(i) the income shall be computed after making the adjustments in respect of any arithmetical error in the return and any incorrect claim, if such incorrect claim is apparent from the existence of any information in the return and the statements and documents submitted therewith;

(ii) the tax shall be computed on the basis of the income computed under sub-clause (i);

(iii) the sum, payable by or refundable to the assesse, shall be determined after giving credit of the sum paid by way of advance tax including the tax paid at source and the tax paid under this Ordinance.

(b) Where the process of return results in a difference in the amount of income, tax or other material figures than the amount mentioned in the return filed, the Deputy Commissioner of Taxes shall serve a notice to the assessee –

(i) communicating him about the difference and enclosing a sheet of computation of income, tax, refund or other related particulars that resulted from the process of return;

(ii) giving him an opportunity to explain his position in writing within the time specified in the notice; and

(iii) giving him an opportunity to file an amended return within the time specified in the notice and pay the tax and any other amount that becomes payable as a result of the process;

Explanation: For the purposes of this section, "an incorrect claim apparent from the existence of any information in the return" shall mean a claim, on the basis of an entry, in the return

(i) of an item, which is inconsistent with another entry of the same, or some other item, in such return; or

(ii) in respect of a deduction, exemption, rebate or credit, where such deduction exemption, rebate or credit, exceeds the specified statutory limit which may have been expressed as monetary amount, percentage, ratio or fraction.

Where a notice is served under this section, the Deputy Commissioner of Taxes shall send a letter of acceptance of amended return within sixty days where (i) an amended return is filed; (ii) any tax or any other amount, payable under this Ordinance as a result of the process, has been paid on or before the submission of the amended return; and (iii) the difference has been duly resolved in the return. If these are not fulfilled, the DCT will serve, after the expiry of the date of response of the assessee as mentioned in the notice, a notice of demand along with a sheet of computation of income, tax, refund or other related particulars within six months from the date of serving notice.

Where the assessee finds that owing to any unintentional mistake the tax or any other amount payable under this Ordinance has been paid short or computed short by reasons of underreporting of income or overreporting of rebate, exemption or credit or for any other reasons, he may file to the Deputy Commissioner of Taxes an amended return, (a) attaching with the amended return a written statement mentioning the nature and the reason for the mistake; (b) paying in full the tax and any other amount that was paid short or computed short; and an interest at the rate of two percent (2%) per month on the amount and if the Deputy Commissioner of Taxes is satisfied that the amended return is filed in compliance with the conditions, he may allow the amended return. Provided that no amended return shall be allowed (a) after the expiry of one hundred and eighty days from the date of filing the original return; or (b) after the original return has been selected for audit under sub-section (7) [U/s – 82BB (5)].

The Board or any authority subordinate to the Board, if so authorised by the Board in this behalf, may select, in the manner to be determined by the Board, a number of returns, and refer the same to the Deputy Commissioner of Taxes for the purpose of audit. Provided that a return filed or an amended return accepted or allowed under this section shall not be selected for audit where, (a) such return or amended return shows at least fifteen percent (15%) higher total income than the total income assessed in the immediately preceding assessment year; and (b) such return or amended return is accompanied by corroborative evidence in support of income exempted from tax; it is accompanied by a copy of bank statement or account statement, as the case may be, in support of any sum or aggregate of sums of loan exceeding taka five lakh taken other than from a bank or financial institution; it does not show the receipt of gift during the year; it does not show any income which is subject to tax exemption or reduced tax rate under section 44; or it does not show or result any refund [U/s – 82BB (7)].

Where after conducting the audit the Deputy Commissioner of Taxes is satisfied that the affairs of the assessee has not been duly reflected in the return or the amended return or in statements and

documents submitted therewith, he shall communicate the findings of the audit to the assessee and serve a notice requiring him to file a revised return reflecting the findings of the audit, and pay tax and any other applicable amount on the basis of the revised return on or before the filing of such revised return [U/s – 82BB (8)]. Where a revised return is filed and the Deputy Commissioner of Taxes is satisfied that the findings of audit has been duly reflected in the revised return and the tax and any other applicable amount have been fully paid, he may accept the revised return and issue a letter of acceptance to the assessee [U/s – 82BB (9)]. However, if these are not properly complied with, the Deputy Commissioner of Taxes shall proceed to make assessment under section 83 or 84, whichever is applicable.

In the case of a return submitted under sub-section (1), no question as to the source of initial capital of the business or profession of a new assessee shall be raised, if the assessee (a) shows income which exceeds the tax exemption threshold and which is not less than twenty percent (20%) of the initial capital invested in the business or profession; (b) pays tax on such income at regular tax rate along with any other applicable amount on or before filing of return; and (c) mentions in writing that the return falls under this subsection [U/s – 82BB (11)]. In this case, the minimum amount of capital maintained in the business or profession at the end of the income year and four subsequent income years shall be equal to the initial capital; and any amount of shortfall of the capital in any income year shall be deemed as "income from business or profession" for that income year and shall be included in total income of the assessee [U/s – 82BB (12)].

18.7 SPOT ASSESSMENT (U/S – 82D)

An assessee, other than a company, if not assessed earlier and carrying on any business or profession in any shopping centre or commercial market or having a small establishment, the DCT may fix the tax payable by him in such manner and at such rate as may be prescribed and the receipt obtained for payment of such tax shall be deemed to be an order of assessment u/s 82.

18.7.1 Procedure for spot assessment (Rule – 38B) –

1. An assessee, referred to in section 82D of the Ordinance, claiming adjustment for any tax deducted or collected under chapter VII of the Ordinance or having wholesale business or having initial capital investment exceeding fifteen lac taka or carrying on profession as a lawyer or a doctor for a period exceeding ten years shall not be eligible for assessment under that section.
2. The DCT, with the prior approval of the IACT or IJCT, shall chalk out a program to visit any shopping centre or commercial market or an area where such establishments are located and accordingly visit such centre, market or area and fix the tax on an assessee referred in sec. 82D of the Ordinance for any year at the rates:

(a) Where an assessee carrying on business-

	Initial Capital Investment to be shown	Rate of Tax	Applicable For the assessee:
(i)	Upto Tk. 600,000	Tk. 3,000	not located under any city corporation or paurashava of district headquarters
(ii)	Upto Tk. 700,000	3,500	located at Paurashava in district head-quarters and other area excluding city corporation
(iii)	Upto Tk. 800,000	4,000	of any area
(iv)	Upto Tk. 1,000,000	5,000	of any area
(v)	Upto Tk. 1,500,000	10,000	of any area

(b) Where an assessee carrying on profession as a lawyer or doctor-

Length of Profession	Rate of Tax	Applicable For the assessee
(i) Upto 3 years	Tk. 3,000	not located under any city corporation or paurashava of district headquarters;
(ii) Upto 4 years	3,500	located at Paurashava in district head-quarters and other area excluding city corporation;
(iii) Upto 5 years	4,000	of any area
(iv) Upto 10 years	5,000	of any area

3. The assessee shall, with the help of the DCT, fill up a return of income in form IT-11GAGA as prescribed in sub-rule (1aaa) of rule 24, which can had from the DCT, and submit the same to the DCT on the spot.
4. The tax fixed under sub-rule (2) shall remain in force for two subsequent assessment years, and the receipt of the payment of such tax shall be deemed to be an order of assessment under section 82 of the Ordinance.

18.7.2 Format of the Form of return of income under Section 82D:

Form of return of income under the Income-tax Ordinance, 1984 (Ord. XXXVI OF 1984)
(Return under section 82D

IT-11GAGA

1. Name of the Assessee: .....
2. Present Address: .....
   .....
3. Father's/husband's name:.....4. Mother's Name:.....
5. Date of Birth:.....6. Mobile/Telephone:.....7. e-mail (if any):.....
8. National ID No (if any) ..... 9. Nature of Business/Profession:.....
10. TIN/UTIN: | | | | | | | | | | | | |
11. (a) Circle: ..... (b) Taxes Zone: .....
12. Assessment Year: ..... 13. Status: Individual/Firm/AOP (please tick)

14. Total income	:	Tk.
15. Net tax payable	:	Tk.
16. Tax paid on the basis of this return	:	(a) Amount (in figure):
		(b) Pay order/challan No.:
		(c) Date:

Verification

I ..... father/husband .....
UTIN/TIN: ..... solemnly declare that to the best of my knowledge and belief the information given in this return is correct and complete.

Place: .....
Date : .....
Signature of the Assessee

N. B. Please see the brief instructions overleaf before filling up the return.

✂.....

Brief Instructions for calculating income of an individual assessee

If required, please get help from Income-tax Ordinance, 1984 (Ord. XXXVI OF 1984), and Income Tax Rules, 1984.

Sl No.	Head of Income And Description	Amount In Tk.
1.	Income from business/profession: (a) Total sale/receipts/commission (As per section 28): (b) Total expenses of business or profession (As per manufacturing/trading/profit-loss accounts) (section 29): (c) Net profit/income [(a)-(b)]:	
2.	**Rate of tax** In case of business: Capital limit — Payable Tax (a) up to taka 6 lakh — Tk. 3,000/- (b) up to taka 7 lakh — Tk. 3,500/- (c) up to taka 8 lakh — Tk. 4,000/- (d) up to taka 10 lakh — Tk. 5,000/- (e) up to taka 15 lakh — Tk. 10,000/-	
	In case of profession: Length of profession — Payable Tax (a) up to 3 years — Tk. 3,000/- (b) up to 4 years — Tk. 3,500/- (c) up to 5 years — Tk. 4,000/- (d) up to 10 years — Tk. 5,000/- Income is to be calculated as per existing rate of tax.	
3.	Net tax payable:	

✂.....

Acknowledgement Receipt

Serial No. in return register:.....Date of submission of Return:.....

Received income tax return from Mr./Mrs.. .....UTIN/TIN.....

For the Assessment year:.....Income shown in the return Tk. .....

And tax paid Tk. .....

Seal

Signature of
The Deputy Commissioner of
Taxes/Officer in Charge
Circle....., Taxes Zone.....

18.8 ASSESSMENT AFTER HEARING (U/S - 83)

If the DCT is not satisfied with the return filed by an assessee without requiring the presence of the person who filed the return or the production of evidence that the return is correct and complete, he shall serve a notice requiring the assessee to appear before the DCT within a specified time, or to produce or cause to be produced before him any evidence in support of the return [U/s 83(1)]. Where the DCT has reason to believe that the return is false, incorrect or incomplete, he cannot purport to compute the income without issuing a notice under this sub-section (*Kesaridas & Sons v. CIT2 ITC213*).

The choice as to whether the assessee should attend the office of the DCT or whether he produce or cause to be produced any evidence in support of his return lies with the assessee and not with the department. Thus, a notice under this subsection which merely calls upon the assessee to attend the office of the DCT and does not give him the choice of producing or causing to be produced any evidence on which he merely rely in support of the return, is therefore invalid *(Rajmani Devi v. CIT 1937 ITR631)*. The power of the DCT under this sub-section is not confined to issuing one notice only; he may issue further notices requiring the assessee to produce evidence on specific points (In re *Lachhman Das Narain Das 2ITC1,3)*.

The DCT shall, after hearing the person appearing, or considering the evidence as produced and also considering such other evidence, if any, as he may require on specified points, by an order in writing assess, within thirty days after the completion of the hearing or consideration, as the case may be, the total income of the assessee and determine the sum payable by him on the basis of such assessment, and communicate the order to the assessee within thirty days next following.

18.9 ASSESSMENT ON THE BASIS OF REPORT OF A CHARTERED ACCOUNTANT (U/S – 83AAA)

Where a return or revised return is filed by an assessee being a company and the Board has reasonable cause to believe that the return or revised return is incorrect or incomplete, the Board may appoint a registered chartered accountant to examine the accounts of that assessee [U/s – 83AAA (1)].

The chartered accountant so appointed shall exercise the powers and functions of the Deputy Commissioner of Taxes as referred to in section 79 and clauses (a), (b), (c), (d) and (e) of section 113 [U/s – 83AAA (2)]. After examining the accounts, the chartered accountant shall submit a report in writing to the Board along with findings within a time as may be specified by the Board. Then, the Board shall forward the report to the concerned Deputy Commissioner of Taxes for consideration.

On receipt of the report, the Deputy Commissioner of Taxes shall serve a notice upon the assessee [U/s – 83AAA (5)]. The Deputy Commissioner of Taxes shall, after hearing the person appearing and considering the evidences produced including the findings stated in the report and also considering the other evidences, by an order in writing, assess within thirty days after the completion of hearing or consideration, as the case may be, the total income of an assessee and shall determine the sum payable by the assessee on the basis of such assessment, and communicate the said order to the assessee within thirty days from the date of such order.

18.10 BEST JUDGMENT ASSESSMENT (U/S - 84)

This section provides that the DCT shall make the assessment to the best of his judgment in three cases. The terms of the section are mandatory: the DCT has no discretion to make or not to make an assessment under this section *(Abdul Baree Chowdhury v. C.I.T.5 I.T.C. 352, 357-8(F.B.); C.I.T. v. Laxminarain Badridas 1937 I.T.R. 170, 197, (P.C.))*. The three cases where a best judgment assessment has to be made are, where any person fails;

(a) to file the return required by a notice under section 77 and has not filed a return or revised return under section 78 ; or

(b) to comply with the requirements of a notice under section 79 or 80 ; or

(c) to comply with the requirements of a notice under section 83(1);

The DCT shall, by an order in writing, assess the total income of the assessee to the best of his judgment and determine the sum payable by the assessee on the basis of such assessment; and communicate such order to the assessee within thirty days next following. Where in the opinion of the Board a best judgment assessment made by a Deputy Commissioner of Taxes shows lack of proper evaluation of legal and factual aspects of the case which has resulted in an arbitrary and injudicious assessment, the action leading to such assessment made by the said Deputy Commissioner of Taxes shall be construed as misconduct [U/s – 84 (2)].

18.11 ASSESSMENT IN CASE OF INCOME ESCAPING ASSESSMENT, ETC.

If, based on the information from an audit, assessment or any other proceeding under this Ordinance or from any other source, the Deputy Commissioner of Taxes has reason to believe that any sum payable by an assessee under this Ordinance has escaped payment in any assessment year, the Deputy Commissioner of Taxes may issue a notice in the form specified by the Board upon the assessee requiring him to file for the relevant assessment year, within the time as specified in the notice, a return of his income along with the applicable statement and documents; and pay on or before the filing of the return the sum that has been escaped payment [U/s – 93(1)].

The Deputy Commissioner of Taxes shall send a letter of acceptance of the return where (i) the return is filed within the time mentioned in the notice and in compliance with the provisions of that sub-section; (ii) the sum that escaped payment has been paid on or before the filing of the return; and (iii)the issue for which the sum escaped payment has been duly addressed in the return. If these are not fulfilled, the DCT will proceed to make assessment under section 83 or 84, as the case may be [U/s – 93(2)]

A notice under sub-section (1) may be issued by the Deputy Commissioner of Taxes (a) at any time where, for the relevant assessment year, no return was filed and no assessment was made; (b) within six years from the end of the relevant assessment year where, for the relevant assessment year, no return was filed but assessment is completed; (c) within five years from the end of the relevant assessment year in any other cases.

In this section, any sum payable by an assessee under this Ordinance shall be deemed to have escaped payment if –

(i) the income or a part thereof has escaped assessment; or

(ii) the income has been understated; or

(iii) excessive loss, deduction, allowance or relief in the return has been claimed; or

(iv) the liability of tax or any other amount payable under this Ordinance has been shown or computed lower by concealment or misreporting of any income or by concealment or misreporting of any assets, expenditure or any other particulars in a statement submitted under section 80; or

(v) income chargeable to tax has been under-assessed, or income has been assessed at a lower than due tax rate; or

(vi) income that is subject to tax has been made the subject of tax exemption; or

(vii) income has been made the subject of excessive relief, or excessive loss or depreciation allowance or any other allowance under this Ordinance has been computed; or

(viii) a tax or an amount, payable under this Ordinance, has been computed or paid lower than due amount by reason of lower base.

18.12 ASSESSMENT IN CASE OF PARTITION OF A HINDU UNDIVIDED FAMILY (U/S - 90)

If any member of a Hindu Undivided Family (HUF), at the time of an assessment, claims that a partition has taken place amongst the members of the family, the Deputy Commissioner of Taxes shall make an enquiry after giving notice to all the members of the family. On the completion of the enquiry, the Deputy Commission of Taxes shall record a finding as to whether there has been a partition of the joint family property, and, if there has been such a partition, the date on which it has taken place. If the partition took place after the expiry of the income year, the total income of the income year of the undivided family shall be assessed as if no partition has taken place; and each member or group of members of the family shall, in addition to any tax for which he or it may be separately liable, be jointly and severally liable for the tax on the income of the family so assessed [U/s – 90(4)].

But, if the partition took place during the income year, the total income of the undivided family in respect of the period up to the date of partition shall be assessed as if no partition had taken place; and each member or group of members of the family shall, in addition to any tax for which he or it may be separately liable, be jointly and severally liable for the tax on the income of that period as so assessed [U/s – 90(5)].

If the Deputy Commissioner of Taxes finds after completion of the assessment of a HUF that the family has already effected a partition, the tax shall be recoverable from every person who was a member of the family before the partition; and every such person shall be jointly and severally liable for tax on the income of the family so assessed [U/s – 90(6)].

18.13 ASSESSMENT IN CASE OF PERSONS LEAVING BANGLADESH (U/S - 91)

If any person leaves Bangladesh during the current financial year or shortly after its expiry and if he has no intention of returning, an assessment may be made in that year on the basis of the total income of such person –

(a) if he has been previously assessed, for the period from the expiry of the last income year of which income has been assessed to the probable date of his departure from Bangladesh; and

(b) if he has not been previously assessed, of the entire period of his stay in Bangladesh up to the probable date of his departure.

The DCT may serve a notice to the person concerned to file within a time specified in the notice,

(a) a return in the same form and verified in the same manner as a return under section 75 setting forth, along with such other particulars as may be required by the notice, his total income for each of the completed income years; and

(b) an estimate of his total income for the period from the expiry of the last income year to the probable date of his departure from Bangladesh.

18.14 ASSESSMENT IN CASE OF INCOME OF A DECEASED PERSON (U/S - 92)

If a person dies, his legal representative shall be liable to pay any tax which the deceased would have been liable to pay if he had not died, in the like manner and to the same extent as the deceased; and the legal representative of the deceased shall be deemed to be an assessee who has been duly served a notice to that effect by the DCT. For the purposes of making an assessment of the income of the deceased and recovery of tax –

(a) any proceeding taken against the deceased before his death shall be deemed to have been taken against the legal representative and may be continued from the stage at which it stood on the date of the death of the deceased ;and

(b) any proceeding which could have been taken against the deceased, if he had not died, may be taken against the legal representative. However, the liability of legal representative shall be limited to the extent to which the estate of the deceased is capable of meeting the liability [U/s – 92(3)].

SELF REVIEW 18 – 1

Identify one basic feature of assessment procedure of **(a)** Spot assessment **(b)** Assessment after hearing **(c)** Assessment of deceased person and **(d)** Best judgment assessment

18.15 LIMITATION OF ASSESSMENT (U/S - 94)

If assessment is not done on regular basis in some specific situations, then it should be done within stipulated time as set in sec - 94. After that, assessment will not be valid. To reduce unusual delay and make the assessment accurate enough, this section sets time period within which the assessment should be completed. The situation with the time period is given in the table below:

Situations	Time Frame
1. If the assessment is to be made as a result of audit under section 82BB [U/s – 94(1)(a)]	Within two years form the end of the assessment year in which the income was first assessable
2. If the assessment is to be made under section 107C [U/s – 94(1)(b)]-	Within three years form the end of the assessment year in which the income was first assessable;
3. If the assessment is to be made in a case other than the cases mentioned in clause (a) or (b) above [U/s – 94(1)(c)]	Within six months form the end of the assessment year in which the income was first assessable;
4. Assessment under section 93 may be made [U/s – 94(2)]	within two years from the end of the year in which notice under section 93(1) was issued
5. Any order or assessment may be made on the assessee or any other person in consequence of any finding or direction contained in an order under sections 120,121A, 156, 159, 161 or 162 or, in the case of a firm, an assessment to be made on a partner of a firm in consequence of an assessment made on the firm shall be made [U/s – 94(3)]	Within thirty days from the date on which the order was communicated and such revised order shall be communicated to the assessee within thirty days next following.
6. where an order of assessment has been set aside by any authority in that case the assessment shall be made [U/s – 94(3)]	within forty five days form the date on which the order was communicated to him

But, if the DCT fails to give effect to any finding or direction contained in an order referred to in sub-section (3) within the period stipulated therein, such failure of the DCT shall be construed as misconduct. [U/s – 94(4)]

18.16 ASSESSMENT – SOME OTHER BASIC ISSUES

18.16.1 Place of Assessment (U/s – 173A) –

Where the assessment will be done is a controversial issue and will be solved as per the provision of this section as given below:

Situation	Authority	Place
1. If an assessee carries on a business, profession or vocation at any place.	DCT	The area where business, profession or vocation situate
2. If an assessee carries on a business, profession or vocation at more than one place.	DCT	The area in which the principal place of business, profession or vocation situate.
3. In all other cases	DCT	The area of residence.

If any question regarding the place of assessment arises, it will be solved by the concerned commissioners and if they are not in agreement, by the National Board of Revenue provided that the assessee has been given an opportunity to represent his views.

18.16.2 Tax to be calculated to nearest taka (U/s - 175) –

In the determination of the amount of tax or of a refund, fractions of a taka, less than fifty poisha, shall be disregarded and fractions of a taka equal to or exceeding fifty poisha shall be regarded as one taka.

18.16.3 Receipts to be given (U/s - 176) –

A receipt shall be given for any money paid or recovered as tax under this Ordinance.

18.16.4 Bar of suits and prosecution, etc. (U/s - 182) –

(a) No suit shall be brought in any Civil Court to set aside or modify any assessment made under this Ordinance [U/s – 182(1)].

(b) No suit, prosecution or other proceedings shall lie against any officer of the Government for anything in good faith done or intended to be done under this Ordinance [U/s – 182(2)].

18.16.5 Service of notice (U/s - 178) –

A notice, an assessment order, a form of computation of tax or refund or any other document may be served on the person named therein either by registered post or in the manner provided for service of a summons issued by a Court under the Code of Civil Procedure, 1908 (Act V of 1908).

Provided that where a authorized representative of the person as referred to in section 174 of this Ordinance such delivery shall be construed as service of such notice or document on the person himself.

The validity of any notice or of the service of any notice shall not be called in question after the return in response to the notice has been filed or the notice has been complied with [U/s – 178(3)]. The notice may be served to the following persons as mentioned below:

Situation	Notices to Whom?
1. in the case of a firm or a Hindu undivided family	any member of the firm, or the manager or any adult male member of the family
2. in the case of a local authority or a company	principal officer
3. in the case of other body or association of persons	principal officer or any member thereof
4. in a case where a firm or association of persons is dissolved	any person who was a member of the firm or association
5. in a case where a business or profession is discontinued to which section 89 applies, if the business or profession discontinued was-	
i. that of an individual	the person whose income is to be assessed
ii. that of a company	the principal officer
iii. that of a firm or association of persons	any person who was a partner of such firm or a member of such association
6. in case of partition of a Hindu Undivided Family (HUF)	last manager or all adult members of the family.
7. in any other case, not being an individual	the person who manages or controls the affairs of the person or institution concerned.

KEY POINTS

1. Assessment is not mere calculation rather is a process
2. Once the return is filled up and calculated tax is paid accordingly, the assessee is required to submit the return to the DCT.
3. Provisional assessment may be made at any time after the July 1 of the year in a summary manner and the amount paid or deemed to have been paid towards provisional assessment in excess of the amount found payable after regular assessment shall be refunded.
4. Spot assessment is conducted by the DCT for an assessee, other than a company, if not assessed earlier and carrying on any business or profession in any commercial market.
5. The DCT can conduct assessment after hearing (by sending a notice) where he has reason to believe that the return is false, incorrect or incomplete.
6. Where a company files a return the Board believes that the return is incorrect or incomplete, the Board may appoint a registered CA to examine the accounts of that assessee.
7. DCT has no discretion to make or not an assessment under best judgment procedure.
8. If a person dies, his legal representative shall be liable to pay any tax which the deceased would have been liable to pay.
9. If an assessee carries on a business, profession or vocation at any place the DCT will conduct assessment in the area where business, profession or vocation situated.
10. Tax to be calculated to nearest taka.

Multiple choice questions:

1. For Universal Self Assessment which form is required to fill up –
   (a) 11 Gha
   (b) 11 GA
   (c) 11 Kha
   (d) 10 Ga

2. Tax should be paid in –
   (a) Bangladesh Bank
   (b) Sonali Bank
   (c) Any Schedule Bank
   (d) a or b

3. If the assessment made by the DCT results more tax to be paid by the assessee, what action the DCT cannot follow –
   (a) issue a demand notice
   (b) take legal actions
   (c) can call him/her as 'assessee in default'
   (d) none of the above

4. Assessee has no right to appeal against –
   (a) Provisional assessment
   (b) Spot assessment
   (c) Best judgment assessment
   (d) Assessment after hearing

5. Spot assessment is applicable for –
   (a) Individual
   (b) Large Company
   (c) Small establishment
   (d) Hindu undivided family

6. Who fix the amount of tax payable by an assessee –
   (a) Tax recovery officer
   (b) Deputy commissioner of taxes
   (c) Commissioner of taxes
   (d) Appellate tribunal

7. The rate of tax in spot assessment where an assessee carrying on business within the limits of any city corporation with initial investment up to Tk. 800,000 –
   (a) Tk. 4,000
   (b) Tk. 2,000
   (c) Tk. 1,000
   (d) Tk. 500

8. DCT should communicate tax liability in case of assessment after hearing within how many days with the assessee –
   (a) 7 days
   (b) 21 days
   (c) 30 days
   (d) Nothing specific

9. Assessment on the basis of report of a Chartered Accountant is applicable for –
   (a) Company assessee
   (b) Individual assessee
   (c) Partnership firm
   (d) Hindu undivided family
10. Under which of the following case best judgment assessment is not possible: when any person fails –
   (a) to file the return required by a notice under section 77
   (b) to comply with the requirements of a notice under section 79 or 80
   (c) to comply with the requirements of a notice under section 83(1)
   (d) none of the above

Identify the following statements as True (T) or False (F):

1. IT 11 GA is the income tax return form.	T	F
2. Universal Self Assessment is applicable for individual assessee only.	T	F
3. If a person dies, his legal representative shall be liable to pay any tax of him/her.	T	F
4. No suit shall be brought in any Civil Court to set aside or modify any assessment made under income tax ordinance.	T	F
5. Company can appeal only to commissioner (appeal).	T	F

Discussion Questions:

Question 11 – 1: **"Assessment cycle is the steps required to complete the full assessment process"** – explain.

Question 11 – 2: Explain different types of assessment with reference to different section of income tax ordinance, 1984.

Question 11 – 3: Make a comparative discussion among provisional assessment, assessment on the basis of correct return and best judgment assessment.

Question 11 – 4: What is self assessment? Explain the procedure of self assessment.

Question 11 – 5: What is best judgment assessment? Under what cases a best judgment assessment has to be made?

Question 11 – 6: What is the assessment procedure for –
   a. Hindu Undivided Family
   b. Persons leaving Bangladesh
   c. Deceased person

Question 11 – 7: **"A notice may be served on the person therein named either by registered post with acknowledgement due or in the manner provided for service of a summons issued by a Court under the Code of Civil Procedure"** – explain under different situation to whom notice should be served.

Question 11 – 8: Write short note on:
   (a) Spot assessment
   (b) Self assessment
   (c) Assessment after hearing
   (d) Universal self assessment

Answers:

Multiple choice questions		True/False
1. b	6. b	1. T
2. d	7. a	2. F
3. d	8. c	3. T
4. a	9. a	4. T
5. c	10. d	5. T

Self review 18 – 1:

Spot assessment An assessee, other than a company, if not assessed earlier and carrying on any business or profession in any shopping centre or commercial market or having a small establishment, the Deputy Commissioner of Taxes may fix the tax payable by him.

Assessment after hearing If the Deputy Commissioner of Taxes is not satisfied with the return filed by an assessee, he shall serve a notice requiring the assessee to appear before the Deputy Commissioner of Taxes within a specified time, or to produce before him any evidence in support of the return.

Assessment of deceased person If a person dies, his legal representative shall be liable to pay any tax which the deceased would have been liable to pay.

Best judgment assessment The three cases where a best judgment assessment has to be made are, where any person fails;

(a) to file the return required by a notice under section 77 and has not filed a return or revised return under section 78 ; or

(b) to comply with the requirements of a notice under section 79 or 80 ; or

(c) to comply with the requirements of a notice under section 83(1).

CHAPTER – 18A
ASSESSMENT OF INDIVIDUALS

LEARNING OBJECTIVES

After studying Chapter 18A, you shall be able to understand:

- Scope and sources of total income for an individual assessee
- how to compute total income and tax liability
- non-assessable income for an individual assessee
- tax-credit income/investment allowances
- incomes on which tax is deducted at source
- income where grossing up is required

An "individual" is the only human being among the assessees, enumerated in the Act. The term includes both a male and female. Every individual has to pay tax on his or her total income at the rate applicable during the assessment year. He receives income in various capacities and to pay tax on all incomes in whatever capacity he receives them, unless otherwise stated in the Act. He is required to pay tax not only on the income earned by him, but sometimes also on the income that is deemed to accrue or arise to him.

18A. 1 SCOPE AND SOURCES OF TOTAL INCOME

According to the provisions stated in the ITO, 1984, the scope of total income varies according to the residential status of an assessee. The total income is to be computed subject to the provisions of this ordinance. According to section 17(1) of the ITO 1984, Total income of a resident assessee includes:

1. Income received or deemed to be received in Bangladesh
2. Income accrues or arises or deemed to accrue or arise in Bangladesh
3. Income accrues or arises outside Bangladesh

But for a non-resident, only the income received or deemed to be received and income accrues or arises or deemed to accrue or arise in Bangladesh is to be included in the total income. According to section 20 of the ITO, 1984, these incomes are classified and computed on the basis of seven sources. But according to IT Rule – 24 it has been seen that in the "Specimen Form of Income under the ITO, 1984 – Part II" total 10 heads has been given. Those are:

1. Salaries
2. Interest on Securities
3. Income from House Property
4. Agricultural income
5. Income from Business or Profession
6. Share of Profit on Partnership Firm
7. Income from Spouse or Minor Child
8. Capital Gains
9. Income from other sources; and
10. Foreign Income

While computing the income under the above heads, provisions regarding set-off and carry-forward, clubbing of incomes, exemptions and allowable deductions are considered for computing total taxable income under various heads. If the amount of total income exceeds minimum taxable limit, an individual has to pay income tax on the basis of specified rates. For the assessment year 2017 – 18, the limit of minimum taxable income is Tk. 2,50,000 (in case of women, elderly citizens of more than 65 years old Tk. 3,00,000, for disable person, the limit is Tk. 4,00,000 and for gazetted wounded freedom fighters Tk. 425,000).

18A.2 COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

Following steps are required in this connection:

⇒ Determining the residential status of the individual.

⇒ Computing the income under different heads and aggregate them, taking into account the exemptions and clubbing provisions. Thus total income is determined.

⇒ Tax liability is calculated at the prescribed rates. This is gross amount of tax.

⇒ Determining total amount of Tax-credit income / Investment Allowance.

⇒ Rebate from income tax is allowed on Tax-credit income / Investment Allowance at the prescribed rates.

⇒ From gross tax, Tax rebate on investment allowance and other relevant items, TDS, Advance payment of tax, if any paid, are deducted to arrive at the net tax payable.

18A.3 NON-ASSESSABLE INCOME AT A GLANCE

Those income which are not included in the computation of total income of an assessee, are non-assessable income. Incomes specified in Part A of the Sixth Schedule of the Income Tax Ordinance, 1984 and some other incomes specified in different SROs are exempt and excluded from the computation of total income subject to the limits, conditions and qualifications mentioned therein. Lists of these incomes are enumerated below:

1. Any voluntary contributions received by a Religious or Charitable Institutions.
2. The income of a Local government.
3. Income of government provident funds
4. Special allowances received to meet expenses wholly for official duties.
5. Income received by the trustees on behalf of specified funds
6. Income of employees of Foreign Missions
7. Pension
8. Gratuity upto Tk. 2.5 crore.
9. Income from Tax-free Government Securities
10. Medical allowance up to lower of Tk. 120,000 or 10% of basic salay.
11. Interest on RPF upto 14.5% rate or one-third of basic salary, whichever is lower.
12. Income from owner's residential house.
13. Conveyance allowance upto Tk. 30,000, if no conveyance facility is provided.
14. House-rent allowance: Excess of actual over 50% of basic salary or Tk. 3,00,000 whichever is lower.
15. Receipts from Life Insurance Policy on maturity.
16. Income of foreign technicians, expert and advisor upto certain periods.
17. Receipts under Golden handshake.
18. Agricultural income upto Tk. 200,000 if it is only the source of assessee's income.
19. Dividend income amounted to Tk. 25,000.
20. Dividend from Unit and Mutual funds upto Tk. 25,000.
21. Foreign income if brought through banking channel.
22. Receipt from Worker's Participation Fund not exceeding Tk. 50,000.
23. Certain casual and non-recurring incomes like gift received on occasion of marriage, birthday, anniversary, gift for personal relation and affection etc.
24. Any income of the mutual fund of the person issuing such mutual fund.
25. Any income derived from software and IT business subject to prescribed conditions.
26. Any income derived from the export of handicrafts.
27. Income of any private agricultural college/universities.

28. Income from any building, not less than 5 storied having at least 10 flats, situated in certain prescribed areas.
29. Any sum or aggregate of sums received as interest on pensioner's savings certificate where the total accumulated investment at the end of the relevant income year in such certificate does not exceed Tk. 500,000.
30. Income from manufacturing SME business with yearly turnover of max. Tk. 36 lacs.
31. Income from zero coupon bonds.
32. Income from newly constructed cinema hall or Cineplex subject to some conditions.
33. Income from rice bran oil production industry subject to some conditions.
34. An amount equal to 50% derived from the production of corn/maize or sugar beet;
35. Income of an assessee donated to any fund formed under the provisions of Thrust of Prime Minister's Education Assistance Act, 2012 subject to a maximum limit.
36. Interest or profit arising from Wage earners development bond, US dollar premium bond, US dollar investment bond, Euro premium bond, Euro investment bond, Pound sterling investment bond or Pound sterling premium bond.
37. Foreign income of a Bangladeshi citizen and brought any such income into Bangladesh as per existing laws applicable in respect of foreign remittance.
38. Income of an assessee donated in an income year by a crossed cheque to any girls' school or girls' college approved by the Ministry of Education of the government.
39. Income of an assessee donated in an income year by a crossed cheque to any Technical and Vocational Training Institute approved by the Ministry of Education.
40. Income of an assessee donated in an income year by a crossed cheque to any national level institution engaged in the Research & Development (R&D) of agriculture, science, techonology and industrial development.
41. Any income from an alternative investment fund recognized by the BSEC.
42. Any income of the Bangladesh Securities and Exchange Commission (BSEC) for the Assessment Years starting from the 1.07.2017 to the 30.06.2022.
43. Any amount as an honorarium or allowance from Bangladesh Freedom Fighters Welfare Trust/any welfare allowance received by any person from the Government.
44. Any reward received by any person from the Government.
45. Any income derived from the operation of an elderly care home.

In addition to the above items, some more items have been declared as exempted from tax through SROs. In Chapter 5 of this book, the details of those items have been explained.

18A.4 LIST OF TAX-CREDIT INCOME / INVESTMENT ALLOWANCES

As per section 44(2)(b), a Resident and non-resident Bangladeshi assessee will get tax rebate from the amount of tax payable on his total income of the following amount:

Total Income	Amount of Credit (Tax rebate on Inv. All.)
(i) Of the total income does not exceed Tk. 10,00,000 (Ten lakh)	15% of the eligible amount
(ii) If the total income exceeds Tk. 10,00,000 (Ten lakh) but does not exceed Tk. 30,00,000 (Thirty lakh)	(i) 15% of the First Tk. 250,000 of the eligible amount; (ii) 12% on the rest of the eligible amount
(iii) If the total income exceeds Tk. 30,00,000 (Thirty lakh)	(i) 15% of the First Tk. 250,000 of the eligible amount; (ii) 12% of the next Tk. 500,000 of the eligible amount; (iii) 10% on the rest of the eligible amount

The eligible amount mentioned above shall be the lesser of:

(i) The sums specified in all paragraphs excluding paragraphs 15 and 16 of Part B of the Sixth Schedule; or

(ii) 25% of the total income excluding any income for which a tax exemption or a reduced rate is applicable u/s 44(4) or any income from any source or sources mentioned in section 82C(2)(a); or

(iii) Tk. 15,000,000 (One crore and fifty lakh taka)

The following items should be considered as investment allowance to enjoy tax credit facility:

1. Life Insurance Premium paid for the assessee, spouse or minor child, provided that maximum limit will be 10% of the policy value.
2. Life Insurance Premium paid by a Hindu Undivided Family
3. Deduction from the salary of Government employee for deferred annuity
4. Assessee's contribution to Provident Funds to which the Provident Fund Act, 1925 applies.
5. Employer's and employee's contribution to a Recognized Provident Fund
6. Assessee's contribution to Superannuation Fund
7. Investment in Savings Certificate.
8. Contribution to Deposit Pension Scheme (DPS) upto Tk. 60,000.
9. Donation to a Charitable Hospital
10. Donation to Organizations set up for the welfare of retarded people
11. Donation to Zakat Fund
12. Contribution to Benevolent Fund and Group Insurance Scheme
13. Contribution to Aga Khan Development Network
14. Contribution to Philanthropic or Educational Institution
15. Any sum invested in the purchase of one computer (Upto Tk. 50,000) or one laptop (Upto Tk. 1,00,000) by an individual assessee
16. Contribution to a national level institution set up in memory of liberation war
17. Purchase of any stocks of shares of a company, mutual fund or debenture listed with any stock exchange.
18. Contribution to a national level institution set up in memory of Father of the Nation.
19. Purchase of Bangladesh Government Treasury Bond
20. Contribution to President's Relief Fund [SRO 254/L85]
21. Contribution to Prime Minister's Relief Fund [SRO 125/L91 dated 01.07.1991]
22. Contribution to Ahsania Mission Cancer Hospital [SRO 202/IT/2005 dated 06.07.2005]
23. Donation to The International Centre for Diarrhoeal Disease Research, Bangladesh (ICDDR,B) [SRO 232/IT/2006 dated 24.09.2006]
24. Contribution to Sylhet Diabetic Society, Islamia Eye Hospital and M. A. Ispahani Institute of Ophthalmology, Kidney Foundation; and National Heart Foundation of Bangladesh [SRO 109/IT/2006 dated 07.05.2006]
25. Contribution to Child Health Foundation Hospital; Child Hospital, Jessore; Hospital for Sick Children, Sathkhira (Run by Child Health Foundation, Bangladesh); Digonto Memorial Cancer Hospital, Dhaka; The ENT & Head-Neck Cancer Foundation of Bangladesh, Dhaka; and National Development Foundation for Disables', Dhaka [SRO 316-AIN/2008 dated 18.11.2008]
26. Donation to Centre for the Rehabilitation of the Paralysed (CRP), Savar [SRO 42-AIN/IT/2008 dated 24.02.2008]

27. Donation to Dhaka Community Hospital [SRO 92-AIN/2008 dated 10.04.2008]
28. Contribution to Jatir Janok Bangabondhu Sheikh Mujibur Rahman Memorial Trust, Dhaka; Rafatullah Community Hospital (RCH), Thengamara, Bogra; and Salvation for the Deserving (SFD), Manikgonj [SRO 33-AIN/2009 dated 09.03.2009]
29. Contribution to Asiatic Society of Bangladesh, Ramna, Dhaka [SRO 32-AIN/2009 dated 09.03.2009]
30. Donation to Muktijuddho Jadughor, 5, Segunbagicha, Dhaka [SRO 116-AIN/IT/2010 dated 21.04.2010]
31. Donation to "Society for Assistance to Hearing Impaired Children (SAHIC) [SRO 11 AIN/IT/2011 dated 10.01.2011]
32. Donation to A. K. Khan Health Care Trust [SRO 218-AIN/IT/2011 dated 04.07.2011]
33. Donation to Civil Service College, Dhaka [SRO 409-AIN/IT/2012 dated 17.12.2012]
34. Donation to Center for Neurodevelopment & Autism in Children (CNAC) for 5 years from the SRO issuance date [SRO 147-AIN/IT/2012 dated 03.06.2012]
35. Donation to Dr. Monsuruddin Girls College (College Code: 7458), Hoshimpur, Kochua, Chandpur for 10 years effective from the date of the SRO issue [SRO 188-AIN/IT/2013 dated 13.06.2013]
36. Donation to Science and Technology Development Fund, Ministry of Science and Technology, Bangladesh Secretariat, Dhaka [SRO 282-AIN/IT/2013 dated 21.08.2013]
37. Donation to Hope Worldwide Bangladesh [SRO 283-AIN/IT/2015 dated 03.09.2015]

SELF REVIEW 18A – 1

Which of the given items will not be considered as tax credit income? – **(a)** Purchase of income tax book **(b)** Share purchase through IPO **(c)** Contribution to old age fund **(d)** Purchase of land.

18A.5 LIST OF INCOMES ON WHICH TAX IS DEDUCTED AT SOURCE AND WHERE GROSSING UP IS REQUIRED

There are some incomes on which a certain percentage (in most of the cases, 10%) tax is deducted at source. So, to include those incomes in the total income, grossing up is necessary. The following formula is used to gross up the incomes:

Gross interest = Net interest × [100 ÷ (100 – Rate of tax deducted at source)]

Some of these incomes are as follows:

1. Net interest received on Taxable Govt. Securities.
2. Interest / Profit on bank deposits
3. Dividend income.
4. Interest on post office savings deposit

SELF REVIEW 18A – 2

Gross up the following incomes:

(a) Interest on taxable government securities Tk. 7,600 if TDS rate is **(i)** 5% **(ii)** 20%.

(b) Interest on post office savings bank Tk. 9,000.

SPECIMEN FORM OF COMPUTATION OF TOTAL INCOME

Assessee:
Assessment Year: 2017 – 2018
Income Year: 2016 – 2017
Calculation of Total Income

Sources of Income and Particulars	Tk.	Tk.	Tk.
1. Income from Salary (section – 21):			
(a) Basic salary (BS)		XX	
(b) Dearness allowance		XX	
(c) Annuity		XX	
(d) Festival bonus / performance bonus		XX	
(e) Leave encashment / Compensation		XX	
(f) Employer's contribution to recognized PF		XX	
(g) Interest on recognized provident fund	XX		
Less: exempted: lower of interest @ 14.5% or 1/3rd of BS	XX	XX	
(h) Advance salary / outstanding salary		XX	
(i) Retirement allowance / pension	XX		
Less: exempted - full	XX	XX	
(j) Entertainment allowance		XX	
(k) Medical allowance	XX		
Less: exempted – Lower of Tk. 120,000 or 10% of basic S.	XX	XX	
(l) House-rent allowance	XX		
Less: lower of Tk. 300,000 (annually) or 50% of BS	XX	XX	
(m) Rent free accommodation:			
Lower of the rental value or 25% of BS		XX	
(n) Accommodation at a concessional rate:			
Lower of the rental value or 25% of BS	XX		
Less: rent paid by the employee	XX	XX	
(o) Conveyance allowance	XX		
Less: exempted – (maximum Tk. 30,000)	XX	XX	
(p) Conveyance facility: higher of Tk. 60,000 or 5% of B.S.		XX	
(q) Conveyance facility & allowance:			
Both benefits will be added, no deductions are allowed		XX	
(r) Servant's allowance		XX	
(s) Others benefit		XX	
(t) Gratuity	XX		
Less: exempted upto Tk. 2.5 crore	XX	XX	XX
2. Income from Security (section – 22):			
(a) Interest from tax exempt government securities		XX	
Less: exemption (full)		XX	XX
		XX	
(b) Interest from taxable government securities			
Less: Admissible expenses -			
Bank charge and commission	XX		
Interest on borrowed fund	XX	XX	XX
		XX	
(c) Interest from debentures			

Sources of Income and Particulars		Tk.	Tk.	Tk.
Less: Admissible expenses -				
Bank charge and commission	XX			
Interest on borrowed fund	XX	XX	XX	
(d) Income from zero-coupon bond		XX		
Less: exempted – full		XX	XX	XX
(e) Interest on Savings Certificate [Interest × 100 ÷ 95]				XX
3. Income from House Property (Section 24 – 25):				
Annual Value: Rental value				
Add: TDS (If any)		XX		
Add: Owner's expenses paid by the tenant		XX		
Less: Tenant's expenses paid by the owner		(XX)		
Actual Rental Value		XX		
Municipal Value		XX		
Higher of Actual Rental value and Municipal Value			XX	
Receipt of Advance			XX	
Less: admissible expenses:			XX	
(i) Land development tax		XX		
(ii) Insurance Premium		XX		
(iii) Interest on Mortgage Loan		XX		
(iv) Annual tax [Municipal or local authority tax]		XX		
(v) Interest on Borrowed Capital		XX		
(vi) Ground Rent		XX		
(vii) Repair & Maintenance Expenses		XX		
[Collection charge, sewerage bill, salary of guard, liftmen, caretaker]				
[*Admissible limit*: Resident: 25% & Commercial: 30%]				
(viii) Vacancy Allowance		XX		
(ix) Uncollectible Rent		XX	XX	XX
4. Income from Agriculture (Section 26 – 27):				
(a) Sale of crops		XX		
(b) Income from any land or building used for agricultural purposes		XX		
(c) Income from granting a right ['*Borga*']		XX		
(d) Income from tea garden or rubber garden [60%]		XX		
(e) Revenue profit by sale of discarded or demolished agricultural machineries		XX		
(f) Other income relating to agriculture		XX	XX	
Less: Admissible expenses –				
(i) Land development tax		XX		
(ii) Any taxes [local taxes, etc]		XX		
(iii) production costs		XX		

- ❖ Cost for cultivating the land or raising live-stock
- ❖ Ordinary processing costs to make crop marketable
- ❖ Transportation cost of crops or livestock to market
- ❖ Maintenance cost of agricultural equipments & up keeping of cattle for cultivation

Sources of Income and Particulars	Tk.	Tk.	Tk.
If proper books of accounts does not maintained an expenditure equivalent to 60% of sales proceeds is allowed as admissible expense			
(iv) Insurance Premium	XX		
(v) Repair and Maintenance of irrigation plant	XX		
(vi) Depreciation	XX		
(vii) Interest on Mortgage Loan	XX		
(viii) Interest on Borrowed Capital	XX		
(ix) Losses due to sale of cultivable land	XX		
(x) losses due to discard or demolish of agri. machineries	XX		
(xi) Other revenue expenses	XX	XX	XX
5. Income from Business or Profession:			
Net Income as per Profit and Loss Account		XX	
Add: Expenses that are not allowed (made dr. in P/L acc.)		XX	
Add: Income under the head of Business and Profession that		XX	
are not included earlier		XX	
Less: Expenses that are allowed (not debited in P/L acc)		XX	
Total Income		XX	
		XX	
Less: Income that are not from business or profession (already credited in P/L acc.)		XX	XX
6. Share of Profit in a Partnership Firm			XX
7. Income from Spouse or Minor Child			XX
8. Capital Gain:			
Sale Proceeds of Capital Assets, or	XX		
Fair Market Value at the Time of Transfer, *whichever is higher*	XX	XX	
Less – Allowable Deductions			
(i) Expenditure incurred to transfer the capital asset(s)	XX		
(ii) Cost of Acquisition	XX		
(iii) Capital expenditure for improvements of the asset(s)	XX	XX	
Capital Gain		XX	
Less: Tax-Exempted capital gain		XX	XX
9. Income from other sources:			
(a) Income from Mutual / unit fund [Income × 100 ÷ 90]	XX		
Less: Exempted – up to Tk. 25,000	(XX)	XX	
(b) Dividend (public/ private ltd. Co.) [Dividend × 100 ÷ 90]	XX		
Less: Exempted – up to Tk. 25,000	(XX)	XX	
(c) Bank interest/profit from Islami Bank [Interest × 100÷90]		XX	
(d) Interest on Post Office Savings Bank & Postal Savings Certificate [Interest received × 100 ÷ 90]		XX	
(e) Any commission/fee from parties other than employer		XX	
(f) Royalty from books/mine/Ferighat [If TDS charged: final tax settlement as per section 82(c) and full amount will be deducted; otherwise, full amount will be added]		XX	

	Sources of Income and Particulars	Tk.	Tk.	Tk.
(g)	Income from prize bond/lottery/quiz competition/ crossword [Amount received × 100/80]	XX		
	Less: Final tax settlement as per section 82(c) – (full)	(XX)	-	
(h)	Income / commission / fee as remuneration of Director		XX	
(i)	Non-agricultural income like sale of forest trees, sale of fruits/honey, sale of fish of pond (other than firm) etc		XX	
(j)	Income from invigilation & exam script evaluation		XX	
(k)	Income from writing articles / columns in newspapers		XX	
(l)	participating in radio/TV/ cultural /training programs		XX	
(m)	Income from lease of non-agricultural land		XX	
(n)	Income from Tuition		XX	
(o)	Income from underwriting commission for sale of shares and securities.		XX	
(p)	Income from non-resident husband / wife (If not brought through banking channel)		XX	
(q)	Income from patent / license		XX	
(r)	Income from rent of boat / mooring terminal		XX	
(s)	Income from patent / license		XX	
(t)	Income from rent of boat / mooring terminal		XX	
(u)	Income from letting out household appliances like furniture, machineries etc		XX	
(v)	Unexplained Investments deemed to be Income u/s - 19		XX	
(w)	Any other income not classified under any head		XX	
	Less- Allowable deductions:			
	Interest on loan taken to purchase share and securities	XX		
	Any revenue expenditure incurred for making earnings	XX	XX	XX
10. Foreign Income				XX
Total Income (Taxable)				XX

Calculation of Tax liability:

	Tk.	Rates	Tk.
On first	250,000	0%	-
On next	400,000	10%	XX
On next	500,000	15%	XX
On next	600,000	20%	XX
On next	30,00,000	25%	XX
On remaining balance	XX	30%	XX
Total	XX		XX
Less: Tax rebate on income from partnership firm			XX
Less: Double taxation relief			XX
Less: Investment tax credit @ 15%			XX
			XX
Less: Tax deducted at source/Advance taxes			XX
Less: Tax Refund adjustment			XX
Net Tax liability			XX

Notes:

(1) In case of women, elderly citizens of more than 65 years old, the maximum non-assessable limit of total income is Tk. 300,000, for disable persons the limit is Tk. 400,000 and for gazetted wounded freedom fighters Tk. 425,000.

(2) The minimum tax would be Tk. 5,000 (Dhaka & Chittagong City corporation area); Tk. 4,000 (Other City Corporation area) and Tk. 3,000 (Other area).

Individual assessee having net wealth exceeding Tk. **2.25 (two crore twenty five lakh** as per wealth statement is liable to pay **surcharge** as per the Finance Act, 2017, for the assessment year 2017-18. **Surcharge** will be applied on **Individual** assessee as per following rate:

Upto Tk. **2.25 crore**	– @ 0%
More than Tk. **2.25 crore** to Tk. **5 crore**	– @ 10% on income tax payable
More than Tk. **5 crore** to Tk. **10 crore**	– @ 15% on income tax payable
More than Tk. **10 crore** to Tk. **15 crore**	– @ 20% on income tax payable
More than Tk. **15 crore** to Tk. **20 crore**	– @ 25% on income tax payable
More than Tk. **20 crore**	– @ 30% on income tax payable

[However, if net wealth amount exceeds Tk. 2.25 crore, minimum surcharge amount will be Tk. 3,000. On the other hand, 2.5% surcharge will be applicable on a taxpayer's income from tobacco manufacturing business.]

Illustration 18A – 1:

From the following information calculate taxable income and tax liability of Mr. Anis for the income year ended 30th June, 2017:

Income Data: Income from Salary Tk. 1,000,000; Income from Securities Tk. 65,000; Income from House Property Tk. 360,000; Income from Agriculture Tk. 80,000; Income from Business or Profession Tk. 525,000; Capital Gain Tk. 20,000; and Income from other sources Tk. 45,000.

Investments and Expenses Data: Insurance premium – own (Policy value Tk. 820,000) Tk. 80,000 and spouse (Policy value Tk. 500,000) Tk. 55,000; Deposited to pension scheme per month Tk. 2,000; Educational expense of son Tk. 84,000; Household expenses Tk. 158,000; Donated to recognized fund Tk. 100,000; Purchase of savings certificate Tk. 40,000; Purchase of Treasury bond Tk. 25,000; Purchase of magazines and books Tk. 4,500; Purchase of 10% debenture Tk. 10,000 (through IPO); Donated to - prime minister's relief fund Tk. 45,000; recognized high school Tk. 30,000; a local sporting club Tk. 10,000; Sir Salimullah Muslim Orphanage Tk. 15,000; recognized welfare fund Tk. 3,600; government zakat fund Tk. 15,000; Gift to wife Tk. 25,000; Purchased share of an unlisted company Tk. 25,000; Purchased share of a co-operative society Tk. 10,000; Purchase share of a private limited company Tk. 5,000; Purchased share of a registered partnership firm Tk. 3,000; Purchased primary share of a listed company Tk. 15,000; Purchased share of a listed company from Dhaka Stock exchange Tk. 30,000; Donated to Bangladesh Sports Development Council Tk. 8,000; Donated to President's relief fund Tk. 5,000; Advance payment for expenses Tk. 10,000; and Purchase of a Desktop Computer Tk. 45,000.

Solution 18A – 1:

Mr. Anis

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

		Tk.
1.	Income from Salary (section: 21)	1,000,000
2.	Income from Securities (section: 22 & 23)	65,000

3. Income from House Property (section: 24 & 25)	360,000
4. Income from Agriculture (section: 26 & 27)	80,000
5. Income from Business or Profession (section: 28 - 30)	525,000
6. Capital Gain (section: 31 & 32)	20,000
7. Income from other sources (section: 33 & 34)	45,000
Total	**2,095,000**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next	400,000	10%	40,000
On next	500,000	15%	75,000
On next	600,000	20%	120,000
On rest	345,000	25%	86,250
Total	2,095,000		321,250
Less: Investment tax credit			69,612
Tax liability			**251,638**

Calculation of allowable investment:

1. Insurance premium – own		Tk. 80,000	
Maximum limit: 10% of Tk. 8,20,000		82,000	Tk. 80,000
2. Insurance premium – spouse		55,000	
Maximum limit: 10% of Tk. 5,00,000		50,000	50,000
3. Deposit pension scheme (2,000 X 12)			24,000
4. Donation to recognized fund			100,000
5. Purchase of savings certificate			40,000
6. Purchase of Treasury bond			25,000
7. Purchase of debenture through IPO			10,000
8. Donation to prime minister relief fund			45,000
9. Donation to recognized high school			30,000
10. Donation to recognized welfare fund			3,600
11. Donation to government zakat fund			15,000
12. Purchase of listed company's primary share			15,000
13. Purchase of listed company's shares from DSE			30,000
14. Donation to president relief fund			5,000
15. Purchase of a Desktop Computer			45,000
Actual allowable investment			517,600
Maximum limit of allowable investment:			
25% of total taxable income (2,095,000 × 25%)		523,750	
Or, maximum		15,000,000	5,23,750
Allowable investment for tax credit			**5,17,600**

Notes: (1) It is assumed that, incomes from different sources represents taxable income from those heads. **(2)** Insurance premium is allowable maximum 10% of policy value. **(3)** Donation to any recognized area is allowable investment. **(4)** Personal expenses and gifts are not allowable for tax credit. **(5)** Allowable investments have been calculated following sixth schedule – Part B of the ITO, 1984. Tax rebate on investment allowance will be [(2,50,000 X 15%)+(2,67,600 X 12%)] = Tk. 69,612

Illustration 18A – 2:
Mr. Noman is an executive of Dhaka based organization who generated following incomes during the year ended 30.06.17:

Income Data: Basic salary Tk. 8,000 per month; House rent allowance Tk. 5,000 per month; Conveyance allowance Tk. 1,000 per month; Mobile bill allowance Tk. 500 per month; Two festival bonus each equal to Tk. 10,000; Commission received total Tk. 20,000 for the year; Overtime allowance Tk. 30,000 for the year; Income from sole proprietorship business Tk. 88,000; Dividend from limited company share Tk. 5,400; Interest from tax exempt government securities Tk. 8,000; and Interest form debentures Tk. 7,600;

Investments and Expenses Data: Life Insurance Premium paid Tk. 20,000 (Policy value Tk. 200,000); Donated to local club Tk. 2,000; Gift to wife Tk. 20,000; Donation to a local mosque Tk. 5,000; Investment in primary shares of listed companies Tk. 60,000; Investment in Savings Certificate Tk. 30,000; Donation to a Charitable Hospital Tk. 10,000; Purchase of furniture Tk. 15,000; Donation to Apollo Hospital Tk. 30,000; and Donation to Govt. Zakat Fund Tk. 5,000.

Required:
Calculate taxable income and net tax liability for Mr. Noman for the assessment year 2017 – 2018.

Solution 18A – 2:

Mr. Noman
Income Year: 2016 – 2017
Assessment Year: 2017 – 2018
Calculation of taxable income

		Tk.	Tk.	Tk.
1. Income from Salary (section – 21):				
Basic salary (8,000 × 12)			96,000	
House rent allowance (5,000 × 12)		60,000		
Less: lower of 50% of basic salary	Tk. 48,000			
Or, Tk. 25,000 per month	300,000	48,000	12,000	
Conveyance allowance (1,000 × 12)		12,000		
Less: exempted (maximum Tk. 30,000)		12,000	-	
Mobile bill allowance (500 × 12)			6,000	
Festival bonus (10,000 × 2)			20,000	
Overtime allowance			30,000	
Commission			20,000	184,000
2. Income from Securities (section: 22 & 23):				
Interest from tax exempt government securities		8,000		
Less: exempted (full)		8,000	-	
Interest from debentures(7,600/95*100)			8,000	8,000
3. Income from Business or Profession (section: 28–30):				
Income from sole proprietorship business				88,000
4. Income from other sources (section: 33 & 34):				
Dividend income (5,400 × 100 ÷ 90)		6,000		
Less: Exempted - up to Tk. 25,000		25,000	-	-
Total				**280,000**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	30,000	10%	3,000
Total	280,000		3,000
Less: Investment tax credit (70,000 X 15%)			10,500
			(7,500)
Minimum tax liability			5,000
Less: Tax deducted at source			1,000
Tax liability			4,000

Calculation of Allowable investment

	Tk.
Life insurance premium	20,000
Share purchase	60,000
Savings certificate	30,000
Donation: Hospital	10,000
Zakat fund	5,000
Actual investment	125,000
Maximum limit:	
Lower of 25% of 280,000	70,000
Or, Tk. 15,000,000	
Allowable investment	70,000

Notes: Tax deducted at source includes Tk. 400 on debenture interest and Tk. 600 on divided income. One the other hand, Investment allowance is calculated on the maximum limit of allowable investment as actual allowable investment exceeds the maximum limit. Since his calculated tax liability is negative but has taxable income so he has to pay minimum amount of tax.

Maximum limit of investment allowance is 25% of the total income excluding any income for which a tax exemption or a reduced rate is applicable u/s 44(4) or any income from any source or sources mentioned in section 82C(2)(a) i.e. 25% of 280,000 = Tk. 70,000; Here there is no income where minimum tax is applicable on it u/s 82C.

Illustration 18A – 3:

Calculate taxable income and net tax liability from the following information stated by Mr. Orki for the income year ended 30.06.17.

Basic pay Tk. 18,000 per month; House rent allowance Tk. 10,000 per month; Entertainment allowance Tk. 2,000 per month (actual expense Tk. 20,000); Conveyance facilities that he can use for office purposes only; He contributed 10% of basic salary in a recognized provident fund and his employer also contributed the same amount in the fund. He received Tk. 5,000 from the said fund as interest for the year @14.5%; Festival bonus Tk. 18,000 for the year; He received rent from his house property Tk. 400,000 during the year whereas the municipal value of the house is Tk. 3,20,000. He incurred Tk. 110,000 for repair and maintenance expense, Tk. 8,000 insurance premium, and Tk. 6,000 city corporation tax for the house during the year; He received interest from post office savings bank account Tk. 4,500; Divided from a limited company Tk. 8,100; Sale of forest timber Tk. 9,000. He paid life insurance premium of Tk. 30,000; purchased savings certificate Tk. 50,000 and also purchased primary share of a listed public company Tk. 40,000 during the year.

Solution 18A – 3:

Mr. Orki
Income Year: 2016 – 2017
Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (18,000 × 12)		216,000	
House rent allowance (10,000 × 12)	120,000		

Less: lower one 50% of basic salary	108,000		
Or, Tk. 25,000 per month	300,000	108,000	12,000
Entertainment allowance (2,000 × 12)			24,000
Employer's contribution to RPF (10% of 216,000)			21,600
Interest from RPF		5,000	
Less: exemption - Interest @ 14.5% [5,000 ÷.145 × .145]			
Or, 1/3 of basic salary, lower one		5,000	-
Festival Bonus			18,000
			291,600
2. Income from House Property (section: 24 & 25):			
Annual Value: Higher of actual rental value (Tk. 400,000) and municipal value (Tk. 320,000)			400,000
Less: Admissible expenses –			
Repair and maintenance (25% × 400,000)		100,000	
Insurance		8,000	
City corporation tax		6,000	114,000
			286,000
3. Income from other sources (section: 33 & 34):			
Interest from post office sav. account (4,500 × 100 ÷ 90)			5,000
Dividend income (8,100 × 100 ÷ 90)		9,000	
Less: Exempted – up to Tk. 25,000		25,000	-
Sale of forest timber			9,000
			14,000
Total			**591,600**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	341,600	10%	34,160
Total	591,600		34,160
Less: Investment tax credit (147,900 X 15%)			22,185
			12,002
Less: Tax deducted at source			1,400
Tax liability			**10,602**

Calculation of Allowable investment

	Tk.
Life insurance premium	30,000
Contribution to recognized PF	43,200
Savings certificate	50,000
Primary share purchase	40,000
Actual investment	163,200
Maximum limit:	
Lower of (5,91,600 ×25%)= 147,900 or Tk. 15,000,000	147,900
Allowable investment	**147,900**

Notes: (1) As rate of interest on RPF is not given, it is considered as 14.50%. **(2)** Actual spending for repair and maintenance is more than the allowable amount. Considering property was let out for residential purposes, 25% of annual value has been charged as admissible. **(3)** TDS includes Tk. 500 on interest on post office savings account and Tk. 900 on dividend income.

Illustration 18A – 4:

Mr. M. Z. Mamun is a professor of East West University. His income during the income year 2016 – 2017 is: basic salary of Tk. 15,500 in the last month of the income year under the salary scale of 9,500 – 1,500 – 18,500; house rent allowance 40% of basic salary; medical allowance 10% of basic salary; and Tk. 3,000 per month as house tutor of a student residential hall. His date of salary increment is 1st February every year. Mr. Mamun received Tk. 50,000 from invigilation and examination script evaluation during the year. He contributed 10% of his basic salary to a recognized provident fund. He attended four different seminars and delivered speech as resource

person organized by BIBM and received Tk. 31,000. He is a owner of a house at Malibagh, Dhaka which he let out for a yearly rent of Tk. 1,54,000. Municipal value of the house is Tk. 150,000. He spent Tk. 40,000 as repair and maintenance expense, Tk. 5,000 as municipal tax and Tk. 8,000 as insurance premium of the house. He also paid Tk. 5,000 water and gas bill of his tenants during the year. Mr. Mamun is a partner of N & M consultant and received Tk. 65,000 as share of profit from the firm. Besides, he received Tk. 900 as interest on post office bank deposit and Tk. 36,000 as dividend from a public limited company. Calculate taxable income for the income year 2015-16.

Solution 18A – 4:

Mr. M. Z. Manum
Income Year: 2016 – 2017: Assessment Year: 2017 – 2018
Calculation of taxable income

		Tk.	Tk.	Tk.
1. Income from Salary (section: 21):				
Basic salary {(14,000 × 7) + (15,500 × 5)}			175,500	
House rent allowance (175,500 × 40%)		70,200		
Less: lower of 50% of basic salary	Tk. 87,750			
Or, Tk. 25,000 per month	240,000	87,750	-	
Medical allowance		17,550		
Less: Ex: lower of Tk. 120,000 or 10% of B.S.		17,550	-	
Income as house tutor			36,000	
Income as invigilator and script evaluator			50,000	
Employer's contribution to RPF			17,550	279,050
2. Income from House Property (section: 24 & 25):				
Annual rental value		154,000		
Less: tenant's expenses paid by the owner		5,000		
		149,000		
Municipal value		150,000		
Annual value (whichever is higher)			150,000	
Less: Admissible expenses –				
Repair and maintenance (150,000 × 25%)		37,500		
Municipal tax		5,000		
Insurance		8,000	50,500	99,500
3. Share of Profit in a Partnership Firm				65,000
4. Income from other sources (section: 33 & 34):				
Income as speaker of seminars			31,000	
Interest on post off. bank deposit (900 × 100 ÷ 90)			1,000	
Dividend income (36,000 × 100 ÷ 90)		40,000		
Less: Exempted – up to Tk. 25,000		25,000	15,000	47,000
Total				**490,550**

Illustration 18A – 5:

Mr. Akram is an executive of a private firm. Compute his taxable income and tax liability for the assessment year 2017 – 2018 considering actual allowable investment for Mr. Akram during the income year was Tk. 150,000. His sources of income includes: **Income from Salary:** Basic salary Tk. 33,000 per month; Festival bonus equivalent to two months basic salary; House rent allowance Tk. 15,000 per month; Entertainment allowance @ 5% of basic salary; Medical allowance Tk. 3,800 per

month (actual annual expense Tk. 18,000); Conveyance allowance Tk. 1,500 per month; Contribution to recognized provident fund both by employee and employer @ 10% of basic salary. **Income from Agriculture:** Sale of crops Tk. 150,000; Income from sale of tea Tk. 80,000; Income from sale of fish of pond Tk. 70,000. **Income from other sources:** Interest from fixed deposit Tk. 27,000; Dividend received Tk. 9,000; and Income from lease of non agricultural land Tk. 40,000.

Solution 18A – 5:

Mr. Akram

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (33,000 × 12)		396,000	
Festival bonus (33,000 × 2)		66,000	
House rent allowance (15,000 × 12)	180,000		
Less: lower of 50% of basic salary 198,000			
Or, Tk. 25,000 per month 300,000	198,000	-	
Entertainment allowance @ 5%		19,800	
Medical allowance (3,800 × 12)	45,600		
Less: ex: lower of Tk. 120,000 or 10% of B.S.	39,600	6,000	
Conveyance allowance (1,500 × 12)	18,000		
Less: exempted (maximum Tk. 30,000)	30,000	-	
Employer's contribution to RPF		39,600	527,400
2. Income from Agriculture (section: 26 & 27):			
Sale of crops		150,000	
Income from sale of tea (60%)		48,000	
Less: Admissible expenses –		198,000	
Production cost (150,000 × 60%)		90,000	108,000
3. Income from Business or Profession (sec: 28–30)			
Income from sale of tea (40%)			32,000
4. Income from other sources (section: 33 & 34):			
Income from sale of fish of pond		70,000	
Interest from fixed deposit (27,000 × 100 ÷ 90)		30,000	
Dividend income (9,000 × 100 ÷ 90)	10,000		
Less: Exempted – up to Tk. 25,000	20,000	-	
Lease of non agricultural land		40,000	140,000
Total			**807,400**

Calculation of Tax liability:

On first Tk. 250,000 @ 0%	-	Deduction: Tax deducted at source	4,000
On next Tk. 400,000 @ 10%	40,000	Investment tax credit (150,000X 15%)	22,500
On next Tk. 157,400 @ 15%	23,610	Total deduction	26,500
Gross Tax	63,610	Net Tax Liability (Gross Tax – Deduction)	**37,110**

Notes: (1) Actual allowable investment for the year is Tk. 150,000 which is within the maximum limit of allowable investment, so tax credit is calculated here on the actual amount of investment. Maximum limit is lower of 25% of 807,400 i.e., Tk. 201,850 or Tk. 15,000,000. **(2)** Tax deducted at source includes Tk. 3,000 on interest from bank deposit and Tk. 1,000 on divided income.

Illustration 18A – 6:

Following are the particulars of Mr. Shahidul Alam for the income year ended 30th June, 2017:

Mr. Alam is an executive and received Tk. 38,000 per month as basic salary, Tk. 1,000 per month as entertainment allowance, dearness allowance @ 5% of basic salary, festival bonus of Tk. 80,000 for the year, medical allowance Tk. 2,000 per month. Mr. Alam has been provided with a free furnished quarter (annual rental value of the quarter is Tk. 180,000) and also a car that he can use for office purposes only. Mr. Alam spent Tk. 15,000 for alteration of the quarter. Mr. Alam invested Tk. 100,000 in a 15% tax exempt government security and Tk. 250,000 in a 16% approved debenture. He has investment in post office fixed deposit from which he received Tk. 45,900 as interest.

Other particulars of Mr. Alam are: He contributed Tk. 2,000 per month in a deposit pension scheme; Tk. 40,000 to zakat fund; Tk. 60,000 as life insurance premium; Tk. 65,000 as his children's education expenses. Mr. Alam withdrew Tk. 15,000 as advance salary and receive performance bonus equal to three months basic salary. Mr. Alam is the holder of a license that he gave to one of his friend and received Tk. 35,000 as rent of the license.

Compute total taxable income and tax liability for the assessment year 2017 – 2018.

Solution 18A – 6:

Mr. Shahidul Alam
Income Year: 2016 – 2017
Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (38,000 × 12)		456,000	
Entertainment allowance (1,000 × 12)		12,000	
Dearness allowance (456,000 × 5%)		22,800	
Festival bonus		80,000	
Medical allowance (2,000 × 12)	24,000		
Less: Ex: lower of Tk. 120,000 or 10% of B.S	45,600	-	
Accommodation facilities: lower of 25% of basic salary	114,000		
Or, Annual rental value	180,000		
		114,000	
Advance salary		15,000	
Performance bonus (38,000 × 3)		114,000	
			813,800
2. Income from Securities (section: 22 & 23):			
Interest from tax exempt government securities	15,000		
Less: exempted (full)	15,000	-	
Interest from debentures		40,000	40,000
3. Income from other sources (section: 33 & 34):			
Interest from post office (45,900 × 100 ÷ 90)		51,000	
Income from rent of license		35,000	
			86,000
Total income			**939,800**

Calculation of Tax liability:

On first Tk.	250,000	@ 0%	Tk. -
On next Tk.	400,000	@ 10%	40,000
On next Tk.	289,800	@ 15%	43,470
Total	939,800		83,470
Less: Investment tax credit @15%			(18,600)
TDS			(7,100)
Tax liability			**57,770**

Calculation of Allowable investment

Life insurance premium	Tk. 60,000
Contribution to DPS	24,000
Donation to Zakat fund	40,000
Actual investment	124,000
Maximum limit:	
Lower of 25% of 9,39,800	
Or, Tk. 15,000,000	234,950
Allowable investment	**124,000**

Illustration 18A – 7:

Calculate taxable income for Professor Zakaria Rahman for the income year 2016 – 2017 considering:

Income from Salary: Basic salary Tk. 60,000 per month; Dearness allowance Tk. 2,000 per month; Medical allowance Tk. 2,500 per month; House rent allowance @ 40% of basic salary; Contribution to recognized PF both by employee and employer @ 10% of basic salary; Interest from recognized provident fund @ 16% Tk. 290,200. He has been provided with a full time car for which a sum of Tk. 1,500 per month has been deducted by his employer.

Income from house property: He has a house at Banani consisting of four flats. The whole house has been let out to White Shark Communications Limited, an advertising firm for Tk. 60,000 per month. The municipal value of the house is Tk. 600,000. The annual expenses relating to the house are: Repair and maintenance expenses Tk. 220,000; Collection charge Tk. 2,000 per month; Municipal tax Tk. 10,000; WASA charge Tk. 9,000; Interest on borrowed capital Tk. 6,000; Insurance premium paid Tk. 8,000. Out of the four flats in the house one remained vacant for two months during the year.

Others: He received profit from partnership firm Tk. 250,000; interest on bank deposit Tk. 9,000; honorarium as visiting faculty of AIUB for fall 2016 semester (4 months semester) Tk. 15,000 per month; income from lease of agricultural land Tk. 35,000. He generated capital gain of Tk. 80,000 by sale of share of a public limited company and Tk. 200,000 by sale of his personal motor car.

Solution 18A – 7:

Mr. Zakaria Rahman
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (60,000 × 12)		720,000	
Dearness allowance (2,000 × 12%)		24,000	
Medical allowance (2,500 × 12)	30,000		
Less: Ex: lower of Tk. 120,000 or 10% of B.S. i. e. Tk. 72,000	72,000	-	
House rent allowance (720,000 × 40%)	288,000		
Less: lower of 50% of basic salary 360,000			
Or, Tk. 25,000 per month 300,000	300,000	-	
Employer's contribution to RPF		72,000	
Interest from RPF	290,200		

Less: lower of Interest @ 14.50%	262,994		
Or, 1/3 of basic salary [720,000 ÷ 3]	240,000	240,000	
			50,200
Car facilities: higher of 60,000 or (720000 × 5%)		60,000	
Less: employee's contribution (1,500 × 12)		18,000	
			32,000	898,200
2. Income from House Property (section: 24 & 25):			
Actual rental value (60,000 × 12)		720,000	
Municipal value		600,000	
Annual value (whichever is higher)			720,000
Less: Admissible expenses: Repair and maintenance		216,000	
Municipal tax		10,000	
Interest on borrowed capital		6,000	
Insurance		8,000	
Vacancy allowance (720,000 ÷ 4 × 2 ÷ 12)		30,000	270,000	450,000
3. Income from Agriculture (section: 26 & 27):			
Income from lease of agricultural land				35,000
4. Share of Profit in a Partnership Firm				250,000
5. Capital Gain (section: 31 & 32):			
Sale of Share			80,000
Less: exemption (full)			80,000	-
6. Income from other sources (section: 33 & 34):			
Interest on bank deposit (9,000 × 10 ÷ 9)			10,000
Honorarium as faculty (15,000 × 4)			60,000	70,000
Total				**1,703,200**

Notes: **(1)** Repair and maintenance is charged @30% of annual value. **(2)** No capital gain is considered in case of personal property so capital gain by sale of personal motor car needs not to be disclosed.

Illustration 18A – 8:

Mr. Maksudur Rahman Sarkar is a professor. His particulars for the income year ended 30th June, 2016 are: Mr. Sarkar received basic salary of Tk. 40,000 in the month of July 2016 under the salary scale 36,000 – 4,000 – 56,000. Date of annual increment of his salary is 1st December. Besides basic salary he is entitled to receive 10% of basic salary as medical allowance, 5% as dearness allowance, Tk. 2,000 per month as conveyance allowance. He received two festival bonuses during the year (each equal to one month's basic salary), both of the bonuses were received after annual increment of the year. Mr. Sarkar is also entitled to receive concession rate accommodation and a full time car. His employer charged him Tk. 3,000 per month against the accommodation facility.

During the year Mr. Sarkar generated income by sale of Jute Tk. 50,000 and sale of rice Tk. 300,000. He failed to show any record relating to production cost but claim repair of agricultural equipment Tk. 7,000; land development tax Tk. 2,000; allowable depreciation Tk. 10,000; and Cultivation cost Tk. 60,000 as production cost.

His other particulars of income includes, share of profit from partnership firm Tk. 80,000; losses from sole proprietorship business Tk. 7,300; honorarium received by writing articles in newspaper Tk. 2,000; income from mooring terminal Tk. 1,400; dividend received Tk. 28,800; and interest on bank deposit Tk. 3,870. Mr. Sarkar made and incurred the investments and expenses during the

said year for: Life insurance premium paid Tk. 60,000 (policy value Tk. 500,000); Donation to employee's welfare fund Tk. 10,000; share purchase through IPO Tk. 60,000, from DSE 20,000; Donation to religious institutions Tk. 5,000; Donation to Zakat fund Tk. 16,250; Donation to president relif fund Tk. 15,000; Purchase of Gold Tk. 20,000 and Contribution to group insurance Tk. 2,000. Calculate taxable income and net tax liability for Mr. Sarkar assuming that during the income year his total net asset amount is Tk. 3 crore.

Solution 18A – 8:

Mr. Maksudur Rahman Sarkar
Income Year: 2016 – 2017
Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary [(40,000 × 5) + (44,000 × 7)]		508,000	
Medical allowance (508,000 × 10%)	50,800		
Less: Ex: lower of Tk. 120,000 or 10% of B.S.	50,800	-	
Dearness allowance (508,000 × 5%)		25,400	
Conveyance allowance (2,000 × 12)		24,000	
Festival bonus (44,000 × 2)		88,000	
Conv. facilities: higher of 60,000 or (508,000 × 5%)		60,000	
Concession rate accommodation (508,000 × 25%)	127,000		
Less: employee's contribution (3,000 × 12)	36,000		
		91,000	
			796,400
2. Income from Agriculture (section: 26 & 27):			
Sale of Jute	50,000		
Sale of rice	300,000		
		350,000	
Less: Admissible expenses –			
Production cost (350,000 × 60%)	210,000		
Land development tax	2,000		
Allowable depreciation	10,000	222,000	
			128,000
3. Income from Business or Profession (sec:28–30):			
Losses from sole proprietorship business			(7,300)
4. Share of Profit in a Partnership Firm:			80,000
5. Income from other sources (section: 33 & 34):			
Income from writing article in newspaper		2,000	
Income from mooring terminal		1,400	
Dividend (28,800 × 100 ÷ 90)	32,000		
Less: Exempted – up to Tk. 25,000	25,000		
		7,000	
Interest on bank deposit (3,870 × 100 ÷ 90)		4,300	
			14,700
Total income			**1,011,800**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	30,000
On next Tk.	361,800	15%	54,270
Total	1,011,800		84,270
Less: Rebate on profit from partnership firm (avg. rate)			(6,664)
Investment tax credit @ 15%			(25,988)
Net Tax Liability			51,618
Less: Tax deducted at source			3,630
			47,988
Add: 10% surcharge on tax			5,162
Net Tax Liability			**53,150**

Calculation of Allowable investment

	Tk.
Life insurance premium	50,000
Welfare fund	10,000
Share purchase	80,000
Donation to zakat fund	16,250
Donation to relief fund	15,000
Group insurance prem.	2,000
Actual investment	173,250
Maximum limit:	
25% of 10,11,800	252,950
Or,	15,000,000
	Lower one
Allowable investment	**1,73,250**

Notes: (1) If proper books of account have not been maintained by the assessee, 60% of sales proceeds will be treated as admissible production cost. **(2)** On the profit from partnership firm rebate is allowable at an average rate which is 8.33% [84,270 ÷ 1,011,800 × 100]. Therefore total rebate is Tk. 6,664 [80,000 × 8.33%]. **(3)** Tax deducted at source includes Tk. 3,200 on divided income and Tk. 430 on interest on bank deposit. **(4)** 10% surcharge on tax for net wealth exceeding Tk. 2.25 crore (51,618 × 10%) has been charged.

Illustration 18A – 9:

Calculate taxable income and net tax liability for Mr. Razib for the income year 2016-2017 considering:

Income from salary: He has joined the firm on 1.1.16 and is entitled to receive basic salary of Tk. 10,000 per month with an annual increment on 1st January every year by 10% of latest basic. He is also entitled to receive accommodation facilities for which he will be charged 5% of his basic salary and two festival bonus (both of which he received before increment of current income year). He received Tk. 1,000 per month as mobile bill allowance; Tk. 2,700 per month as conveyance allowance; Tk. 30,000 as overtime allowance for the year; and Tk. 3,000 as leave encashment.

Income from security: Mr. Razib invested Tk. 100,000 in 11% tax exempt government security; Tk. 120,000 in a 12% taxable government security; Tk. 200,000 in a 14% debenture. During the year his income from zero coupon bond was Tk. 10,000.

Income from agriculture: Income from lease of - cultivable land Tk. 20,000 & non agricultural land Tk. 37,000.

Income from other sources: Profit from islami bank account Tk. 5,400; and Dividend from share Tk. 10 per share where he was holding 10,000 shares. Mr. Razib paid life insurance premium of Tk. 40,000 (policy value Tk. 500,000); contributed to local club Tk. 5,000; purchase of primary share and securities Tk. 30,000 and deposited Tk. 3,000 per month in a pension scheme.

Solution 18A – 9:

Mr. Razib

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary {(10,000 × 6) + (11,000 × 6)}		126,000	

Concession rated accommodation:			
25% of basic salary	31,500		
Less: employee's contribution (126,000 × 5%)	6,300	25,200	
Festival bonus (10,000 × 2)		20,000	
Mobile bill allowance (1,000 × 12)		12,000	
Conveyance allowance (2,700 × 12)	32,400		
Less: exempted (maximum Tk. 30,000)	30,000	2,400	
Overtime allowance		30,000	
Leave encashment		3,000	218,600
2. Income from Securities (section: 22 & 23):			
Interest from tax exempt government securities	11,000		
Less: exempted (full)	11,000	-	
Interest from taxable government securities		14,400	
Interest from debenture		28,000	
Income from zero coupon bond	10,000		
Less: exempted (full)	10,000	-	42,400
3. Income from Agriculture (section: 26 & 27):			
Lease of cultivable land			20,000
4. Income from other sources (section: 33 & 34):			
Lease of non-agricultural land		37,000	
Interest from savings bank account (Gross)		6,000	
Dividend income (10,000 × 10)	100,000		
Less: Exempted – up to Tk. 25,000	25,000	75,000	118,000
Total income			**399,000**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	149,000	10%	14,900
Total	399,000		14,900
Less: Investment tax credit @ 15%	14,963		
			(63)
Minimum tax			5,000
Less: Tax deducted at source			12,720
Tax refund claim			(7,720)

Calculation of Allowable investment

	Tk.
Life insurance premium	40,000
DPS	36,000
Share purchase	30,000
Actual investment	106,000
Maximum limit:	
Lower of 25% of 399,000	99,750
Or,	15,000,000
Allowable investment	**99,750**

Notes: (1) TDS includes Tk. 720 from taxable government securities, Tk. 1,400 from debentures, Tk. 600 from interest on savings bank account and Tk. 10,000 from dividend income. **(2)** As net tax liability becomes negative, he doesn't need to pay any additional amount rather he will get tax refund and can adjust the amount in next year.

Illustration 18A – 10:

For the income year ended on 30th June, 2017, Mr. Ahmed states his income from: basic salary of Tk. 18,500 in the month of June, 2017 following the scale of his salary 17,000 – 1,500 – 20,000. The date of annual increment of his salary is 1st April. Besides basic salary he received dearness allowance @ 15% of basic salary; Entertainment allowance and Medical allowance @ 20% and @10% of basic salary respectively; Annual bonus and fees Tk. 35,916; house rent allowance Tk.

11,000 per month; conveyance allowance Tk. 1,250 per month. He contributes 10% of basic salary to a recognized provident fund (RPF) and his employer also contributes the same in the fund. During the year he received Tk. 15,000 as interest on provident fund and the rate of interest was 15%. He contributes to old age fund @ 5% of basic salary. Mr. Ahmed invested Tk. 40,000 in 12% tax exempt government securities, Tk. 50,000 in 10% taxable government securities, and Tk. 100,000 in 15% debentures. He financed Tk. 100,000 taking 8% loan to purchase the debentures. Bank charge Tk. 2,380 as collection fee of these interests. Income from other sources Tk. 27,809.

Mr. Ahmed made and incurred investment and expenses during the said year for: Life insurance premium Tk. 6,000 (value of the policy worth Tk. 70,000); Purchase of Books Tk. 6,000 and purchase of scientific instruments Tk. 10,000; Purchase of Primary Shares of Public Limited Company Tk. 20,000; Donation to religious institutions Tk. 8,000; donation to Govt. Zakat Fund Tk. 7,500; donation to president relief fund Tk. 28,000; donation to a local club Tk. 9,000; donation to a blind school Tk. 15,000; Purchase of a piece of land worth Tk. 70,000 in the name of his wife and a sum of Tk. 5,000 was spent for its registration; Spent a sum of Tk. 15,000 as educational expenses of his children; Purchase of ICB certificate Tk. 20,000; Purchase of Gold Tk. 20,000; and Contribution to group insurance Tk. 2,000. Ascertain his total income and tax liability.

Solution 18A – 10:

Mr. Ahmed
Income Year: 2016 – 2017
Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (Note – 1)			208,500
Dearness allowance @ 15%			31,275
Entertainment allowance @ 20%			41,700
Medical allowance @ 10%		20,850	
Less: lower of Tk 120,000 or 10% of B.S.		20,850	-
Annual bonus and fees			35,916
House rent allowance: (11,000 × 12)		132,000	
Less: lower of 50% of basic salary	104,250		
Or, Tk. 25,000 per month	300,000	104,250	27,750
Conveyance allowance (1,250 × 12)		15,000	
Less: exempted (maximum Tk. 30,000)		15,000	-
Employer's contribution to RPF			20,850
Interest from RPF		15,000	
Less: lower of Interest @ 14.50%	14,500		
Or, 1/3 of basic salary [208,500 ÷ 3]	69,500	14,500	500
			366,491
2. Income from Securities (section: 22 & 23):			
Interest from tax exempt government securities		4,800	
Less: exempted (full)		4,800	-
Interest from taxable government securities		5,000	
Less: Admissible expense -			
Bank charge (2,380 ÷ 23,800 × 4,750)		475	4,525

Interest from debentures (100,000 × 15%)		15,000	
Less: Admissible expense -			
Bank charge (2,380 ÷ 23,800 × 14,250)		(1,425)	
Interest on borrowed fund (100,000 × 8%)		(8,000)	5,575
3. Income from other sources			10,100
			27,809
Total			**404,400**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	154,400	10%	15,440
Total	404,400		15,440
Less: Investment tax credit (114,915 × 15%)			17,237
			(1,797)
Minimum tax amount			5,000
Less: Tax deducted at source			1,000
Tax liability			**4,000**

Calculation of allowable investment:

	Tk.
Insurance premium	6,000
Purchase of primary shares	20,000
Donation to Zakat fund	7,500
Donation to relief fund	28,000
Donation to a blind school	15,000
Purchase of ICB certificate	20,000
Contribution to group insurance	2,000
Contribution to RPF (20,850 × 2)	41,700
Contribution to old age fund	10,425
Actual allowable investments	**150,625**

Notes: (1) Maximum limit of allowable investment: lower of 25% of total income = (404,400 × 25% = Tk. 101,100 or, Tk. 15,000,000. So, allowable investment for tax credit is maximum 101,100. As the actual allowable investment is Tk. 150,625. Mr. Ahmed will get 15% rebate on Tk. 101,100. **(2)** After increment on April 1, 2016 Mr. Ahmed receives basic salary of Tk. 18,500 whereas before increment he received basic salary of Tk. 17,000. So his basic Salary for the income year is (17,000 × 9 + 18,500 × 3) = Tk. 208,500. **(3)** Bank charge collection fees for the amount of interest collected by the bank. Total interest collected by bank considered after deduction 5% TDS on interest from taxable government securities and debentures. **(4)** Total bank charge of Tk. 2,330 was charged for collection of total interest of Tk. 23,800 (4,800 + 4,750 + 14,250). So a proportionate bank charge is deducted from each source of interest as an admissible expense except in case of tax exempt government securities. **(5)** Total TDS is from the taxable government securities Tk. 250, from debentures Tk. 750.

Illustration 18A – 11:

Mr. Hafiz is the employee of a private textile firm. From the following particulars of his income for the year ended 30th June, 2017 calculate taxable income and tax liability.

His basic salary is Tk. 12,000 per month, he receive 10% of his basic salary as conveyance allowance and 60% as house rent allowance. He also receives entertainment allowance Tk. 3,000 p.m., medical allowance Tk. 1,200 p.m., and two festival bonuses (each equal to half of one month's basic salary). He and his employer both contribute 10% of basic salary to recognized provident fund and during the year he received interest @ 12% from the fund Tk. 3,000. During the year Mr. Hafiz received interest from 12% taxable government securities Tk. 19,000. He invested Tk. 300,000 in 10% debentures on 1st July, 2013. Bank has charged 5% as collection fees. Mr. Hafiz also received dividend from share of a public limited company Tk. 3,600, interest from post office savings account Tk. 2,250, sale of forest timber Tk. 4,000 and win a lottery income of Tk. 300,000 (TDS deducted @ 20% Tk. 60,000). During the year Mr. Hafiz purchased savings certificate of Tk. 16,200 and donated Tk. 20,000 to Dhanmondi sports club.

Solution 18A – 11:

Mr. Hafiz

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of tax payable income

		Tk.	Tk.	Tk.
1. Income from Salary (section: 21):				
Basic salary (12,000 × 12)			144,000	
Conveyance allowance (144,000 × 10%)		14,400		
Less: exempted (maximum Tk. 30,000)		14,400	-	
House rent allowance: (144,000 × 60%)		86,400		
Less: lower of 50% of basic salary	72,000			
Or, Tk. 25,000 per month	300,000	72,000	14,400	
Entertainment allowance (3,000 × 12)			36,000	
Medical allowance (1,200 × 12)		14,400		
Less: lower of Tk. 120,000 or 10% of B.S.		14,400	-	
Festival bonus [(12,000 ÷ 2) × 2]			12,000	
Employer's contribution to RPF			14,400	
Interest from RPF		3,000		
Less: lower of Interest @ 14.50%	3,625			
Or, 1/3 of basic salary	48,000	3,625	-	220,800
2. Income from Securities (section: 22 & 23):				
Interest from taxable govt. securities (gross)		20,000		
Less: Admissible expense – Bank charge (note – 2)		950	19,050	
Interest from debentures		30,000		
Less: Admissible expense – Bank charge		1,450	28,550	47,600
3. Income from other sources (section: 33 & 34):				
Dividend income [(3,600 ÷ 90) × 100]		4,000		
Less: Exempted – up to Tk. 25,000		4,000	-	
Interest from Post. Sav. account (2,250 × 100 ÷ 90)			2,500	
Sale of forest timber			4,000	6,500
Total income excluding income on which minimum tax is applicable u/s 82(C) (Regular source)				**274,900**
Prize money of a lottery u/s 82C(Note - 6)				300,000
Total income				**574,900**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	324,900	10%	32,490
Total	574,900		32,490
Less: Investment tax credit @ 15%			6,750
			25,740
Less: Tax applicable on regular source			2,490
Tax liability for lottery income			**23,250**

Calculation of Allowable investment

Savings certificate	Tk. 16,200
Contribution to RPF	28,800
Actual investment	45,000
Maximum limit:	
25% (574,900 – 300,000)	68,725
Or,	1,50,00,000
	Lower one
Allowable investment	**45,000**

Notes: (1) Bank charge 5% is on the amount of interest collected by the bank after deducting 5% TDS **(2)** Both employee and employer's contribution to RPF is an allowable investment. **(3)** As actual investment does not exceed maximum limit of investment, here allowable investment for tax credit is the amount of actual investment. **(4)** Though tax has already been deducted at source from the taxable government securities, debentures, interest form post. savings account, from dividend and from lottery income, at the time of calculating net tax liability TDS of Tk. 63,150 (1,000 + 1,500+400 + 250+60,000) has been adjusted. **(5)** Minimum tax provision has been applicable on lottery income u/s 82C. **(6)** TDS on lottery income was Tk. 60,000, which is less than the regular rate of tax. So, tax liability for lottery income will be Tk. 60,000. So total tax liability will be (2,490+60,000) = 62,490 and net tax liability will be (62,490 – 63,150) = (Tk. 660) which will be the refund claim.

Illustration 18A – 12:

Calculate Mr. Adib Ahsan's taxable income and tax liability for the assessment year 2016-17 considering:

Income from Salary: Basic salary Tk. 22,000 per month; Dearness allowance 10% of basic salary; Medical allowance Tk. 2,000 p.m.; Two festival bonus, each equal to one month's basic salary; Annual performance bonus equal to four month's basic salary; Mr. Ahsan received free accommodation from his office which has annual rental value of Tk. 120,000 and a full time car. Leave encashment during the year was Tk. 6,600. He and his employer both contribute 10% of basic salary to a recognized provident fund.

Income from House Property: Mr. Adib is the owner of a three storied house at Dhanmondi, Dhaka. He let out each floor at a monthly rent of Tk. 10,000. Annual municipal value of the house is Tk. 300,000. Beside all the repair and maintenance expenses, he paid municipal tax of Tk. 8,000; insurance premium Tk. 20,000; interest on mortgage loan Tk. 3,000 for the house. The ground floor remains vacant for 2 month during the year.

Income from Business or Profession: Profit from sole proprietorship business Tk. 155,000. In the previous year he incurred loss of Tk. 40,000 in the same business and carry forwarded Tk. 5,000 for set off in this year. During the year he also earned profit from partnership firm Tk. 120,000.

Income from other sources: Dividend received Tk. 54,000 from a public limited company; Income from talk show Tk. 10,000; Interest received form bank savings account Tk. 2,700. During the year Mr. Ahsan incurred expenses for: He paid Tk. 40,000 and Tk. 35,000 as insurance premium for his own and his spouse. He purchased share from secondary market Tk. 7,200. He also purchased medical books for Tk. 15,000 during the year. He donated Tk. 30,000 to prime minister's relief fund; Tk. 20,000 to his relatives and Tk. 35,000 to Aga Khan Development Foundation.

Solution 18A – 12:

Mr. Adib Ahsan
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (22,000 × 12)		264,000	
Dearness allowance		26,400	
Medical allowance (2,000 × 12)	24,000		
Less: lower of Tk. 120,000 or 10% of B.S.	26,400	-	
Festival bonus (22,000 × 2)		44,000	

Performance bonus (22,000 × 4)		88,000	
Accommodation facilities: lower of Rental value	1,20,000		
and 25% of Basic Salary (264,000 × 25%)	66,000	66,000	
Conveyance facilities:			
Higher of Tk. 60,000 or (264,000 × 5%)		60,000	
Leave encashment		6,600	
Employer's contribution to RPF		26,400	5,81,400
2. Income from House Property (section: 24 & 25):			
Actual rental value (10,000 × 3 × 12)	360,000		
Municipal value	300,000		
Annual value (whichever is higher)		360,000	
Less: Admissible expenses –			
Repair and maintenance (360,000 × 25%)	90,000		
Municipal tax	8,000		
Insurance premium	20,000		
Interest on mortgage loan	3,000		
Vacancy allowance [(360,000 ÷ 3) × 2 ÷ 12]	20,000	141,000	219,000
3. Income from Business or Profession (sec:28–30):			
Income from sole proprietorship business		155,000	
Less: set off previous year's loss		5,000	150,000
4. Share of Profit in a Partnership Firm:			120,000
5. Income from other sources (section: 33 & 34):			
Dividend income (54,000 × 100 ÷ 90)	60,000		
Less: Exempted – up to Tk. 25,000	25,000	35,000	
Income from talk show		10,000	
Interest on savings account (2,700 × 100 ÷ 90)		3,000	48,000
Total Income			**1,118,400**

Calculation of Tax liability:

		Rate	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	468,400	15%	70,260
Total	1,118,400		110,260
Less: rebate on partnership profit			11,832
Less: Investment tax credit			30,000
Less: Tax deducted at source			6,300
Tax liability			**62,128**

Calculation of Allowable investment

	Tk.
Life insurance premium:	
Own	40,000
Spouse	35,000
Share purchase	7,200
Donation to PMRF	30,000
Aga Khan Foundation	35,000
Contribution to RPF	52,800
Actual investment	**200,000**

Notes: **(1)** Maximum limit of allowable investment is lower of 25% of Tk. 1,118,400 e.g., Tk. 279,600 or Tk. 15,000,000. Actual investment is within the limit. So, investment tax credit is 15% on Tk. 200,000. **(2)** It is assumed that the car facility is exclusively used by Mr. Adib Ahsan for personal purpose. **(3)** Both employee and employer's contribution to RPF is an allowable investment. **(4)** Tax rebate at an average rate is allowable for income from partnership firm. Here, the average rate is 9.86% [(110,260 ÷ 1,076,600) × 100]. So the amount of tax rebate is Tk. 11,832. **(5)** TDS of Tk. 6,300 (Tk. 6,000 from dividend + Tk. 300 from interest on savings account) has been adjusted to identify net tax liability.

Illustration 18A – 13:

Compute total income and Tax liability of Mr. Abdullah for the assessment year 2017-18 considering his income for the income year 2016 – 2017 as:

Income from Salary: On July, 2016, basic salary Tk. 10,200 in the scale of 9,320 – 440 × 10 - 13,720. His date of yearly salary increment is on 1st April. He received Dearness Allowance @ 10% of B.S. and Medical Allowance of Tk. 300 per month. He received two bonuses equivalent to one month's basic salary – one received before date of increment and another after increment. He contributes 10% of his basic salary to unrecognized Provident Fund. He has been provided with a quarter for which 7.5% B.S. is deducted. He received interest on Provident Fund Tk. 6,000 at an interest rate of 13%. He has been provided with a car for office and private use.

Income from Securities: 8% tax exempt government securities Tk. 25,000; Interest on taxable government securities Tk. 3,325; and Interest on debenture Tk. 19,000. He paid bank charge Tk. 800 to collect interest from tax exempt government Securities.

Income from House Property: He has a house. Half of the house is let out at Tk. 12,000 per month and the other half is used for his residence. The Municipal Value of the house is Tk. 300,000. Expenses of the house for the year were as follows: Land development tax Tk. 1,000; Repair Tk. 38,000; Interest on H.B.F.C. Loan Tk. 45,000; maintenance for Water Pump, etc. Tk. 6,000 and Municipal Taxes Tk. 5,400. The house remained vacant for two months during the year.

Agricultural Income: Income from rubber garden Tk. 20,000 and Sale of Agri-products Tk. 400,000. Other expenses (excluding production cost) relating to agricultural were Tk. 5,000.

Business Income: Income from sole-tradership business Tk. 40,000; last year loss carried forward Tk. 20,000.

Other income: Interest on Bank Deposits (Gross) Tk. 10,000; Dividend income Tk. 9,000; Profit from Islami Bank Tk. 9,000. During the year he incurred expenses for: Insurance premium paid (Policy value Tk. 300,000) Tk. 20,000; Purchase primary share of a listed company Tk. 20,000; Purchased Law and academic books Tk. 5,000; Donated to Deposit pension Scheme per month Tk. 1,000; Paid to Government Zakat Fund Tk. 5,000; and Purchase of savings certificate Tk. 20,000.

Solution 18A – 13:

Mr. Abdullah

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary [(10,200 × 9) + (10,640 × 3)]		123,720	
Dearness allowance		12,372	
Medical allowance (300 × 12)	3,600		
Less: lower of Tk. 120,000 or 10% of B.S.	12,372	-	
Bonus (10,200 + 10,640)		20,840	
Accommodation facilities: (123,720 × 25%)	30,930		
Less: charge @ 7.5% of basic salary	9279	21,651	
Conv. facilities: Higher of Tk. 60,000 or 5% of BS		60,000	238,583
2. Income from Securities (section: 22 & 23):			
Interest from tax exempt government securities	2,000		
Less: exempted (full)	2,000	-	

Interest from taxable govt. securities (gross)		3,500	
Interest from debenture		20,000	23,500
3. Income from House Property (section: 24 & 25):			
Annual Value: higher of actual rental value (12,000 × 12) and Municipal value (300,000 × ½)		150,000	
Less: Admissible expenses –			
Repair and maintenance (150,000 × 25%)	37,500		
Municipal tax (½)	2,700		
Land development tax (½)	500		
Interest on HBFC loan (½)	22,500		
Vacancy allowance (150,000 × 2 ÷ 12)	25,000	88,200	61,800
4. Income from Agriculture (section: 26 & 27):			
Sale of agri-products	400,000		
Income from rubber garden (20,000 × 60%)	12,000	412,000	
Less: Admissible expenses –			
Production costs (400,000 × 60%)	240,000		
Others	5,000	245,000	167,000
5. Income from Business or Profession (sec:28–30):			
Income from sole proprietorship business	43,343		
Less: set off previous year's loss	20,000	23,343	
Income from rubber garden (20,000 × 40%)		8,000	31,343
6. Income from other sources (section: 33 & 34):			
Interest on bank deposit (gross)		10,000	
Dividend income (9,000 × 100 ÷ 90)	10,000		
Less: Exempted – up to Tk. 25,000	25,000	-	
Profit from Islami bank (9,000 × 100 ÷ 90)		10,000	20,000
Total			**542,226**

Calculation of Tax liability:

On first Tk.	250,000	@ 0%	Tk. -
On next Tk.	292,226	@ 10%	29,223
Total	542,226		29,223
Less: Investment tax credit @ 15%			11,550
			17,673
Less: Tax deducted at source			4,175
Tax liability			**13,498**

Calculation of Allowable investment

	Tk.
Life insurance premium	20,000
Share purchase	20,000
Deposit pension scheme	12,000
Donation to Zakat fund	5,000
Purchase of savings certificate	20,000
Actual investment	**77,000**

Notes: **(1)** Maximum limit of allowable investment is lower of 25% of 542,226 e.g., Tk. 135,557 or Tk. 15,000,000. **(2)** Basic salary for the first nine months @ Tk. 10,200 and for the last three months with increment @ Tk. 10,640 (10,200 + 440). **(3)** Employee's contribution to unrecognized provident fund is not an allowable investment. **(4)** Total amount of TDS is Tk. 4,175 [Tk. 175 from taxable govt. securities, Tk. 1,000 from debentures, Tk. 1,000 from interest on saving account, Tk. 1,000 from dividend and Tk. 1,000 from profit from Islami Bank].

Illustration 18A – 14:

Mr. Mahid is the chief accountant of a company. Considering the given data ascertain his total income and tax to be paid in the assessment year of 2017 – 2018. Income from Salary Tk. 300,000;

Income from Security Tk. 15,000; Income from House Property Tk. 250,000; Agriculture income includes: Income from tea garden Tk. 15,000 and other agricultural income Tk. 30,000; Income from Business or Profession includes: Income from sole proprietorship business Tk. 360,000 and last year's loss carried forward Tk. 20,000; Dividend from Mutual Fund Tk. 27,000; Dividend from Unit Fund Tk. 18,000; Dividend from a limited company Tk. 27,000; Interest from bank deposit Tk. 2,700; Interest from post office savings bank Tk. 27,000; Royalty received as an author Tk. 40,000.

Mr. Mahid purchased a machine for his sole proprietorship business on 1st August 2009 at Tk. 180,000. On 31st March 2017 it was sold for Tk. 210,000 when the WDV was Tk. 120,000. Mr. Mahid made investment and expenses during the said year for: Life insurance premium Tk. 12,000 (value of the policy worth Tk. 100,000); Deposited to pension scheme per month Tk. 1,000; Household expenses Tk. 18,000; Investment in primary share of a listed company Tk. 20,000; Investment in Recognized Provident Fund (RPF) both by employee and employer total Tk. 36,000; Donated to prime minister's relief fund Tk. 100,000; and Purchase of ICB certificate Tk. 20,000

Solution 18A – 14:

Mr. Mahid

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			300,000
2. Income from Securities (section: 22 & 23):			15,000
3. Income from House Property (section: 24 & 25):			250,000
4. Income from Agriculture (section: 26 & 27):			
Income from tea garden (15,000 × 60%)	9,000		
Other agricultural income	30,000	39,000	
Less: Admissible expenses –			
Production costs (30,000 × 60%)		18,000	
			21,000
5. Income from Business or Profession (sec:28–30):			
Income from sole proprietorship business	360,000		
Less: Capital gain included thereon	(30,000)		
Less: set off previous year's loss	(20,000)	310,000	
Income from tea garden (15,000 × 40%)		6,000	316,000
6. Capital gain (section: 31 & 32):			30,000
7. Income from other sources (section: 33 & 34):			
Dividend from mutual fund (27,000 × 100 ÷ 90)	30,000		
Dividend from unit fund (18,000 × 100 ÷ 90)	20,000		
	50,000		
Less: exemption – up to 25,000	25,000		
		25,000	
Dividend from company (27,000 × 100 ÷ 90)	30,000		
Less: Exempted – up to Tk. 25,000	25,000	5,000	
Interest from bank deposit (2,700 × 100 ÷ 90)		3,000	
Interest from post office (27,000 × 100 ÷ 90)		30,000	
Royalty received as an author		40,000	103,000
Total			**1,035,000**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	355,000	15%	53,250
On capital gain	30,000	9.44%	2,832
Total	1,035,000		96,082
Less: Investment tax credit @ 15%			29,700
			66,382
Less: Tax deducted at source			11,300
Tax liability			**55,082**

Calculation of Allowable investment

	Tk.
Life insurance premium	10,000
Share purchase from primary market	20,000
Employee & employers contribution to RPF	36,000
Deposit pension scheme	12,000
Donation to prime minister's relief fund	100,000
Purchase of ICB certificate	20,000
Actual investment	**198,000**

Notes: (1) Maximum limit of allowable invest is lower of 25% of 1,035,000 e.g., Tk. 258,750 or, Tk. 15,000,000. Here, the actual allowable investment is within the limit and so, investment tax rebate is allowed on the actual investment. **(2)** It is assumed that no book of accounts was kept for agricultural income and expenses. So 60% of other agricultural income is considered as the production cost. **(3)** Capital gain arises when the selling price of an assets exceed the cost price. Here, the machine was sold for Tk. 210,000 whereas the cost price was Tk. 180,000. So, the amount of capital gain is Tk. 30,000 (210,000 – 180,000). Assuming that the revenue gain portion is included in the income of sole-tradership business. **(4)** As the capital gain arises after five years from acquisition, tax on capital gain is calculated separately using the rate whichever is lower between 15% and average rate. Here, at the time of calculating average rate total income is inclusive of the said capital gain. **(5)** Here, total tax deducted at sources is Tk. 11,300 consists of Tk. 3,000 from dividend, 5,000 from unit and mutual fund dividend, Tk. 3,000 from post office bank and Tk. 300 from interest on saving account. **(6)** Average rate = [(Total tax liability ÷ Total taxable income) × 100]. Here, under regular rates total tax liability on total taxable income is Tk. 97,750. So, the average rate is 9.44%.

Illustration 18A – 15:

Mr. Jewel is an executive of a private firm and received basic salary of Tk. 18,000 per month. His other income for the income year 2016 – 2017 includes: House rent allowance Tk. 10,800 per month; Medical allowance Tk. 1,200 per month; Dearness allowance @ 5% of Basic Salary; Two festival bonus each equal to one month's Basic Salary; Interest from Recognized Provident Fund Tk. 12,000; Performance bonus equal to three month's Basic Salary; He contributes to old age fund @ 5% of basic salary. His employer provides him a car for full time use. He also received Tk. 950 per month as entertainment allowance out of which he spends Tk. 4,000 during the year. He withdrawn two month's basic salary in advance and contributes to Recognized Provident Fund (RPF) @ 10% of Basic Salary and his employer also contributed the same amount.

Mr. Jewel received interest from tax exempt government securities Tk. 6,100, interest from taxable government securities Tk. 4,750 and interest from debentures Tk. 16,150. Bank charge collection fees of Tk. 1,350 against the interest collected by the bank. Mr. Jewel borrowed Tk. 5,000 @ 12% to finance investment in debentures.

Mr. Jewel is the owner of a three-storied building at Mohakhali. Mr. Jewel resides with his family in the 2nd floor, one flat in the ground floor is let out to a medical chamber and all other flats (in each floor there are two flats) are let out at a monthly rent of Tk. 9,000 per flat. The municipal value of the house is Tk. 675,000. The following expenses were incurred for that house: Repair expenses Tk. 150,000; City Corporation tax Tk. 1,200 per quarter; White wash expense Tk. 15,000; Insurance premium Tk. 3,000; Electricity for water pump Tk. 5,000; Caretaker's salary Tk. 2,000 per

month (which was paid by the tenants); Land revenue paid Tk. 3,000; Mortgage loan paid Tk. 53,750 (of which Tk. 3,750 is interest on loan); Interest paid to HBFC Tk. 6,000; Alteration cost for ground floor Tk. 30,000. One flat in the level 3 remains vacant for two and half months during the year.

His incomes from other sources are: Interest on fixed deposit Tk. 12,420; Income from writing column in newspaper Tk. 500; Income from sale of forest timber Tk. 32,000; Sale of used furniture Tk. 6,000 (Cost price Tk. 11,000). Mr. Jewel made and incurred investment and expenses during the said year for: Life insurance premium Tk. 30,000 (policy value Tk. 250,000); Purchase of Shares of a co-operative society Tk. 40,000; Purchase of Share from IPO Tk. 25,000; Donation to Educational and Religious institutions Tk. 8,000; donation to Zakat fund Tk. 35,500; donation to a local club Tk. 9,000; Spent a sum of Tk. 15,000 as educational expenses of his children; Purchase of ICB certificate Tk. 20,000 and Contribution to group insurance Tk. 2,000. Ascertain his total income and tax liability to be paid in the assessment year of 2017 – 2018.

Solution 18A – 15:

Mr. Jewel
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (18,000 × 12)		216,000	
Medical allowance (1,200 × 12)	14,400		
Less: lower of Tk. 120,000 or 10% of B.S.	21,600	-	
Festival bonus (18,000 × 2)		36,000	
Performance bonus (18,000 × 3)		54,000	
House rent allowance (10,800 × 12)	129,600		
Less: lower of 50% of Basic salary 108,000			
Or, Tk. 20,000 per month 240,000	1,08,000	21,600	
Dearness allowance (216,000 × 5%)		10,800	
Employer's contribution to RPF		21,600	
Interest from RPF	12,000		
Less: lower of Interest @ 14.50% 12,000			
Or, 1/3 of basic salary 72,000	12,000		
Conv. Facility: Higher of Tk. 60,000 or(216,000 × 5%)		60,000	
Entertainment allowance (950 × 12)		11,400	
Advance salary (18,000 × 2)		36,000	467,400
2. Income from Securities (section: 22 & 23):			
Interest from tax exempt government securities	6,100		
Less: exemption (full)	6,100		
Interest from taxable govt. securities (gross)	5,000		
Less: Admissible expenses –			
Bank charge (4,750 × 1,350 ÷ 27,000)	238	4,762	
Interest from debentures	17,000		
Less: Admissible expenses –			
Bank charge (16,150 × 1,350 ÷ 27000) 808			
Interest on borrowed fund 600	1,408	15,592	20,354

3. Income from House property (section - 24):			
Annual value (residential part):			
Actual rental value (9,000 × 12 × 3)	324,000		
Add: Owner's expenses paid by the tenants	24,000		
	348,000		
Municipal value (675,000 × 3 ÷ 6)	337,500		
Annual value (higher one)			348,000
Annual value (commercial part):			
Actual rental value (9,000 × 12)	108,000		
Municipal value (675,000 × 1 ÷ 6)	112,500		
Annual value (higher one)		112,500	
Annual value of the house		460,500	
Less: Admissible expenses:			
Repair & maintenance	120,750		
City corporation tax (1,200 × 4 × 4 ÷ 6)	3,200		
Insurance premium (3,000 × 4 ÷ 6)	2,000		
Land revenue paid (3,000 × 4 ÷ 6)	2,000		
Mortgage interest paid (3,750 × 4 ÷ 6)	2,500		
Interest paid to HBFC (6,000 × 4 ÷ 6)	4,000		
Vacancy allowance (348,000 ÷ 3 × 2.5 ÷ 12)	24,167	158,617	301,883
4. Income from other sources (section: 33 & 34):			
Interest on fixed deposit (12,420 × 100 ÷ 90)		13,800	
Income from writing column in newspaper		500	
Sale of forest timber		32,000	46,300
Total income			**835,937**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	185,937	15%	27,891
Total	786,633		67,891
Less: Investment tax credit			24,225
			43,666
Less: Tax deducted at source			2,480
Tax liability			**41,186**

Calculation of Allowable investment

	Tk.
Contribution to old age fund	10,800
Life insurance premium	25,000
IPO Share purchase	25,000
Contribution to RPF	43,200
Donation to Zakat fund	35,500
Purchase of ICB certificate	20,000
Group insurance	2,000
Actual investment	**161,500**

Notes: (1) Maximum limit of allowable investment for tax credit is lower of Tk. 15,000,000 or (835,937× 25%) i.e., 208,984. Here, actual investment is less than the maximum limit. So, investment tax rebate should be on Tk. 161,500. **(2)** Actual spending for entertainment expense does not influence taxable income. **(3)** Total interest collected by the bank was Tk. 27,000 (6,100 + 4,750 + 16,150) and the amount of collection fees charged by the bank was Tk. 1,350. A proportionate bank charge is admissible against the interest collected from different securities. **(4)** Repair expense for all the let out part is 25% of annual value except the part used for medical chamber (commercial purpose). So repair expense is Tk. 120,750 [{348,000 × 25%} + {112,500 × 30%}]. **(5)** The amount of TDS on taxable government securities Tk. 250 [5,000 × 5%], on debenture Tk. 850 and on interest on fixed deposit Tk. 1,380 [13,800 – 12,420] should be readjusted to identify net tax liability of the assessee. **(6)** Purchase of shares from stock market is allowable investment.

Illustration 18A – 16:

Calculate taxable income and net tax liability for the assessment year 2017 – 2018 for Mr. Arup Ahmed considering:

Income from salary (after all adjustment following ITO, 1984) Tk. 205,000;

Income from Securities and House Property: He received interest from tax exempt government securities Tk. 8,000 and interest from taxable government securities Tk. 4,275. Besides these sources he has investment in different securities on which interest has also been received. His investment in 12% taxable government securities is Tk. 50,000; 13% debentures Tk. 70,000. Collection fee is 5% on the amount of interest collected by bank.

Mr. Arup is the owner of a four-storied building at Mohakhali. Mr. Arup resides with his family in the 2nd floor and all other floors (in each floor there are two flats) are let out at a monthly rent of Tk. 9,000 per flat. The municipal value of the house is Tk. 900,000. Expenses that were incurred in the income year 2014 – 2015 for that house were: Repair expenses Tk. 170,000; City Corporation tax Tk. 22,000; Insurance premium Tk. 16,000; Caretaker and Night guard salary Tk. 24,000; Land revenue paid Tk. 2,000; Mortgage interest paid Tk. 4,000; Interest paid to HBFC Tk. 6,000; Alteration cost for ground floor Tk. 30,000. One flat remains vacant for 2 months during the year.

Income from Agriculture, Business and Profession: Sale of Rice 250 maunds @ Tk. 600 per maund and Income from Rubber garden Tk. 60,000. Share of profit from Partnership firm Tk. 120,000 and Profit from sole proprietorship business Tk. 50,963.

During the year he incurred and made expenses and investments for: Life insurance premium paid: Own (policy value Tk. 500,000) Tk. 60,000 and Spouse (policy value Tk. 300,000) Tk. 25,000; Purchase of shares: Unlisted company Tk. 30,000 and listed company (IPO) Tk. 22,000; Donated to: Prime Minister's Relief Fund Tk. 15,000, Religious institution Tk. 10,000 and local club Tk. 8,000; Deposited to Pension Scheme per month Tk. 1,000 and Purchase of books Tk. 12,000.

Solution 18A – 16:

Mr. Arup Ahmed
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			205,000
2. Income from Securities (section: 22 & 23):			
Interest from tax exempt government securities	8,000		
Less: exemption (full)	8,000	-	
Interest from taxable government securities			
(4,275 × 100 ÷ 95)	4,500		
(50,000 × 12%)	6,000		
Less: Admissible expenses –	10,500		
Bank charge (9,975 × 5%)	499	10,001	
Interest from debentures	9,100		
Less: Admissible expenses –			
Bank charge (8,645 × 5%)	432	8,668	18,669
3. Income from House Property (section: 24 & 25):			
Annual rental value (9,000 × 2 × 3 × 12)	648,000		

Municipal value (900,000 × 3 ÷ 4)	675,000		
Annual value (whichever is higher)		675,000	
Less: Admissible expenses –			
Repair and maintenance (675,000 × 25%)	168,750		
City corporation tax (3/4)	16,500		
Insurance premium (3/4)	12,000		
Land revenue (3/4)	1,500		
Mortgage interest (3/4)	3,000		
Interest paid to HBFC (3/4)	4,500		
Vacancy allowance (675,000 × 1 ÷ 6 × 2/12)	18,750	225,000	450,000
4. Income from Agriculture (section: 26 & 27):			
Income from rubber garden (60,000 × 60%)	36,000		
Sale of rice (250 × 600)	150,000	186,000	
Less: Admissible expenses –			
Production costs (150,000 × 60%)		90,000	96,000
5. Income from Business or Profession (sec:28–30):			
Income from sole proprietorship business		50,963	
Income from rubber garden (60,000 × 40%)		24,000	74,963
6. Share of Profit in a Partnership Firm:			120,000
Total			**964,632**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	314,632	15%	47,195
Total	964,632		87,195
Less: tax rebate on income from partnership firm (note – 3)			10,848
			76,347
Less: Investment tax credit			18,600
			57,747
Less: Tax deducted at source			980
Tax liability			**56,767**

Calculation of Allowable investment

	Tk.
Life insurance premium:	
Own	50,000
Spouse	25,000
Purchase of share	22,000
Donation to relief fund	15,000
Deposit pension scheme	12,000
Actual investment	124,000
Maximum limit:	
25% of 9,64,632	241,158
Or,	15,000,000
	Lower one
Allowable investment	**124,000**

Notes: (1) A tax rebate on income from partnership firm is allowed at an average rate. Here the average rate is: (Total tax liability ÷ Total taxable income) = 87,195 ÷ 964,632 = 9.04%. **(2)** The amount of TDS charged on less tax government securities, approved and unapproved commercial securities are readjusted to identify net tax liability of the assessee.

Illustration 18A – 17:

Mr. Arshad Amin is an executive of a private firm. He receives basic salary of Tk. 35,000 per month with: Medical allowance Tk. 3,000 per month; Dearness allowance 10% of basic salary; Entertainment allowance 5% of basic salary; House rent allowance Tk. 20,000 per month and Travel allowance Tk. 45,000. He also received two festival bonus (each equal to one month's basic salary) and performance bonus equal to four month's basic salary. The company provides him a

full time car that he can use for his personal purposes. He received Tk. 16,500 as leave encashment during the year. He contributes 10% of basic salary to a recognized provident fund and his employer also contributes the same percentage to that fund. He also contributes 1% of basic salary to welfare fund and 2% of basic salary to Zakat fund. He received interest from the recognized provident fund Tk. 12,500.

Mr. Arshad is the owner of a two storied building that he let out at the following monthly rent: ground floor Tk. 8,000 and first floor Tk. 10,000. All this rent is inclusive of gas and water bill for which he also spent Tk. 22,000 in that year. He has received advance of Tk. 30,000. Other expenses relating to the house are – municipal tax Tk. 4,000; caretaker salary Tk. 2,000 per month; maintenance expense Tk. 60,000; fire insurance Tk. 3,000 per quarter and interest on mortgage loan Tk. 6,500.

Mr. Arshad operates a stationary shop from where he earns a profit of Tk. 140,000 during the year. He also received Tk. 22,000 from his electronics business. In the previous year he had loss from electronics business Tk. 40,000 that he carried forward this year. The tax authority identified a piece of land situated at Baridhara, Dhaka was registered in the name of Mr. Arshad Amin. That land was purchased at Tk. 2,000,000 which the authority believes was undervalued by 10%. During the year Mr. Amin received Tk. 22,500 as profit from Islami Bank. Calculate Mr. Arshad Amin's total taxable income and net tax liability for the assessment year 2017-18 considering his allowable investment for the year was Tk. 220,000.

Solution 18A – 17:

Mr. Arshad Amin

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

		Tk.	Tk.	Tk.
1. Income from Salary (section: 21):				
Basic salary (35,000 × 12)			420,000	
Medical allowance (3,000 × 12)		36,000		
Less: lower of Tk. 120,000 or 10% of B.S.		42,000	-	
Dearness allowance (420,000 × 10%)			42,000	
Entertainment allowance (420,000 × 5%)			21,000	
Festival bonus (35,000 × 2)			70,000	
Performance bonus (35,000 × 4)			140,000	
House rent allowance (20,000 × 12)		240,000		
Less: lower of: 50% of Basic salary	210,000			
Or, Tk. 25,000 per month	300,000	210,000	30,000	
Travel allowance		45,000		
Less: exemption – actual expense		45,000	-	
Conv. Facilities: Higher of Tk. 60,000 or 5% of BS			60,000	
Leave encashment			16,500	
Employer's contribution to RPF			42,000	
Interest from RPF		12,500		
Less: lower of Interest @ 14.50%	12,500			
Or, 1/3 of basic salary	140,000	12,500	-	
				841,500

2. Income from House Property (section: 24 & 25):			
Annual rental value [(8,000 + 10,000) × 12)]	216,000		
Less: tenants' expenses paid by the owner	22,000	194,000	
Advance received		30,000	
Less: Admissible expenses –		224,000	
Repair and maintenance (194,000 × 25%)	48,500		
Municipal tax	4,000		
Fire insurance premium (3,000 × 4)	12,000		
Interest on mortgage loan	6,500	71,000	153,000
3. Income from Business or Profession (sec:28–30)			
Income from stationary shop		140,000	
Income from electronic business	22,000		
Less: Previous year's loss	40,000		
	18,000		
Carry forward	18,000	-	140,000
4. Income from other sources (section: 33 & 34):			
Unexplained income (2,000,000 × 10%)		200,000	
Profit from Islami Bank (22,500 × 100 ÷ 90)		25,000	225,000
Total Income			**1,359,500**

Calculation of Tax liability:

On first Tk.	250,000	@ 0%	Tk. -	Deductions:	
On next Tk.	400,000	@ 10%	40,000	Investment tax credit	
On next Tk.	500,000	@ 15%	75,000	(Tk. 220,000 × 15%)	33,000
On next Tk.	209,500	@ 20%	41,900	Tax deducted at source	2,500
Total	1,359,500		156,900	**Net tax liability**	**121,400**

Notes: (1) Actual travel allowance is considered same as the amount received and so fully exempted. **(2)** As no rate against interest from RPF is given, it is assumed that the rate is 14.5%. **(3)** Previous year's loss can be set off against income generated in the current year but only against income from the same business. And so, unadjusted loss needs to be carried forward again. **(4)** Undisclosed assets will consider as income when the fact has been identified and so here it is consider as income under the head other sources by the undisclosed amount. **(5)** TDS is Tk. 2,500 on Profit from Islami Bank.

Illustration 18A – 18:

Followings are the details of income of Mr. Akhand for the year ended 30th June, 2017:

1. Mr. Akhand is the Sales Manager of Navana Traders. He received basic salary (BS) of Tk. 33,500 per month; 10% of BS as medical allowance; 60% of BS as house rent allowance; Tk. 3,500 per month as conveyance allowance and 1% of sales as commission. Mr. Akhand is entitled to use the office car to conduct business affairs. The firm deduct 10% of BS as contribution to recognized provident fund; 2% of BS as contribution to old age fund and Tk. 1,000 per month as income tax. Mr. Akhand received Tk. 26,000 as interest from the recognized provident fund at an interest rate of 13%. The employer also contributes the same percentage to RPF as Mr. Akhand contributed. During the year Navana Traders sales revenue is Tk. 82 lacs. Based on such a good performance the firm declare performance bonus to all employees equal to 3 times of basic salary. Besides all employee received two festival bonuses each equal to half month's basic salary or Tk. 18,000 whichever is higher. TDS on salary is Tk. 12,000.

2. During the year Mr. Akhand received interest from the following securities:

	Investment	Interest rate	Date of purchase
Tax exempt government securities	Tk. 200,000	13%	27.10.2015
Taxable government securities	150,000	12%	01.01.2016
Debentures	300,000	14%	16.09.2016

All the interests are collected by the bank and bank charge 2% collection fees. Investment in debentures is financed by 8% loan.

3. Mr. Akhand is the owner of a house at Baridhara, Dhaka, where he lives with his family.
4. Mr. Akhand received Tk. 70,000 from the sale of agri-products. He maintained all the records of expenses relating to agriculture. As per record he paid Tk. 40,000 cultivation expense including labor cost; Tk. 3,515 for local rates and taxes; Tk. 18,000 insurance premium and interest on loan Tk. 15,000.
5. Other than all the income listed above Mr. Akhand received Tk. 3,600 interest on post office deposit, Sale of fish from river Tk. 52,000 and Tk. 36,000 dividend from a public limited company.

During the year Mr. Akhand incurred investments in life insurance premium: Own (policy value Tk. 100,000) Tk. 9,000; Spouse (policy value Tk. 80,000) Tk. 8,500; Deposit Pension Scheme Tk. 6,000 per month; Purchase of a laptop Tk. 150,000; Donation to: Zakat fund Tk. 15,000; Ahsania Mission Cancer Hospital Tk. 25,000; Local madrasa Tk. 28,000; Bangladesh football federation Tk. 24,000; Purchase of motor car Tk. 650,000. Calculate taxable income & tax liability of Mr. Akhand.

Solution 18A – 18:

Mr. Akhand
Income Year: 2016 – 2017;
Assessment Year: 2017 – 2018
Calculation of taxable income

		Tk.	Tk.	Tk.
1. Income from Salary (section: 21):				
Basic salary (33,500 × 12)			402,000	
Medical allowance (402,000 × 10%)		40,200		
Less: Tk. 120,000 or 10% of B.S. lower one		40,200	-	
Festival bonus: Higher of (33,500 × 50% × 2)		33,500		
and (18,000 × 2)		36,000	36,000	
Performance bonus (33,500 × 3)			100,500	
House rent allowance (402,000 × 60%)		241,200		
Less: lower of 50% of Basic salary	201,000			
Or, Tk. 20,000 per month	240,000	201,000	40,200	
Conveyance allowance (3,500 × 12)		42,000		
Less: exemption (maximum Tk. 30,000)		30,000	12,000	
Sales commission (8,200,000 × 1%)			82,000	
Employer's contribution to RPF			40,200	
Interest from RPF		26,000		
Less: lower of Interest @ 14.50%	29,000			
Or, 1/3 of basic salary	134,000	29,000	-	
				712,900

2. Income from Securities (section: 22 & 23):				
Interest from tax exempt government securities		26,000		
Less: exempted (full)		26,000	-	
Interest from taxable government securities		18,000		
Less: Admissible expenses –				
Bank charge (17,100 × 2%)		342	17,658	
Interest from debentures (3,00,000 × 14% × 9.5 ÷ 12)		33,250		
Less: Admissible expenses –				
Bank charge (31,588 × 2%)	Tk. 632			
Interest on borrowed fund	19,000	19,632	13,618	31,276
3. Income from Agriculture (section: 26 & 27):				
Sale of agri-products			70,000	
Less: Admissible expenses –				
Production costs		40,000		
Local rates and taxes		3,515		
Insurance premium		18,000		
Interest on loan		15,000	76,515	(6,515)
4. Income from other sources (section: 33 & 34):				
Dividend from company (36,000 × 100 ÷ 90)		40,000		
Ales: Exempted- upto Tk. 25,000		25,000	15,000	
Interest from postal deposit (3,600 × 100 ÷ 90)			4,000	
Sale of fish from river			52,000	71,000
Total income				**8,08,661**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	158,661	15%	23,799
Total	808,661		63,799
Less: Investment tax credit (202,165 × 15%)			30,325
			33,474
Less: TDS/Advance Income Tax			18,962
Tax liability			**14,512**

Calculation of Allowable investment

	Tk.
Contribution to old age fund	8,040
Life insurance premium	
Own	9,000
Spouse	8,000
Deposit Pension Scheme	60,000
Laptop purchase	100,000
Contribution to RPF	80,400
Donation to zakat fund	15,000
Ahsania hospital	25,000
Actual investment	**305,440**

Notes: (1) Maximum limit of allowable investment is lower of 25% of Tk. 808,661 i.e., 202,165 or Tk. 15,000,000. Here, actual allowable investment is more than the limit, so tax credit will be on Tk. 202,165. **(2)** Mr. Akhand is entitled to use car for office purposes only, so it is not considered as his income which ensures exemption upto maximum limited against conveyance allowance. **(3)** Mr. Akhand uses his house for personal purposes and so no income on the house need to identify. **(4)** Contribution to RPF both by employee and employer is allowable investment [(10% of 402,000)×2]. **(5)** Total TDS from income generated by Mr. Akhand was Tk. 18,200 (Tk. 12,000 against income from salary + Tk. 900 against income from taxable government securities + Tk. 1,662 from debentures +Tk. 4,000 against divided income + Tk. 400 against interest on postal deposit which needs to be adjusted to identify net tax liability.

Illustration 18A – 19:

Mr. Khan is an assistant professor of a private university from where he receives basic salary following the salary structure of 35,000 – 3,500 X 4 – 49,000. In the month of January 2016 he received basic salary of Tk. 38,500 and his annual salary increment date is on 16th November. Other than basic salary he receives 40% of basic salary as house rent allowance and Tk. 2,000 per month as medical allowance. During the year he received two festival bonuses each equal to one month's basic salary (one received in October and other in December); Tk. 5,000 per month as deputy director of career counseling center of the university. He contributes 12% of basic salary to a recognized provident fund and his employer also contributes 10% of basic salary to that fund. From the fund he received Tk. 13,500 interest at an interest rate of 15% per annum. During the year he attended to another university as guest lecturer and received honorarium of Tk. 25,000.

Mr. Khan is also the owner of a house that he let out to a private computer firm at a monthly rent of Tk. 40,000. According to the deed the computer firm will bear any regular types of repair and maintenance expenses and in the year 2015 – 2016 the amount of repair and maintenance expense paid by the firm was Tk. 50,000. Mr. Khan paid Tk. 120,000 as repair expense; Tk. 4,000 as municipal tax; loan to HBFC Tk. 88,500 (of which principal is Tk. 82,000) and Tk. 5,000 as land revenue. The house remains vacant for one and half months during the year.

Mr. Khan's income from sole proprietorship business is Tk. 265,300 in the income year 2016 – 2017. Mr. Khan is also a partner of a partnership firm and earned an income of Tk. 300,000 as profit from the firm. He purchased a land in January 2010 at a total cost of Tk. 900,000 and constructed a building over the land at a total cost of Tk. 1,600,000 that was solely used for the sole proprietorship business. The current fair market value of the land is Tk. 7,900,000. In July 2016, he entered into an agreement with Fortune Properties Ltd and as per the agreement he would get 6 flats out of 20 flats that the developer would construct. The details of the flat are as follows:

Size of the flats	Units	Rate per sft.	Total Value
1600 square feet	2	Tk. 1,200	1,920,000
1450 square feet	2	Tk. 1,200	1,740,000
1200 square feet	2	Tk. 1,200	1,440,000
Total	**6**		**5,100,000**

Mr. Khan states the following other sources of income for the income year 2016 – 2017: Honorarium received as examiner Tk. 13,000; Royalty as a writer from a publisher Tk. 21,000; Interest on savings account Tk. 5,040; Interest on post office savings account Tk. 4,500; Honorarium as column writer in a daily newspaper Tk. 20,000; Dividend from a public limited company Tk. 27,000; Dividend from mutual fund Tk. 27,000. He has a fixed deposit of Tk. 500,000 in a scheduled bank from where he receives 12.50% interest annually.

Mr. Khan made and incurred the following investment and expenses during the said year: Life insurance premium Tk. 150,000 (policy value Tk. 1,250,000); Purchase of 5 year Bangladesh Savings Certificate Tk. 140,000; Purchase of Share from Primary market Tk. 25,000; Purchase of Share of an unlisted company Tk. 80,000; Donation to Educational and Religious institutions Tk. 80,000; donation to government zakat fund Tk. 30,000; donation to a local club Tk. 15,000; Spent a sum of Tk. 215,000 as educational expenses of his children; Purchase of ICB certificate Tk. 40,000; Two deposit pension scheme each Tk. 2,500 per month.

Based on the above information calculate Mr. Khan's taxable income and tax liability for the assessment year 2017 – 2018.

Solution 18A – 19:

Mr. Khan
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (note – 1)		488,250	
House rent allowance (488,250 × 40%)	195,300		
Less: exempted (note – 2)	244,125	-	
Medical allowance (2,000 × 12)	24,000		
Less: lower of Tk. 120,000 or 10% of B.S.	48,825	-	
Festival bonus (38,500 + 42,000)		80,500	
Honorarium as deputy director of CCC		60,000	
Employer's contribution to RPF (488,250 × 10%)		48,825	
Interest from RPF	13,500		
Less: exemption (note – 3)	13,050	450	678,025
2. Income from House Property (section: 24 & 25):			
Annual rental value (40,000 × 12)	480,000		
Add: owner's expenses paid by the tenant	50,000	530,000	
Less: Admissible expenses –			
Repair and maintenance (530,000 × 30%)	159,000		
Municipal tax	4,000		
Land revenue	5,000		
Interest on HBFC loan	6,500		
Vacancy allowance (530,000 × 1.50 ÷ 12)	66,250	240,750	289,250
3. Income from Business or Profession (sec:28-30):			
Income from sole proprietorship business			265,300
4. Share of profit in a Partnership Firm:			
Income from partnership firm			300,000
5. Income from Capital Gain (section: 31 – 32):			
Fair market value of the assets	7,900,000		
Less: cost of acquisition and development	2,500,000		
Capital gain		5,400,000	
Less: Reinvested Gain to claim rollover relief		5,100,000	300,000
6. Income from other sources (section: 33 & 34):			
Honorarium as guest lecturer		25,000	
Honorarium as examiner		13,000	
Royalty as a writer		21,000	
Interest on savings account (5,040 × 100 ÷ 90)		5,600	
Int. on post office savings account (gross)		5,000	
Honorarium as column writer		20,000	
Dividend from limited company (gross)	30,000		
Less: Exempted – up to Tk. 25,000	25,000	5,000	
Dividend from mutual fund (27,000 × 100 ÷ 90)	30,000		
Less: Exempted: up to Tk. 25,000	25,000	5,000	
Interest from fixed deposit (500,000 × 12.50%)		62,500	162,100
Total income			**1,994,675**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	500,000	15%	75,000
On next Tk.	600,000	20%	120,000
On rest	244,675	25%	61,169
Total	1,994,675		296,169
Less: tax rebate on partnership profit (note – 6)			44,550
			251,619
Less: Investment tax credit			67,340
			184,279
Less: TDS (note – 7)			13,310
Tax liability			**170,969**

Calculation of Allowable investment

	Tk.
Life insurance premium	125,000
Savings certificate	140,000
Primary share	25,000
Contribution to RPF (note – 5)	107,415
Donation to Zakat fund	30,000
Deposit pension scheme	60,000
Purchase of ICB certificate	40,000
Actual investment	527,415
Maximum limit: (lower of)	
25% of 1,994,675	498,669
Or,	15,000,000
Allowable investment	**498,669**

Notes: (1) Mr. Khan's basic salary for the year: July '16 to October '16 – salary @ 38,500 per month; November '16 – (38,500 × 15/30) + (42,000 × 15/30) and December '16 to June '17 – salary @ 42,000 per month. **(2)** House rent allowance is exempted by lower of: 50% of Basic salary i.e., Tk. 244,125 or Tk. 25,000 per month i.e., Tk. 300,000. **(3)** Interest from RPF is exempted by lower of interest @ 14.50% [interest @ 15% is Tk. 13,500 and so, interest @ 14.50% is Tk. 13,050 (13,500 ÷ 0.15 × 0.145] or 1/3 of basic salary [Tk. 162,750]. **(4)** As Mr. Khan receives no cash rather gets flats, the gain is reinvested and that is why he is eligible to get rollover relief provided that he elects such in writing to DCT before the assessment. Thus, tax value of the flats will be nil and his capital gains will be assessed to the extent of taka 300,000 for tax purposes. **(5)** Employee's contribution to RPF is 12% of basic salary. Therefore, employee and employer's contribution to RPF is Tk. 107,415 (488,250 × 12% + 488,250 × 10%). **(6)** A tax rebate on income from partnership firm is allowed at an average rate. Here the average tax rate of tax is = (total tax liability ÷ total taxable income) = 296,169 ÷ 1,994,675 = 14.85%. **(8)** Tax rebate on investment allowance [(250,000×15%) + (248,669×12%)] = Tk. 67,340 **(7)** TDS of Tk. 3,000 against dividend received from the limited company, Tk. 3,000 dividend from mutual fund, Tk. 560 against interest on saving account, Tk. 500 against int. on post office savings and Tk. 6,250 against fixed deposit was deducted which is adjusted to identify net tax liability.

Illustration 18A – 20:

Mr. Topu has been working in a private firm under the pay scale of 15,000 – 2,000 × 5 – 25,000 – 2,500 × 5 – 35,000 plus one initial increment which results a monthly salary of Tk. 32,500 in the month of June, 2017. The date of annual increment was 16th September. He is also entitled to a house rent allowance @ 40% of basic salary; entertainment allowance Tk. 2,500 per month; profit bonus @ 1% of net profit of the firm; two festival bonus each equal to a month's basic pay (one received after increment), leave encashment of Tk. 9,593 and a full time car. Mr. Topu contributed 10% of basic salary to RPF and his employer also contributes the same percentage in that fund. He received Tk. 130,000 as interest @ 14% from the RPF during the year. From his salary Tk. 3,000 has been deducted as advance income tax per month. During the year net profit of that firm was Tk. 8,800,000. Mr. Topu is the owner of a two storied building at Lalmatia, Dhaka and he let out the whole building at a monthly rent of Tk. 30,000. Besides all other maintenance expense he paid municipal tax of Tk. 2,500 per quarter for that house. Mr. Topu took a loan of Tk. 2,000,000 @ 10% from a bank by placing that house as collateral to meet the construction cost. During the year he paid the installment of the loan Tk. 300,000 (including principal and interest). During the year Mr. Topu visited South Korea as a consultant and generated Tk. 500,000 and he paid income tax @ 25% in South Korea as per DTA. Half of this income has been brought through banking channel. From another visit to Russia he

generated Tk. 300,000 and paid income tax @ 20%. Mr. Topu has received Tk. 45,000 as interest from the savings account of his minor child and he has purchased a shop in the name of his wife from which his wife has received Tk. 50,000 as rent. In the income year 16–17, Mr. Topu's net assets valued at Tk. 2.5 crore. Ascertain total taxable income and tax liability for Mr. Topu for the assessment year 2017 – 2018. Consider allowable investment for the year is Tk. 300,000 and his wife did not submit any return in her name.

Solution 18A – 20:

Mr. Topu

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

		Tk.	Tk.	Tk.
1. Income from Salary (section: 21):				
Basic salary (note – 1)			383,750	
House rent allowance (383,750 × 40%)		153,500		
Less: exemption (lower of 300,000 or 50% of BS)		191,875		
			-	
Entertainment allowance (2,500 × 12)			30,000	
Profit bonus (8,800,000 × 1%)			88,000	
Festival bonus (30,000 + 32,500)			62,500	
Conv. Facilities: higher of 60,000 or 5% of BS			60,000	
Leave encashment			9,593	
Employer's contribution to RPF (383,750 × 10%)			38,375	
Interest from RPF		130,000		
Less: lower of Interest @ 14.50%	134,643			
Or, 1/3 of basic salary	127,916	127,916	2,084	
				674,302
2. Income from House Property (section: 24 & 25):				
Annual rental value (30,000 × 12)			360,000	
Less: Admissible expenses –				
Repair and maintenance (note – 2)		90,000		
Municipal tax (2,500 × 4)		10,000		
Interest on mortgage loan		200,000	300,300	
				60,000
3. Income from Spouse or Minor Child:				
Rental income of spouse			50,000	
Int. from savings account of minor (45,000×10÷9)			50,000	
				100,000
4. Foreign Income:				
Income from South Korea -				
Income brought through banking channel		250,000		
Less: exemption		250,000	-	
Income didn't brought through banking channel			250,000	
Income from Russia			300,000	
				550,000
Total tax payable income				**1,384,302**

Calculation of Tax liability

	Tk.		
On first Tk. 250,000 @ 0%	-	Less: double taxation relief (note – 4)	64,295
On next Tk. 400,000 @ 10%	40,000	Less: Investment tax credit	43,500
On next Tk. 500,000 @ 15%	75,000	Less: TDS (note – 6)	41,000
On next Tk. 234,302 @ 20%	46,860	**Tax liability to be paid**	**13,065**
		Add: 10% surcharge for wealth (54,065 × 10%)	5,407
Gross Tax	**161,860**	**Net tax liability**	**7,658**

Notes: (1) Mr. Topu's basic salary for the year: July '16 to August '16 – salary @ 30,000 per month, September '16 – (30,000 × 15 ÷ 30) + (32,500 × 15 ÷ 30) and October '16 to June '17 – salary @ 32,500 per month. **(2)** Assuming that the house property was let out for residential purpose and so 25% of annual value is admissible as repair and maintenance expense. **(3)** Double taxation relief: Average tax rate in Bangladesh is (161,960 ÷ 1,384,302) i.e. 11.69%. So, Tax relief – on income from South Korea (as per DTA) 25% of 250,000 = Tk. 62,500 but Maximum relief for DTA country is at an average rate of the country (250,000 × 11.69%) = Tk. 29,225. On income from Russia (no DTA exists): 20% or average whichever is lower i.e. 11.69% of 300,000 = Tk. 35,070; Total double taxation relief = (29,225 + 35,070) = Tk. 64,295. **(4)** No question of double taxation exists for half of income generated from South Korea because that part was exempted from tax in Bangladesh because of using banking channel to bring the money. **(5)** Total TDS was Tk. 41,000 (Tk. 36,000 from salary + Tk. 5,000 from interest on saving account) need to be adjusted to calculate net tax liability. **(6)** He states current year's net asset at Tk. 2.5 crore. So he has to pay 10% surcharge on tax payable amount.

Illustration 18A – 21:

Ms. Afroza Rahman is the chief accountant of a private limited company. Her sources of income for the year ended 30th June, 2017 were: Basic salary Tk. 25,000 per month; Medical allowance Tk. 2,500 per month; Conveyance allowance Tk. 3,625 per month; Mobile bill allowance Tk. 3,000 per month; Dearness allowance 5% of basic salary; Two festival bonus - each equal to one month's basic salary. Ms. Rahman has been provided with a house for which the company pays a monthly rent of Tk. 15,000. With the house the company provides her a servant for whom company pays a monthly salary of Tk. 2,500. She also enjoys the benefit of a full time car for which the company paid maintenance expense of Tk. 20,000 during the year. She uses the car both for personal and office purposes. She contributed 10% of basic salary to a recognized provident fund and her employer also contributed the same amount. She received interest @ 14.5% from the same fund Tk. 7,250 during the year. She also contributed five days basic salary to a private sector relief fund. The company deducted Tk. 2,000 each month from her salary as income tax.

Ms. Rahman is the owner of a sole proprietorship business from where she earned net profit of Tk. 595,000 during the year ended 30th June 2017. This net profit figure is after deduction of salary paid to Miss Rahman Tk. 96,000; research and development expense Tk. 37,000; fund embezzlement occurred during office hour Tk. 2,500 and depreciation Tk. 45,000. For tax purpose depreciation is allowable Tk. 37,000. She sold 3-storied building for Tk. 2,100,000 in December 2016, which was purchased on March 2007 for Tk. 1,500,000. In January 2011, the building was extended at a total cost of Tk. 100,000. The fair value of the building in December 2016 was Tk. 2,300,000.

Ms. Rahman sold 200 mounds of rice @ Tk. 585 per mound and rabi crops Tk. 35,000 that was grown in her cultivable land. She kept records of all expenses with proper books of accounts. According to her statement expenses relating to cultivation and others are: labor charge Tk. 30,000; cost of seeds and fertilizer Tk. 25,000; union parishad tax Tk. 3,250; crop insurance premium Tk. 2,000 per quarter; depreciation cost Tk. 16,000. Ms. Rahman charge depreciation at a flat rate of 15% on the assets used

for agricultural purposes which are: tractor worth Tk. 50,000, Power pumping machine worth Tk. 15,000, Weighing machine worth Tk. 15,000 and Cost of Kutcha irrigation channel Tk. 10,000. Ms. Rahman also generated income from tea garden Tk. 80,000; Sale of share Tk. 20,000 (cost price Tk. 12,000); sale of palm juice Tk. 5,000, sale of pond fish Tk. 8,000 and interest on post office savings bank Tk. 18,000.

Consider the following investments for the year, calculate her tax liability:
Insurance premium Tk. 80,000 (Policy value Tk. 1,000,000); Deposited to pension scheme per month Tk. 2,000; Educational expense of son Tk. 44,000; Donated to recognized fund Tk. 115,000; Purchase of family savings certificate Tk. 80,000; Purchase of Tax exempt government securities Tk. 112,000 and Purchased share of an unlisted company Tk. 25,000.

Solution 18A – 21:

Ms. Afroza Rahman
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of tax able income

	Tk.	Tk.	Tk.
1. Income from Salary (section: 21):			
Basic salary (25,000 × 12)		300,000	
Medical allowance (2,500 × 12)	30,000		
Less: lower of Tk. 120,000 or 10% of B.S.	30,000	-	
Festival bonus (25,000 × 2)		50,000	
Mobile bill allowance (3,000 × 12)		36,000	
Dearness allowance (300,000 × 5%)		15,000	
Accommodation facilities (note – 6)		75,000	
Servant allowance (2,500 × 12)		30,000	
Conveyance allowance (3,625 × 12)		43,500	
Conv. Facilities: higher of 60,000 or (300,000 × 5%)		60,000	
Employer's contribution to RPF		30,000	
Interest from RPF	7,250		
Less: exempted (note – 7)	7,250	-	639,500
2. Income from Agriculture (section: 26 & 27):			
Sale of rice (200 × 585)	117,000		
Sale of rabi crops	35,000		
Income from tea garden (80,000 × 60%)	48,000		
Income from sale of palm juice	5,000	205,000	
Less: Admissible expenses – Labor charge	30,000		
Seeds and fertilizer	25,000		
Union parishad tax	3,250		
Crop insurance premium (2,000 × 4)	8,000		
Depreciation (note – 1)	14,000	80,250	124,750
3. Income from Business or Profession (sec:28–30):			
Income from sole proprietorship business		595,000	
Add: Inadmissible expenses –			
Salary paid to owner	96,000		
Depreciation (to be treated later on)	45,000	141,000	
		736,000	

Less: Depreciation (as per ITO)		37,000	
		699,000	
Income from tea garden (80,000 × 40%)		32,000	731,000
4. Income from Capital Gain (section: 31 – 32):			
Sale of Share (20,000 – 12,000)	8,000		
Less: exemption (full)	8,000	-	
Sale of building (note – 2)		700,000	700,000
5. Income from other sources (section: 33 & 34):			
Sale of fish		8,000	
Interest on post office (18,000 × 100 ÷ 95)		20,000	28,000
Total taxable income			**2,223,250**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	300,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	500,000	15%	75,000
On next Tk.	323,250	20%	64,650
On. capital gain	700,000	15%	105,000
Total Tk.	2,223,250		284,650
Less: Investment tax credit			64,020
			220,630
Less: Tax deducted at source			26,000
Tax liability			**194,630**

Calculation of Allowable investment

	Tk.
Life insurance premium	80,000
Contribution to RPF	60,000
Family savings certificate	80,000
Tax-exempt gov. securities	112,000
Donation to recognized fund	115,000
Deposit pension scheme	24,000
Actual investment	471,000
Maximum limit: Lower of –	
25% of 2,223,250	555,813
Or,	15,000,000
Allowable investment	**471,000**

Notes: (1) Calculation of depreciation following 3rd schedule of the ITO, 1984: Kutcha irrigation channel @20%, Tractor @ 15%, Power pumping machine @ 20% and Weighing machine @ 10% on the value of the asset. **(2)** Contribution to a private sector relief fund is not an allowable investment. **(3)** Advance payment of tax in the form of TDS need to be adjusted to calculate net tax liability. **(4)** Calculation of capital gain arising from sale of building: Sale proceeds or fair market value whichever is higher [Tk. 2,300,000] less: cost of acquisition [Tk. 1,500,000] and cost of extension [Tk. 100,000]. Therefore capital gain is Tk. 700,000. **(5)** As the capital gain arises after five years from acquisition, tax on capital gain is calculated separately using the rate lower between 15% and average rate. Here, average rate is calculated on total income inclusive of the said capital gain. **(6)** Accommodation facility is a taxable income quantified as lower of 25% of basic salary i.e., (300,000 × 25%) and Rental value (15,000 × 12) of the facility. **(7)** Interest on RPF is exempted by lower of Interest @ 14.50% = 7,250 or 1/3 of basic salary. **(8)** Average rate = total tax liability ÷ total taxable income. Here, under regular rates, tax on total taxable income is Tk. 340,813 and so, the average rate is 15.33% [340,813 ÷ 2,223,250]. (8) Tax rebate on investment allowance [(250,000× 15%)+(221,000 × 12%)] = Tk. 64,020

Illustration 18A – 22:

Mr. Masud Reza works as an officer in a Multinational Company. His sources of income for the year ended on 30th June, 2017 are given below to calculate his tax liability for the year:

Income from Salary: Basic Salary Tk. 15,000 per month; Dearness allowance 10% of the basic salary; Two bonuses equivalent to two months basic salary; Medical allowance taka 1,000 per month; Entertainment allowance Tk. 200 per month; He has been provided with a free car both for official and personal use; He has also been provided with a rent free unfurnished quarter municipal value of which is Tk. 80,000; Travel allowance as a part of his contract Tk. 100,000 where

he saved Tk. 16,500; He contributes 10% of his basic salary to a Recognized Provident Fund; During the year, his interest on the said provident fund @ 18% was Tk. 1,800; He has taken one month's basic salary as advance in the month of June to meet up some of his financial difficulties.

Interest on Securities and House Properties: Interest on tax-exempt government securities Tk. 3,000; Interest on taxable government securities Tk. 2,850; Interest on debentures Tk. 25,935. He has borrowed Tk. 20,000 @ 10% interest to purchase it. Bank has charged Tk. 400 as bank charge to collect the interest on debentures. He owns a two-storied house in Dhanmondi. He stays in one floor with his family and another floor is let out for residential purpose at a rate of Tk. 9,000 per month. The municipal value of the house is Tk. 200,000 per annum. During the year he spent expenses for: Repair Tk. 30,000; Insurance expense Tk. 4,000; Land development tax Tk. 1,500; Sewerage and utilities expense Tk. 1,000; Payment of DBH Loan installment (including interest of Tk. 500) Tk. 5,000; during the year, the house has remained vacant for two months.

Other Sources of income: Interest from fixed deposit account Tk. 4,500; profit from Islami bank Tk. 900; dividend from ICB Mutual Fund Tk. 31,500 and from a public limited company Tk. 1,800; sale of forest timber Tk. 4,000; sale of crops Tk. 5,000; income from borga Tk. 2,000; share of profit in a partnership firm Tk. 10,000 and profit from sole-tradership business Tk. 4,000 (last year's loss carried forwarded Tk. 1,000). He also reported income of spouse and minor child Tk. 40,000.

Investment claimed by Mr. Reza: Payment of life insurance premium Tk. 8,000 (Policy value Tk. 100,000); Purchase of a listed company's primary share Tk. 5,000, books and magazines Tk. 1,000 & share of co-operative society Tk. 2,000; Contribution to President's Relief Fund Tk. 3,000; Contribution to Govt. Zakat Fund Tk. 2,500; and Purchase of Furniture Tk. 15,000.

Solution 18A – 22:

Mr. Masud Reza
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (Section: 21):			
Basic salary (15,000 × 12)		180,000	
Dearness allowance (180,000 × 10%)		18,000	
Bonus (15,000 × 2)		30,000	
Medical allowance (1,000 × 12)	12,000		
Less: lower of Tk. 120,000 or 10% of B.S.	18,000	-	
Entertainment allowance (200 × 12)		2,400	
Conv. Facility: higher of 60,000 or (180,000 × 5%)		60,000	
Rent free accommodation: lower of:			
25% of basic salary	45,000		
Or, Rental value	80,000	45,000	
Travel allowance	100,000		
Less: Exempted – actual expense	83,500	16,500	
Employer's contribution to RPF (180,000 × 10%)		18,000	
Interest on RPF @ 18%	1,800		
Less: Exempted – interest @ 14.5% (1,800 ÷ 18 × 14.5) = 1,450 or 1/3rd of B.S. i.e. 60,000; lower	1,450	350	
Advance salary		15,000	385,250

2. Income from Securities (Section – 22):			
Interest on tax exempt government securities	3,000		
Less: Exempted - Full	3,000		
		-	
Interest on taxable gov. securities (2,850×100÷95)		3,000	
Interest on debentures (25,935×100÷95)	27,300		
Less: Allowable expenses: Bank Charge	(400)		
Interest on loan	(2,000)		
		24,900	
			27,900
3. Income from House Property (Section: 24 & 25):			
Actual rental value (9,000 × 12)	108,000		
Municipal value (200,000 ÷ 2)	100,000		
Annual value (whichever is higher)		108,000	
Less: Admissible expenses –			
Repair and maintenance (25% × 108,000)	27,000		
Insurance (4,000 ÷ 2)	2,000		
Land development tax (1,500 ÷ 2)	750		
Interest on loan (500 ÷ 2)	250		
Vacancy allowance (108,000 × 2 ÷ 12)	18,000		
		48,000	
			60,000
4. Agricultural Income (Section: 26 & 27):			
Sale of crops	5,000		
Income from borga	2,000		
		7,000	
Less: Allow expenses: Production cost (60%)		3,000	
			4,000
5. Income from Bus and Profession (Section: 28)			
Profit from sole-tradership business		4,000	
Less: Set off of losses		1,000	
			3,000
6. Share of profit in a partnership firm			10,000
7. Income of spouse or minor child			40,000
8. Income from other sources (Section: 33 & 34):			
Interest from fixed deposit (4,500 × 100 ÷ 90)		5,000	
Profit from Islami Bank (900 × 100 ÷ 90)		1,000	
Dividend from ICB M. Fund (31,500 × 100 ÷ 90)	35,000		
Less: Exempted – up to Tk. 25,000	25,000		
		10,000	
Dividend of Public Ltd. Co. (1,800 × 100 ÷ 90)	2,000		
Less: Exempted – up to Tk. 25,000	25,000	-	
Sale of forest timber		4,000	
			20,000
Total			**550,150**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	300,150	10%	30,015
Total	550,150		30,015
Less: Investment tax credit (54,500 × 15%)			(8,175)
Less: Tax credit for profit on partnership firm (10,000 × 5.46%)			(546)
			21,294
Less: Tax deducted at source			5,815
Tax liability			**15,479**

Calculation of Allowable investment

	Tk.
Life insurance premium	8,000
Share purchase	5,000
Contribu. to :Relief fund	3,000
:zakat fund	2,500
Employer's & employee's contribution to RPF	36,000
Actual investment	54,500
Maximum limit: lower of	
25% of 550,150	137,538
Or,	15,000,000
Allowable investment	**54,500**

Notes: (1) TDS includes Tk. 150 on interest on taxable government securities, Tk. 1,365 on debentures, Tk. 500 on fixed deposit, Tk. 100 on profit from Islami Bank, Tk. 3,500 on dividend from ICB mutual fund and Tk. 200 on dividend of public limited company. **(2)** Both employee's and employer's contribution to RPF is an investment allowance. **(3)** Though nothing is mentioned about the expenses related to agricultural income, we can at least assume 60% of sales proceeds as production cost related to this head of income. But this 60% should be charged only based on sales proceeds of crops only, as no production cost is associated and admissible for any income from borga. **(4)** Purchase of books, shares of co-operative society and furniture are not allowable investments. **(5)** Average rate of tax = (30,015 ÷ 550,150) × 100 = 5.46%.

Illustration 18A – 24:

Mr. Azam Reza works as an executive in GMG Airlines. He has the following sources of income for the year ended on 30th June, 2017.

1. **Income from Salary:** Basic Salary Tk. 12,000 per month; dearness allowance 20% of the basic salary; two festival bonuses and one performance bonus each equivalent to one month's basic salary; medical allowance Tk. 1,000 per month; conveyance allowance Tk. 2,000 per month; He has been provided with a car both for official and personal use; He has been provided with free tickets of plane the market value of which is Tk. 10,000 during the year for official tour. He has also been provided with a furnished house for which he pays 20% of his basic salary. It's annual rental value is Tk. 60,000; He contributes 10% of his basic salary to a Recognized Provident Fund. His employer also contributes the same amount; during the year his interest on the said provident fund @ 13% was Tk. 1,300; He has also received Tk. 27,600 as arrear salary of last year for which no tax has been charged earlier.
2. **Interest on Securities:** Value of 10% tax exempt govt. securities Tk. 30,000; Interest on taxable government securities Tk. 6,650; Interest on debentures Tk. 14,250 and Interest on Zero Coupon Bond Tk. 3,000.
3. **Income from House Properties:** He owns two houses in Mirpur. He uses one of the houses as his residence and another one has been let out for commercial purpose at a rate of Tk. 12,000 per month. The municipal values of both the houses are Tk. 100,000 and Tk. 120,000 per annum respectively. During the year, he has spent Tk. 15,000 for the house he uses as residence and the expenses for the let out house includes, repairs Tk. 46,000; legal charges Tk. 4,000; municipal tax Tk. 1,500; land revenue Tk. 1,000; salary of the caretaker Tk. 10,000. During the year, the house remained vacant during June, 2017.
4. **Agricultural income:** Sale of crops Tk. 15,000; income from lease of agricultural land Tk. 12,000; income from tea garden Tk. 10,000; and income from rubber garden Tk. 12,000

5. **Capital gain:** He has sold a car used in his business for Tk. 150,000. The cost of the car was Tk. 100,000 and accumulated depreciation Tk. 80,000.
6. **Income from other sources:** Interest income from savings bank account Tk. 1,800; interest on post office savings bank account Tk. 810; dividend from a public limited company Tk. 1,800; sale of fish from pond Tk. 4,000; royalty from writing an Income Tax related book Tk. 10,000; honorarium as a guest lecturer Tk. 25,000; and interest on Deposit Pension Scheme Tk. 2,000.

Investment claimed by Mr. Reza: Payment of his own life insurance premium Tk. 12,000 (Policy value Tk. 100,000); payment of his wife's life insurance premium Tk. 8,000 (Policy value Tk. 100,000); purchase of a unlisted company's share Tk. 5,000; purchase of books and magazines Tk. 1,000; purchase of a share of co-operative society Tk. 2,000; contribution to NTV Relief Fund Tk. 3,000; contribution to one of his poor relative as Zakat Tk. 2,500; purchase of diamond jewellery for wife Tk. 300,000; purchase of Five year Bangladesh Savings Certificate Tk. 20,000; contribution to Lab Aid Hospital Tk. 50,000; and donation to a political party Tk. 250,000. Based on the above information, calculate taxable income and tax liability for the assessment year 2017 – 2018.

Solution 18A – 23:

Mr. Azam Reza
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (Section: 21):			
Basic salary (12,000 × 12)		144,000	
Dearness allowance (144,000 × 20%)		28,800	
Bonus (12,000 × 3)		36,000	
Medical allowance (1,000 × 12)	12,000		
Less: lower of Tk. 120,000 or 10% of B.S.	14,400	-	
Conveyance allowance (2,000 × 12)		24,000	
Conv. Facility: Higher of 60,000 or (144,000 × 5%)		60,000	
Accommodation at concession rate:			
Lower of 25% of basic salary 36,000			
Or, Rental value 60,000	36,000		
Less: Rent paid by the assessee (144,000× 20%)	28,800	7,200	
Employer's contribution to RPF (144,000 × 10%)		14,400	
Interest on RPF @ 13%	1,300		
Less: Exempted	1,450	-	
Arrear salary		27,600	342,000
2. Income from Securities (Section – 22):			
Interest on tax exempt government securities	3,000		
Less: Exempted - Full	3,000	-	
Interest on taxable government securities (gross)		7,000	
Interest on debentures (gross)		15,000	
Interest on zero coupon bond	3,000		
Less: Exempted - full	3,000	-	22,000
3. Income from House Property (Section: 24 & 25):			
Actual rental value (12,000 × 12)	144,000		
Municipal value	120,000		

Annual value (whichever is higher)		144,000	
Less: Admissible expenses –			
Repair and maintenance (30% × 144,000)	43,200		
Municipal tax	1,500		
Land revenue	1,000		
Vacancy allowance (1,44,000 × 1/12)	12,000	57,700	86,300
4. Agricultural Income (Section: 26 & 27):			
Sale of crops	15,000		
Income from lease of agricultural land	12,000		
Income from tea garden (10,000 × 60%)	6,000		
Income from rubber garden (12,000 × 60%)	7,200	40,200	
Less: Allowable expenses:			
Production cost (15,000 × 60%)		9,000	31,200
5. Income from Business and Profession (Sec: 28):			
Income from tea garden (10,000 × 40%)		4,000	
Income from rubber garden (12,000 × 40%)		4,800	
Revenue gain on sale of Motor car		80,000	88,800
6. Capital gain			50,000
7. Income from other sources (Section: 33 & 34):			
Interest from savings acc. (1,800×100÷90)		2,000	
Interest on post office savings Bank (gross)		900	
Dividend from Public Ltd. Co. (1,800×100÷90)	2,000		
Less: Exempted – up to Tk. 25,000	25,000	-	
Sale of fish from pond		4,000	
Royalty		10,000	
Honorarium as a guest lecturer		25,000	
Interest on DPS	2,000		
Less: Exempted - full	2,000	-	41,900
Total			**662,200**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	12,200	15%	1,830
Total	662,200		41,830
Less: Investment tax credit			10,020
			31,810
Less: Tax deducted at source			1,590
Tax liability			**30,220**

Calculation of Allowable investment

Life ins. premium - own	Tk. 10,000
Life ins. premium - wife	8,000
Purchase of savings certificate	20,000
contribution to RPF (14,400X2)	28,800
Actual investment	66,800
Maximum limit: lower of Tk. 15,000,000 or (25% of 6,62,200)	165,550
Allowable investment	**66,800**

Notes: (1) Interest on RPF is exempted by – interest @ 14.5% (1,300 ÷ 13 × 14.5) = 1,450 or 1/3rd of B.S. i.e. 48,000; lower one. **(2)** Calculation of gain on sale of motor car: Total gain is Tk. 130,000 [Sales price = Tk. 150,000 Less: WDV (100,000 – 80,000) = Tk. 20,000]; Capital Gain = (Sales price – Cost) = Tk. 150,000 – Tk. 100,000 = Tk. 50,000; Revenue gain = Total gain – Capital gain = Tk. 130,000 – Tk. 50,000 = Tk. 80,000. **(3)** Tax deducted at source includes Tk. 350 on interest on taxable government securities, Tk. 750 on debentures; Tk.

200 on interest on savings account, Tk. 90 on post office savings account and Tk. 200 on dividend income of public limited company. **(5)** Both employer's and employee's contribution to RPF is investment allowance. **(6)** Purchase of books, shares of co-operative society and furniture is not considered as investment allowance.

Illustration 18A – 24:

Ms. Veronica Rozario furnished the following particulars of her income in the income year 2017 - 2018. Considering all these information, calculate her total income and tax liability for the assessment year 2017 – 2018:

1. **Income from salary**: Ms. Veronica Rozario is an assistant professor of a private university from where she receives basic salary following the pay scale of 35,000 -3,500 × 4 - 49,000. In the month of January 2016 she received basic salary of 38,500 and her annual salary increment date is on 1st November each year. Besides basic salary, she also received house rent allowance in cash – 40% of her basic salary; medical allowance Tk. 1,000 per month; entertainment allowance Tk. 17,200 during the year (actual expense Tk. 14,800); she has been provided with a full time car for 24 hours for both her personal and official purpose; conveyance allowance in cash Tk. 1,250 per month; She received two festival bonuses and one performance bonus (Festival bonus: one in October and another in December; Performance bonus in June) each equal to one month's basic salary; She contributed 10% of her basic salary to a Recognized Provident Fund (RPF) and her employer also contributed the same amount. She received interest @ 15% Tk. 30,000 on the accumulated balance of RPF; she contributes 5% of her basic salary to a group insurance scheme.
2. **Income from Securities:** She states the following investments in different securities from where she received interest on the due dates:

	Rate	Amount	Date of Purchase
Interest on tax-exempt government securities		2,700	01.01.16
Interest on taxable government securities		3,800	
Value of debentures	14%	200,000	01.01.17
Interest on zero coupon bond		10,000	01.01.17

Collection fee is 5% on the amount of interest collected by bank. She financed all investment in approved commercial securities by taking a bank loan @ 11%.

3. **Income from House Property:** She is the owner of a three-storied building (in each floor there are two flats) at Mohakhali. She resides with her family in one flat in the 2nd floor and her son, who is fully dependent on her, resides in another flat. Moreover, one of her married daughters also stays with her husband in one flat of the third floor for which they pay nothing to her. The other flats are let out at a monthly rent of Tk. 8,500 per flat. The municipal value of the house is Tk. 400,000. Other details of the house are as follows: During the year, maintenance expense paid by the tenants was Tk. 25,000 and she paid water and gas bill of Tk. 6,000 on behalf of the tenants. The following expenses were also incurred during the income year for that house: City Corporation tax Tk. 15,000; Insurance premium Tk. 24,000; Caretaker and Night guard salary Tk. 24,000; Legal expense Tk. 5,000; Collection charges of rent 2% of the total rent; Installment of loan paid to HBFC Tk. 12,000 (including interest Tk. 1,500); Alteration cost for ground floor Tk. 43,000. During the year one of the tenants in the ground floor leave the house without paying rent for one month. Ms. Veronica even after taking necessary legal action fails to collect this rent. Besides that the same flat remained vacant for another month during the year.
4. **Income from Agriculture:** Sale of Rice 180 maunds @ Tk. 480 per maund; income from tea garden Tk. 120,000; income from lease of agricultural land Tk. 12,000; and income from sale of

sugarcane Tk. 38,000. She doesn't maintain the books of accounts properly. The following expenses were claimed by her as admissible expenses for the year: Production cost Tk. 100,000; Ordinary processing cost Tk. 4,000; Crop insurance premium Tk. 24,000; Land development tax Tk. 5,000; and Purchase of a tractor Tk. 30,000.

5. **Income from Business and Profession:** Profit from sole proprietorship business Tk. 120,000; loss carry forwarded from last year relating to the sole proprietorship business Tk. 10,000; and loss on speculative business Tk. 20,000
6. **Share of profit of an unregistered partnership firm (No tax has been paid by the firm):** Tk. 25,000
7. **Capital gain** Tk. 20,000
8. **Income from other sources:** Dividend from a public limited company Tk. 9,000; dividend from mutual fund Tk. 21,600; and interest on Savings Bank Account Tk. 2,700

Investment claimed by Ms. Veronica includes: payment of her own life insurance premium Tk. 12,000 (Policy value Tk. 100,000); payment of her husband's life insurance premium Tk. 8,000 (Policy value Tk. 100,000); purchase of shares of a listed company (IPO) Tk. 5,000; purchase of books and magazines Tk. 1,000; purchase of land Tk. 100,000; contribution to NTV Relief Fund Tk. 3,000; contribution to one of his poor relative as Zakat Tk. 2,500; purchase of motor cycle Tk. 150,000; contribution of Zakat to Peace TV Tk. 50,000; purchase of less tax government security Tk. 20,000. During the year she spent Tk. 200,000 to purchase a piece of land, Tk. 100,000 to purchase a motorcycle and the sources of expenditure remained unexplained to the DCT. During the year she has paid Tk. 225 as commission for collecting the dividend and Tk. 800 as interest on loan taken to purchase the shares of public limited company.

Solution 18A – 24:

Ms. Veronica Rozario

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (Section: 21):			
Basic salary [(35,000 × 4) + [(38,500 × 8)]		448,000	
House rent allowance (448,000 × 40%)	179,200		
Less: Exempted (note – 1)	224,000	-	
Medical allowance (1,000 × 12)	12,000		
Less: lower of Tk. 120,000 or 10% of B.S.	44,800	-	
Entertainment allowance		17,200	
Conv. Facility: higher of 60,000 or (448,000 × 5%)		60,000	
Conveyance allowance (1,250 × 12)		15,000	
Bonus (35,000 + 38,500 + 38,500)		112,000	
Employer's contribution to RPF (448,000 × 10%)		44,800	
Interest on RPF @ 15%	30,000		
Less: lower of interest @ 14.5% (30,000/15*14.5) = 29,000 or 1/3rd of B.S. i.e. 149,333; lower	29,000	1,000	698,000
2. Income from Securities (Section – 22):			
Interest on exempt government securities	2,700		
Less: Exempted - Full	2,700	-	
Interest on taxable government securities (gross)	4,000		

Less: Allowable expense –			
Bank Charge (3,800 × 5%)	190	3,810	
Interest on debentures (200,000 × 14% × 6 ÷ 12)	14,000		
Less: Allowable expense –			
Bank Charge (13,300 × 5%)	(665)		
Interest on loan (200,000 × 11% × 6 ÷ 12)	(11,000)	2,335	
Interest on zero coupon bond	10,000		
Less: Exempted - full	10,000	-	6,145
3. Income from House Property (Section: 24 & 25):			
Rental value (8,500 × 4 × 12)	408,000		
Add, Owner's expense borne by tenant	25,000		
	433,000		
Less: Tenant's expense borne by owner	6,000		
Actual rental value	427,000		
Municipal value (400,000 × 4 ÷ 6)	266,667		
Annual value (whichever is higher)		427,000	
Less: Admissible expenses –			
Repair and maintenance (25% × 427,000)	106,750		
City Corporation tax (15,000 × 4 ÷ 6)	10,000		
Insurance (24,000 × 4 ÷ 6)	16,000		
Interest on loan (1,500 × 4 ÷ 6)	1,000		
Uncollectible rent (427,000 ÷ 4 × 1 ÷ 12)	8,896		
Vacancy allowance (427,000 ÷ 4 × 1 ÷ 12)	8,896	151,542	275,458
4. Agricultural Income (Section: 26 & 27):			
Sale of rice (180 × 480)	86,400		
Income from tea garden (120,000 × 60%)	72,000		
Income from lease of agricultural land	12,000		
Income from sale of sugarcane	38,000	208,400	
Less: Allowable expenses:			
Production cost [(86,400 + 38,000) × 60%]	74,640		
Crop insurance premium	24,000		
Land development tax	5,000	103,640	104,760
5. Income from Business and Profession (Sec: 28):			
Income from tea garden (120,000 × 40%)		48,000	
Profit from sole-tradership business	120,000		
Less: Set off last year's loss	10,000	110,000	
Loss on speculative business	20,000		
Less: Carry forward	20,000	-	158,000
6. Share of profit in a partnership firm			25,000
7. Capital gain			20,000
8. Income from other sources (Section: 33 & 34):			
Dividend from Public Ltd. Co. (9,000×100÷90)	10,000		
Less: Exempted – upto Tk. 25,000	25,000	-	
Dividend from mutual fund (21,600 × 100 ÷ 90)	24,000		

Less: Exempted – up to Tk. 25,000	24,000	-	
Interest from savings acc. (2,700 × 100 ÷ 90)		3,000	
Unexplained investment: Purchase of land	200,000		
Purchase of motorcycle	100,000	300,000	
		303,000	
Less: Allowable expenses: Commission	225		
Interest on loan	800	1,025	301,975
Total income			**1,589,338**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	300,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	500,000	15%	75,000
On next Tk.	389,338	20%	77,868
Total	1,589,338		192,868
Less: Investment tax credit (155,000 × 15%)			23,250
			169,618
Less: Tax deducted at source			4,600
Tax liability			**165,018**

Calculation of Allowable investment

	Tk.
Group insurance scheme	22,400
Life ins. premium - own	10,000
Life ins. premium – husband	8,000
Purchase of shares	5,000
Contribution to RPF	89,600
Less-tax govt. securities	20,000
Actual investment	155,000
Maximum limit: lower of Tk. 15,000,000 or 25% of 1,589,338	397,335
Allowable investment	**155,000**

Notes: (1) House rent allowance is exempted by Tk. 300,000 or 50% of B.S. i.e. 224,000; whichever is lower. **(2)** TDS includes Tk. 200 on interest on taxable government securities, Tk. 700 on debentures, Tk. 1,000 on dividend income, Tk. 2,400 on mutual fund dividend, and Tk. 300 on interest on savings account. **(3)** Both employer's and employee's contribution to RPF is allowable investment.

Illustration 18A – 25:

From the given information calculate taxable income and tax liability of Mr. Anis for the income year ended 30th June, 2017 after considering tax deducted at source Tk. 30,000 during the year; Last year's excess tax paid to be adjusted during the current income year as tax refund claimed Tk. 20,000; Net asset during the current income year amounted to Tk. 2.5 crore. His income from different sources includes: Salary Tk. 300,000; Income from Securities Tk. 50,000; Income from House Property Tk. 300,000; Income from Agriculture Tk. 50,000; Income from Business or Profession Tk. 200,000; Share of profit in a partnership firm Tk. 50,000; Income of the spouse or minor child Tk. 50,000; Capital Gain (The asset has been sold within 5 years of acquisition) Tk. 200,000; Income from other sources Tk. 200,000 and Foreign income (Brought to Bangladesh through Banking Channel) Tk. 50,000. During the year Mr. Anis incurred the expenses for: Insurance premium – own (Policy value Tk. 820,000) Tk. 80,000; Insurance premium – spouse (Policy value Tk. 500,000) Tk. 55,000; Deposited to pension scheme per month Tk. 6,000; Employees and employer's contribution to RPF Tk. 30,000 each; Purchase of 5 year Bangladesh savings certificate Tk. 50,000; Purchase of 10% debenture Tk. 50,000 (IPO: Tk. 20,000; Secondary: Tk. 30,000); Donated to prime minister's relief fund Tk. 45,000; Purchased shares of an unlisted company Tk. 25,000; Purchased share of a co-operative society Tk. 10,000; Purchase share of a private limited company Tk. 5,000; Purchased share of a registered partnership firm Tk. 3,000; Purchased shares of a listed company Tk. 50,000 (IPO: Tk. 30,000; Secondary: Tk. 20,000); Purchase of a Desktop Computer Tk. 55,000.

Solution 18A – 25:

Mr. Anis
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.
1. Income from Salary (section: 21)	300,000
2. Income from Securities (section: 22 & 23)	50,000
3. Income from House Property (section: 24 & 25)	300,000
4. Income from Agriculture (section: 26 & 27)	50,000
5. Income from Business or Profession (section: 28 - 30)	200,000
6. Share of profit in a partnership firm	50,000
7. Income of the spouse or minor child	50,000
8. Capital Gain (section: 31 & 32)	200,000
9. Income from other sources (section: 33 & 34)	200,000
10. Foreign income (Tk. 50,000 less Exemption 50,000)	-
Total income	**1,400,000**

Calculation of allowable investment:

1.	Insurance premium – own	80,000	
	Maximum limit: 10% of Tk. 820,000	82,000	80,000
2.	Insurance premium – spouse	55,000	
	Maximum limit: 10% of Tk. 500,000	50,000	50,000
3.	Deposit pension scheme (5,000 × 12)		60,000
4.	Employee's and employer's cont. to RPF (30,000 × 2)		60,000
5.	Purchase 5 year Bangladesh savings certificate		50,000
4.	Purchase of debenture		50,000
5.	Donation to prime minister relief fund		45,000
6.	Purchase of listed company's shares		50,000
7.	Purchase of desktop computer		50,000
Total actual investment			**495,000**

Maximum limit of allowable investment:
Lower of 25% of total taxable income = (1,400,000 × 25%) = Tk. 350,000 or Tk. 15,000,000. 350,000
Allowable investment for tax credit **350,000**

Calculation of Tax liability:

		Rates	Tk.		
On first	Tk. 250,000	0%	-	Less: Investment tax credit @ 15%	(49,500)
On next	Tk. 400,000	10%	40,000	Less: Rebate on profit from firm	(5,895)
On next	Tk. 500,000	15%	75,000	Less: Tax deducted at source	(30,000)
On next	Tk. 250,000	20%	50,000	Less: Tax refund adjustment	(20,000)
				Tax liability to be paid	59,605
				Add: 10% surcharge on tax liability	10,961
Total	1,400,000		165,000	**Net tax liability**	**70,566**

Notes: (1) Average rate of rebate is applicable on share of profit in a partnership firm. And the average rate of tax is = (Total tax ÷ Total income) × 100 = (165,000 ÷ 1,400,000) × 100 = 11.79%. **(2)** Maximum Tk. 60,000

DPS is allowable for investment tax credit for assessment year 2016-17. **(3)** Both primary and secondary market debentures and shares are allowable for investment tax credit for assessment year 2017-18. **(4)** In case of desktop computer up to Tk. 50,000 is allowable for investment tax credit. **(5)** 10% surcharge on net tax payable (gross tax – applicable rebates) amount is applicable if the assessee owns net asset of more that Tk. 2.25 crore.

Illustration 18A – 26:

Mr. Hossain Ahmed works as an assistant professor of a private university. His sources of income for the year ended on 30th June, 2017 are given below to calculate his tax liability for the year:

1. **Income from Salary:** Basic salary following the pay scale of 35,000 -3,500 × 4 - 49,000. In the month of June 2016, he received basic salary of 38,500 and her annual salary increment date is on 1st November each year. Dearness allowance 10% of the basic salary; Two bonuses equivalent to two months basic salary (one in October & another in January); Medical allowance Tk. 1,000 per month ; Entertainment allowance Tk. 200 per month (actual expense Tk. 2,000); He has been provided Tk. 3,000 per month as conveyance allowance and 55% of his basic salary as house rent allowance. He has been given travel allowance of Tk. 10,000 as a reward for his good performance where he spent Tk. 8,000; He contributes 10% of his basic salary to a Recognized Provident Fund; During the year, his interest on the said provident fund @ 14% was Tk. 4,200; He has received one month arrear salary of Tk. 35,000 which was not taxed earlier.
2. **Interest on Securities:** Value of 15% taxable govt. securities Tk. 100,000; interest on debentures Tk. 25,935; Interest on zero coupon bond Tk. 5,000. Bank has deducted 5% of interest collected as bank charge. Moreover, he has borrowed Tk. 50,000 @ 5% interest to purchase taxable govt. securities.
3. **Income from House Properties:** He owns two houses- one in Dhanmondi (Municipal value Tk. 300,000) and another in Motijheel (Municipal value Tk. 500,000). He uses his Dhanmondi house as his own residence and Motijheel house is let out to a bank branch at a rate of Tk. 50,000 per month. He received Tk. 400,000 as advance from the tenant. During the year he spent following expenses:

   For Motijheel house: Repair Tk. 100,000; Insurance expense Tk. 15,000; Land development tax Tk. 1,500; Legal expense Tk. 1,000. **For Dhanmondi house:** Repair Tk. 70,000; Insurance expense Tk. 20,000; Land development tax Tk. 1,500.
4. **Agricultural income:** Sale of crops Tk. 5,000; Income from borga Tk. 2,000. Lease of agricultural lands Tk. 15,000; Sale of tea Tk. 10,000; sale of rubber Tk. 15,000. He has sold a tractor at a price of Tk. 42,000 (cost Tk. 40,000, accumulated depreciation Tk. 4,000).
5. **Share of profit in a partnership firm:** Tk. 50,000
6. **Income of spouse or minor child:** Tk. 30,000
7. **Income from business and profession:** Profit from garments business Tk. 40,000; Net loss from Paper Business Tk. 20,000.
8. **Capital gain from sale of shares Tk. 50,000.**
9. **Income from other sources:** Income from royalty Tk. 10,000; Dividend from ICB Mutual Fund Tk. 31,500; Dividend from a public limited company Tk. 27,000; Profit from Islami Bank Tk. 18,000.
10. He has participated in Microsoft Quiz Competition in America and own 1st prize of Tk. $1,000. He has brought the money to Bangladesh through banking channel and received Tk. 76,000 after deduction of bank charges.

Additional Information:

(a) **Investment claimed by Mr. Ahmed:** Payment of life insurance premium Tk. 12,000 (Policy value Tk. 100,000); Purchase of a listed company's secondary share Tk. 50,000; Purchase of books and magazines Tk. 1,000; Purchase of a share of co-operative society Tk. 20,000; Contribution to President's Relief Fund Tk. 30,000; Contribution to Govt. Zakat Fund Tk. 20,000; Purchase of a desktop computer Tk. 55,000, Contribution to DPS Tk. 6,000 per month; Purchase of treasury bond Tk. 100,000; Purchase of gold Tk. 30,000 and Purchase of Furniture Tk. 15,000.

(b) **Net Wealth:** During the year his net wealth is amounted to Tk. 3 crore.

(c) **Refund claim:** He has claimed Tk. 10,000 tax refund for adjustment in the assessment year 2017-18. He has the necessary documents.

(d) **Advance tax on Car:** He has also paid Tk. 30,000 as advance tax for having a 1,950 cc Toyota car.

Solution 18A – 26:

Mr. Hossain Ahmed
Income Year: 2016 – 2017; Assessment Year: 2017 – 2018
Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (Section: 21):			
Basic salary {(35,000× 4)+(38,500 × 8)}		448,000	
Dearness allowance (448,000 × 10%)		44,800	
Bonus (35,000 + 38,500)		73,500	
Medical allowance (1,000 × 12)	12,000		
Less: lower of Tk. 120,000 or 10% of B.S.	44,800	-	
Entertainment allowance (200 × 12)		2,400	
Conveyance allowance (3,000 × 12)	36,000		
Less: Exempted - upto	30,000	6,000	
House rent allowance (448,000 × 55%)	246,400		
Less: Tk. 300,000 (25,000 per month) Or, 50% of B.S. i.e. Tk. 224,000, lower one	224,000	22,400	
Travel allowance		10,000	
Employer's contribution to RPF (448,000 × 10%)		44,800	
Interest on RPF @ 14%	4,200		
Less: Interest @ 14.5% (Tk. 4,350 or 1/3rd of B.S (Tk. 149,333) lower one	4,350	-	
Arrear salary		35,000	686,900
2. Income from Securities (Section – 22):			
Interest on taxable government securities	15,000		
Less: Allowable expenses:			
Bank charge (14,250 × 5%)	(713)		
Interest on loan (50,000 × 5%)	(2,500)	11,787	
Interest on debentures (gross)	27,300		
Less: allowable exp. (bank charge 5%)	(1,297)	26,003	
Interest on zero coupon bond	5,000		
Less: Exempted - Full	5,000	-	37,790

3. Income from House Property (Section: 24 & 25):			
Actual rental value:			
Rent received (47,500 × 12)	570,000		
Add: TDS (2,500 × 12)	30,000		
Actual rental value	600,000		
Municipal value	500,000		
Annual value (whichever is higher)		600,000	
Receipt of advance (400,000 ÷ 5)		80,000	
		680,000	
Less: Admissible expenses –			
Repair and maintenance (30% × 600,000)	180,000		
Insurance	15,000		
Land development tax	1,500	196,500	483,500
4. Agricultural Income (Section: 26 & 27):			
Sale of crops	5,000		
Income from borga	2,000		
Lease of agricultural land	14,970		
Sale of tea (10,000 × 60%)	6,000		
Sale of rubber (15,000 × 60%)	9,000		
Gain on sale of tractor	4,000	40,970	
Less: Allow expenses: Production cost (60%)		3,000	37,970
5. Income from Bus and Profession (Section: 28)			
Profit from garments business		40,000	
Net loss from paper business		(20,000)	
Sale of tea (10,000 × 40%)		4,000	
Sale of rubber (15,000 × 40%)		6,000	
			30,000
6. Share of profit in a partnership firm			50,000
7. Income of spouse or minor child			30,000
8. Capital gain (Section 31 & 32):			
Gain on sale of tractor		2,000	
Gain from share business	50,000		
Less: Exempted - full	50,000	-	2,000
9. Income from other sources (Section: 33 & 34):			
Interest from royalty		10,000	
Dividend from ICB M. Fund (31,500 × 100 ÷ 90)	35,000		
Less: Exempted – up to Tk. 25,000	25,000	10,000	
Dividend of Public Ltd. Co. (27,000 × 100 ÷ 90)	30,000		
Less: Exempted – up to Tk. 20,000	20,000	10,000	
Profit from Islami Bank (18,000 × 100 ÷ 90)		20,000	50,000
10. Foreign Income:			
Income from USA	76,000		
Less: exempted – full (brought through bank)	76,000	-	-
Total			**14,08,160**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	500,000	15%	75,000
On next Tk.	258,160	20%	51,632
Total	14,08,160		166,632
Less: Investment tax credit (250,000 × 15%)+(102,025 × 12%)			(49,743)
Less: Tax credit for profit on partnership firm (50,000× 11.83%)			(5,915)
			110,974
Less: Tax deducted at source			(70,615)
Less: Tax refund adjustment			(10,000)
Net Tax liability			30,359
Add: 10% Surcharge (110,974× 10%)			11,097
Total amount to be paid			**41,456**

Calculation of Allowable investment

	Tk.
Life insurance premium	10,000
Share purchase	50,000
Contribution to : Relief fund	30,000
: Zakat fund	20,000
Desktop computer	50,000
Deposit Pension Scheme	60,000
Treasury bond	100,000
Employee's and Employer's contribution to RPF	89,600
Actual investment	409,600
Maximum limit: lower of	
25% of 14,08,100	352,025
Or,	1,50,00,000
Allowable investment	**352,025**

Notes: (1) TDS includes Tk. 750 on interest on taxable government securities, Tk. 1,365 on debentures; Tk. 30,000 on house property income, Tk. 3,500 on ICB dividend, Tk. 3,000 on public co. dividend, Tk. 2,000 on profit from Islami Bank and advance tax Tk. 30,000 for car. **(2)** 5% TDS is applicable on house property income as the house has been let out to a banking company. **(3)** Total gain on sale of tractor: (Sale proceeds – WDV) = (42,000 – 36,000) = Tk. 6,000; of this capital gain amounted to (sale proceeds – cost) = (42,000 – 40,000) = Tk. 2,000 and the rest of the amount is revenue gain i.e. Tk. 4,000 which is to be recorded under agricultural income. **(4)** Average rate of tax = (166,632 ÷ 14,08,160) × 100 = 11.83%.

Illustration 18A – 27:

Ms. Rokea Afjal works as a Managing Director of a private limited company. Her sources of income for the year ended on 30th June, 2017 are given below to calculate tax liability for the year:

1. **Income from Salary:** Basic salary following the pay scale of 50,000 - 5,000 × 4 - 70,000. In the month of June 2017, she received basic salary of 55,000 and her annual salary increment date is on 21st November each year. She received two bonuses equivalent to two months basic salary (one in October & another in January); Medical allowance Tk. 10,000 per month (actual expense Tk. 150,000); She has been provided a full time car and fully furnished apartment as rent free accommodation. She contributes 10% of her basic salary to a Recognized Provident Fund. During the year, her interest on the said provident fund @ 18% was Tk. 5,400; She has received leave encashment of Tk. 10,917 during the year. Moreover she is also provided with free lunch at office. Tax deducted at source from salary Tk. 60,000
2. **Interest on Securities:** Interest on tax exempt govt. securities Tk. 5,000, Interest on 15% taxable govt. securities Tk. 1,425; interest on debentures Tk. 25,935. Bank has deducted 10% of interest collected as bank charge.
3. **Income from House Properties:** She owns a house in Rampura (Municipal value Tk. 350,000). She has let out the house for residential purpose at a rate of Tk. 25,000 per month. She received Tk. 50,000 as advance from the tenant. During the year she spent Tk. 100,000 for repair and maintenance, Tk. 10,000 for city corporation tax and loan installment Tk. 240,000 (principal Tk. 170,000; interest Tk. 70,000).
4. **Agricultural income:** Lease of agricultural lands in village Tk. 200,000.

5. **Income from business and profession:** Profit from readymade garments business Tk. 30,000.
6. She has purchased a 5 katha plot in Bashundhara at a cost of Tk. 15,00,000 during 1993. She has sold the plot at Tk. 1,00,00,000 in May, 2017.
7. **Income from other sources:** Interest on post office savings bank Tk. 45,000; Interest on royalty Tk. 10,000; Income from column writing in a newspaper Tk. 4,872.
8. She has done a consultancy for World Bank for 10 days in USA for which she was given an honorarium of $5,000 and she has remitted the amount to Bangladesh through Western Union. Tk. 400,000 was credited to her account by bank in this regard.
9. Investment claimed by Ms. Rokea includes: Purchase of Laptop Tk. 110,000; Purchase of jewelery Tk. 30,000; Purchase of shares through IPO Tk. 25,000; Donation to National Heart Foundation Tk. 15,000; Donation to Prime Minister's Relief Fund Tk. 10,000; Purchase of Family Savings Certificate Tk. 10,00,000; Purchase of books and magazines Tk. 1,000; Purchase of a share of a partnership firm Tk. 20,000; Contribution to Ahsania Mission Cancer Hospital Tk. 10,000; Distribution of zakat money to street people Tk. 20,000; Donation to local mosque Tk. 10,000; Purchase of Walton Primo X2 Android Smartphone Tk. 25,000 and Purchase of an apartment Tk. 70,00,000.
10. **Net Wealth:** During the year her net wealth is amounted to Tk. 9 crore.

Solution 18A – 27:

Ms. Rokea Afjal

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

Calculation of taxable income

	Tk.	Tk.	Tk.
1. Income from Salary (Section: 21):			
Basic salary [Note – 1]		636,667	
Bonus (50,000 + 55,000)		105,000	
Medical allowance (10,000 × 12)	120,000		
Less: lower of Tk. 120,000 or 10% of B.S.	63,667	56,333	
Conv. Facilities: higher of 60,000 or (636,667 × 5%)		60,000	
Rent free accommodation (636,667 × 25%)		169,167	
Employer's contribution to RPF (636,667 × 10%)		63,667	
Interest on RPF @ 18%	5,400		
Less: Interest @ 14.5% (Tk. 4,350 or 1/3rd of B.S (Tk. 212,222) lower one	4,350	1,050	
Leave encashment		10,917	11,02,801
2. Income from Securities (Section – 22):			
Interest on exempt govt. securities	5,000		
Less: Exempted-full	5,000	-	
Int. on taxable govt. sec. (1,425 ×100/95)	1,500		
Less: Allowable expenses:			
Bank charge (1,425 × 10%)	(143)	1,357	
Interest on debentures (gross)	27,300		
Less: allowable exp. (bank charge 10%)	(2,594)	24,706	26,063
3. Income from House Property (Section: 24 & 25):			
Actual rental value (25,000 × 12)	300,000		
Municipal value	350,000		

Annual value (whichever is higher)		350,000	
Receipt of advance		50,000	
		400,000	
Less: Admissible expenses –			
Repair and maintenance (25% × 350,000)	87,500		
City corporation tax	10,000		
Interest on loan	70,000	167,500	232,500
4. Agricultural Income (Section: 26 & 27):			
Lease of agricultural land			200,000
5. Income from Bus and Profession (Section: 28)			
Profit from garments business			30,000
6. Capital gain (Section 31 & 32):			
Gain on sale of land			85,00,000
7. Income from other sources (Section: 33 & 34):			
Interest on p.off. savings bank(45,000 × 100 ÷ 90)		50,000	
Interest on royalty		10,000	
Income from column writing		4,872	64,872
8. Foreign Income:			
Income from USA	400,000		
Less: exempted – full (brought through bank)	400,000	-	-
Total			**1,01,56,236**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	300,000	0%	-
On next Tk.	400,000	10%	40,000
On next Tk.	500,000	15%	75,000
On next Tk.	456,236	20%	91,247
C. gain Tk.	85,00,000	15%	12,75,000
Total	10,156,236		14,81,247
Less: Investment tax credit			(156,233)
			13,25,014
Less: Tax deducted at source			(66,440)
Net Tax liability			12,58,574
Add: 15% Surcharge (1,325,014× 15%)			198,752
Total amount to be paid			**14,57,326**

Calculation of Allowable investment

	Tk.
Laptop	100,000
Share purchase	25,000
Contribu. to N. H. Fnd	15,000
Donation to relief fund	10,000
Savings certificate	10,00,000
Ahsania Mission	10,000
Employer's and employee's cont. to RPF	1,27,334
Actual investment	12,87,334
Maximum limit: lower of	
25% of 1,01,56,236	25,39,059
Or,	1,50,00,000
Allowable investment	**12,87,334**

Notes: (1) Basic salary = $[(50,000 \times 4) + \{(50,000 \times \frac{20}{30}) + (55,000 \times \frac{10}{30})\} + (55,000 \times 7)] = 200,000 + 33,333.33 + 18,333.33 + 385,000 = 636,667$. **(2)** Tax liability on total income (including capital gain): (300,000× 0%) + (400,000 × 10%) + (500,000 × 15%) + (600,000 × 20%) + (30,00,000 × 25%) + (53,56,236 × 30%) = 0 + 40,000 + 75,000 + 120,000 + 750,000 +16,06,871= 25,91,871; So, average rate of tax = 25,91,871/1,01,56,236 = 25.52%. Since the capital asset has been sold after 5 years of acquisition, tax rate on capital gain will be average rate (25.52%) or 15%, whichever is lower i.e. 15%. **(3)** TDS includes Tk. 60,000 from salary, Tk. 75 on interest on taxable government securities, Tk. 1,365 on debentures, Tk. 5,000 on interest on post office savings bank. **(4)** Since net wealth amount is Tk. 9 crore, 15% surcharge will be applicable on tax amount. **(5)** Investment rebate will be [(250,000 × 15%) + (500,000 × 12%) + (5,87,334 × 10%)]=Tk. 156,233

Illustration 18A – 28:

Mr. Ahmed works as a Deputy Secretary under the Ministry of Finance. His sources of income for the year ended on 30th June, 2017 are: **Salary Income:** Basic salary Tk. 30,000 per month; a quarter for residence at a concessional rent @ Tk. 5,000 per month although the annual rental value of the quarter is Tk. 250,000; two bonuses equivalent to two months basic salary; Medical Allowance Tk. 2,000 per month; A car for using official purpose. He contributes 10% of his basic salary to the Statutory Provident Fund. **Securities Income:** Interest on debentures Tk. 28,500 (bank charge Tk. 500). **Properties Income:** He owns a flat in Mirpur with a municipal value of Tk. 200,000 annually. He has let out the flat @ Tk. 20,000 per month for residential purpose. The total repair and maintenance cost was Tk. 70,000 and city corporation tax Tk. 2,000. During the year the flat was vacant for one month. **Agricultural income:** Sale of Paddy Tk. 50,000; Sale of Sugarcane Tk. 10,000; Income from borga Tk. 20,000; Lease of agricultural lands Tk. 15,000. **Other Income:** Dividend from a public limited company Tk. 7,200 and Interest on Post office Bank deposit Tk. 27,000.

Investment claimed by Mr. Ahmed includes, payment of life insurance premium Tk. 12,000 (Policy value Tk. 100,000); purchase of a listed company's share Tk. 30,000; DPS Tk. 4,000 per month, contribution to Govt. Zakat Fund Tk. 2,500; educational expense for children Tk. 50,000. Calculate his tax liability for the assessment year 2016-17. Will there be any difference in total income if he is not a government employee?

Solution 18A – 28:

Ms. Ahmed

Income Year: 2016 – 2017; Assessment Year: 2017 – 2018

	Tk.	Tk.	Tk.
1. Income from Salary (Section: 21):			
Basic salary [30,000 × 12]		360,000	
Accommodation at a concessional rate (note – 5)	90,000		
Less: Rent paid	60,000		
	30,000		
Less: Exempted - Full	30,000	-	
Bonus (30,000 × 2)		60,000	
Medical Allowance	24,000		
Less: Exempted	24,000	-	420,000
2. Income from Securities (Section – 22):			
Interest on debentures (gross)	30,000		
Less: allowable exp. (bank charge)	(500)	29,500	29,500
3. Income from House Property (Section: 24 & 25):			
Actual rental value (20,000 × 12)	240,000		
Municipal value	200,000		
Annual value (whichever is higher)		240,000	
Less: Admissible expenses –			
Repair and maintenance (25% × 240,000)	60,000		
City corporation tax	2,000		
Vacancy allowance (240,000 ÷ 12)	20,000	82,000	158,000
4. Agricultural Income (Section: 26 & 27):			
Sale of paddy	50,000		
Income from barga	20,000		
Lease of agricultural land	15,000		

Sale of sugarcane	10,000	95,000	
Less: Admissible expenses:			
Production cost (60,000 × 60%)		36,000	59,000
5. Income from other sources (Section: 33 & 34):			
Dividend from pub. LC(7,200 × 100 ÷ 90)	8,000		
Less: Exempted - upto	25,000	-	
Interest on bank deposit (27,000 × 100 ÷ 90)		30,000	30,000
Total			**696,500**

Calculation of Tax liability:

		Rates	Tk.
On first Tk.	250,000	0%	-
On next Tk.	400,000	10%	30,000
On next Tk.	46,500	15%	6,975
Total	696,500		36,975
Less: Investment tax credit @ 15%			(18,975)
			18,000
Less: Tax deducted at source			(5,300)
Net Tax liability			12,700

Calculation of Allowable investment

Life Ins. Premium	Tk. 10,000
Share purchase	30,000
DPS	48,000
Donation to zakat fund	2,500
Employee's cont. to SPF	36,000
Actual investment	126,500
Maximum limit: lower of	
25% of 6,96,500	174,125
Or,	1,50,00,000
Allowable investment	**126,500**

If he is not a government employee, in income from salary only basic salary amount is taxable. For other heads, regular rules are applicable.

KEY POINTS

1. As per section 20 of ITO, 1984 there are seven heads of income whereas according to Income Tax Rule – 24 it has been seen that in the "Specimen Form of Income Under the ITO, 1984 – Part II" total 10 heads has been given..
2. For the assessment year 2017-18, the limit of minimum taxable income is Tk. 250,000. In case of women, elderly citizens of being more than 65 years old Tk. 300,000, for disable person, the limit is Tk. 375,000 and for gazette wounded freedom fighters Tk. 425,000.
3. Incomes specified in Part A of the Sixth Schedule of the Income Tax Ordinance, 1984 and some other incomes specified in different SROs are exempt from tax.
4. As per section 44(2)(b), a Resident assessee will get tax rebate of an amount equal to 10% to 15% of the sums specified in Part B of the Sixth Schedule.
5. There are some incomes on which a certain percentage of tax is deducted at source. It is required to gross up those income to compute tax payable income.
6. An individual received any benefit in form of cash or kind from the employer will be considered as income under the head salary.
7. Pension is exempted from tax.
8. Repair and maintenance expense is admissible expense to the extent of 25% in case of house let out for residential purpose and 30% in case of commercial purpose.
9. 10% TDS is applicable on any amount of Interest on post office savings deposit.
10. Losses generated from any head are allowable to set off against income from other heads except losses under the head speculation business and capital gain.

Multiple choice questions:

1. IT Rules, 1984 specify in the "Specimen Form of Income"_____ number of heads of income? –
   (a) 7
   (b) 9
   (c) 10
   (d) 11
2. For the assessment year 2017 – 18, the limit of minimum taxable income for a woman is –
   (a) Tk. 200,000
   (b) Tk. 220,000
   (c) Tk. 250,000
   (d) Tk. 300,000
3. For the assessment year 2017 – 18, the minimum amount of tax applicable for an individual assessee in Dhaka city corporation area is –
   (a) Tk. 4,000
   (b) Tk. 3,000
   (c) Tk. 5,000
   (d) No such limit exists
4. Non-assessable income are specified in –
   (a) Fifth schedule Part – A
   (b) Fifth schedule Part - B
   (c) Sixth schedule Part – A
   (d) Sixth schedule Part - B
5. Maximum amount eligible for such tax rebate on investment allowance is –
   (a) 25% of total income
   (b) Tk. 15,000,000
   (c) Actual investment
   (d) Lower of a & b
6. TDS rate for dividend income and interest from bank deposit is –
   (a) 5%
   (b) 10%
   (c) 15%
   (d) 20%
7. If agriculture is the only source of income for an assessee, exemption is upto –
   (a) Tk. 120,000
   (b) Tk. 50,000
   (c) Tk. 220,000
   (d) Tk. 200,000
8. What is the tax rate on capital gain arises after five years from acquisition?–
   (a) 15%
   (b) Average rate
   (c) Higher of a & b
   (d) Lower of a & b
9. Double taxation relief is applicable for –
   (a) Salary income
   (b) Agricultural income
   (c) Income from business or profession
   (d) Foreign income

10. Tax is paid for –
    (a) an income year
    (b) an assessment year
    (c) a previous year
    (d) a subsequent year

Identify the following statements as True (T) or False (F):

1.	A non resident foreigner assessee pays tax on foreign income.	T F
2.	Maximum tax rate is 30% for an individual assessee.	T F
3.	A 10% surcharge on tax payable amount is applicable if the assessee states his/her net assets more than Tk. 2.25 crore but less than Tk. 5 crore.	T F
4.	10% tax is deducted from income from Lottery, winning prizes etc.	T F
5.	No TDS is deducted from interest on pensioner and paribar sanchayapatra.	T F

Discussion Questions:

Question 18A – 1: Explain the scope and sources of total income for an individual assessee.

Question 18A – 2: Enumerate the steps of computing total taxable income and tax liability of an individual assessee.

Question 18A – 3: What is non assessable income? Explain with reference to sixth schedule part A of the ITO, 1984.

Question 18A – 4: What items are included as tax credit income? State the method of calculation of tax rebate on this income.

Question 18A – 5: **"An individual assessee is allowed to get tax rebate on certain investment"** – explain.

Question 18A – 6: Enumerate the rate of tax applicable for an individual assessee for the assessment year 2014 – 15.

Question 18A – 7: What is the application of grossing up in computation of total income?

Question 18A – 8: Write short notes on:
(a) Investment allowance
(b) Non assessable income
(c) Total taxable income
(d) Grossing Up

Consider the following income from different sources and identify relevant provisions with respect to each item.

Determine the total income and tax liability of Mr. Irfan Hasan from the following particulars relating to income year ended on 30th June, 2017.

1. **Income from salary:** Basic salary Tk. 5,000 per month; dearness allowance @ 10% of basic salary; two festival bonuses equal to one month's basic salary each; commission & fee Tk. 3,000; cash allowance as compensation Tk. 20,000; annuity Tk. 18,000; advance salary Tk. 15,000; entertainment allowance Tk. 500 per month. Actual expense Tk. 5,000; medical allowance Tk. 1,000 per month; retirement allowance / pension Tk. 80,000; He contributes 10% of his basic salary to a recognized provident fund; interest on the accumulated balance was Tk. 2,800 (@ 10%); servant allowance Tk. 200 per month; leave encashment Tk. 10,000; gratuity Tk.

15,000; student advisor allowance Tk. 600 per month; travel allowance Tk. 12,000; accrued salary of the last year has been received in the current year Tk. 10,000 which has not been included in the total income of last year; Tk. 250 per month has been received for launch at office; He was provided with a non-furnished house for which 10% of his basic salary is deducted; He was provided with a car for both personal and official uses. He is also given Tk. 1,200 per month as conveyance allowance. His employer spent Tk 5,000 for maintenance of the car.

2. **Income from interest on securities:** Tk. 10,000 as interest on tax-exempt commercial securities; Interest on taxable government securities Tk. 4,000; Interest on 10% debenture – Tk. 10,000; Income from zero coupon bond – Tk. 10,000; The Bank has charged Tk. 3,000 collecting these interests. In addition to this Tk. 1,000 interest was paid for the loan taken to purchase the debenture.
3. **Income from house property:** He has a three storied house at Baridhara where he resides with his family on third floor. The ground floor of the house has been let out at a monthly rent of Tk. 10,000. His son-in-law uses the second floor of the house for his business purpose. The municipal value of the house is Tk. 400,000. Expenses relating to the house were: Repair expense Tk. 30,000; maintenance and collection expense Tk. 1,200; municipal tax Tk. 2,400; electricity bill Tk. 12,000; sewerage expense Tk. 2,000; salary of the security guard Tk 12,000; land revenue Tk. 2,600 per year; installment payment of HBFC loan Tk. 36,000 which includes interest of Tk. 3,600; fire insurance premium Tk. 2,800; legal charge Tk. 2,000; The owner has borne tenant's expense of Tk. 1,800; The tenant has borne owner's expense of Tk. 2,000; and Tk. 8,000 of the rent has not yet been collected.
4. **Income from agricultural lands:** He has agricultural lands from where his gross income from sale of paddy Tk. 65,000 and from sale of jute Tk. 42,000. On the other hand he has also received Tk. 31,000 as landlord. He did not keep proper accounts of cost of production but has maintained the proof of the following expenses: interest on borrowed capital Tk. 4,000; land development tax Tk. 1,600; insurance premium Tk. 1,400; maintenance of irrigation work Tk. 6,000; transportation cost Tk. 2,700; process cost Tk. 5,200. His other income includes: cash rentals of agricultural land Tk. 21,000; income from rent of a building solely used for business purpose Tk. 7,200; income from Tea estate Tk. 50,000; income from Rubber garden 32,000; income from sale of Palm juice Tk. 2,300; income from sale of honey Tk. 3,300; income from sale of fishes from pond Tk. 14,000; and income from sale of fruits and vegetables Tk. 5,300.
5. **Income from Business:** He is a Homeopathic practitioner and he receives Tk. 24,000 from this practice as visit fee; income from his departmental store Tk. 90,000 (Loss on last year Tk. 15,000); Loss on fast food business Tk. 23,000; and Loss from speculative business Tk. 6,000.
6. **Income from Partnership firm:** Tk. 35,000
7. **Income from Wife's and minor son's property (They don't submit tax return):** Income from his wife's property Tk. 40,000 and income from his minor son's property Tk. 20,000.
8. **Capital gain:** Sale of furniture Tk. 12,000; cost Tk. 10,000 and Book value Tk. 8,000.
9. **Income from other sources:** Dividend from a public limited company Tk. 9,000; dividend of private ltd. company Tk. 18,000; dividend from mutual fund/unit fund Tk. 36,000; interest on savings account Tk. 2,700; prize of lottery Tk. 40,000; interest on fixed deposit Tk. 3,600; dividend of a public ltd. company Tk. 2,700; interest on postal savings account Tk. 1,600; income from writing book Tk. 8,000; income from examination scripts evaluation Tk. 4,200; income from Examination invigilation Tk. 3,400; income from word competition Tk. 7,000; prize of Prizebond Tk. 24,000; income from a private university as a part-time lecturer Tk. 22,000; income from remuneration of director Tk. 14,000; income from rent of a shop owned by

him Tk. 15,000; income from a newspaper for column writing Tk. 2,000; income from sale of forest timber Tk. 32,000; income from unused leased land Tk. 17,000; income from rental of machineries Tk. 9,000; gain from loan amortization Tk. 11,000; income from Boats Tk. 10,000; income from royalty Tk. 26,000; and income from mooring terminal Tk. 3,000.

10. **Foreign income:** Income from foreign property Tk. 90,000 received through remittance and interest on foreign bank's deposit Tk. 13,000.

During the year he incurred the following expenses:
Insurance premium – own (Policy value Tk. 42,000) Tk. 8,000; Insurance premium – spouse (Policy value Tk. 40,000) Tk. 3,000; Deposited to pension scheme per month Tk. 600; Educational expense of son Tk. 4,000; Household expenses Tk. 18,000; Donated to recognized fund Tk. 15,000; Purchase of savings certificate Tk. 24,000; Purchase of unit certificate Tk. 30,000; Purchase of postal savings certificate Tk. 80,000; Purchase of Defense savings certificate Tk. 12,000; Purchase of magazines and books Tk. 4,500; Purchase of company 10% debenture (1st time acquisition)Tk. 10,000; Donated to prime minister's relief fund Tk. 4,000; Donated to recognized high school Tk. 3,000; Donated to a local sporting club Tk. 1,000; Donated to Sir Salimullah Muslim Orphanage Tk. 5,000; The employer deducts Tk. 500 per month as group insurance premium; Donated to recognized welfare fund Tk. 3,600; Donated to government zakat fund Tk. 1,800; Gift to wife Tk. 15,000; Purchased share from an unlisted company Tk. 25,000; Purchased primary share of a listed company Tk. 15,000; Purchased share of a listed company from Dhaka Stock exchange Tk. 30,000; Donated to Bangladesh Sports Development Council Tk. 8,000; Donated to President's relief fund Tk. 5,000; and Advance payment for expenses Tk. 10,000.

Problem 18A – 1:
From the following information calculate taxable income and tax liability of Mr. Khalil for the income year ended 30th June, 2017: Income from Salary Tk. 600,000; Income from Securities (net) Tk. 35,000; Income from House Property Tk. 452,000; Income from Business or Profession Tk. 525,000 and Income from other sources Tk. 125,000.

During the year Mr. Khalil incurred the following expenses:
Insurance premium – own (Policy value Tk. 600,000) Tk. 40,000; Insurance premium – spouse (Policy value Tk. 300,000) Tk. 30,000; Deposited to pension scheme per month Tk. 1,250; Educational expense of son Tk. 40,000; Household expenses Tk. 262,000; Donated to recognized fund Tk. 38,000; Purchase of savings certificate Tk. 60,000; Purchase of Defense savings certificate Tk. 20,000; Purchase of 10% debenture Tk. 20,000; Donated to prime minister's relief fund Tk. 45,000; Donated to a local sporting club Tk 25,000; Donated to Sir Salimullah Muslim Orphanage Tk.25,000; Donated to recognized welfare fund Tk.12,500; Donated to government zakat fund Tk. 35,500; Gift to wife Tk. 75,000; Purchased share of an unlisted company Tk. 25,000; Purchased primary share of a listed company Tk. 45,000; Purchased share of a listed company from Dhaka Stock exchange Tk. 40,000; Donated to Bangladesh Sports Development Council Tk. 12,000; Donated to President's relief fund Tk. 25,000; and Purchase of a Laptop Tk. 120,000.

Problem 18A – 2:
Mr. Jashim has the following income for the income year ended on 30th June, 2017:

Mr. Jashim received basic salary of Tk. 32,000 in the month of June, 2017 following the scale of his salary 26,000 – 3,000 – 35,000. The date of annual increment of his salary is 1st April. Besides basic salary he received dearness allowance @ 10% of basic salary; Entertainment allowance and Medical allowance @ 15% and @5% of basic salary respectively; Annual bonus and fees Tk. 45,000;

house rent allowance Tk. 14,000 per month; conveyance allowance Tk. 1,700 per month. He contributes 10% of basic salary to a recognized provident fund (RPF) and his employer also contributes the same in the fund. During the year he received Tk. 18,000 as interest on provident fund and the rate of interest was 16%. He contributes to old age fund @ 3% of basic salary.

Mr. Jashim invested Tk. 60,000 in 13% tax exempt government securities, Tk. 70,000 in 12% taxable government securities, Tk. 250,000 in 15% debentures (purchased on 1st January 2017). He took a 10% loan of Tk. 350,000 and from the loan Tk. 200,000 used to purchase debenture. Bank charges 2.5% as collection fee of these interests. Mr. Jashim made and incurred the following investment and expenses during the said year:

Life insurance premium Tk. 12,000; value of the policy worth Tk. 100,000; Purchase of Books Tk. 3,000 and purchase of scientific instruments Tk. 8,000; Purchase of Shares of Approved Company Tk. 15,000; Donation to Educational and Religious institutions Tk. 7,000; donation to Zakat fund Tk. 6,500; donation to president relif fund Tk. 15,000; donation to national sports federation Tk. 9,000; donation to a local club Tk. 10,000; donation to a blind school Tk. 25,000; Purchase of a piece of land worth Tk. 270,000 in the name of his wife and a sum of Tk. 12,000 was spent for its registration; Spent a sum of Tk. 17,000 as educational expenses of his children; Purchase of ICB unit certificate Tk. 30,000; Purchase of Gold Tk. 32,000; an contribution to group insurance Tk. 1,800.

Ascertain his total income and tax to be paid in the assessment year of 2017 – 2018.

Problem 18A – 3:

Mr. Fahad is the general manager of a private company. His sources of income for the year ended 30th June, 2017 were as follows:

1. **Income from Salary:** Basic salary per month Tk. 38,000; medical allowance per month Tk. 2,500; house rent allowance per month Tk. 19,500; conveyance allowance per month Tk. 2,500; he and his employer contribute 10% of the basic salary to a recognized provident fund and Tk. 3,500 per month has been deducted from his basic salary as advance tax.
2. **Income from Securities:** Interest received from tax exempt government securities Tk. 27,000; and interest received from taxable government securities Tk. 36,000.
3. **Income from house property:** Annual rent received (from half of the house) Tk. 3,15,000; municipal value for the house Tk. 650,000; Expenses related to the house for the year - repair and maintenance Tk. 90,000; and municipal tax Tk. 9,000.
4. **Income from Agriculture:** Sale of crops Tk. 165,000.

In the said year Mr. Fahad incurred investment and expenses for: life insurance premium Tk. 60,000; donation to local mosque Tk. 10,000; and purchase share from secondary market Tk. 54,000. From the above particulars of Mr. Fahad calculate tax liability for the year.

Problem 18A – 4:

Mr. Newas is the employee of a private textile firm. From the following particulars of his income for the year ended 30th June, 2017. Calculate taxable income and tax liability.

Basic salary Tk. 19,000 p.m.; Entertainment Allowance Tk. 1,200 p.m; House Rent Allowance (Actual rent paid Tk. 7,500 p.m) Tk. 10,000 p.m.; Conveyance allowance Tk. 700 p.m.; Medical Allowance (Actual expenditure Tk. 8,000 p.a.); Tk. 1,000 p.m.; and Bonus 3 month's basic salary. Mr. Newas contributed 10%of basic salary to Recognized Provident Fund and his employer also contributed the same amount. He received Tk. 8,000 as interest on the accumulated balance of

Recognized Provident Fund @9% p.a. During the year Mr. Newas received interest from 11% taxable government securities Tk. 22,500. He also invested Tk. 250,000 in 10% debentures on 1st July, 2017. Bank charged him 5% as collection fees. Mr. Newas also received dividend from share of a public limited company Tk. 4,500, interest from savings account Tk. 2,700 and win a lottery of Tk. 210,000. During the year Mr. Newas purchase savings certificate of Tk. 36,000 and donate Tk. 12,000 to Dhanmondi shorts club.

Problem 18A – 5:

Followings are the sources of income of Mr. Alam for the year ended 30th June, 2017:

1. **Income from Salary:** Basic salary per month Tk. 20,000; Entertainment allowance per month Tk. 1,000; House rent allowance per month Tk. 11,000; Conveyance allowance per month Tk. 1 500; Medical allowance per month Tk. 500; Annual performance bonus equal to two and half month's basic salary; and Festival Bonus – 2 months basic salary. Mr. Alam contributed 10% of basic salary to Recognized Provident Fund (RPF). He received Tk. 3,000 as interest on the accumulated balance of Recognized Provident Fund @ 14.5%p.a. He has been provided with a car fully for his personal use. During the year his employer spent Tk. 48,000 for maintaining the car.
2. **Income from House Property:** Mr. Alam is the owner of a three storied house at Dhanmondi, Dhaka. He let out each floor at a monthly rent of Tk. 15,000. Annual municipal value of the house is Tk. 600,000. Beside all the repair and maintenance expenses, he paid municipal tax of Tk. 6,500; insurance premium Tk. 22,300; interest on mortgage loan Tk. 2,700 for the house. The ground floor remains vacant for 2 month during the year. Besides one month's rent from the ground floor also becomes uncollectible during the year.
3. **Income from Business or Profession:** Profit from sole proprietorship business Tk. 85,000. In the previous year he incurred loss of Tk. 20,000 in the same business and carry forward Tk. 7,000 for set off in this year. During the year he also generated profit from partnership firm Tk. 55,000.
4. **Income from other sources:** Divident received Tk. 45,000 from a private limited company; and interest received form bank savings account Tk. 3,600.

During the year Mr. Alam incurred the following expenses:
He paid Tk. 60,000 and Tk. 45,000 as insurance premium for his own and his spouse respectively. He purchase share of a company from primary market Tk. 7,500. He also purchases medical books for Tk. 12,000 during the year. He donated Tk. 32,500 to prime minister's relief fund; Tk. 12,000 to his relatives and Tk. 25,000 to Aga Khan Development Foundation. Calculate Mr. Alam's taxable income and tax liability for the assessment year 2017-18.

Problem 18A – 6:

Mr. Azimul Hoque presents the following particulars of income for the year 2016 – 2017. Compute total taxable income and Tax liability of Mr. Azimul Hoque for the assessment year 2017-18.

Income from Salary: Basic salary on 1st August, 2016 was Tk. 11,200 in the scale of 8,500 – 900 × 10 – 17,500. His date of yearly salary increment is on 1st April. He received Dearness Allowance @ 8% of B.S. and Medical Allowance of Tk. 700 per month. He received two bonuses each equivalent to one month's basic salary – both received before date of increment. He contributes 10% of his basic salary to Statutory Provident Fund. He has been provided with a rent free quarter for which 5% of B.S. is deducted. He received interest on Provident Fund Tk. 4,500 at an interest rate of 13%. He has been provided with a car for office and private use for which Tk. 300 per month is charged.
Income from Securities: 8% tax exempt government securities Tk. 37,000; Interest on taxable

government securities Tk. 4,000 (gross); Interest on debenture Tk. 15,000; and he paid bank charge Tk. 800 to collect interest from tax free government Securities.

Income from House Property: He has a house. Half of the house is let out at Tk. 8,000 per month and the other half is used for his residence. The Municipal Value of the house is Tk. 200,000. Expenses of the house for the year were as follows: Land development tax Tk. 1,500; Repair Tk. 15,000; Interest on H.B.F.C. Loan Tk. 8,500; maintenance for Water Pump, etc. Tk. 2,000 and Municipal Taxes Tk. 4,400. The house remained vacant for one month during the year.

Agricultural Income: Income from rubber garden Tk. 35,000 and Sale of Agri-products Tk. 620,000. Other expenses (excluding production cost) relating to agricultural were Tk. 25,000.

Business Income: Income from sole-tradership business Tk. 77,000; last year's loss carried forward Tk. 11,000.

Other income: Prize of Prize Bond Tk. 22,000; Interest on Bank Deposits (Gross) Tk. 9,000; Dividend income Tk. 18,000; Profit from Islami Bank Tk. 7,000; and Interest on 5 year Bangladesh Savings Certificate Tk. 27,000.

During the year he incurred expenses for: Family expenses Tk. 28,000; Insurance Premium-own (policy value Tk. 500,000) Tk. 60,000; Insurance Premium-spouse (Policy value Tk. 400,000) Tk. 30,000; Purchased share from an unlisted company Tk. 25,000; Purchased primary share of a listed company Tk. 20,000; Purchased share from Stock Exchange Tk. 90,000; Purchased Books Tk. 4,000; Donated to Prime Minister's Relief Fund Tk. 10,000; Deposited to Pension Scheme per month Tk. 500; and Paid to Zakat fund Tk. 3,000.

Problem 18A – 7:

Mr. Selim is the chief accountant of a public limited company. His sources of income for the year ended 30th June, 2017 were as follows:

1. **Income from Salary:** Basic salary (per month) Tk. 22,000; Entertainment Allowance 5% of basic salary; Medical Allowance 10% of basic salary; Two Bonus (each equal to one month's basic salary); Mr. Selim has been provided with a rent free furnished house annual rental value of which was Tk. 96,000 and a full time car for his personal use. He contributed 10% of basic salary to Recognized Provident Fund (RPF) and his employer also contributed the same amount. He received interest @ 15%Tk. 18,000 on the accumulated balance of RPF.
2. **Income from Security:** Tk. 35,000
3. **Income from House Property:** Tk. 348,000
4. **Income from Agriculture:** Income from tea garden Tk. 32,000 and other agricultural income Tk. 25,000.
5. **Income from Business or Profession:** Income from sole proprietorship business Tk. 237,000; and last year's loss carried forward Tk. 17,000.
6. **Capital Gain:** Mr. Selim purchased a machine for his sole proprietorship business on 1st August 2010 at Tk. 75,000. On 31st March 2017 it was sold for Tk. 82,000 when the WDV was Tk. 60,000.
7. **Other income:** Dividend from Mutual Fund Tk. 25,000; dividend from Unit Fund Tk. 21,000; dividend from a limited company Tk. 9,000; interest from bank deposit Tk. 5,400; interest from 3 year Bangladesh savings certificate Tk. 18,000; royalty received as an author Tk. 55,000; and Prize of lottery Tk. 75,000.

Mr. Selim made and incurred the following investment and expenses respectively during the said year: life insurance premium Tk. 40,000; value of the policy worth Tk. 600,000; deposited to pension scheme per month Tk. 2,500; household expenses Tk. 1,78,000; investment in primary

share of a listed company Tk. 30,000; investment in Recognized Provident Fund (RPF) both by employee and employer total Tk. 52,800; donated to prime minister's relief fund Tk. 95,000; purchase of ICB certificate Tk. 35,000 . Ascertain his tax to be paid in the assessment year.

Problem 18A – 8:

Mr. Miskat is a service holder. Calculate his tax liability considering the following sources of income for the year ended 30th June, 2017:

Basic Salary	Tk. 15,500 per month
Medical Allowance	Tk. 1,500 per month
Conveyance Allowance	10% of Basic Salary
Performance Bonus	3 months Basic Salary
Leave encashment	15 days leave

He has been provided with a car for personal use and also a rent free furnished house with annual rental value of Tk. 60,000. In this income year he spent Tk. 16,000 from Medical Allowance. He received two festival bonuses each equal to a month's basic salary. He contributed 10% of basic salary to Recognized Provident Fund (RPF) and his employer also contributed 8% to the fund. He received interest @ 14.50% Tk. 20,000 on the accumulated balance of RPF.

Mr. Miskat received Tk. 310,000 from the sale of agri-products and Tk. 15,000 from rentals of agricultural land. He did not maintain any books of accounts regarding income from agriculture but he submitted following details of expenses – land development tax Tk. 4,100; local tax Tk. 3,750; insurance premium Tk. 8,500; maintenance cost of irrigation plant Tk. 12,650 and Tk. 6,350 as interest on loan taken from Krishi Bank. According ITO he is allowed to charge depreciation Tk. 3,500 against the machineries used for agricultural purposes.

During the year he earned the followings from different other sources – Tk. 18,500 from sale of fishes from pond; dividend from ICB unit certificate Tk. 11,000; dividend from private limited company Tk. 6,750; interest on bank deposit Tk. 7,200; profit from Islami Bank Tk. 7,500 and interest on 3 year Bangladesh savings certificate Tk. 18,000. He purchased shares worth Tk. 100,000 of an approved company (public) in the income year and disposed it off within six months of the purchase making a gain of Tk. 120,000. He was the original allottee of the shares.

During the year he incurred and made the following expenses and investments: insurance premium paid (policy value Tk. 400,000) Tk. 40,000; purchase primary share of a listed company Tk. 35,000; purchased Law and academic books Tk. 5,000; donated to Deposit pension Scheme per month Tk. 2,000; paid to Zakat Fund Tk. 15,000; purchase of savings certificate Tk. 28,000.

Problem 18A – 9:

Mr. Rayan is an executive of a private firm and received basic salary (BS) of Tk. 28,000 per month. His other income for the income year 2016 – 2017: House rent allowance Tk. 10,500 per month; Medical allowance Tk. 1,700 per month; Two festival bonus each equal to one month's Basic Salary; He contributes to old age fund @ 5% of BS; His employer provides him a car for full time personal use. He also received Tk. 800 per month as entertainment allowance out of which he spends Tk. 8,000 during the year. He withdrawn two month's BS in advance and contributes to Recognized Provident Fund @ 10% of BS and his employer also contributed the same amount.

He received interest from tax exempt government securities Tk. 12,000 and interest from taxable government securities Tk. 5,400. Besides these sources he has the following investment in different securities on which interest has been accrued:

Securities	Investment	Rate of interest	Date of purchase
Tax exempt government securities	Tk. 70,000	12%	15.02.16
Taxable government securities	50,000	13%	01.06.16
Debentures	40,000	15%	01.10.16

Collection fee is 5% on the amount of interest collected by bank. Mr. Rayan finances all investment in unapproved securities by taking a bank loan @ 12% interest per annum.

Mr. Rayan is the owner of a four-storied building at Mohakhali. Mr. Rayan resides with his family in the 2nd floor and all other floors (in each floor there are two flats) are let out at a monthly rent of Tk. 8,750 per flat. The municipal value of the house is Tk. 900,000. The expenses that were incurred in the income year 2016 – 2017 for that house includes: repair expenses Tk. 70,000; city corporation tax Tk. 24,000; insurance premium Tk. 18,000; Caretaker and Night guard salary Tk. 30,000; Land revenue paid Tk. 2,800; Mortgage interest paid Tk. 4,000; Interest paid to HBFC Tk. 6,000; Alteration cost for ground floor Tk. 42,000. One flat remains vacant for 2 months during the year.

Income from other sources includes prize of lottery Tk. 200,000; interest on fixed deposit Tk. 12,150; income from word competition Tk. 800; income from sale of forest timber Tk. 28,000; and sale of used furniture Tk. 5,000 (Cost price Tk. 9,000). Mr. Rayan made and incurred investment and expenses during the said year for: life insurance premium Tk. 40,000; policy value Tk. 450,000; Purchase of Share from IPO Tk. 55,000; donation to Educational and Religious institutions Tk. 18,000; donation to Zakat fund Tk. 20,500; donation to national sports federation Tk. 8,000; donation to a local club Tk. 2,000; Spent a sum of Tk. 45,000 as educational expenses of his children; purchase of ICB certificate Tk. 30,000 and Contribution to group insurance Tk. 6,000. Ascertain his total taxable income and tax to be paid in the assessment year 2017 – 2018.

Problem 18A – 10:

Mr. Gomes furnished the following particulars of his income in the income year 2016 – 2017. Calculate his taxable income and net tax liability for the assessment year 2017 – 2018.

1. **Income from salary:** (after all adjustment following ITO, 1984) Tk. 422,500.
2. **Income from Securities:** Mr. Gomes received interest from tax exempt government securities Tk. 7,200, interest from taxable government securities Tk. 7,200 and interest from debentures Tk. 13,000. Bank charge collection fees of Tk. 1,233 against the interest collected by the bank. Mr. Gomes borrows Tk. 8,000 @ 12% to finance investment in approved commercial securities.
3. **Income from House Property:** Mr. Gomes is the owner of a three-storied building at Mohakhali. Mr. Gomes resides with his family in the 2nd floor, the ground floor is used by his son as medical chamber and the other floor is let out at a monthly rent of Tk. 15,500. The municipal value of the house is Tk. 510,000. The following expenses were incurred during the income year for that house: city corporation tax Tk. 2,200 per quarter; White wash expense Tk. 25,000; Insurance premium Tk. 12,000; Electricity for water pump Tk. 3,000; Caretaker's salary Tk. 2,500 per month (which was paid by the tenants); Land revenue paid Tk. 3,300; Mortgage loan paid Tk. 45,400 (of which Tk. 40,000 is principal on loan); Interest paid to HBFC Tk. 2,400; and Alteration cost for ground floor Tk. 37,000.
4. **Income from Agriculture:** Sale of Jute 310 maunds @ Tk. 250 per maund and Income from Rubber garden Tk. 80,000.
5. **Income from Business and Profession:** Share of profit from Partnership firm Tk. 85,000; and Profit from sole proprietorship business Tk. 75,000.

During the year he incurred and made the following expenses and investments:

Life insurance premium paid Tk. 68,000; Purchase of shares: Unlisted company Tk. 28,000 and Listed company Tk. 42,000; Donated to: Prime Minister's Relief Fund Tk. 55,000, Religious institution Tk. 8,000 and Local club Tk. 3,000; Deposited to Pension Scheme per month Tk. 2,000; and Purchase of books Tk. 6,000.

Problem 18A – 11:

Mr. Rahman is an executive who state the details of his income for the year ended 30th June, 2017 as: Basic salary Tk. 18,000 per month; dearness allowance Tk. 1,500 p.m.; entertainment allowance Tk. 1,000 p.m.; medical allowance Tk. 1,200 p.m. and conveyance allowance Tk. 1,500 p.m.. He is allowed free furnished accommodation. The house that he lives in, is however, owned by him and he let it out to the company he serves at a monthly rent of Tk. 20,000. He is also allowed a car for his private use. He received Tk. 12,000 as travel allowance out of which he spends Tk. 10,000 during the year.

Mr. Rahman owns a house standing on a plot of land measuring 5 kathas in Dhanmondi residential area. He entered into an agreement with a developer and according to the agreement he would get 8 flats out of 16 flats that the developer would construct. 6 flats out of 8 flats measure 1450 squate feet each and rest two 1200 square feet each. The selling price of the 1450 s.f. flats is Tk. 35 lac each and 1200 s.f. is Tk. 28 lac each. The land was purchased for Tk. 700,000 and the building standing on the plot of land cost him Tk. 1,500,000. The present selling price of the plot of land is around Tk. 1.25 crore. His Income from other sources includes interest on Postal Saving Bank Account Tk. 9,000; interest on Approved Securities Tk. 22,000; dividend from Public Limited Company listed with Stock Exchange Tk. 3,600. It was declared by the Company in May, 2014 but actually received in August, 2014; Tk. 100,000 was received as salami from a newly constructed shop by virtue of a lease agreement covering 5 years. The assessee opted for allocating this income proportionately; He holds agricultural land from which he earned Tk. 50,000 as agricultural income. He claimed TK. 32,000 as expenses for the purpose but failed to provide any record against it; interest on Fixed Deposit Tk. 12,500. During the year his actual allowable investment was Tk. 400,000.

Required: Calculate his tax liability for the assessment year 2017-18.

Problem 18A – 12:

Mr. Milky CEO of a Multinational Company in Bangladesh has got the following income for the income year ended 30th June 2017. You are required to calculate the total income and tax payable of Mr. Milky considering: Basic pay Tk. 150,000 p.m. sent to his bank account; Rent free accommodation fully furnished by the company; Full time company car for 24 hrs. for his own use and for his family; Company pays Tk. 100,000 p.m. for his three school going children which is paid to the school authority directly; He received two festival bonuses equivalent to basic pay during the festival time which he spent partly for his family and partly for the poor people in his village; Driver's salary Tk. 10,000 p.m. paid to his driver's bank account; Company paid Tk. 300,000 to him during the year being the reimbursement of various utility bills of his house; Land and mobile bill paid Tk. 5,000 p.m.; He was paid Tk. 1,000,000 for his overseas travels for the official trip out of which he saved 25% during the year; He was paid for international club Tk. 250,000; He received interest on securities Tk. 150,000 on his investments; He has got one house of his own at Baridhara and he received total Tk. 1,200,000 as rent during that income year; He paid Tk. 150,000 as life insurance premium by himself; He invested Tk. 1,500,000 on government bonds and primary shares of various companies; and Received dividend Tk. 150,000 during the year.

Problem 18A – 13:

Mr. Abi is a salaried employee of a private company. His salaries and allowances are as follows, based on which compute his tax for the assessment year 2017 – 2018: Basic salary Tk. 25,000 per month; House rent allowance Tk. 17,000 per month; Conveyance allowance Tk. 2,000 per month; Entertainment allowance Tk. 1,000 per month; Two months salary paid as bonus for the relevant income year; He contributed Tk. 2,500 to his provident fund while his employer contributes and equal amount; He has let out his house property to a foreign mission as office. The rent he gets is Tk. 60,000 per month; He has sold one vacant plot of land at Tk. 2,500,000 which he purchased seven years back at Tk. 1,000,000. The gain derived from this property has been invested in the purchase of shares of a public limited company; He also sold another building and land appurtenant thereto at Tk. 2,000,000. This property was acquired in 1978 at Tk. 300,000. He informed the DCT that another house property will be purchased for office like the old one in about a year's time; He sold savings certificates purchased two years back at Tk. 47,000. He purchased 5 years sanchoy patra during the same year at a cost of Tk. 200,000.

Problem 18A – 14:

Miss Fatema is the Finance Controller of a Manufacturing company, had the following income under different head during the income year 2016 – 2017:

Income from Salary: Basic Salary (BS) Tk. 35,000 per month; Miss Fatema has been provided a rent free full furnished accommodation for which the company paid monthly rent of Tk. 20,000; Entertainment allowance Tk. 2,000 per month; Medical allowance @ 10% of BS; Incentive bonus Tk. 200,000; Advance salary Tk. 35,000; Leave fare assistance received Tk. 120,000 for traveling abroad (actual spending Tk. 110,000) as a part of her agreement. She is provided with a servant at a monthly salary of Tk. 3,000; She has been provided with a full time car; She contributed Tk. 3,000 per month to a RPF where her employer also contributes the same amount; She received interest @13.5% from accumulated balance of RPF Tk. 27,000; Insurance premium born by the employer Tk. 10,000 per quarter; and She received gratuity Tk. 140,000 during the year.

Interest on Security and Other sources: Interest on tax exempt government securities Tk. 27,000; Interest on taxable government securities Tk. 20,000 (gross); Interest on debentures Tk. 48,000; All the above interest has been collected by a bank and the bank charge 5% as collection fees. Miss Fatema borrowed Tk. 100,000 @ 10% interest to finance investment in debentures. Remuneration received as consultant Tk. 45,000; Income from letting agricultural land Tk. 20,000; Dividend from a limited company Tk. 18,000; Sale of pond fish Tk. 8,000; and Income from minor Tk. 23,000.

You are required to compute the total income of Miss Fatema and the tax for the assessment year ended 2017-18 considering her allowable investment is Tk. 250,000 for the year.

Problem 18A – 15:

Mr. Asmit has been working in a private firm starting with a basic pay of Tk. 20,000 with 10% increase in every year which results a monthly salary of Tk. 27,500 in the month of June, 2017. The date of annual increment was 1st October. He is also entitled to a house rent allowance @ 60% of basic salary; profit bonus @ 1.5% of net profit of the firm; two festival bonuses each equal to a month's basic pay (both received after increment) and a full time car. Mr. Asmit contributed 10% of basic salary to RPF and his employer also contributes the same percentage in that fund. He received Tk. 110,000 as interest @ 14% from the RPF during the year. From his salary Tk. 2,500 has been deducted as advance income tax per month. During the year net profit of that firm was Tk. 7,500,000. Mr. Asmit is the owner of a two storied building at Baridhara, Dhaka and he let out the whole building at a monthly rent of Tk. 27,000. Besides all other maintenance expense he paid

municipal tax of Tk. 1,500 per quarter for that house. Mr. Asmit took a loan of Tk. 1,000,000 @ 14% from a bank by placing that house as collateral to meet the construction cost. During the year he paid installment of loan Tk. 54,720 (including interest of Tk. 4,800).

During the year Mr. Asmit visit Pakistan as a consultant and generated Tk. 200,000 and he paid income tax @ 25% in Pakistan as per DTA. From another visit to Russia he generated Tk. 300,000 and paid income tax @ 20%. Mr. Asmit has received Tk. 3,600 as interest from the savings account of his minor child and he has purchased shares of Tk. 200,000 of Public Limited Companies in the name of his wife from which his wife has received Tk. 54,000 as dividend. Ascertain total taxable income and tax liability for Mr. Asmit for the assessment year 2017 – 2018. Consider allowable investment for the year is Tk. 250,000 and his wife did not submit any return in her name.

Problem 18A – 16:

Ms. Tarana Halim has the following sources of income for the year ended on 30th June, 2017:

Income from Salary: Basic Salary (BS) Tk. 12,000 per month; Dearness allowance 20% of the BS; Two festival bonuses and one performance bonus each equivalent to one month's BS; Medical allowance Tk. 1,000 per month; Conveyance allowance Tk. 2,000 per month; Conveyance allowance Tk. 2,000 per month; House rent allowance 60% of the BS; She contributes 10% of his basic salary to an un-recognized Provident Fund. Her employer also contributes the same amount; during the year, her interest on the said provident fund @ 13% was Tk. 1,300; she has been rewarded with a travel allowance of Tk. 50,000 for travel to Maldives as recognition of her good performance. She spent Tk. 45,000 there. This allowance was not as a part of his regular contract.

Interest on Securities and House Properties: Value of 10% tax exempt govt. securities Tk. 30,000; Interest on taxable government securities Tk. 6,300; Interest on debentures Tk. 15,000; and Interest on Zero Coupon Bond Tk. 3,000. The bank has charged Tk. 4,000 to collect all the above interests. Moreover, she has borrowed Tk. 100,000 @ 10% to invest in the unapproved securities. She owns two houses in Mirpur. She uses one of the houses as his residence and another one has been let out for commercial purpose at a rate of Tk. 12,000 per month. The municipal values of both the houses are Tk. 100,000 and Tk. 120,000 per annum respectively. During the year, she has spent Tk. 15,000 for the house he uses as residence and the expenses for the let out house were: Repairs Tk. 6,000; Legal charges Tk. 4,000; Municipal tax Tk. 1,500; Land revenue Tk. 1,000; and Salary of the caretaker Tk. 10,000. During the year, the house remained vacant during June, 2013.

Agricultural income: Sale of crops Tk. 15,000; Income from lease of agricultural land Tk. 12,000; Income from sale of sugarcane Tk. 10,000; and Income from rubber garden Tk. 12,000. **Capital gain:** She purchased 750 shares worth Tk. 75,000 of a listed company in the income year 2015 -2016 and sold all in the same income year at Tk. 100,000. Moreover, she has sold a 3 Katha plot in Dhaka at Tk. 1,000,000 the cost of which is Tk. 600,000.

Income from other sources: Interest income from savings bank account Tk. 1,800; interest on post office savings bank account Tk. 900; dividend from a private limited company Tk. 1,800; sale of fish from pond Tk. 2,000; royalty from government Tk. 10,000; honorarium as a guest lecturer Tk. 25,000; and prize of National Heart Foundation Lottery Tk. 50,000.

Investment claimed by Ms. Tarana Halim: Payment of life insurance premium Tk. 12,000 (Policy value Tk. 100,000); Donated to a Mosque Tk. 500; Purchase of books Tk. 1,000; Purchase share of a co-operative society Tk. 2,000; Contribution to: NTV Relief Fund Tk. 3,000, one of his poor relative as Zakat Tk. 2,500 and Contribution to Ahsania Mission Cancer Hospital Tk. 20,000.

Based on the above information, calculate Ms. Tarana Halim's taxable income and tax liability for the assessment year 2017 – 2018.

Answers:

Multiple choice questions		True/False
1. c	6. b	1. F
2. d	7. d	2. T
3. c	8. d	3. T
4. c	9. d	4. F
5. d	10. a	5. F

Self review 18A – 1:

(a) Purchase of income tax book : will not be considered
(b) Share purchase from IPO : will be considered
(c) Contribution to old age fund : will be considered
(d) Purchase of land : will not be considered

Self review 18A –2:

(a) (i) (7,600 ÷ 95 × 100) = Tk. 8,000
(ii) (7,600 ÷ 80 × 100) = Tk. 9,500.
(b) (9,500 ÷ 90 × 100) = Tk. 10,000

CHAPTER – 18B
ASSESSMENT OF FIRMS

LEARNING OBJECTIVES

After studying Chapter 18B, you shall be able to understand:

- The concept of partnership and partner
- Special provisions regarding the assessment of a firm
- Procedure of assessment of a firm
- Procedure of assessment of a partner
- Set off and carry forward of losses of a firm
- Share of spouse or minor child in a firm
- Liability of a firm for unrecoverable tax due from partners
- Assessment under special cases

A partnership firm is not defined explicitly in IT Ordinance, 1984; rather the term 'Firm' is used to mean a partnership firm and is defined as "firm has the same meaning as assigned to it in the Partnership Act, 1932" [U/s 2(32)]. Thus, the term firm is used here unanimously to mean a partnership firm, which is further confirmed in section 2(44).

18B.1 PARTNERSHIP AND PARTNER

Partnership is the relationship among partners who run the business collectively to make and share profits. Thus, in business sense, 'partnership' and 'partners' are totally separable where partnership constitutes the business entity (artificial entity) and partners constitute the ownership (physical entity). A clear distinction is needed between partnership and partners whenever the question of assessment of a partnership firm comes because both partnership and partners are assessed for tax purposes separately. Partnership is assessed as a business entity and partners are assessed as individuals.

A partnership firm is not a legal entity like a corporation under the general law. But for the purpose of Income Tax a firm has an assessable entity. Thus in ITO, a firm has dual distinctive consideration. At one side, the income of partnership firm is calculated as it has been calculated in case of companies. Because, partnership firms do nothing but business and that is why, it has income under the head 'income from business or profession'. On the other side, firm is taxed at a rate applicable to an individual, as the status of a firm is not similar to that of a company.

18B.2 SPECIAL PROVISIONS REGARDING THE ASSESSMENT OF A FIRM

A firm as an assessee can go for assessment on correct return (U/s - 82), assessment after hearing (U/s- 83) or best judgment assessment (U/s - 84), as the case may be, for assessing its total income. Tax payable by the firm shall be determined on the basis of total income of the firm as assessed.

Whenever any determination is made in accordance with this section, the Deputy Commissioner of Taxes shall, by an order in writing, notify to the firm,

(a) The amount of tax payable by it, if any;

(b) The amount of the total income on which the determination has been based; and

(c) The apportionment of the amount of income between the several partners.

18B.3 PROCEDURE OF ASSESSMENT OF FIRM AND PARTNERS

Assessment of firm means computation of tax liability of a firm in any income year on the basis of total taxable income of the firm. Thus we have to compute the taxable total income of the firm first, on which tax will be levied at specified rate. Computation of total taxable income of a firm will require some additional considerations. We have to adjust the accounting profit to compute tax profit as conventional accounting principles and tax accounting principles differ substantially. To do this, we may go for the following procedures:

(1) At first, we have to start with the accounting profit as computed through partnership Profit and Loss Account.

(2) Then the profit so found should be adjusted in line with Sec. 28 (income), Sec. 29 (deductions) and Sec. 30 (deductions inadmissible) of ITO, 1984.

(3) The profit so computed will be distributed among the partners as per their respective profit and loss sharing ratio.

(4) The profit as calculated is taxable provided that the total income exceeds the exemption limit, i.e., Taka 250,000.

(5) The rates for individuals will also be applicable for a firm as follows:

Total Income Slabs		Applicable Rates
On first	Tk. 250,000	Nil
On next	Tk. 400,000	10%
On next	Tk. 500,000	15%
On next	Tk. 600,000	20%
On next	Tk. 3,000,000	25%
On balance		30%

However, every firm having gross receipts of more than Tk. 5,000,000, will be liable to pay minimum tax of an assessment year at the following rates (U/S 82C(4)):

Classes of Assessee	Rate of Minimum Tax
Manufacturer of cigarette, bidi, chewing tobacco, smokeless tobacco or any other tobacco products	1% of the gross receipts
Mobile phone operator	0.75% of the gross receipts
Any other cases	0.60% of the gross receipts
Industrial undertaking engaged in manufacturing of goods for the first three income years since commencement of its commercial production.	0.10% of the gross receipts

However, if the firm is subject to tax deducted at sources U/S 82C(2), minimum tax should be the higher one between tax computed U/S 82C(2) and U/S 82C(4).

SELF REVIEW 18B – 1

The tax rate for a firm and an individual is same. Do you agree or not?

(6) The firm may also claim tax rebate @ 15% on allowable investments as individuals.

(7) Partners' taxable income will be a total of salary, interest, commission etc from the firm and share of profit or loss as computed in step 3. The total income will be taxed at the individual tax rates. Income from firm is to be considered as tax free income

because tax on this part is already paid by the firm, and partners will get rebate at average rate on their partnership income from tax so computed. They may also claim rebate for qualifying amount of investment allowance, if any, in normal way.

Note: Firms may not be required to pay tax due to income less than Taka 250,000 or carry forward and set off of previous year's losses. In such a situation, partners will pay tax in a normal way but cannot claim any rebate on profit received from firm, as firm has not paid taxes on such profit.

18B.4 SET OFF AND CARRY FORWARD OF FIRM'S LOSSES

(1) In case of losses sustained by a firm under any head of income shall be set off only against the income of the firm under any other head and not against the income of any of the partners of the firm [U/s 42(3)(a)].

(2) Any loss from business can be carried forward for setting of against such income, if any, for 6 consecutive years (U/s - 38).

(3) If there is any loss from any speculation business, it should be set off in the same year against income from other speculative businesses and if there is no other such business, it can be carried forward for six consecutive years to set off only against the income from such speculative business (U/s - 39).

(4) If there is any loss under the head 'capital gain' can be carried forward for six consecutive years if the loss exceeds Taka 5,000 for setting off against income from capital gains only so much of such loss as exceeds Taka 5,000 (U/s - 40).

(5) Any loss under the head 'agricultural income' can also be carried forward for setting off against income from this head for 6 consecutive years [U/s – 41].

(6) In case of changes in constitution of a firm, the proportionate loss of a retired or deceased partner cannot be carried forward by the firm [U/s – 42(5)(a)].

18B.5 SHARE OF SPOUSE OR MINOR CHILD IN A FIRM AND ASSETS TRANSFERRED

If the spouse or minor child holds share in a partnership firm where the assessee is also a partner then the income of the spouse or minor child will be assessed along with the assessee. But if they are partners of different firms, they should be assessed separately. Even when husband and wife become partners in a professional firm like accounting, law or medicine, they should be assessed separately. In such a situation where both husband and wife are assessed separately, it may be a problem if they have a minor child who is also a partner. The tax law is silent regarding this issue and so the income of a minor child may be assessed with the income of the husband or the wife. But, it would be better if the income of a minor child is assessed with the income of either husband or wife whose taxable income is less to be in line with the cannons of equity and transparency. In computing the total taxable income of any partner in such situations, followings will be included:

18B.5.1 Income of the spouse or minor child arising directly or indirectly from:

(a) Membership of the spouse in a firm where the assessee is a partner;

(b) Admission of the minor child to the benefits of partnership in a firm where the assessee is a partner;

(c) Assets transferred directly/indirectly by an assessee to the spouse other than as gift or for adequate consideration or in connection with an agreement to live apart; Or

(d) Assets transferred directly or indirectly by an assessee to a minor child, not being a married daughter, other than by way of gift or for adequate consideration; and

18B.5.2 Income of any person or association of persons arising from assets transferred by an assessee to the spouse or minor child or both for the benefit of the spouse or minor child or both other than by way of gift or for adequate consideration.

18B.6 COMPUTATION OF PARTNERS' SHARE IN THE FIRM'S PROFIT OR LOSS

To compute partners' share in the firm's profit or loss, we need to adjust any interest, salary, commission or any other payment made to partners in any other mode. Then the balance will be distributed among the partners as per the respective profit and loss sharing ratio. So the share of a partner in a firm will be taken to be any salary, interest, commission or other remuneration payable to him by the firm in the income year increased or decreased respectively by his share in the balance of the profit or loss of the firm. If the partners have their individual income with the shared income from the firm, such shared income should be added with other individual income to compute the partners' total taxable income. If the firm has already been taxed, partners will not pay tax on such shared income (Para 16, Part B, 6th Schedule). But, this addition of shared income with other income may enhance the rate of tax for such other income or may bring the partners within the ambit of taxation where such partners' individual income was below the taxable limit.

SELF REVIEW 18B – 2

If a firm pays Tk. 10,000 to a partner as rent for using his house property, which one will be true? – **(a)** Rent will not be an allowable expense **(b)** Rent will be an allowable expense with no other effect **(c)** Rent will be an allowable expense for the firm but for the partner, it will be an income from house property.

18B.7 LIABILITY OF A FIRM FOR UNRECOVERABLE TAX DUE FROM PARTNERS (U/S - 98)

Where any tax payable by partner of a firm in respect of his share of the income from the firm cannot be recovered from him, the DCT shall notify such amount of the tax to the firm. Upon notification, the firm so notified shall be liable to pay the said tax and, for the purposes of recovery thereof, shall be deemed to be an assessee in respect of such tax.

18B.8 ASSESSMENT OF FIRMS IN SPECIAL CASES

The assessment of a firm in special cases like changes in constitution, succession, dissolution etc. will have some more issues to be taken into consideration. More often, there may be a change in the composition (how many members a firm have) of a firm through admission or retirement of partner(s). A partnership firm may be reconstituted under different circumstances also. These situations are figured on the next page:

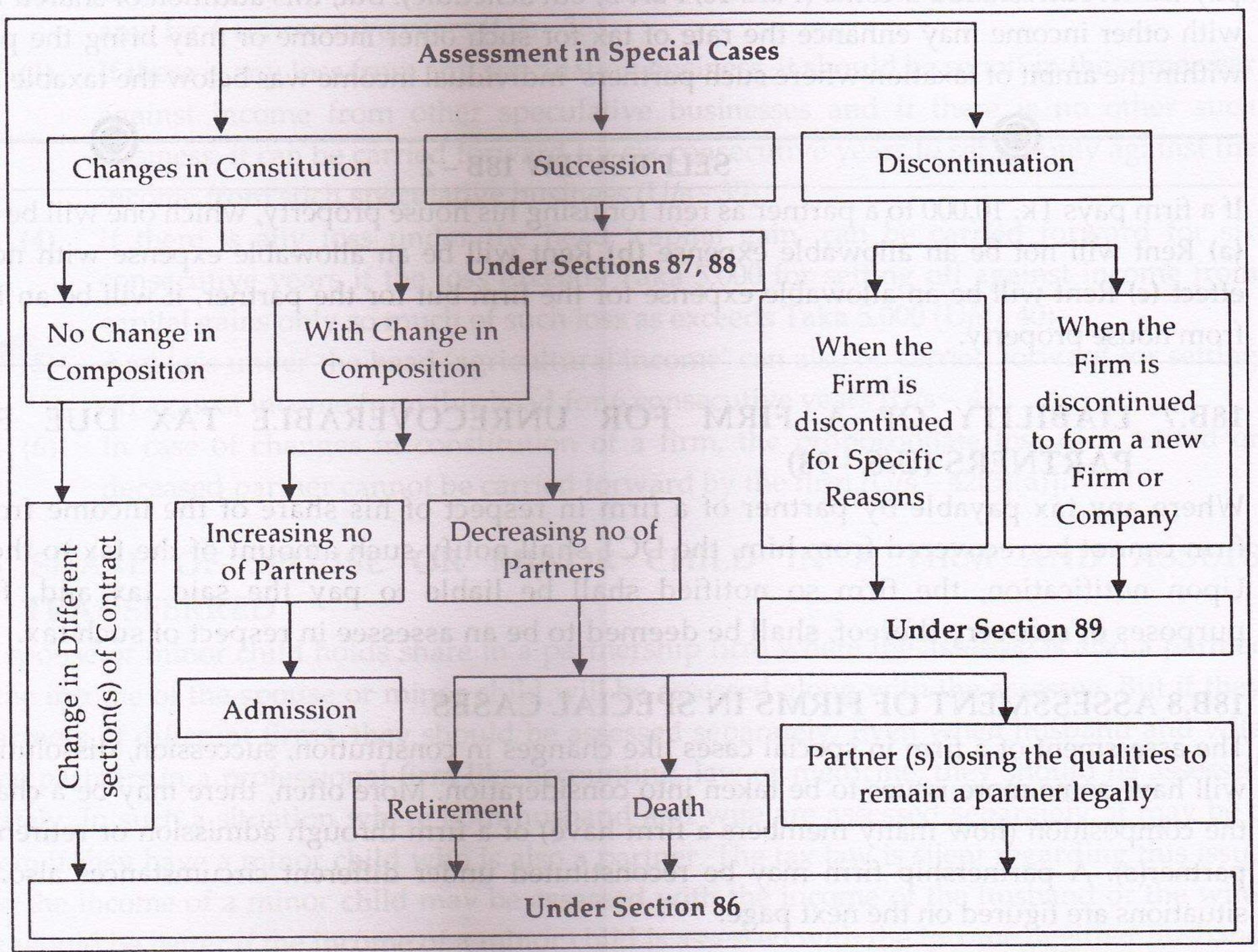
18B.8.1 Changes in Constitution:

18B.8.1.1 Assessment in case of change in the constitution of a firm (U/s - 86): There is a change in the constitution of a firm under this section

1. Where all the existing partners or some of them continue with a change in their respective profit and loss sharing ratios; or
2. Where one or more persons who were partners, continue to be so with a change by cessation of one or more partners or addition of one or more new partners.

If at the time of assessment it is found that a change has occurred in the constitution of the firm as defined above, the assessment of the firm shall be made in normal way as if there is no change in the constitution of the firm. The words "at the time of assessment" mean in

the course of the process of assessment and do not refer merely to the act of making an assessment order – *Maharajadhiraj of Darbhanga Vs. C.I.T. 1934 I.T.R. 345 (P.C.)*. Thus where a notice calling for a return has been issued to any person, the process of assessment has begun and continues until an order of assessment is made. And if a change in the partnership composition occurs at any time before the assessment is made this section would apply. But this section would have no application to a case where the change occurs after the assessment of the firm is completed – *In re Chimanlal Lalbhai 1944 I.T.R. 199*. The taxable income of the firm will not be affected due to such changes rather the section is used to find out the partners upon whom the tax liability should be imposed – *Indian Iron & Steel Co. Ltd. Vs. C.I.T. 1943 I.T.R. 328, 337 (P.C.)*. The partners will share the income of the firm as per the changes in the constitution and if the tax assessed upon a partner cannot be recovered from him, it shall be recovered from the firm as constituted at the time of making the assessment.



18B.8.2 Succession: The simplest case of succession is the transfer by one trader to another of the business along with the goodwill, i. e.,

- the right to that benefit which arises from connection and reputation – *Thomson & Balfour Vs. Le Page 8 T.C. 541.548.*
- Succession may be by transfer inter vivos, or by inheritance or devolution on the death of the owner – *Dubash's Executors Vs. C.I.T. [1951] 19 I.T.R. 182 (S.C. of India)*, or
- by acquisition where the whole property and undertaking of the trader vests in the Government – *Bramford's Road Transport Ltd. Vs. Exans 35 T.C. 145.*
- Thus, where there is a change of ownership it is a case of succession and not discontinuance – *I.T. Appellate Tribunal Vs. Bachraj Nathani 1946 I.T.R. 191. 203.*

Case Reference: ***Ghella Dayal Vs. C.I.T. 1945 I.T.R. 133.138.***

A firm of 3 partners carrying on business in piece of goods was started in 1932. On Oct 30 1939 one of the partners died. On Nov 12 1939 a new firm was formed by the two surviving partners with three more new partners and the shares of the five partners were reshuffled. The new firm carried on the same business in the same premise under the old trade name with separate set of account books and the management of the business before and after the change remains identical. There were several outstanding contracts of the old firm. The assets and liabilities of the old firm were taken over by the new firm after some months. During the relevant accounting year, the net profit of the old firm was Rs. 56,000 and that of the new firm was Rs. 10,500. In assessing the new firm the I.T.O. held that both the profits were the profits of new firm in as much as the business of the old firm was continued by the new firm and there was no more than the change in the constitution of the firm. The Appellate Tribunal agreed with the decision of the I.T.O. and the new firm was rightly assessed to income tax and the partners were liable in respect of the share to which they were individually entitled. If the tax assessed upon any partner cannot be recovered from him, it must be recovered from the firm as constituted at the time of making the assessment.

18B.8.2.1 Requisites of Succession: The requisites of succession are as follows:

(a) There should be a change of ownership;

(b) The integrity of the business should remain same;

(c) The identity and continuity of the business should be substantially preserved.

⇒ **Change in ownership:** For being a succession taken place, there should be a valid transfer of ownership. In a case where there is no transfer of ownership, e.g. where a receiver is appointed, there is no succession *(I.R. Vs, Thompson 20 T.C. 422)*. If there is only an agreement to transfer, it would not be regarded as involving a succession.

⇒ **Integrity of business:** Succession necessarily implies devolution of the business as a whole. There can be no succession unless the business retains its integrity despite the change of ownership. Where a business is split up and another person carried on part of the business, he doesn't succeed his predecessor in carrying on the business. If there is substantial identity and similarity in the nature and extent of the activities carried on between the two firms, and if the major portion of the liabilities and assets have been taken over by the new firm from the old partnership, there is a succession *(Kaniram Ganpatrai Vs. C.I.T. [1953] 23 I.T.R. 314.322)*.

⇒ **Identity and continuity of the business:** Succession occurs only where the same business is carried on by a different person. There is no succession where a business terminates and a different though similar business is carried on by another person or by a newly constituted firm *(Industrial Development & Investments Co. Ltd. Vs. C.E.P.T. [1957] 31 I.T.R. 688)*. Where there is no continuity in carrying on the business and when one business has come to an end and after a time another business is started, it may be with the same assets & under the same conditions & in the same premises as the old business, the persons carrying on the new business do not succeed those who had carried on the old business.

SELF REVIEW 18B – 3

For a succession in operation, which of the following conditions should be fulfilled? – **(a)** Transfer of ownership **(b)** Similar line of business **(c)** Both.

18B.8.2.2 Assessment in case of constitution of new successor firm (U/s - 87): Sometimes one firm (predecessor) terminates and another new firm (successor) forms where also a change in constitution required. Where, at the time of assessment of a firm, it is found that

a new firm has been constituted to succeed the firm to which the assessment relates the predecessor firm and the successor firm should be assessed separately in accordance with the provisions of section 88 that relates to assessment in case of succession.

18B.8.2.3 Assessment in case of succession to business otherwise than on death (U/s - 88): In a specific income year, if a person has been succeeded therein otherwise than on death by another person and if he continues to carry on that business or profession, then the total income year will be apportioned between the predecessor and successor as follows:

(a) The predecessor shall be assessed, in respect of the income of that income year in which the succession took place, for the period up to the date of succession, and

(b) The successor shall be assessed, in respect of the income of the income year, for the period after the date of succession.

If the predecessor is not found, the assessment up to the date of succession and of the income year or years preceding that year shall be made on the successor in the like manner and to the same extent as it would have been made on the predecessor. Even if the predecessor is found but the sum cannot be recovered from him, the DCT shall record a finding to that effect, and thereafter the sum payable by the predecessor shall be payable by, and recoverable from, the successor who shall be entitled to recover it from the predecessor. However, the successor cannot claim to carry forward and set off the losses incurred by his predecessor. Nor can the predecessor carry forward, because such carry forward right is conditional upon the continuance of business in which the loss was incurred. *Indian Iron Steel Co. Ltd. Vs. I.T.R. 328, 337.*

18B.8.3 Discontinuation

The words 'discontinued' and 'discontinuance' do not cover mere change of ownership or a change in the constitution of the firm, but refer to a complete cessation of business *(Meyyappa Chettiar Vs. C.I.T. 1943 I.T.R. 243).* Even if a company passes a resolution that it will undertake no further business, the Department may hold that the resolution is colourable & the company has not discontinued its business *(Gladstone Development Co. Ltd.Vs. Strick 30 T.C. 131).*

Assessment in case of discontinuation of a Firm (U/s - 89): Where any firm is discontinued in any financial year, assessment may be made in that year on the basis of the total income of the period between the end of the income year and the date of such discontinuance in addition to the regular assessment, if any, made on the basis of the income year [U/s – 89(1)]. The DCT should be notified regarding such discontinuance within fifteen days thereof; and such notice shall be accompanied by a return of total income in respect of the period between the end of the income year and the date of such discontinuance and that financial year will be the assessment year in respect of the income of the said period [U/s – 89(2)].

Where a person fails to give the notice of such discontinuance the DCT may direct that a sum shall be recovered from him by way of penalty not exceeding the amount of tax subsequently assessed on him in respect of any income from the business or profession up to the date of its discontinuance [U/s – 89(3)]. The DCT may serve a notice for maximum 7 days to the partner(s) to furnish a return of total income along with such other particulars, records and documents as may be specified in the notice [U/s – 89(4)]. The notice as served here for assessment of a discontinued firm under section 89(4) will be treated as a notice served under section 77 - Notice for filing return [U/s – 89(5)].

SPECIMEN FORM OF COMPUTATION OF TAXABLE INCOME OF A FIRM

Assessee:
Assessment Year: 2017 – 2018
Income Year: 2016 – 2017

	Taka
Net Income / Loss as per Profit and Loss Account	XX
Add: Distribution to the owners in terms of interest, salary, commission etc.	XX
Add: Other non-admissible expenses already debited into the P/L Acc, e.g., drawings, interest on drawings, capitalized expenditure etc.	XX
Add: Other non-admissible expenses as per section 30 and expenses that has maximum slabs, e.g., entertainment expense, perquisites, free sample etc.	XX
Add: Expenses charged at a different rate (depreciation expense)	XX
Less: Admissible expenses as per the rates mentioned in ITO	(XX)
Less: Income from other sources already credited in P/L Acc	(XX)
Add: Income from business or profession but not credited in P/L acc	XX
Less: Expenses that has maximum slabs as per different Rules	(XX)
Less: 50% income of export business	(XX)
Less: loss carried forward from previous year	(XX)
Taxable Income of the Firm from Business or Profession	XX
Add: Non-Business income of the Firm, say	
a) Interest on Securities	XX
b) Income from House Property	XX
c) Capital gains	XX
d) Income from Other Sources	XX
Total Taxable income of the Firm	XX

SPECIMEN FORM FOR ALLOCATION OF INCOME OF THE FIRM
(Assuming 2 partners, A & B by name)

	A	B	Total Taka
Income of Partners received from the firm:			
(a) Salary	XX	XX	XX
(b) Interest on Capital	XX	XX	XX
(c) Interest on Loan	XX	XX	XX
(d) Commission	XX	XX	XX
(e) Other receipts as per the constitution	XX	XX	XX
(f) Interest on Drawings (expense for the partner)	(XX)	(XX)	(XX)
(g) Share of Profit or	XX	XX	XX
(h) Share of Loss	(XX)	(XX)	(XX)
Total Income of Partners from the firm	XX	XX	XX

SPECIMEN FORM FOR COMPUTATION OF TAXABLE INCOME OF PARTNERS
(Assuming 2 partners, A & B by name)

	A	B
Income from the firm	XX	XX
Income from other different heads (U/s - 20)	XX	XX
Total Taxable Income of Partners	XX	XX

Illustration 18B – 1:

Mr. X, Mr. Y and Mr. Z are the three equal partners of XYZ & Associates. The profit and loss account for the year ended on June 30, 2017 was given below:

XYZ & Associates

Profit and Loss Account

For the year ended on June 30, 2017

	Tk.		Tk.
Rent	36,000	Gross Profit	400,000
Utilities	22,000		
Commissions	54,000		
Advertisements	12,000		
Interest on Capital:			
X – 8,000; Y – 7,000; Z – 5,000	20,000		
Salaries: X – 26,000; Y – 24,000	50,000		
Net Profit	206,000		
	400,000		**400,000**

Other Information: Rent includes Tk. 12,000 paid to Mr. X who partially owns the business premises; Tk. 15,000 of commission is given to Mr. Z for his special assignment; and partners have income from different sources as follows:

	Mr. X	Mr. Y	Mr. Z
Income from House Property	60,000	-	40,000
Income from Interest on Securities	50,000	80,000	-
Agricultural Income	-	-	50,000
Income from other sources (Dividend)	25,000	25,000	25,000

Required: **(1)** Compute the taxable income of the firm, **(2)** Compute the amount of tax liability of the firm, **(3)** Show the amount of distribution to the partners, **(4)** Compute the amount of taxable income of the partners and **(5)** Compute the amount of net tax liability of the partners.

Solution 18B – 1:

Requirement 1: Taxable income of the firm

	Tk.	Tk.
Net Profit as per Profit and Loss A/C		206,000
ADD: Distribution to the Owners:		
Interest on Capital:		
Mr. X – 8,000		
Mr. Y – 7,000		
Mr. Z – 5,000	20,000	
Salaries:		
Mr. X – 26,000		
Mr. Y – 24,000	50,000	
Commission:		
Mr. Z –	15,000	85,000
Total Taxable Income of the Firm		**291,000**

Requirement 2: Tax liability of the firm

		Tax Rate	Tk.
On First Tk.	250,000	0%	Nil
On Next Tk.	41,000	10%	4,100
On Total Tk.	291,000		4,100

Requirement 3: Distribution to the Partners

	Partners			Total	Amount left to be Distributed
	Mr. X	Mr. Y	Mr. Z		
Amounts to be distributed					291,000
Interest on Capital	8,000	7,000	5,000	20,000	271,000
Salaries	26,000	24,000	-	50,000	221,000
Commission	-	-	15,000	15,000	206,000
Profit (1:1:1 ratio)	68,666	68,667	68,667	206,000	
Total amount allocated	**102,666**	**99,667**	**88,667**	**291,000**	

Requirement 4: Taxable income of the Partners

	Mr. X	Mr. Y	Mr. Z
1. Income from Interest on Securities	50,000	80,000	-
2. Income from House Property (less cost of repairs and maintenance @ 25%)	45,000	-	30,000
3. Agricultural Income (less cost of cultivation @ 60%)	-	-	20,000
4. Income from Firm	102,666	99,667	88,667
5. Income from Other Sources - Dividends	25,000	25,000	25,000
Total Taxable Income	**222,666**	**204,667**	**163,667**

Requirement 5: Net tax liability of the partners

Partners are not required to pay any tax as their income does not exceed tax exemption limit. However, minimum tax requirement of the firm is not shown due to the amount of gross receipt of the firm is unknown.

Illustration 18B – 2:

A, B & C are partners sharing profits and losses in a ratio of 2:2:1. The particulars of income for the year ended 30th June 2017 are as under:

(a) House Properties: The firm owns a building consisting of three floors of identical specification, two of which are used for the firm's business and one is let out at a rent of Tk. 10,000 per month. The firm has earned Tk. 30,000 by putting up a display of an advertisement hoarding of a multinational company on the roof of the building during the year.

(b) Business in Cotton Textiles: The trading accounting for the year was as under:

Debit	Taka	Credit	Taka
Opening Stock	500,000	Sales	5,400,000
Purchases	4,500,000	Closing Stock	600,000
Gross Profit	1,000,000		
	6,000,000		**6,000,000**

The closing stock has been uniformly valued at 12.50% under cost. Depreciation and other expenses debited to profit and loss account amount to Tk. 400,000 which included among other

things, following items: **(1)** Repairs to Building: Let –out portion Tk. 8,000 and Portion used for business Tk. 12,000. **(2)** Municipal Taxes Tk. 23,000 (Total municipal taxes for the year were Tk. 27,000 of which the tenant paid Tk. 4,000.) **(3)** Annual contribution to Cotton Dealers Association, a trade association Tk. 2,000. **(4)** Contribution to Prime Minister's Relief Fund Tk. 5,000. **(5)** Salaries to the partners: A – Tk. 24,000; B – Tk. 48,000 and C – Tk. 72,000. **(6)** Interest paid on a loan of Tk. 500,000 taken for installing computer accounting system in the firm's premises (The computer and peripherals were duly installed during the period) Tk.. 75,000. **(7)** It was claimed that Tk. 10,000 credited in the profit and loss account should be deducted as representing receipt of capital nature. It was stated that the amount has been received from a textile mill as damages for failure to deliver goods as per contract. **(8)** Loss on speculative transactions Tk. 150,000. A had no other sources of income but B and C were also partners in another firm with D as the third partner. The shares of B, C & D for the year ended 30th June 2017 were as under:

Partners	Salary	Interest	Profit/ (Loss)	Total
B	-	-	(50,000)	(50,000)
C	-	-	(50,000)	(50,000)
D	60,000	20,000	(50,000)	30,000

B has also income from a house property at London amounting to Tk. 600,000 (after deduction of 25% tax at source). C has other personal income of Tk. 50,000.

Required: (a) Compute tax to be paid by the firm in which A, B and C are partners and total taxable income in the hands of those partners from all sources. **(b)** State the principles governing the basis of taxability of total income of A, B & C.

[ICAB Adapted]

Solution 18B – 2:

Requirement – (a): Computation of total taxable income of the firm:

	Taka	Taka	Taka
(1) Income from house property (U/s - 24):			
Annual Value: Actual rent (12 months @ Tk.. 10,000)	120,000		
ADD: municipal tax paid by the tenants	4,000		
	124,000		
And: Corporation valuation	nil		
Whichever is higher		124,000	
Less: repairs and maintenance (25% of annual value, assuming that proper books have not been maintained)	31,000		
Less: municipal tax for let-out portion (1/3 ÷ 27,000)	9,000		
Taxable income from House Property		40,000	84,000
(2) Income from Business (U/s - 28):			
Gross Profit as per Trading Account		1,000,000	
ADD: Understatement of Closing Stock		14,285	
(Tk.. 100,000 ÷ 0.875 × 0.125)		1,014,285	
Less: Depreciation and other expenses		400,000	
		614,285	
Add: Expenses inadmissible			
Repairs – let out portion	8,000		
Municipal taxes (23,000 – 2/3 of 27,000)	5,000		

Salaries to partners	144,000	
Loss on speculative transactions	150,000	
Taxable income from Business	307,000	921,285
(3) Income from other sources (U/s - 33):		
From display of advertisement		30,000
Total Taxable income of the Firm		**1,035,285**

Computation of Investment Allowance: Actual allowable investment is contribution to Prime Minister's Relief Fund by Tk. 5,000 and the maximum limit of investment is, 30% of total taxable income, i.e., 30% of 1,035,285 = Tk.. 310,586 or, Tk. 15,000,000 whichever is less.

Computation of Tax Liability of the Firm:

	Tax Rate	Tk.
On First Tk. 250,000	0%	Nil
On Next Tk. 400,000	10%	40,000
On Next Tk. 385,285	15%	57,793
On Total Tk.1,035,285		97,793
Less: Rebate on investment allowance (15% of Tk. 5,000)		750
Net tax liability		**97,043**

Minimum Tax: It is not possible to compute the minimum tax for the firm as gross receipt of the firm is unknown.

Allocation of Profit to Partners (A, B & C)

	Partners			Total	Amount left
	A	B	C		
Amounts to be distributed					1,035,285
Salaries	24,000	48,000	72,000	144,000	891,285
Profit (2:2:1 ratio)	356,514	356,514	178,257	891,285	
Total amount allocated	**380,514**	**404,514**	**250,257**	**1,035,285**	

Total Taxable Income in the hands of the Partners:

	A	B	C
1. Income from Firm (A, B & C)	380,514	404,514	250,257
2. Income from Firm (B, C & D) – set off	-	(50,000)	(50,000)
3. Income from Other Sources	-	-	50,000
Total Taxable Income	**380,514**	**354,514**	**250,257**

Tax Liability of Partners: Partner A: As A has no other income except income from the firm, A's tax liability will be the minimum tax of Tk. 5,000. Because A will get rebate on his share of income from firm on which tax has been given by the firm. **Partner B:** B's income has been reduced by setting of loss from another firm where he is also a partner. But, he cannot claim any refund here. Refund cannot be claimed on tax given by the firm. **Partner C:** C will get rebate of his total tax as the firm has already given tax on the same amount. But, C will have to pay tax limited to the minimum amount like another partner A.

Requirement – (b): If a partner receives income as his share of profit from a partnership firm over which firm has already given taxes, partners will receive rebate on average rate. As A has no other

income, he will receive rebate to the fullest amount of tax liability that results tax liability equals to zero. But, as assessment is made in his name, he has to pay the minimum amount of tax. The case of C is same whose taxable income is also equal to share of profit from firm. But, B's situation is different in the sense that his share of profit has been reduced due to set off of share of losses from another firm where B is also a partner. B cannot claim any refund for the amount of tax given by firm. The governing principle is that an amount of same income should not be taxed twice, once in the hand of the firm and again in the hand of the partners. So, firm will pay tax on usual rate and partners will get rebate on average rate.

Notes: (1) Loss on speculative transactions can be set off against gain from such other speculative transactions, if any, or can be carried forward to set off against gain from such speculative business for six consecutive years. But, it cannot be charged against profit as expense. **(2)** Accounting depreciation and tax depreciation is assumed to be same as no such information is given. **(3)** As closing stock is always understated, the impact is shown on the differential figure of opening and closing stock, i. e., on Tk. 100,000. **(4)** B's income from house property arising in London has been excluded as an application of Article 6 (immovable property and income there from immovable property) of the Double Taxation Avoidance Agreement between Bangladesh and U.K.

Illustration 18B – 3:

Meem Enterprise is a firm comprising of two equal partners named Meem and Noon. During the year ended on June 30, 2017, the partners besides their shares in the firm enjoyed income and substantial losses from the sources given below:

Meem: Profit on trading in immovable property Tk. 50,000; Income accrued in Pakistan from partnership but not remitted to Bangladesh Tk. 75,000; Share of loss from an Association of Persons (AOP) Tk. 15,000 and Gift tax paid Tk. 25,000. **Noon:** Speculation loss Tk. 40,000; Profit on sale of car Tk. 50,000; Income from betting Tk. 5,000 and Income tax refund Tk. 10,000. The profit and loss account of the firm for the year ended June 30, 2017 showed the following position:

Expenditure	Taka	Income	Taka
Salaries: Staff	48,000	Gross profit b/d	205,000
Meem	15,000	Share premium	10,000
Noon	12,000		
Office Contingencies	4,000		
Repairs	23,000		
Doubtful Debts	4,000		
Income tax paid for the last year	5,000		
Legal expenses	5,000		
Commission to Meem	3,000		
Premium on the policies of partners	5,000		
Depreciation	11,000		
Net Profit: Meem 40,000 Noon 40,000	80,000		
	215,000		**215,000**

Included in repairs are Tk. 10,000 on account of cost of typewriter to be depreciated @ 10% p.a. as per taxation law; legal expenses are inclusive of Tk. 2,000 being the fine imposed by Custom Authorities for banned items; office contingencies include Tk. 2,000 spent as commission for investment in shares and depreciation admissible excluding on Typewriter is Tk. 8,000. Calculate taxable income and taxes payable by firm & complete the income taxable in the hands of partners.

(ICAB adapted)

Solution 18B – 3:

Meem Enterprises
Assessment year 2017 – 2018; Income year 2016 – 2017

	Taka	Taka
Net profit as per accounts		80,000
Add: Depreciation (considered separately)		11,000
		91,000
Add: Inadmissible expenses		
Salaries to partners (Meem + Noon)	27,000	
Doubtful debt	4,000	
Income tax paid for the last year	5,000	
Commission to Meem	3,000	
Premium on the policies of partners	5,000	
Repairs – cost of typewriter	10,000	
Legal expenses – fine imposed by custom	2,000	
Office contingencies – commission for investment in shares	2,000	58,000
		149,000
Less: Tax Depreciation (Tk.. 8,000 + 10% on Tk. 10,000 cost of typewriter)		9,000
		140,000
Less: Share Premium		10,000
Taxable income of the firm		**130,000**

Allocation of Profit to Partners

Particulars	Partners		Total	Amount left to be Distributed
	Meem	Noon		
Amounts to be distributed				130,000
Commission	3,000	-	3,000	127,000
Salaries	15,000	12,000	27,000	100,000
Insurance Premium	2,500	2,500	5,000	95,000
Profit (allocated on 1:1 ratio)	47,500	47,500	95,000	
Total amount allocated	**68,000**	**62,000**	**130,000**	

Income Slabs	Tax Rate	Tk.
On First Tk. 130,000 (Up to 250,000)	0%	Nil
On total Tk. 130,000		Nil

Minimum Tax: for the firm cannot be calculated as gross receipt of the firm is unknown.

Taxable income of Partners:

Meem:

Share of income from Firm	Taka	68,000
Foreign income – income accrued in Pakistan		75,000
Income from other sources – profit in trading of immovable property		50,000
Total taxable income		193,000
Less: set off losses from Association of Persons (AOP)		(15,000)
Taxable Income		**178,000**

Noon:		
Share of income from Firm	Taka	62,000
Taxable Income		62,000

Noon's taxable limit is less than Tk. 250,000 and so he will not pay any tax. For the same reason income tax refund of Tk. 10,000 will be unadjusted.

Notes: (1) Speculative loss can only be set off against gain from other speculative business. Noon has speculation loss of Tk. 40,000 and income from betting of TK. 5,000. After setting off Tk. 5,000 Noon still has Tk. 35,000 as loss from speculation business that will be carried forward for 6 successive years to be set off against gain from speculative business, if any. **(2)** Profit on sale of car is a personal income that is not taxable. It has been assumed that the car was used for personal purposes.

Illustration 18B – 4:

A, B and C are partners in a firm sharing profit & loss in the ratio of 2:2:1. The firm showed income of Tk. 200,000 as at 30-06-2017. Examination of the books of accounts of the firm revealed the following facts: **(a)** A, B, C were paid salary at Tk. 36,000, Tk. 45,000 and Tk. 48,000 respectively **(b)** A and C were paid interest at Tk. 40,000 and Tk. 50,000 respectively for the money borrowed from them **(c)** Commission on sale of goods paid to partner B Tk. 30,000 **(d)** Factory rent Tk. 1,50,000 paid to partner A **(e)** Office rent Tk. 60,000 paid to partner B **(f)** Penalty Tk. 55,000 paid for violation of customs law **(g)** Donation made to Aga Khan Foundation Tk. 50,000 **(h)** Advance tax paid Tk. 35,000 **(i)** Partners drawings were: A - Tk. 50,000; B - Tk. 45,000; C - Tk. 40,000.

Required: Compute total income of the firm and total income of each partner

(CMA Adapted)

Solution 18B – 4:

Total Income of the Firm
A, B & C Partnership
Assessment year: 2017 – 2018; Income year: 2016 – 2017

	Taka	Taka
Net profit as per accounts		200,000
Add: Inadmissible expenses		
Salaries to Partners A: 36,000; B: 45,000; C: 48,000	129,000	
Interest on loan to Partners A: 40,000; C: 50,000	90,000	
Commission to B	30,000	
Penalty for violating Custom Law	55,000	
Advance Tax Paid	35,000	
Drawings of Partners A: 50,000; B: 45,000; C: 40,000	135,000	474,000
Taxable income of the firm		**674,000**

Requirement: Total Income of Each Partner:

Particulars	Partners			Total	Amount left to be Distributed
	A	B	C		
Amounts to be distributed					674,000
Salaries	36,000	45,000	48,000	129,000	545,000
Interest	40,000	-	50,000	90,000	455,000
Commission	-	30,000	-	30,000	425,000
Profit (on 2:2:1 ratio)	170,000	170,000	85,000	425,000	-
Total amount allocated	**246,000**	**245,000**	**183,000**	**674,000**	

Illustration 18B – 5:

M/s Skylark and Co. is a partnership firm. Mr. Tom, Mr. Toy and Mr. Dick are three equal shared partners of the firm. The firm filed return of income showing net profit at Tk. 1,550,000 for the assessment year 2017-2018. Examination of the books of accounts revealed the following facts: (a) Salary includes payment of Tk. 250000 to Mr. Dick, Tk. 100,000 to Mr. Tom and Tk. 80,000 to Mr. Toy (b) Rent includes payments for office rent to Mr. Toy Tk. 120,000 and godown rent to Mr. Tom Tk. 60,000 (c) Misc expenses includes payments for Brokerage Tk. 30,000 to Dick; Tk. 36,000 paid to Mr. Kalu who is working as night guard at the residence of Mr. Toy; Tk. 24,000 paid as salary to Miss keya who is working as maid servant at the residence of Dick; Tk. 90,000 paid to Tom for using his mechanized boat in the shipment of goods and Tk. 65,000 paid as interest for the amount of money borrowed from Toy. (d) The factory building of M/s skylark was constructed by M/s Bay and Co. the firm paid Tk. 1,700,000 to M/s bay & co without deduction of any taxes. (e) During the year under consideration the firm imported spices and fruits. Tk. 120,000 was deducted as AIT by the custom authority at the import stage. No income from the import business was shown in the statements of accounts filed with the return. This is the 1st year of assessment. The firm paid no advance taxes as per provisions of sec-68.

From the above information compute the total income of the firm, total income of the partners, tax payable by the firm and simple interest if any payable.

Solution 18B – 5:

Total Income of the Firm
M/s Skylark and Co.
Assessment year 2017 – 2018; Income year 2016 – 2017

	Taka	Taka	Taka
Net profit as per accounts			1,550,000
Add: Inadmissible expenses			
Salaries to Partners: Dick	250,000		
Tom	100,000		
Toy	80,000	430,000	
Interest on loan to Toy		65,000	
Brokerage to Dick		30,000	
Advance Tax Paid		120,000	
Drawings of Partners: Dick	24,000		
Toy	36,000	60,000	705,000
Taxable income of the firm			**2,255,000**

Requirement: Total Income of Each Partner:

	Partners			Total	Amount left
	Dick	Tom	Toy		
Amounts to be distributed					2,255,000
Salaries	250,000	100,000	80,000	430,000	1,825,000
Interest		-	65,000	65,000	1,760,000
Brokerage	30,000		-	30,000	1,730,000
Profit (on 1:1:1 ratio)	576,666	576,667	576,667	1,730,000	-
Total amount allocated	**856,666**	**676,667**	**721,667**	**2,255,000**	

Requirement: Tax Payable by the Firm:

Income Slabs	Tax Rate	Tk.
On First Tk. 250,000	0%	Nil
On Next Tk. 400,000	10%	40,000
On Next Tk. 500,000	15%	75,000
On Next Tk. 600,000	20%	120,000
On Next Tk. 505,000	25%	126,250
On Total Tk. 2,255,000		361,250

Simple Interest: As per section 73, the firm has to pay interest on TK. 3,61,250 at the rate of 10% for a period starting from 1st July of 2016 to the date of regular assessment provided that it is not more than two years.

Illustration 18B – 6:

Rahim and Karim are the two equal partners of the firm 'R&K International' that reports income of Tk. 1,000,000 for the assessment year 2017-18. The income statement appears below:

Debit	Tk.	Credit	Tk.
Salaries	350,000	Balance b/d	1,185,000
Commission	80,000	Interest on securities (net)	60,000
Interest	30,000	Income from house property	300,000
Traveling Expense	25,000	Income from sale of tea	280,000
Legal Expense	50,000		
Office Expenses	60,000		
Promotional Expenses	30,000		
Bad Debt	30,000		
Miscellaneous Expenses	80,000		
Depreciation Expense	90,000		
Net Profit	1,000,000		
	1,825,000		1,825,000

A scrutiny of the accounts as submitted, the DCT revealed: **(a)** A sum of Tk. 15,000 was shown as traveling expense of Rahim for opening a new branch at Chittagong. **(b)** Mr Jaman, the general manager of the firm received TK. 16,000 of monthly salary without bank transfer or check, rather paid in cash. **(c)** Bad debt recovered of Tk. 60,000 was not shown in the credit side of the P/L A/C. The full amount of recovered bad debt was written off as unrecoverable and allowed. **(d)** Tk. 10,000 was paid for registering trade mark and Tk. 50,000 was paid for purchasing goodwill both of which are charged against current year's profit. **(e)** Accounting depreciation charged was Tk. 30,000 more than the tax depreciation. **(f)** The written down value of a motorcar was Tk. 60,000 that was sold for Tk. 50,000 and was not recorded in the books. **(g)** Legal expenses include Tk. 32,000 for penalty imposed by Custom Authority and miscellaneous expense includes Tk. 18,000 as a cost of forming contract among partners. **(h)** Rent of Tk. 50,000 given to Karim for using his house property as a place of business is included in office expenses. **(i)** Promotional expense includes Tk. 22,000 for constructing a permanent billboard for advertising the services provided by the firm. **(j)** Bad debt includes Tk. 20,000 given to the employees as advance that becomes irrecoverable. **(k)** Tk. 10,000 of interest on securities is from tax-free government securities. **(l)** The firm owns a tea garden where tealeaves are extracted and processed to make the tea leaves marketable. **(m)** Payment to partners as follows: Monthly Salary (paid without deducting taxes at

source) to Rahim Tk. 10,000; commission to Karim Tk. 60,000; interest on capital @ 10% Tk. 12,000 to Rahim and Tk. 10,000 to Karim; interest on loan @ 8% to Rahim Tk. 8,000. **(n)** Other income of the owners: Rahim - House Property Tk. 80,000; Import Business Tk. 60,000; Capital Loss Tk. 150,000; Agricultural Income Tk. 70,000 and Karim - Interest on less tax com. Securities Tk. 60,000; Loss from speculative business Tk. 80,000; Loss carried forward from previous year on speculative business Tk. 60,000 **(o)** Assume that the gross receipts of the firm were Taka 19,000,000 during the year. Compute the taxable income of the firm and partners along with the tax liability of both the firm and partners.

Solution 18B – 6:

Computation of Taxable Income of the Firm:
Rahim and Karim International
Assessment Year: 2017 – 2018; Income Year: 2016 – 2017

	Tk.	Tk.	Tk.
Net Profit as per accounts			1,000,000
Add: Inadmissible Expenses:			
Traveling Expenses		15,000	
Salary of GM (Tk. 16,000 * 12)		192,000	
Trademark		10,000	
Goodwill		50,000	
Charge of Excess Depreciation		30,000	
Legal Expense (penalty)		32,000	
Miscellaneous Expense (contract)		18,000	
Promotional Expense (billboard)		22,000	
Bad Debt (advance paid to employee)		20,000	
Salary to Rahim		120,000	
Commission to Karim		60,000	
Interest on Capital: Rahim Tk. 12,000; Karim Tk. 10,000		22,000	
Interest on Loan to Rahim		8,000	599,000
			1,599,000
Add: Income not recorded: Bad Debt Recovered			60,000
			1,659,000
Less: Admissible Expenses:			
Obsolescence Losses (TK. 60,000 – Tk. 50,000)			10,000
			1,649,000
Less: Non-Business Income: Interest on Securities		60,000	
Income from House Property		300,000	
Income from Sale of Tea (60%)		168,000	528,000
Business Income			1,121,000
Add: Non – Business Income:			
Interest on tax-free govt. securities (fully exempted)	-		
Interest on Commercial securities (50,000 × 5/4)	52,632	52,632	
Income from House Property	300,000		
Less: Repair and Maintenance (25%)	75,000	225,000	
Income from Sale of Tea (Agricultural Income)	168,000		
Less: Cost of Production (60%)	100,800	67,200	344,832
Total Taxable Income of the Firm			**1,465,832**

Requirement: Allocation of Firm's income to the Partners

	Rahim	Karim	Total	Amount left to be distributed
Amounts to be distributed				1,465,832
Salaries	120,000	-	120,000	1,345,832
Commission		60,000	60,000	1,285,832
Interest on Capital	12,000	10,000	22,000	1,263,832
Interest on Loan	8,000	-	8,000	1,255,832
Profit (allocated on 1:1 ratio)	627,916	627,916	1,255,832	
Total amount allocated	**767,916**	**697,916**	**1,465,832**	

Requirement: Taxable Income in the Hands of Partners

	Rahim	Karim
1. Share of income from the Firm	767,916	697,916
2. Income from House Property (less: 25% for rep & mainten)	60,000	37,500
3. Import Business	60,000	
4. Agricultural Income (excluding 60% for cost of production)	28,000	
5. Interest on securities (grossed up assuming 20% TDS)		75,000
Total Taxable Income	**915,196**	**810,416**

Tax Liability of the Firm: On First Tk. 250,000 @ 0% Tk. Nil; On Next Tk. 400,000 @ 10% Tk. 40,000; On Next Tk. 500,000 @ 15% Tk. 75,000; and On Next Tk. 315,832 @ 20% Tk. 63,166. Therefore tax liability is Tk. 178,166 on total income of Tk. 1,465,832.

Minimum Tax: As the amount of gross receipt is given as Tk. 19,000,000 which exceeds Tk. 5,000,000; we need to compute the minimum tax requirement of the firm which is 0.60 % of Tk. 19,000,000 = Tk. 114,000. However, the tax liability of the firm will be Tk. 178,166 as this amount exceeds the minimum tax amount.

Tax Liability of the Partners

On First Tk.	250,000	250,000	@ 0%	Tk. Nil	Tk. Nil
On Next Tk.	400,000	400,000	@ 10%	40,000	40,000
On Next Tk.	265,196	160,416	@ 15%	39,779	24,062
On Total Tk.	915,196	810,416		79,779	64,062
Less: Tax rebate at average rate					
Rahim: (79,779 ÷ 915,196) × 767,916				66,940	
Karim: (64,062 ÷ 810,416) × 697,916					55,169
Net Tax Liability of the Partners				**12,839**	**8,893**

Notes:

(a) Capital nature expenditures like, traveling expenses for opening a new branch and billboard is inadmissible

(b) As monthly salary of GM is more than Tk. 15,000 and paid without check or bank transfer, this will not be an allowable expenditure

(c) Bad debt recovered is the income in current period as the amount was written off as bad debt in earlier period(s) which was allowed

(d) Payment for both trademark and goodwill are of capital nature , so inadmissible

(e) Obsolescence losses resulting from sale of motorcar would be an admissible expense

(f) Legal expense of Tk. 32,000 incurred due to the penalty imposed by custom authority, so not an allowable expense

(g) Misce. expense to the amount of Tk. 18,000 incurred due to forming partnership contract is capital in nature and not allowed

(h) Rent paid to Karim is an allowable expense and for Karim it will be considered as income from house property

(i) Bad debt amounting to Tk. 20,000 is not allowed, as this is the amount of advances paid to an employee that becomes irrecoverable

(j) 60% of the income from sale of tea will be shown as agricultural income and 40% as business income

(k) Tk. 10,000 of interest on tax free securities is fully exempted. Remaining Tk. 50,000 is grossed up assuming that TDS has been deducted @ 5%

(l) 60% of the income from sale of tea is treated as agricultural income and 40% as income from business as the firm has run manufacturing process to make the sea marketable

(m) Capital loss cannot be set off against profit from other sources rather should be carried forward for 6 successive years for set off against such income

(n) Last year's loss from speculative business cannot be set off in the current year as there is no income from such head, rather such loss can be carried forward for 5 more successive years to be set off. And current year's loss from speculative business can be carried forward for 6 successive years for set off.

KEY POINTS

1. Partnership is the relationship among partners who run the business collectively to make and share profits.
2. A clear distinction is needed between partnership and partners whenever the question of assessment of a partnership firm comes. Because both partnership and partners are assessed separately for tax purposes.
3. A firm as an assessee can go for –
   - ❖ assessment on correct return (U/s - 82),
   - ❖ assessment after hearing (U/s- 83) or
   - ❖ best judgment assessment (U/s - 84).
4. Income from firm is tax free income because tax on this part is already paid by the firm, and partners will get rebate at average rate on such income from it.
5. In case of changes in constitution of a firm, the proportionate loss of a retired or deceased partner cannot be carried forward by the firm.
6. To compute partners' share in the firm's profit or loss, we need to adjust any interest, salary, commission or any other payment made to partners.
7. There may be a change in the composition (how many members a firm have) of a firm through admission or retirement of partner(s).
8. If a change has occurred in the constitution of the firm, the assessment of the firm shall be made in normal way as if there is no change in the constitution of the firm.
9. The words 'discontinued' and 'discontinuance' do not cover mere change of ownership or a change in the constitution of the firm, but refer to a complete cessation of business.
10. The Deputy Commissioner of Taxes should be notified regarding such discontinuance within fifteen days thereof; and such notice shall be accompanied by a return of total income in respect of the period between the end of the income year and the date of such discontinuance and that financial year will be the assessment year in respect of the income of the said period.

Multiple choice questions:

1. The applicable rate of rebate on investment allowance for a firm is -
   (a) No Rebate in Allowed
   (b) 15%
   (c) 20%
   (d) 25%
2. Partner's taxable income doesn't include -
   (a) Salary
   (b) Interest
   (c) Commission
   (d) Rent to the owner other than partner
3. The partner will get rebate on the amount of total tax payable if his total taxable income includes a portion from the share of profit of the firm, on which the firm has already paid tax, at a rate -
   (a) 0%
   (b) 15%
   (c) Average Rate
   (d) 25%
4. To ensure equity and transparency, the share of income of a minor child, where husband wife and minor child are partners, should be assessed with -
   (a) Husband
   (b) Wife
   (c) Both
   (d) Whose taxable income is less
5. Which one of the following is not the requisite of succession? –
   (a) The composition of the business should be in tact
   (b) There should be a change of ownership;
   (c) The integrity of the business should remain same;
   (d) The identity and continuity of the business should be substantially preserved.
6. In case of succession otherwise than on death, the successor will be assessed upto which date? -
   (a) Will not be assessed
   (b) Upto the date of succession
   (c) For the full year
   (d) From the date of succession to the end of the respective year
7. In case of discontinuance, assessment may be made for the period –
   (a) Upto the date of discontinuance
   (b) For the full year
   (c) No assessment
   (d) From the end of the last assessed income year to the date of discontinuance
8. Within how many days, the event of discontinuance should be notified to DCT? –
   (a) 10 Days
   (b) 15 Days
   (c) 20 Days
   (d) A month

9. Within how many days the DCT may serve a notice to the partner(s) to furnish a return of total income along with such other particulars, records and documents after being notified regarding the discontinuance of a firm? –
   (a) Maximum 7 Days
   (b) Maximum 15 Days
   (c) Maximum 25 Days
   (d) Maximum 30 Days
10. Integrity of the business is retained in which of the following situation? –
   (a) If the business is split up
   (b) If the nature of the business is changes
   (a) If the liability and assets of the earlier business is not taken
   (b) If there is substantial identity and similarity in the nature and extent of the activities

Identify the following statements as True (T) or False (F):

1.	A partnership firm is a legal entity like a corporation	T	F
2.	The income of a firm is taxed at the same rate as applicable to an individual.	T	F
3.	Succession is the transfer by one trader to another of the business along with the goodwill, i. e., the right to that benefit which arises from connection and reputation.	T	F
4.	Succession may take place without a valid transfer of ownership.	T	F
5.	The successor cannot claim to carry forward and set off the losses incurred by his predecessor.	T	F

Discussion Questions:

Question 18B – 1: Differentiate between partnership and partner.
Question 18B – 2: State the procedure of assessment with respect to partners and partnership firm.
Question 18B – 3: How the share of spouse or minor child in a partnership firm is assessed?
Question 18B – 4: Mention the steps required to compute the share of partners' profit in a firm.
Question 18B – 5: Is the firm responsible for unrecoverable portion of tax of a partner? If yes, to what extent?
Question 18B – 6: In what situations, the composition of a firm may change?
Question 18B – 7: What do you mean by succession? What are the requisites of succession?
Question 18B – 8: Write short note on:
   (a) Partner
   (b) Partnership
   (c) Succession
   (d) Discontinuance

Problem 18B – 1:

Mr. A, Mr. B and Mr. C are the three partners of ABC & Associates who shares profit and loss in a 2:2:1 ratio. The profit and loss account for the year ended on June 30, 2017 was given below:

Particularts	Tk.	Particulars	Tk.
Rent	25,000	Gross Profit	500,000
Utilities	20,000		

Commissions	40,000	
Advertisements	15,000	
Miscellaneous Expenses	28,000	
Interest on Capital: A – 7,000; B – 7,000; C – 6,000	20,000	
Salaries: A – 24,000; C – 22,000	46,000	
Net Profit	3,06,000	
	500,000	**500,000**

Other Information: (1) Rent includes Tk. 15,000 paid to Mr. C who partially owns the business premises. **(2)** Tk. 12,000 of commission is given to Mr. B for his special assignment. **(3)** Miscellaneous expense includes a donation of Tk. 8,000. **(4)** Partners have income from different sources as: Income from House Property Tk. 50,000 and Tk. 60,000 for A and C respectively; Income from Interest on Securities Tk. 40,000, Tk. 70,000 and Tk. 80,000 for A, B and C respectively; Agricultural Income Tk. 50,000 for B; Income from other sources (Dividend) Tk. 28,000 and Tk. 15,000 for A and C respectively. Compute the taxable income and tax liability of the firm and the partners and also show the amount of distribution to the partners.

Problem 18B – 2:

P, Q & S are partners sharing profits and losses in the ration of 3:2:1. The particulars of income for the year ended 30th June 2017 are as under:

(a) House Properties: The firm owns a building consisting of two storeys of identical specification, partially used for the firm's business and partially for let out at a rent of Tk. 20,000 per month. The corporate valuation of the building is Tk. 300,000 on which corporation tax is paid @10%. The firm has also earned Tk. 50,000 p.a. by letting its premises to a retailer for running his temporary business.

(b) Business in Apparels: The trading accounting for the year was as under:

Debit	Taka	Credit	Taka
Opening Stock	700,000	Sales	4,000,000
Purchases	3,000,000	Closing Stock	900,000
Gross Profit	1,200,000		
	4,900,000		**4900,000**

Stocks are always valued at cost plus 2% basis. Analysis reveals that purchase amount is understated by Tk. 200,000 for the year. Total expenses charged during the period amounts to Tk. 450,000 which included among other things, following items: **(a)** Maintenance to Building: Let – out portion Tk. 10,000 and Portion used for business Tk. 10,000. **(b)** Municipal Taxes Tk. 25,000 (Municipal taxes for the year were Tk.. 30,000; tenant paid Tk.. 5,000.) **(c)** Annual contribution to Cotton Dealers Association, a trade association Tk. 10,000. **(d)** Contribution to Aga Khan Development Network Tk. 50,000. **(e)** Salaries to the partners: P Tk. 30,000; Q Tk. 40,000 and S Tk. 50,000. **(e)** Legal charges amount to a total of Tk. 50,000 where there was a fine of Tk. 10,000 charged due to its attachment with infringement of law. **(f)** Amount of bad debt Tk. 18,000 which is not allowed. **(g)** Loss on speculative transactions Tk. 50,000. **(h)** Accounting depreciation is Tk. 2,000 less than tax depreciation.

P had no other sources of income but Q and S were also partners in another firm. The shares of Q & S for the year ended 30th June 2017 were as under:

Partners	Salary	Interest	Profit/ (Loss)	Total
Q	40,000	10,000	(50,000)	-
S	60,000	20,000	20,000	100,000

P has also income from a house property at London amounting to Tk. 500,000 (after deduction of 15% tax at source). S has other personal income of Tk. 40,000.

Required: Compute tax to be paid by the firm in which P, Q and S are partners and total taxable income in the hands of those partners from all sources. Also, State the principles governing the basis of taxability of total income of P, Q & S.

Problem 18B – 3:

A, B and C are partners in a firm sharing profit and loss in the ratio of 2:2:1. The firm showed income of Tk. 200,000 as at 30-06-2017. Examination of the books of accounts of the firm revealed: **(1)** A, B, C were paid salary at Tk. 36,000, Tk. 45,000 and Tk.48,000 respectively **(2)** A and C were paid interest at Tk. 40,000 and Tk. 50,000 respectively for the money borrowed from them **(3)** Commission on sale of goods paid to partner B Tk. 30,000 **(4)** Factory rent Tk. 150,000 paid to partner A **(5)** Office rent Tk. 60,000 paid to partner B **(6)** Penalty Tk. 55,000 paid for violation of customs law **(7)** Donation made to Aga Khan Foundation Tk. 50,000 **(8)** Advance tax paid Tk. 35,000 **(9)** Partners' drawings were: A – Tk. 50,000; B – Tk. 45,000 and C - Tk. 40,000

From the above information compute the total income of the firm and of each partner.

Problem 18B – 4:

Sun-Moon Enterprise is a firm comprising of two partners named Sun and Moon sharing profit and losses in a ratio of 2:1. During the year ended on June 30, 2017, the partners besides their shares in the firm enjoyed income and substantial losses from other sources: **Sun:** Income from House Property Tk. 80,000; Income accrued in India from partnership Tk. 70,000; share of loss from an Association of Persons Tk. 60,000 and Property tax paid Tk. 5,000. **Moon:** Capital gain Tk. 20,000; loss from Speculative business Tk. 60,000; profit on sale of residential house property Tk. 150,000; income from lottery Tk. 80,000 and Income tax refund Tk. 11,000. The profit and loss account of the firm for the year ended June 30, 2017 follows:

Expenditure	Taka	Income	Taka
Salaries: Staff	50,000	Gross profit b/d	415,000
Sun	25,000	Dividend	60,000
Moon	15,000	Interest on Securities	25,000
Office Contingencies	6,000		
Repairs to building	25,000		
Bad Debts	8,000		
Advance Income Tax	15,000		
Legal expenses	7,000		
Commission to Sun	10,000		
Life insurance premium: Sun	15,000		
Fire premium	18,000		
Commission to broker	8,000		
Depreciation	12,000		
Net Profit	286,000		
	500,000		500,000

Other information: Included in repairs is Tk. 15,000 on account of cost of typewriter to be depreciated @ 10% p.a. as per taxation law; legal expenses are inclusive of TK. 5,000 being the fine imposed by Custom Authorities for infringement of law; office contingencies include TK. 2,000 spent as commission for investment in shares; depreciation admissible excluding on Typewriter is TK. 14,000; Interest earned is on less tax government securities; the policy value of life insurance policy purchased for Sun is TK. 100,000.

Required: Find out the taxable income of firm and taxes payable by it and complete the income taxable in the hands of partners and the tax liability of the partners

Problem 18B – 5:

M/s RJT and Co. is a partnership firm. Mr. Rony, Mr. Jony and Mr. Tony are three partners of the firm who shares profit and losses at a ratio of 5:4:3. The firm filed return of income showing net profit at Tk. 2,000,000 for the assessment year 2017-2018. Examination of the books of accounts revealed: **(a)** Salary includes payment of Tk. 150,000 to Mr. Rony, Tk. 120000 to Mr. Jony and Tk. 70,000 to Mr. Tony. **(b)** Rent includes the payments for office rent to Mr. Tony Tk. 120,000 and godown rent to Mr. Rony Tk. 60,000. **(c)** Miscellaneous expenses includes payments for commission Tk. 20000 to Rony; Tk. 36,000 paid to Mr. Bala who is working as caretaker at the residence of Mr. Tony; Tk. 24,000 paid as salary to Miss Bala who is working as maid servant at the residence of Jony; Tk. 90,000 paid to Jony for using his lorry in the shipment of goods and Tk. 65,000 paid as interest for the amount of money borrowed from Tony. **(d)** Partex Holding constructed the factory building of M/s RJT and the firm paid Tk. 1,500,000 to Partex Holding without deduction of any taxes. **(e)** During the year under consideration the firm imported sugar and Tk. 120,000 was deducted as AIT by the custom authority at the import stage. The sugar remains unsold during the year. This is the 1st year of assessment. The firm paid no advance taxes as per provisions of sec-68. From the above information compute the total income of the firm and of partners, tax payable by the firm and simple interest if any payable.

Problem 18B – 6:

Ram and Laxman are the two equal partners of the firm 'Ram and Laxman International' that reports income of Tk. 1,200,000 for the assessment year 2017-18 in their income statement:

Ram and Laxman International

Income Statement For the year ended on June 30, 2017

Debit	Tk.	Credit	Tk.
Salaries	250,000	Balance b/d	1,245,000
Commission	90,000	Interest on securities (net)	60,000
Interest	40,000	Income from house property	350,000
Traveling Expense	30,000	Income from sale of rubber	270,000
Legal Expense	50,000	Dividend Income	100,000
Office Expenses	60,000	Interest on Drawings (Ram)	5,000
Promotional Expenses	35,000	Gain on Sale of Motor Car	10,000
Bad Debt	40,000		
Miscellaneous Expenses	90,000		
Depreciation Expense	80,000		
Donation	75,000		
Net Profit	1,200,000		
	2,040,000		2,040,000

A scrutiny of the accounts as submitted, the DCT revealed the followings facts:

a) Tk. 12,000 was shown as traveling expense of Ram for opening a new branch at Sylhet.

b) Mr Jaylal, the general manager of the firm received TK. 14,000 of monthly salary without bank transfer or check, rather paid in cash.

c) Bad debt recovered of Tk. 40,000 was not shown in the credit side of the P/L A/C. Such recoverable amount was not written off earlier as it was disallowed by the authority.

d) Tk. 10,000 was paid for registering trade mark and Tk. 50,000 was paid for purchasing goodwill both of which are charged against current year's profit.

e) Accounting depreciation charged was Tk. 30,000 less than the tax depreciation.

f) Data relating to motorcar that has been sold during the year was as follows:

Original Cost	: Tk. 80,000
Accumulated Depreciation (as per accounts)	: Tk. 60,000
Depreciation approved by tax authority to date	: Tk. 55,000
Sales Proceeds	: Tk. 30,000

g) Legal expenses include Tk. 30,000 for penalty imposed by Custom Authority and miscellaneous expense includes Tk. 15,000 as a cost of forming contract among partners.

h) Rent of Tk. 50,000 given to Laxman for using his house property as a place of business is included in office expenses.

i) Promotional expense includes Tk. 20,000 for constructing a permanent billboard for advertising the services provided by the firm.

j) Bad debt includes Tk. 20,000 given to the employees as advance that becomes irrecoverable. An embezzlement amount of Tk. 5,000, which was misappropriated by the cashier-cum-accountant, was also included in this item. Such embezzlement was incurred during the office hours.

k) The firm owns a rubber garden where rubbers are extracted and processed to make it marketable.

l) The firm has invested Tk. 250,000 for purchasing shares in IPO.

m) Payment to partners as follows:

	Ram	Laxman
Monthly Salary (paid without deducting taxes at source)	10,000	-
Commission	-	60,000
Interest on Capital @ 10%	12,000	10,000
Interest on Loan @ 8%	8,000	-

n) Other income of the owners:

Ram	Laxman
House Property Tk. 70,000; Income of Spouse Tk. 60,000; Win Lottery Tk. 150,000 and Agricultural Income Tk. 70,000	Interest on less tax com. Securities Tk. 60,000; Loss from speculative business Tk. 80,000; Foreig n Income Tk. 60,000; Dividend Income Tk. 40,000.

o) Ram has monthly DPS of Tk. 5,000 and Laxman has a life insurance policy with a policy value of Tk. 1,000,000, yearly premium amounts to Tk. 63,500.

Required: Compute the taxable income of the firm and partners along with the tax liability of both the firm and partners.

Answers:

Multiple choice questions				True/False	
1.	b	6.	d	1.	F
2.	d	7.	d	2.	T
3.	c	8.	b	3.	T
4.	d	9.	a	4.	F
5.	a	10.	d	5.	T

Self review 18B – 1:
Yes

Self review 18B – 2:
Rent will be an allowable expense for the firm but for the partner, it will be an income from house property.

Self review 18B – 3:
Both

CHAPTER – 18C
ASSESSMENT OF COMPANIES

LEARNING OBJECTIVES

After studying Chapter 18C, you shall be able to understand:

- The term 'Company' as per income tax ordinance
- Residential status of companies
- Return submission process of a company
- Withholding of taxes
- Advance payment of taxes
- Set off and carry forward of losses
- Fiscal incentives
- Assessment procedures with applicable tax rates

Assessment of companies is very important for the government of any country. Because, a significant portion of the revenue of government comes from the taxes that companies deposit to the government exchequer. Companies generate revenue from two sides. It pays tax on its income and also causes taxes by giving salaries and other taxable income to individuals and other persons. Thus, government is very careful in this regard and gives sufficient care towards the smooth functioning of companies. This chapter introduces the assessment procedure of companies irrespective of their nature.

18C.1 DEFINITION

Definitions of company are manifold. In IT Ordinance, 1984 it has a different focus and the scope has been extended significantly. Let us define companies from every angle here to make the discussion an exclusive one.

18C.1.1 Definition of 'Company' as per IT Ordinance, 1984: "Company" means a company as defined in the Companies Act, 1913 (VII of 1913) or Companies Act, 1994 and includes -

(a) A body corporate established or constituted by or under any law for the time being in force;

(b) Any nationalized banking or other financial institution, insurance body and industrial or business enterprise;

(c) An association or combination of persons, called by whatever name, if any of such persons is a company as defined in the Companies Act, 1913 (VII of 1913) or Companies Act, 1994;

(d) Any association or body incorporated by or under the laws of a country outside Bangladesh; and

(e) any foreign association or body, not incorporated by or under any law, which the Board may, by general or special order, declare to be a company for the purposes of this Ordinance [U/s – 2(20)].

18C.1.2 Definition of 'Company' as per Companies Act, 1994: Thus, the definition as given in IT Ordinance, 1984 considers the definition of Companies Act, 1913 and 1994; and

extended it further to enlarge the scope. Companies Act 1994 defines 'Company' to mean a company formed and registered under the act or an existing company [U/s – 2(c) of Companies Act, 1994]. Again, 'existing company' means a company formed and registered under any law relating to companies in force at any time before the commencement of the act, and is in operation after commencement of the act [U/s – 2(h) of Companies Act, 1994].

18C.1.3 Public and Private Company as per Companies Act, 1994: The company act also classifies company as public and private. 'Private company' means a company which by its articles –

(i) Restricts the right to transfer its shares, if any;

(ii) Prohibits any invitation to the public to subscribe for its shares or debentures, if any;

(iii) Limits the number of its members to fifty not including persons who are in its employment [U/s – 2(q) of Companies Act, 1994].

And 'public company' means a company incorporated under the Act or under any law at any time in force before the commencement of the act and which is not a private company [U/s – 2(r) of Companies Act, 1994].

18C.1.4 Bangladeshi and Foreign Company as per IT Ordinance, 1984: In terms of location, IT Ordinance again classifies companies as Bangladeshi and Foreign. 'Bangladeshi Company' means a company formed and registered under the Companies Act, 1913 (VII of 1913) or Companies Act, 1994 and includes a body corporate established or constituted by or under any law for the time being in force in Bangladesh having in either case its registered office in Bangladesh [U/s – 2(11)]. Whereas, 'foreign company' means a company which is not a Bangladeshi company [U/s – 2(33)].

18C.1.5 Banking Company as per IT Ordinance, 1984: IT Ordinance also defines 'Banking Company' that has the same meaning as in Bank Companies Act, 1991, and includes anybody corporate established or constituted by or under any law for the time being in force which transacts the business of banking in Bangladesh [U/s – 2(12)].

18C.1.6 Industrial Company as per Schedule 4 of Finance Act, 1998: The definition of industrial company comes through finance act. Industrial Company means a company which is engaged in:

i) Production or processing of goods,

ii) Production of plants, machineries and all types of parts & equipments,

iii) Construction of ship or motor vehicles,

iv) Investigation and collection/procurement of Gas, oil or any other mineral resources;

On condition that the income, profit or gain received from one or more sources stated as above should not be less than two-third of the total income of the income year.

18C. 2 RESIDENTIAL STATUS OF COMPANIES

As the application of different sections of IT Ordinance and even tax rate depends on the residential status of the assessee, it is very important to know the residential status of the assessee. The prescriptions for deciding the residential status of companies are given below:

"Resident", in respect of any income year, means a Bangladeshi company or any other company the control and management of whose affairs is situated wholly in Bangladesh in that year [U/s – 2(55)(c)]. And, "non-resident" means a person who is not a resident [U/s – 2(42)]. Thus, to be resident;

1. The company should be a Bangladeshi company, i.e., formed and registered under the Companies Act, 1913 (VII of 1913) or Companies Act, 1994 and includes a body corporate established or constituted by or under any law for the time being in force in Bangladesh having in either case its registered office in Bangladesh; or
2. Any other company the control and management of whose affairs is situated wholly in Bangladesh in that year.

If any of the two conditions have not been fulfilled, the status of such a company will be non-resident.

18C.3 SUBMISSION OF RETURN

A company assessee shall have to furnish a return setting forth therein its total income by the 15th day of July each year or within 6 months from the end of the income year whichever is later. However, on application from the company, the DCT may extend the return filing period upto three months from the date so specified and he may further extend the date upto three months with the approval of Inspecting Joint Commissioner. The return should be signed by the principal officer as defined in section 2(48) of IT Ordinance [U/s -- 75(3)(b)(iii)].

18C.4 SET OFF AND CARRY FORWARD OF LOSSES

Where loss is assessed in any head of income, the company is entitled to set off the loss against its income assessed in other heads of that year. However, loss on speculation business and loss on capital gain cannot be set off against income from any other head. If there is no income from other speculative business or capital gain from sale of other assets in the same year; such loss can be set off only against the income of respective speculative business or capital gains in the coming years, if any. When loss cannot be wholly set off, then the unabsorbed loss shall be carried forward but for not more than six successive assessment years. Unabsorbed depreciation loss can be carried forward for unlimited period. Loss so carried forward is to be set off against income of the respective head only. It is to be noted that loss from the source of exempted income cannot be set off against any source of taxable income.

18C.5 WITHHOLDING OF TAX

In Bangladesh, withholding of taxes is usually termed as tax deduction and collection at source. This system is considered as an important mechanism of tax collection. Under this system both private and public limited companies are legally authorized and bound to withhold taxes at some point of making payment which are clearly stated in the IT Ordinance and deposit the same to the Government Exchequer. The taxpayer receives a certificate from the withholding agent and gets credits of tax against assessed tax demand on production of the certificate. Finance Act 2011 introduces the submission of withholding tax return by inserting a new section (75A: Return of withholding tax). Every person, being a company, shall file a return of withholding tax collected or deducted with the Deputy Commissioner of Taxes where he is being assessed. The return shall be prepared in prescribed form and signed and verified by the principal officer. Such return shall be filed quarterly, by the fifteenth day of October, January, April and July of the financial year for which the tax is deducted or collected; and it must accompany a statement of deduction or collection of tax along with copy of treasury challans or payment orders. However, the last date for the submission of return may be extended by the Deputy Commissioner of Taxes up to fifteen days from the date so specified.

18C.6 ADVANCE PAYMENT OF TAX

Every company assessee shall pay advance tax in four equal installments falling on 15th Sept.; 15th Dec.; 15th March and 15th June of each financial year if the latest assessed income exceeds Tk. four

lakhs. On failure of payment of any installment, the company will be deemed to be an assessee in default. Penalty may be imposed for such default. If a company estimates that its income during any financial year will be less than the last assessed income, it may submit an estimate of income and pay the advance tax accordingly. If the amount of advance tax together with the tax deducted at source, if any, is less than 75% of the tax payable on the basis of regular assessment, interest @10% is leviable on the amount by which the tax so paid and deducted falls short of 75% of the assessed tax. On the other hand, the company is entitled to receive interest @10% on the amount by which the aggregate sum of advance tax paid during a financial year exceeds the amount of the tax payable on the basis of regular assessment.

SELF REVIEW 18C – 1

Last year's assessed income of Company X was Tk. 1,500,000. During current year, X paid advance tax of Tk. 120,000 and TDS of Tk. 32,000. However, tax liability of the company on the basis of regular assessment is Tk. 380,000. Compute amount of interest to be paid by the company, if any.

18C.7 FISCAL INCENTIVES

Following fiscal incentives are available for a company:

a) Newly established industrial undertaking, tourist industry, and physical infrastructure facility set up between the periods of July 2008 to June 2019 will enjoy exemption from tax at a certain rate for a certain periods. It is to be noted that an expansion unit of an existing undertaking shall not enjoy this facility. Also this tax holding incentive shall not apply to an undertaking which makes any financial or commercial transaction in any manner with another industrial company having one or more sponsor shareholder common between them.

b) Accelerated depreciation on cost of machinery is admissible for new industrial undertaking in the first three years of commercial production @ 50%, 30% and 20% respectively.

c) Initial depreciation allowance for first year on machinery @25% of cost and in respect of factory building @10% of cost if the said factory or machinery is constructed or installed in Bangladesh after 30th June, 2002.

d) Income from poultry is taxed at reduced rate as specified (on first Tk. 15 lac, nil; on next Tk. 15 lac, 5% and on balance, 10%).

e) Any income from production of pelleted poultry feed, production of pelleted feed for fish, shrimp & cattle, production of seeds, marketing of locally produced seeds, cattle farming, dairy farming, frog farming, horticulture, Silk tree plantation, Bee keeping, Silk worm firming, mushroom farming, floriculture is taxable at a reduced tax rate as specified (on first Tk. 10 lac, 3%; on next Tk. 20 lac, 10% and on balance, 15%).

f) Income derived from export of handicrafts for the period from the first day of July 2008 to the thirtieth day of June 2015.

g) An amount equal to 50% of the income derived from export business is exempted from tax. This benefit is not applicable for companies registered outside Bangladesh.

h) Listed companies are entitled to 10% tax rebate if they declare dividend at 20% or higher.

i) Income derived from the business of computer data entry, data processing; call centers or computer software development for the period from the first day of July 2008 to the thirtieth day of June 2015.

j) Income derived from any Small and Medium Enterprise (SME) engaged in production of any goods and having an annual turnover of not more Tk. 36 lakh.

k) Income from agro-processing industry.

18C.8 APPLICABLE TAX RATES FOR COMPANIES

18C.8.1 Charge of additional tax (U/s – 16B): Where any person employs or allows, without prior approval of the Board of Investment or any competent authority of the Government, as the case may be, any individual not being a Bangladeshi citizen to work at his business or profession at any time during the income year, such person shall be charged additional tax at the rate of fifty percent (50%) of the tax payable on his income or taka five lakh, whichever is higher in addition to tax payable under this Ordinance.

18C.8.2 Charge of additional amount, etc. (U/s – 16BB): Where under the provisions of this Ordinance any interest, amount or any other sum, by whatever name called, is to be charged in addition to tax, it shall be charged, levied, paid and collected accordingly.

SELF REVIEW 18C – 2

Prescribe the tax effect of the given two companies considering: **(a)** ABC plc fails to declare dividend for the year within six months following the income year. **(b)** XYZ Banking Company reports net profit of Tk. 12,00,000 which is more than 50% of the aggregate sum of capital.

18C.8.3 Charge of minimum tax (U/s – 16BBB): Where under the provisions of this Ordinance any minimum tax is to be charged, it shall be charged, levied, paid and collected accordingly. The rule for minimum tax computation has been revised under Finance Act 2016. Minimum tax should be computed on the basis of source of income and types of tax payer. For such computation, the taxpayer should make a comparative calculation considering the provisions under section 82C.

Computing Tax U/S 82C (2): Any tax deducted or collected at source under the provisions of sections 52, 52A, 52AAA, 52B, 52C, 52D, 52JJ, 52N, 52O, 52R, 53, 53AA, 53B, 53BB, 53BBB, 53BBBB, 53C, 53CCC, 53DDD, 53EE, 53F, 53FF, 53G, 53GG, 53H, 53M, 53N and 55 shall be the minimum tax on income from the source or sources for which tax has been deducted or collected. However, the tax deducted or collected from the following sources shall not be the minimum tax:

Section	Source of Income
52	**a.** a contractor of an oil company or a sub-contractor to the contractor of an oil company **b.** an oil marketing company and its dealer or agent excluding petrol pump station; **c.** any company engaged in oil refinery; **d.** any company engaged in gas transmission or gas distribution;
53	import of goods by an industrial undertaking as raw materials for its own consumption;
53F	Persons receiving interest or share of profit on savings deposit, fixed deposit and term deposit

It is important to maintain the books of account in regular manner under the provisions of section 35 for the sources of income for which minimum tax is applicable. Income of these sources shall also be determined in regular manner and tax shall be calculated by using regular rate on such income. Then tax liability for these sources will be finalized as per the following rules:

a. Amount of minimum tax as calculated before
b. Amount of regular tax

Whichever is higher (between a and b)

However, income from the following sources shall be determined and tax shall be calculated in the manner as specified there.

Section	Sources
52C	compensation against acquisition of property
52D	interest on saving instruments
53DDD	export cash subsidy
53F(1)(c) and (2)	receiving interest or share of profit on particular bank account
53H	on transfer of property

Note: income or loss computed here shall not be set off with loss or income, respectively, computed for any regular source.

Example 1: Company X imports finished goods to sell in the local market on which TDS is imposed under section 53 at import stage. Should the company gross up the income to show total income? Should the company submit brief audited accounts in support of this transaction?

Ans.: Minimum tax under section 82C is applicable for import business as done by Company X. Thus the company should compute total tax and income under the provisions of section 82C. Showing total income through back-calculation of gross up is not permissible. At the same time, a complete set of accounts should be prepared under section 35 and audited for submission. There is no opportunity to submit brief audited account.

Example 2: Mr. Zaman runs a sole proprietorship business and sells imported cosmetic goods in local market. During the income year ended on June 30, 2017 Mr. Zaman imported cosmetics goods valuing Tk. 50,00,000 and paid taxes of Tk. 250,000 (5% of Tk. 50,00,000) at import stage. During the assessment year 2017-18, Mr. Zaman submitted return showing a total income of Tk. 20,00,000. On scrutiny of submitted accounts, the DCT doesn't find any disallowed expenses or any adjustments and thus accepted the amount of income. Based on his total taxable income, his regular tax liability will be:

On first	Tk.	250,000	@ 0%	Tk. 0
On next		400,000	10%	40,000
On next		500,000	15%	75,000
On next		600,000	20%	120,000
On balance		250,000	25%	62,500
Total	Tk.	20,00,000		Tk. 297,500

Under section 82C (2), tax liability of Mr. Zaman will be Tk. 297,500. As Mr. Zaman has already paid Tk. 250,000 he needs to pay Tk. 47,500 (Tk. 297,500 - Tk. 250,000) more to settle his tax liability for the year. Any surcharge or other charges if applicable for Mr. Zaman, it should be paid in addition.

Example 3: Mr. Zaman runs a sole proprietorship business and sells imported cosmetic goods in local market. During the income year ended on June 30, 2017 Mr. Zaman imported cosmetics goods valuing Tk. 50,00,000 and paid taxes of Tk. 250,000 (5% of Tk. 50,00,000) at import stage. During the assessment year 2017-18, Mr. Zaman submitted return showing a total income of Tk. 15,00,000. On scrutiny of submitted accounts, the DCT doesn't find any disallowed expenses or any adjustments and thus accepted the amount of income. Compute the tax liability of Mr. Zaman.

Ans.: Based on his total taxable income, his regular tax liability will be as follows:

On first	Tk.	250,000	@ 0%	Tk. 0
On next		400,000	10%	40,000
On next		500,000	15%	75,000
On balance		350,000	20%	70,000
Total	Tk.	15,00,000		Tk. 185,000

Under section 82C (2), minimum tax liability of Mr. Zaman will be Tk. 250,000 (higher one between regular tax and tax deducted at source U/S 82C). As Mr. Zaman has already paid Tk. 250,000 he needs to pay nothing to settle his tax liability for the year, nor can he claim any refund. Any surcharge or other charges if applicable for Mr. Zaman, it should be paid in addition.

Example 4: During the income year ended on June 30, 2017 Mr. Kamal has reported following income:

a. Tk. 300,000 as interest on 5 Year's Savings Certificate on which tax has been deducted at source @ 5% (Tk. 15,000) under section 52D.

b. Tk. 600,000 as interest on bank account on which tax has been deducted at source @ 10% (Tk. 60,000).

Mr. Kamal doesn't report any other source of income or investment to claim tax rebate. Here, the tax implication of Mr. Kamal will be:

Total taxable income –	Income from Interest on Securities (U/S - 22)				
	Interest on 5 Year's Savings Certificate		Tk. 300,000		
	Income from Other Sources (U/S - 33)				
	Interest on bank account		600,000		
	Total Taxable Income		Tk. 900,000		
Tax Liability –	On regular income (bank interest)	On first	Tk. 250,000 @	0%	Tk. 0
		On next	350,000	10%	35,000
	Tax deducted on Savings Certificate				15,000
	Total Tax Liability (Regular + Minimum)				Tk. 50,000
	Total Tax Deducted at Source (Tk. 15,000 + Tk. 60,000)				75,000
	Refundable (paid more than minimum tax)				Tk. 25,000

Example 5: During the income year ended on June 30, 2017 Mr. Jamal has reported following income:

a. Income from business Tk. 600,000. He has imported goods valuing Tk. 20,00,000 on which tax has been deducted at sources @ 5% (Tk. 100,000).

b. Income from house property Tk. 400,000.

Mr. Jamal has decided to submit return on universal self assessment basis during the assessment year 2017 - 18. Tax implication of Mr. Kamal will be:

Tax liability on regular source of income (income from house property):	On first	Tk. 250,000	@ 0%	Tk.	0
	On next	150,000	10%		15,000
	Total	Tk. 400,000		Tk.	15,000
Total Taxable Income					
Income from House Property (U/S – 24 & 25)		Tk. 400,000			
Income from Business (U/S – 28, 29 & 30)		600,000			
Total taxable income		Tk. 10,00,000			
Regular tax on total Income:	On first	Tk. 250,000	@ 0%	Tk.	0
	On next	400,000	10%		40,000
	On balance	350,000	15%		52,500
	Total	Tk. 1,000,000		Tk.	92,500
Minimum tax on import business (U/S – 82C):					
Total regular tax liability		Tk. 92,500			
Tax imposed on regular source of income		15,000			
Regular tax on import business		77,500			
However, tax paid on import business at source		Tk. 100,000			
Thus, minimum tax on import business U/S 82C is		Tk. 100,000			

So, total tax liability of Mr. Jamal for the assessment year 2017-18 will be Tk. 115,000 (Tk. 15,000 + Tk. 100,000).

Example 6: During the income year ended on June 30, 2017 Mr. Ali has reported following income:

a. Income from business Tk. 800,000. He has imported goods valuing Tk. 20,00,000 on which tax has been deducted at sources @ 5% (Tk. 100,000).
b. Income from house property Tk. 450,000.
c. Income from interest on family savings certificate Tk. 400,000 on which tax has been deducted at sources @ 5%.

Mr. Ali has decided to submit return on universal self assessment basis during the assessment year 2017-18. Tax implication of Mr. Ali will be:

Tax liability on regular source of income (income from house property):	On first	Tk.	250,000	@ 0%	Tk.	0
	On next		200,000	10%		20,000
	Total	Tk.	450,000		Tk.	20,000
Total Taxable Income						
Income from Interest on Securities (U/S – 22 & 23)		Tk.	400,000			
Income from House Property (U/S – 24 & 25)			450,000			
Income from Business (U/S – 28, 29 & 30)			800,000			
Total taxable income		Tk.	16,50,000			
Regular tax on total taxable income excluding interest on savings certificate:	On first	Tk.	250,000	@ 0%	Tk.	0
	On next		400,000	10%		40,000
	On next		500,000	15%		75,000
	On balance		100,000	20%		20,000
	Total	Tk.	12,50,000		Tk.	135,000
Minimum tax on import business (U/S – 82C):						
Total regular tax liability		Tk.	135,000			
Tax imposed on regular source of income			20,000			
Regular tax on import business			115,000			
However, tax paid on import business at source		Tk.	100,000			
Thus, minimum tax on import business U/S 82C is		Tk.	115,000			

So, total tax liability of Mr. Ali for the assessment year 2017-18 will be Tk. 155,000 (Tk. 20,000 + Tk. 115,000 + Tk. 20,000). On interest on savings instrument, tax liability should be Tk. 20,000.

Computing Regular Tax Liability on Regular Sources of Income Applying Regular Tax Rate:

If the assessee has income from regular source in addition to the income from source or sources for which minimum tax is applicable, regular tax shall be calculated on the income from regular source. The tax liability of the assessee shall be the aggregate of the tax as determined under Section 82C(2) and the regular tax under Section 82C(3)(a)

For Firms and Companies:

For firm and company assessees, minimum tax should be computed applying the provisions as mentioned in Section 82C(4) which is applicable to –

(a) every firm having gross receipts of more than taka fifty lakh
(b) every company, irrespective of its profits or loss in an assessment year, for any reason whatsoever, including the sustaining of a loss, the setting off of a loss of earlier year or years or the claiming of allowances or deductions (including depreciation).

They shall be liable to pay minimum tax of an assessment year at the following rate:

Classes of Assessee	Rate of Minimum Tax
Manufacturer of cigarette, bidi, chewing tobacco, smokeless tobacco or any other tobacco products	1.00% of the gross receipts
Mobile phone operator	0.75% of the gross receipts
Any other cases	0.60% of the gross receipts
Industrial undertaking manufacturing of goods for the first three income years since commencement of its commercial production.	0.10% of the gross receipts

Here gross receipts means -

(i) all receipts derived from the sale of goods;

(ii) all fees or charges for rendering services or giving benefits including commissions or discounts;

(iii) all receipts derived from any heads of income.

However, where the assessee has an income from any source that is exempted from tax or is subject to a reduced tax rate, the gross receipts from such source or sources shall be shown separately, and the minimum tax shall be calculated in the following manner-

(i) minimum tax for receipts from sources that are subject to regular tax rate shall be calculated by applying the rate as mentioned in above table;

(ii) minimum tax for receipts from sources that enjoys tax exemption or reduced tax rate shall be calculated by applying the rate mentioned in above table as reduced in proportion to the exemption of tax or the reduction of rate of tax;

(iii) minimum tax shall be the aggregate of the amounts calculated in (i) and (ii) above.

Finalize the Amount of Minimum Tax: Minimum tax as computed above for firms and companies should be compared with the amount of minimum tax computed before. The higher one between these two values will be the minimum tax for firms and companies.

Example 7: Gross receipt of Company Y, a private limited company, for the year ending on June 30 2017 is Tk. 50,00,000 with the following classification:

Gross receipt subject to TDS @ 15%	Tk. 40,00,000
Gross receipt from regular sources	10,00,000
Total gross receipts	Tk. 50,00,000

Compute the minimum tax of Company Y under section 82C(4).

Ans.: Minimum tax for Company Y will be as follows:

Gross receipt from regular sources	Tk. 10,00,000	@ 0.60%	Tk. 6,000
Gross receipt subject to TDS @ 15%	40,00,000	@ 0.60% × [15 ÷ 35]	10,286
Total minimum tax of Company Y			Tk. 16, 286

Example 8: Company M, a Private Limited Company, has imported goods valuing Tk. 40,00,000 on which tax has been deducted at sources @ 5% (Tk. 200,000). The imported goods are sold for Tk. 75,00,000 during the income year ended on June 30 2017. Company M reports Tk. 800,000 profit during the year as per the audited account submitted with the NBR. On scrutiny, the DCT find no expenses disallowed and thus the account is accepted. Compute the minimum tax liability for Company M.

Ans.: Company M is subject to both 82C(2) and 82C(4) and thus, minimum tax will be computed as below:

Minimum Tax Under Section 82C(2):

Tax deducted at source	Tk. 200,000
Regular tax on regular sources at regular rate (35% of Tk. 800,000)	Tk. 280,000
Thus minimum tax U/S 82C(2) will be (whichever is higher)	Tk. 280,000

Minimum Tax Under Section 82C(4):

Gross receipt of the company	Tk. 75,00,000
Minimum tax rate on gross receipt	× 0.60%
Thus minimum tax U/S 82C(4) will be	Tk. 45,000

Thus minimum tax for Company M will be Tk. 280,000 under section 82C .

Points to be noted:

a) Minimum tax shall not be refunded, nor shall be adjusted against refund due for earlier year or years or refund due for the assessment year from any source.

b) Any surcharge, additional interest, additional amount etc. is payable, it shall be payable in addition to the minimum tax.

c) Where the regular tax calculated for any assessment year is higher than the minimum tax, regular tax shall be payable then.

Example 9: Consider the information given in Example 6. In addition to the information provided in that example, assume that Mr. Ali reports a total net wealth of Tk. 3 crore during the income year. What will be the implication of net worth on his tax liability?

Ans.: In addition to the minimum tax computed in Example 6, Mr. Ali is also subject to surcharge @ 10% on tax payable. Thus his total tax liability will be as follows:

Tax liability as computed in Example 6	Tk. 155,000
Surcharge @ 10%	Tk. 15,500
Total tax liability	Tk. 170,500

Example 10: Gross receipt of Company P, a private limited company operating in Dhaka, is Tk. 80,00,000 during the income year ended on June 30 2017. The company has reported Tk. 200,000 as profit in submitted accounts with the NBR.

The DCT doesn't find any expenses inadmissible under section 30 and the DCT concludes that the company has complied with all the rules in every respect. Compute the amount of minimum tax of Company P for the assessment year 2017-18.

Ans.: Tax liability of Company P will be as follows:

Regular tax (35% of Tk. 200,000)	Tk. 70,000
Minimum tax (0.60% of Tk. 80,00,000)	Tk. 48,000
Thus the tax liability of Company P will be	Tk. 70,000

CORPORATE TAX RATES AT A GLANCE

Types of Company	Types of Income		Tax rates for AY 2016-17	Tax rates for AY 2017-18
Bank, Insurance, Financial Institutions	Capital gain arising out of	⇒ Transfer of stocks and shares of any company registered under Companies Act, 1994. [SRO No. – 269-Law/Income Tax/2010]	10%	10%
		⇒ Transfer of other capital assets	15%	15%
	Dividend income	Dividend declared by any company registered under companies act 1913 or 1994 or any foreign company	20%	20%
	Other income	For publicly traded company	40%	40%
		For not publicly traded company	42.5%	42.5%
		Approved in 2013	40%	40%
Merchant Bank	Taxable Income	Both for publicly and not publicly traded company	37.5%	37.5%
Mobile Phone Operator Company	Taxable Income	Private Limited Company	45%	45%
	Taxable Income	If converted into public limited company by issuing minimum 10% of shares through IPO[However, if such company transfers 20% of shares through IPO, it will enjoy 10% tax rebate on tax payable for the respective income year]	40%	40%
Cigarette Manufacturing Company	Taxable Income	Private Limited Company	45%	45%
	Taxable Income	Publicly Traded Company	45%	45%
Other Company	Capital gain arising out of	Transfer of stocks and shares of any company registered under Companies Act, 1994. [SRO No. – 269-Law/Income Tax/2010]	10%	10%
		Transfer of other capital assets	15%	15%
	Dividend income	Dividend declared by any company registered under companies act 1913 or 1994 or any foreign company	20%	20%
	Other income	⇒ For publicly traded company: If a private limited company transfers at least 20% of its share through IPO and become public, such company will enjoy 10% tax rebate on tax payable during the year	25%	25%

Other Company	Other income	Non-publicly traded company, local authority and private limited company and other companies as per sec 2(20).	35%	35%
Others	Other income	Income from Cigarette business by Cigarette Manufacturer other than company	45%	45%
Others	Other income	Co-operative Societies, registered under the Co-operative Societies Act, 2001	15%	15%

18C.9 TAX REBATE

If any publicly traded company other than bank, insurance, financial institutions declare dividends at the rate of more than 20%, it will enjoy 10% of tax rebate on applicable tax. And, if any company engaged in the production of goods and registered under the companies act 1994, it will enjoy tax rebate at a rate as mentioned below:

	Rate of Rebate
(a) If production in volume exceeds 15% but does not exceed 25% as compared with preceding year.	2.5% of tax on such income
(b) If production in volume exceeds 25% as compared with preceding year.	5% of tax on such income
(c) If total income includes income received from life assurance business.	12.5% on such income
(d) On the amount of dividend received from a company registered in Bangladesh under the companies act in force of a body corporate formed in pursuance of an act of parliament.	15% on such dividend income
(e) On the amount spent to perform specified CSR activities [Ref: SRO 223-AIN/IT/2012 dated 27.06.2012 explained in Ch-5]	10% of such expenditure

18C.10 CORPORATE SOCIAL RESPONSIBILITY [SRO 229-AIN/IT/2011 DATED 04-07-2011 later updated by SRO 223-AIN/IT/2012 dated 27.06.2012]

- **Allowable limit:** Maximum limit of allowable expenditure under the head Corporate Social Responsibility (CSR) is 20% of total income or Tk. 8,00,00,000; whichever is lower. If actual expenditure exceeds this limit, such amount exceeding the limit cannot be used to compute tax rebate.
- **Tax Rebate:** Tax rebate will be computed @ 10% on such expenditure for CSR within the maximum limit.
- **Conditions:** To claim tax rebate against CSR, the corporate must fulfill the following conditions:
  1. Must pay salaries and allowances to its worker regularly and must have waste treatment plant if it involves with the production of industrial goods;
  2. Must pay income tax, VAT and duty timely and must repay institutional loans;
  3. Can only donate money to the institutions recognized by the government for the purpose of CSR;
  4. Must fulfill all rules as per Bangladesh Labor Act, 2006.

However, no company can charge such expenditure expensed as a result of CSR in manufacturing or profit and loss account. Such company shall also submit sufficient documents with DCT to prove whether the expenditure claimed as CSR is really spent.

❖ **Areas of CSR:** 10% rebate is allowed to the corporate organizations on their corporate social responsibility related expenditures subject to the fulfillment of some prescribed conditions. The scope areas of the corporate social responsibility (CSR) to avail this rebate are as follows if any contribution is made to any organization engaged in: (SRO 229-AIN/IT/2011 dated 04.07.2011 later updated by SRO 223-AIN/IT/2012 dated 27.06.2012 & SRO 186-AIN/IT/2014 dated 01.07.2014):

1. Donation through any government bodies to the people of areas affected by natural calamities like Cyclone, Earthquake, Hurricane, Flood etc.
2. Old home foundation and management,
3. Welfare of mentally or physically disable people,
4. Educational institution for street / homeless children,
5. building houses for people living in slums,
6. Donation to social organizations involved in building public awareness about women-right and dowry system,
7. Donation to organizations involved in the welfare of orphan / homeless children,
8. Donation to organizations involved in research about liberation war, campaign to uphold the spirit of liberation war and welfare of freedom fighters,
9. Improving sewerage facilities in Chittagong hilltract, alluvial land, river breakage areas.
10. Donation to organizations provide treatment of hare-lipped, cataract; cancer, leprosy.
11. Donation to organizations serving treatment to the Acid Victims,
12. Specialized hospital established for serving the poor people free medical facilities and improving the quality e.g. Cancer, Lever, Kidney, Thalasemia, Eye and Cardio.
13. Donation to public universities;
14. Donation for promoting technical and vocational education for poor meritorious students through any government approved educational institution;
15. Donation to government or MPO included Private educational institution to establish lab and arrange training for IT, Computer and English education;
16. Donation to the organizations engaged in promoting technical and vocational education for unskilled or semi-skilled workers for manpower export;
17. Donation to organizations engaged in infrastructure development and training for national sports level.
18. Donation to built or under constructed national level museums established in the memory of the liberation war.
19. Donation to non-profitable organizations established for treatment, increasing awareness and rehabilitation of HIV, AIDS or intoxication affected people.
20. Donation to any national level institution set up in memory of Father of the Nation;

21. Donation to the non-profitable private organizations established for the welfare of women and children saved from human trafficking.
22. Donation to government approved fund established for any unique disaster/catastrophe or arranging any tournament or national event.

18C.11 TRANSFER PRICING

Transfer pricing is a newly inserted chapter (Chapter XIA) in Income Tax Ordinance 1984 through Finance Act 2012. This chapter addresses the impact of international transactions made by associated enterprises on disclosed net income and taxes as well. Finance Act 2014 inserted a new section (Sec 107EE) and brings effectiveness of the application of this chapter. The section requires that 'every person who has entered into an international transaction shall furnish, along with the return of income, a statement of international transactions in the form and manner as may be prescribed'. It also prescribes the mode of computing transfer prices in a specified method of 'arm's length price'. Arm's length price means a price in a transaction, the conditions (e.g. price, margin or profit split) which do not differ from the conditions that would have prevailed in a comparable uncontrolled transaction between independent entities carried out under comparable circumstances [U/S 107A1(1)]. The arm's length price in relation to an international transaction shall be determined by applying the most appropriate method(s) selected from the following methods based on the nature of transaction, the availability of reliable information, functions performed, assets employed, risks assumed or such other factors as may be prescribed, namely:

(a) comparable uncontrolled price method;
(b) resale price method;
(c) cost plus method;
(d) profit split method;
(e) transactional net margin method;
(f) any other method where it can be demonstrated that-
  (i) none of the methods mentioned in (a) to (e) can be reasonably applied to determine the arm's length price for the international transaction; and
  (ii) such other method yields a result consistent with the arm's length price.

18C.11.1 Comparable Uncontrolled Price Method: Under this method, the price charged or paid for property transferred or services provided in an uncontrolled transaction or a number of transactions of comparable circumstances is identified. The differential amount is calculated if the identified price differs from the price of the international transaction. The differential is then adjusted with the price of international transaction which is taken to be the arm's length price of the property transferred or services rendered in the international transaction.

> **Example**: ABC plc charged Tk. 500,000 to XYZ plc, an associated enterprise, in an international transaction of transferring inventory. However, the price in comparable circumstances is identified to be Tk. 650,000. Thus, the differential amount is Tk. 150,000 which is adjusted with the price of international transaction. And the arm's length price will be Tk. 650,000 (Tk. 500,000 + Tk. 150,000).

18C.11.2 Resale Price Method: Under this method, the price at which the transferred property or service could be resold to an independent enterprise is identified. Then, the price is reduced by a comparable normal gross margin. The price so arrived at is then adjusted for other unique costs (such as customs duty) associated with the purchase of the property or services. The price so arrived at is then adjusted to take into account the

material differences (differences that could materially affect the gross margin in open market condition) such as functions performed, risks involved, assets employed, time gap between the original purchase and the resale and accounting practices between the international transactions and the comparable uncontrolled transactions, or between the enterprises undertaking such transactions. The adjusted price so computed shall be taken to be the arm's length price of the property purchased or the service obtained in the international transaction.

Example: ABC plc transferred inventory to XYZ plc, an associated enterprise, in an international transaction that may be resold to an independent enterprise for Tk. 500,000. A comparable gross margin rate is reached to be 15% of sale. Associated customs and supplementary duty was Tk. 80,000. No other situation related to the transaction is identified that could create material differences in gross margin in open market condition. Here, the arm's length price should be Tk. 345,000 (Tk. 500,000 – 15% of Tk. 500,000 – Tk. 80,000).

18C.11.3 Cost plus Method: Under this method, the direct and indirect costs incurred in the supply of property or the provisions of services are determined along with a comparable profit mark-up (based on comparable accounting policies). Appropriate adjustment is then made to the comparable profit mark-up adjusted to take into account the material differences (differences that could materially affect the mark-up in open market condition) such as functions performed, risks involved, assets employed, contractual terms and market conditions between the international transactions and the comparable uncontrolled transactions, or between the enterprises undertaking such transactions. The adjusted profit mark-up is then added to the cost and the sum so arrived at is taken to be the arm's length price of the property transferred or services provided in the international transaction.

Example: ABC plc transferred inventory to XYZ plc, an associated enterprise, in an international transaction. The direct and indirect cost incurred in the supply of inventory is identified to be Tk. 300,000. Comparable mark-up (profit on cost) is 20%. However, due to foreign currency fluctuation and risk associated with the transaction, the mark-up should go up by 8%. Thus the arm's length price should be Tk. 384,000 [Tk. 300,000 × 28% (20% + 8%)].

18C.11.4 Profit Split Method: Under this method, the combined profit, arising from international transaction or transactions and divisible among the associated enterprises, is identified. The combined profit is then divided among the associated enterprises by using the following approaches:

a. Each of the associated enterprises is allocated a basic return based on the basic functions (manufacturing, distribution, service provision etc.) each enterprise performed and determined by reference to market returns earned by independent enterprise in similar transaction. This basic return does not usually account for the return that would be generated by any unique and valuable assets possessed by the associated enterprises. The residual profit (which may be attributable to such unique assets), calculated by deducting the sum of basic returns allocated to associated enterprises from the combined profit, is then apportioned to the associated enterprise based on their relative contribution and taking into consideration how independent enterprises in similar circumstances would have divided such residual profit; or

b. Basic return is not allocated to the associated enterprises; the combined profit is divided among the associated enterprises based on the relative contribution of each the associated enterprises to that profit.

The profit thus allocated to the assessee is taken to be the arm's length price.

18C.11.5 Transactional Net Margin Method: Under this method, the net profit margin earned by the associated enterprise from the international transaction with the associated enterprise is computed having regard to an appropriate base such as costs, sales or assets. The net profit margin earned by an independent enterprise or enterprises from comparable uncontrolled transaction or a number of such transactions is computed having regard to the same base. Appropriate adjustment is then made to the net profit margin to take into account the differences that can materially affect the net profit margin, between the international transactions and the comparable uncontrolled transactions, or between the enterprises undertaking such transactions. The adjusted net profit margin is then applied to the base to arrive at the arm's length price in relation to the international transaction.

The most appropriate method for determining the arm's length price of an international transaction shall be the method that provides the most reliable measure of an arm's length price in relation to the international transaction. In this regard, the following factors shall be considered,

(a) the nature and class of the transaction, and of enterprises entering into the transaction;

(b) the comparability factors (industry, functions, risks, contractual terms, market level) that are materially significant in determining the price or margin in relation to the transaction;

(c) the quality (availability, coverage, validity and reliability) of relevant data;

(d) the reliability of assumptions in the method;

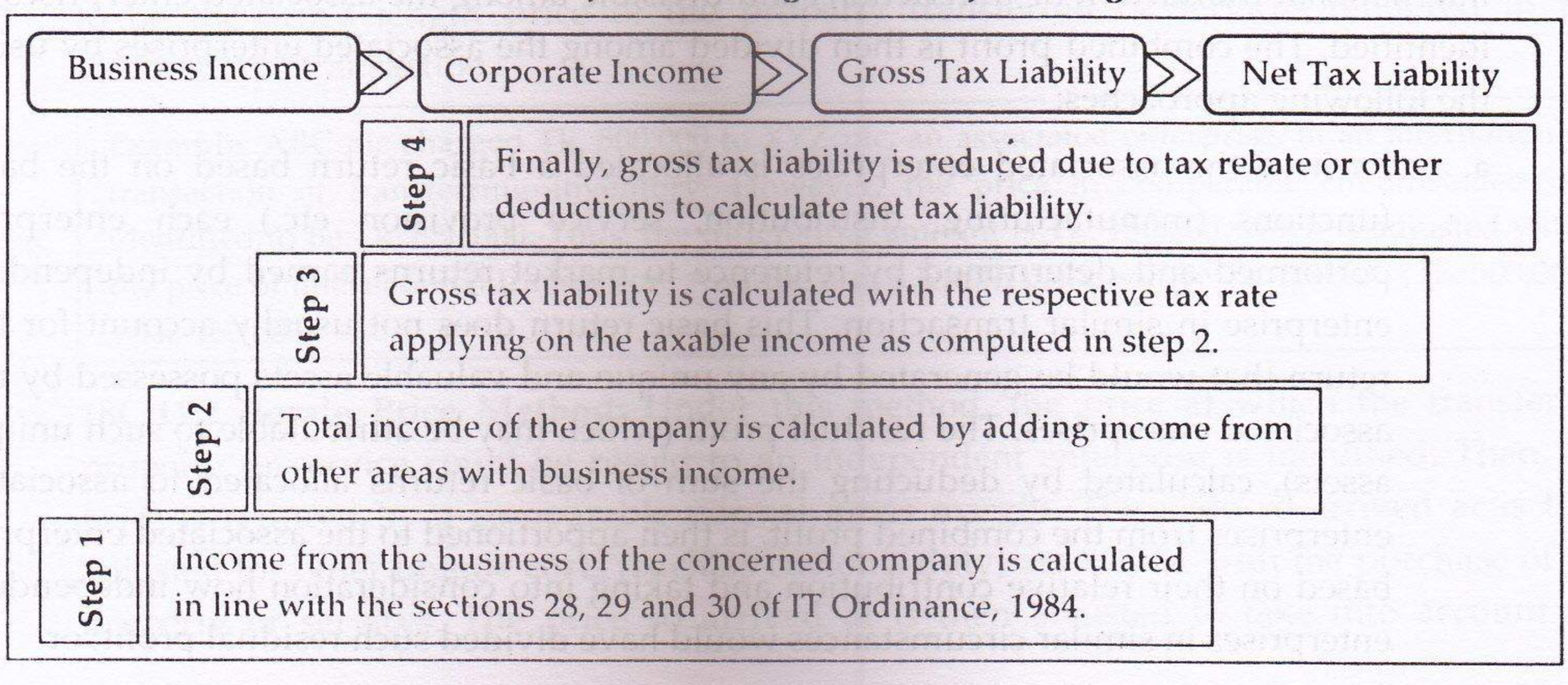
(e) the sensitivity of results in the deficiency in data and assumptions;

(f) the extent to which the reliable and accurate adjustments can be made to eliminate the differences, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions.

18C.12 ASSESSMENT PROCEDURE:

Company assessment starts with calculation of business profit similar to computing income from business or profession. Such income is adjusted for the assessee being a company resulting taxable income. Then tax liability is calculated after all adjustments in this regard.

The assessment procedure is given in the following chart.



SPECIMEN FORMAT FOR THE ASSESSMENT OF COMPANIES

	Taka	Taka
1. Income from Business or Profession:		
Net Profit as per Profit and Loss Account		XX
Add: Inadmissible Expenses		
a) Bad Debt	XX	
b) Accounting Depreciation	XX	
c) Income Tax	XX	
d) Other Inadmissible Expenses	XX	XX
		XX
Less: Expenses Admissible but not Shown		
a) Depreciation as per IT Rules	XX	
b) Other Admissible Expenses	XX	XX
		XX
Less: Income received from Non-Business Heads		
a) Dividend	XX	
b) Interest	XX	
c) Capital Gains, etc.	XX	XX
2. Total Taxable Income		XX
3. Calculation of Tax Liability		
a) On total taxable income at flat rate	XX	
b) On dividend income @ 20%	XX	
c) On capital gain @ 10% or 15%	XX	XX
Less: Tax Rebate		XX
4. Net Tax Liability		XX

Illustration 18C – 1:

The profit and loss account of ABC & Co is given below for the assessment year 2017-18.

ABC & Co

Profit and Loss Account

For the year ended on June 30, 2017

Dr.			Cr.
Cost of Goods Sold	1,500,000	Sales	3,500,000
Salaries	700,000	Dividend	120,000
Rent	150,000	Interest	30,000
Advertisements	200,000	Gain on sale of Asset	40,000
Interest on Loan	80,000	Interest on zero coupon bond	15,000
Utility Expenses	60,000	Interest on Foreign Investment	20,000
Donation	150,000		
Transportation	110,000		
Audit Fee	200,000		
Bad Debt	90,000		
Contribution to RPF	70,000		
Income Tax paid in Advance	30,000		
Fines paid to Customs	20,000		
Annual Membership	15,000		
Legal Expenses	25,000		

Insurance Premium	35,000	
Sundry Expenses	12,000	
Depreciation	65,000	
Net Profit	213,000	
Total	**3,725,000**	**3,725,000**

Determine the taxable income of the company and net tax liability thereof. Consider the given data below and assume that ABC & Co is a public limited company: Salaries paid in cash without any check or bank transfer. Taka 450,000 of salaries from taka 700,000 falls under the category of gross salary more than taka 15,000; tax depreciation amounts to taka 50,000; legal expenses are paid due to the infringement of trademark and the company has sold an asset for taka 100,000 that the company has purchased 4 years back at a cost of taka 80,000 with a written down value of taka 60,000 to date.

Solution 18C – 1:

ABC & Co
Status: Resident Company
Income Year: 2016-17; Assessment Year: 2017-18

		Taka	Taka
Income from Business or Profession:			
Net Profit as per Profit and Loss Account			213,000
Add:	Inadmissible Expenses		
	Salaries	450,000	
	Legal Expenses	25,000	
	Income tax paid in advance	30,000	
	Fines paid to customs	20,000	
	Depreciation	65,000	
	Donation	150,000	740,000
			953,000
Less:	Expenses Admissible but not Shown		
	Depreciation		50,000
			903,000
Less:	Income received from Non-Business Heads		
	Dividend	120,000	
	Interest	30,000	
	Gain on sale of Asset	40,000	
	Interest on zero coupon bond	15,000	
	Interest on Foreign Investment	20,000	225,000
			678,000
Add:	Revenue profit on sale of asset		20,000
Taxable income from Business			698,000
Non-Business Income:			
	Dividend	120,000	
	Capital Gain on sale of Asset	20,000	
	Interest on Foreign Investment	20,000	160,000
Total Income			**858,000**

Computation of Tax Liability:

On total income excluding Capital Gain & Dividend		
25 % of taka 718,000 (858,000 – 140,000)	taka	179,500
On Capital Gain (15% of taka 20,000)		3,000
On Dividend Income (20% of taka 120,000)		24,000
Gross Tax Liability		206,500
Advance Payment of Tax		30,000
Net Tax Payable		**176,500**

Minimum Tax

Turnover	3,500,000	Minimum Tax @ 0.60% is Tk. 21,960.
Income from 'Capital Gain'	20,000	As actual tax liability becomes more than minimum
Income from Other Sources	140,000	tax, company is required to pay the total amount of
Total Gross Receipt	3,660,000	net tax payable as computed above (U/S 82C).

Notes: (1) It is assumed that donation is paid to unrecognized institution. **(2)** Sale Proceed of the asset taka 100,000 whereas, Written Down Value Tk. 60,000; so, Gain on Sale Tk. 40,000. Out of which, Capital gain is Tk. 20,000 [sales proceeds less initial cost of the asset] and the rest Tk. 20,000 is revenue gain. **(3)** Interest on zero coupon bond is exempted from tax.

Illustration 18C – 2:

The financial statement extract for ABC & Co for the income yean ended on June 30, 2017 is given below:

ABC & Co

Trading, Profit & Loss and Profit & Loss Appropriation Account

Dr. **Cr.**

Beginning Inventory	Tk. 150,000	Sales	Tk. 8,000,000
Purchase	4,500,000	Ending Inventory	500,000
Wages	500,000		
Fuel, Power and Gas	350,000		
Gross Profit	3,000,000		
	8,500,000		8,500,000
Salary	1,200,000	Gross Profit brought down	3,000,000
Repairs	210,000	Share Premium	400,000
Addition to Building	450,000	Recovery of Bad Debt	25,000
Interest on Debenture	50,000	Refund of Income Tax	15,000
Legal Expenses	20,000	Dividend	60,000
Audit Fee	45,000	Gain on Sale of Asset	40,000
Income Tax	40,000	Interest on Tax Exempt	
Provision for Bad & Doubtful Debt	25,000	Govt. Securities	22,000
Donation	25,000		
Loss on Sale of Investment	15,000		
Loss of Stock due to Fire	120,000		
Penalty	25,000		
Depreciation	80,000		
Net Profit	1,257,000		
	3,562,000		3,562,000

Commission to Managing Agent	82,000	Net Profit brought down	1,257,000
Bonuses to Shareholders	218,000		
Provision for Taxation	40,000		
Dividends	80,000		
Balance	837,000		
	1,257,000		1,257,000

Determine the taxable income of the company and net tax liability thereof. Assume that ABC & Co is a public limited company and their tax depreciation amounts to taka 100,000; provision for bad & doubtful debt allowed to the extent of taka 10,000 and the company has sold an asset for taka 100,000 that the company has purchased 4 years back at a cost of taka 80,000 with a written down value of taka 60,000 to date.

Solution 18C – 2:

ABC & Co
Status: Resident Company
Income Year: 2016-17
Assessment Year: 2017-18

		Taka	Taka
Income from Business or Profession:			
Net Profit as per Profit and Loss Account			1,257,000
Add:	Inadmissible Expenses		
	Depreciation	80,000	
	Provision for Bad & Doubtful Debt	25,000	
	Income tax	40,000	
	Legal Expenses	20,000	
	Loss on sale of Investment	15,000	
	Donation	25,000	
	Penalty	25,000	
	Addition to Building	450,000	680,000
			1,937,000
Less:	Expenses Admissible but not Shown		
	Depreciation	100,000	
	Provision for Bad and Doubtful Debt	10,000	110,000
			1,827,000
Less:	Income received from Non-Business Heads		
	Dividend	60,000	
	Share Premium	400,000	
	Gain on sale of Asset	40,000	
	Interest on Tax Exempt Govt. Securities	22,000	522,000
			1,305,000
Add:	Revenue profit on sale of asset		20,000
Taxable income from Business			1,325,000
Non-Business Income:			
	Dividend	60,000	
	Capital Gain on sale of Asset	20,000	80,000
Total Income			1,405,000

Computation of Tax Liability:

Tax on total income excluding dividend and capital gain (25% of Tk. 1,325,000)	Tk.	331,250
Tax on dividend (20% of taka 60,000)		12,000
Tax on Capital Gain (15% of taka 20,000)		3,000
Gross Tax Liability		346,250
Less: Tax Rebate @ 10%		37,938
Net Tax Liability		**308,312**

Minimum Tax

Turnover	8,000,000	Minimum Tax @ 0.60% is Tk. 48,480.
Income from 'Capital Gain'	20,000	As actual tax liability becomes more than minimum
Income from Other Sources	60,000	tax, company is required to pay the total amount of
Total Gross Receipt	8,080,000	net tax payable as computed above (U/S 82C).

Notes: (1) Dividend declared is assumed to be more than 20% and thus rebate is claimed @ 10%. **(2)** Sale Proceed of the asset taka 100,000; Written Down Value Tk. 60,000; so, Gain on Sale Tk. 40,000; out of which capital gain is Tk. 20,000 [sale proceeds less initial cost of the asset] and rest Tk. 20,000 is revenue gain.

Illustration 18C – 3:

The income statement for the year ended June 30, 2017 of Jonesville Inc. is given below:

Jonesville Inc.
Income Statement
For the year ended June 30, 2017

Dr.			Cr.
Salaries	450,000	Gross Profit	1,535,000
Office Rent	110,000	Dividend	60,000
Commission	50,000	Share Transfer Fee	40,000
Advertisements	120,000	Unclaimed Dividend	35,000
Donation	80,000	Gain on Sale of Furniture	25,000
Interest on Loan	60,000		
Bad Debt	35,000		
Trademark	25,000		
Fine and Penalty	30,000		
Audit Fee	60,000		
Legal Expenses	40,000		
Loss on Embezzlement	30,000		
Income Tax	25,000		
Share Discount	70,000		
Dividend Equalization Fund	40,000		
Depreciation	70,000		
Net Profit	400,000		
	1,695,000		1,695,000

Determine the taxable income of the company and net tax liability thereof. Assume that Jonesville Inc. is a public limited company and the salary expenses includes taka 20,000 paid to an employee as leave allowance and taka 25,000 as contribution to recognized provident fund; legal expenses includes taka 10,000 paid to the finders for purchasing land; tax depreciation amounts to taka

60,000; donation includes taka 30,000 paid as subscription to Dhaka Club; company has declared stock dividend of taka 1,50,000 during the year; the advertisement expenses were made for 6 years; the company donated Tk. 50,000 to a national level institution engaged in preserving the memory of liberation war and during the year, the company sold office furniture for taka 80,000. The initial cost of the furniture sold was 60,000 with written down value of taka 55,000.

Solution 18C – 3:

Jonesville Inc.
Status: Resident Company
Income Year: 2016-17; Assessment Year: 2017-18

	Taka	Taka
Income from Business or Profession:		
Net Profit as per Profit and Loss Account		400,000
Add: Inadmissible Expenses		
Advertisements (5/6 th)	100,000	
Donation	80,000	
Bad Debt	35,000	
Trade Mark	25,000	
Fine and Penalty	30,000	
Legal Expenses	40,000	
Loss on Embezzlement	30,000	
Income Tax	25,000	
Share Discount	70,000	
Dividend Equalization Fund	40,000	
Depreciation	70,000	545,000
		945,000
Less: Expenses Admissible but not Shown: Depreciation		60,000
		885,000
Less: Income received from Non-Business Heads		
Dividend	60,000	
Gain on sale of Asset	25,000	85,000
		800,000
Add: Revenue profit on sale of asset		5,000
Taxable income from Business		805,000
Non-Business Income: Dividend	60,000	
Capital Gain on sale of Asset	20,000	80,000
Total Income		**725,000**

Computation of Tax Liability:

Tax on total income excluding dividend and capital gain (25% of Tk. 805,000)	Tk.	201,250
Tax on dividend (20% of taka 60,000)		12,000
Tax on Capital Gain (15% of taka 20,000)		3,000
Gross Tax Liability		216,250
Less: Tax rebate @10% on Tk. 50,000 for CSR activities		5,000
Net tax liability		211,250

Notes: (1) Gain on Sale of Furniture is taka 25,000 (taka 80,000 – taka 55,000). Capital gain amounts to taka 20,000 (taka 80,000 – taka 60,000) and revenue gain amounts to taka 5,000 (taka 25,000 – taka 20,000). **(2)** As advertisement expenses are incurred for 6 years, expenses for 5 years are not allowed and therefore deferred. **(3)** Legal expenses and donations are not allowed. **(4)** Stock dividend has no impact on the calculation of taxable income. Here, it is assumed that the amount of dividend declared is less than 20% and so no rebate is claimed. **(5)** Leave allowance and contribution to RPF is allowable deductions. **(6)** It is not possible to compute minimum tax due to lack of information. It is assumed that the tax liability computed is more than minimum tax. **(7)** The company will claim 10% tax rebate for the donation to a national level institution engaged in preserving the memory of the liberation war which falls within the area of approved CSR. And the amount doesn't cross the maximum limit of Tk. 145,000 (20% of Tk. 7,25,000 or Tk. 8,00,00,000; which one is lower).

Illustration 18C – 4:

From the following Profit and Loss Account for the year ended 30th June 2017 of X Ltd, determine total income and tax liability.

X Ltd.

Profit and Loss Account

For the Year ended on June 30, 2017

Dr.			Cr.
Directors Remuneration	46,000	Gross Profit	375,000
Salaries and Wages	100,052	Dividend Income	30,000
Contribution to Provident Fund	8,800	Share Premium	30,000
Rent and Taxes	24,500	Sundry Income	13,000
Repairs and Operating Expenses	27,300		
Electricity	17,500		
Insurance	8,000		
Legal Expenses	14,500		
Audit Fees	5,800		
Printing, Stationery & Postage	14,600		
Compensation for termination of a Staff	10,000		
Purchase of Typewriter	5,948		
Advertisement	14,200		
Entertainment	7,500		
Provision for Bad Debt	4,400		
Depreciation	46,600		
Net Profit	92,300		
	448,000		448,000

Other Information:

Rent and Taxes included VAT of taka 4,200 which was paid for importing a machine and it was not used during the relevant year; Legal expenses included a sum of taka 10,000 spent for income tax appeal; The company is a trading company; Provident fund is recognized by the income tax authority; Bad debt written off previously was recovered during the year taka 2,000; Allowable depreciation taka 58,400; Repairs and operating expenses included taka 6,000 spent for the installation of a second hand air conditioner in the flat of MD; Entertainment expenses included a sum of taka 2,000 for which no clear explanation was available; and the company is not registered in the stock exchange.

(CMA adapted)

Solution 18C – 4:

X Ltd.
Status: Resident Company
Income Year: 2016 – 17
Assessment Year: 2015 – 16

		Taka	Taka
Income from Business or Profession:			
Net Profit as per Profit and Loss Account			92,300
Add:	Inadmissible Expenses		
	Rent & Taxes (to the extent of VAT)	4,200	
	Purchase of Typewriter	5,948	
	Provision for Bad Debt	4,400	
	Repairs and Operating Expenses	6,000	
	Entertainment Expenses – unexplained	2,000	
	Entertainment Expenses - additional	1,508	
	Depreciation	46,600	70,656
			162,956
Less:	Expenses Admissible but not Shown: Depreciation		58,400
			104,556
Add:	Income not Credited to P/L Account		
	Bad Debt Recovered		2,000
			106,556
Less:	Income received from Non-Business Heads		
	Dividend	30,000	
	Share Premium	30,000	60,000
Taxable income from Business			46,556
Non-Business Income:			
	Dividend		30,000
Total Income			**76,556**

Computation of Tax Liability:

Tax on total income excluding dividend (35% of Tk. 46,556)	Tk. 16,295
Tax on dividend (20% of taka 30,000)	6,000
Gross Tax Liability	**22,295**

Minimum Tax: It is not possible to compute minimum tax due to lack of information. It is assumed that the tax liability computed is more than minimum tax.

Note: Determination of admissible entertainment expense:

Net profit before charging entertainment expenses (taka 92,300 + 7,500)	Taka	99,800
Thus, admissible entertainment allowance: (4% of taka 99,800)	Taka	3,992
Inadmissible entertainment allowance (Taka 7,500 – 2,000 – 3,992)	Taka	1,508

Illustration 18C – 5:

The Income Statement of Fareast Enterprise Limited for the year ended 30th June, 2017 was as follows:

Particulars		Taka	Taka
	Sales	2,00,00,000	
Less:	Cost of Goods Sold	27,00,000	
	Gross Profit		1,73,00,000
Less:	Selling and Administrative Expenses		
	Printing and Stationary	3,00,000	
	Office Expenses	15,00,000	
	Salaries	25,40,000	
	Travelling Expenses	6,60,000	
	Audit fees	5,00,000	
	Legal Expenses for Income Tax Return	2,40,000	
	Repairs for residential houses of Employees	3,30,000	
	Compensation to the families of the staff	3,10,000	
	Robbery of Cash	4,60,000	
	Bad Debt provision	5,00,000	
	Commission	2,60,000	
	Renewal Charges for Trade Mark Registration	2,00,000	
	Bonus to Staff - Cash	8,00,000	
	Bonus to Staff - Bonus Share	6,00,000	
	Managing Agent's Commission	10,00,000	
			1,02,00,000
			71,00,000
Add:	Profit on Reissue of shares	1,20,000	
	Profit on Sale of Machineries	4,80,000	
	Share Premium	3,00,000	
	Interest on Tax - Exempt Govt. Securities	3,00,000	
	Sundry Income	9,00,000	
			21,00,000
	Net Profit		**92,00,000**

Additional Information:

(i) Tax has not been deducted on printing and stationary bills.

(ii) Salaries included Tk. 4,00,000 paid to the Retired Manager for house rent and Tk. 6,00,000 contribution to the Pension Fund.

(iii) Compensation to the family of a staff included Tk. 1,00,000 paid for a peon who was injured in a road accident while bringing breakfast for the manager and Tk. 2,10,000 paid for the termination of a certain employee.

(iv) Bad Debt Tk. 80,000 and Tk. 60,000 provision for the last year were written off.

(v) Commission paid to a certain Staff Tk. 3,000.

(vi) The sold machine was purchased six years ago and its book value was Tk. 2,00,000 but its book value as per Income Tax Rule was zero. The cost price of the machine was Tk. 10,00,000.

Determine the Taxable Income and tax should be paid by the Company.

Solution 18C – 5:

Assesse: Fareast Enterprise Limited
Assessment Year: 2017 – 2018; Income Year: 2016 – 2017

	Particulars	Tk.	Tk.
	Net Profit as per Profit and Loss Account		9,200,000
Add:	Inadmissible expenses:		
	Printing and Stationary Expenses	300,000	
	Bad Debt Provision (5,00,000 + 60,000)	560,000	
	Robbery of Cash	460,000	1,320,000
			10,520,000
Less:	Non-business income:		
	Profit on Reissue of Shares	120,000	
	Profit on Sale of machine	480,000	
	Share Premium	300,000	
			900,000
			9,620,000
Less:	Admissible expenses:		
	Bad Debt Written off		80,000
			9,540,000
Add:	Business Income on sale of Machineries		680,000
	Income from Business		10,220,000
	Total Income:		
	Income from Business		10,220,000
	Interest on Tax-free Govt. Security (Fully Exempted)		-
	Total Income		**10,220,000**

Tax Liability

Particulars	Gross Income	Tax Rate	Amount of Tax
Tax on Total Income	Tk. 10,220,000	35.00%	Tk. 3,577,000

Notes: **(1)** Tax has not been deducted at source and therefore it is considered as inadmissible. **(2)** House Rent paid to the Retired Manager and Contribution to the Pension Fund are admissible expenses for the company. **(3)** Compensation paid for the injury of a peon and termination of a certain employee is admissible expense. **(4)** Commission paid to a certain staff is considered as business expense and as such it is admissible. **(5)** All other expenses charged as administrative and selling expenses have been assumed as business expenses. **(6)** Robbery of cash has been assumed as done by the stranger during the office period and as such it is inadmissible. **(7)** Profit on Sale of Machineries has been considered as business profit. **(8) Capital Gain on Sale of Machine:**

Sale Value (2,00,000 + 4,80,000)	680,000
Original Cost	1,000,000
Capital Gain	Nil
Revenue Gain / Business Income from Sale of Machine:	
Sale Value	680,000
Book Value	Nil
Total gain	680,000
Capital Gain	Nil
Business Income or Revenue Gain	680,000

Illustration 18C – 6:

The following adjusted accounts appeared in the records of ABC Ltd. for the year ended December 31, 2016. Numbers in brackets refer to the items in additional information.

(Amount in '000 Tk.)

	Amount	Ref
Revenues and Gains:		
Net sales	126,500	
Interest	1,000	(1)
Gain on sale of shares	2,500	(2)
	1,30,000	
Costs and Expenses:		
Cost of goods sold	65,300	
Salaries and wages	26,000	(3)
Security services	300	(4)
Audit and taxation services	500	
Office rent	600	
Donations	1,800	(5)
Board meeting attendance fee	300	(6)
Other expenses	3,000	(7)
Depreciation	8,000	(8)
Corporate income tax	4,500	(9)
Total	110,300	
Net profit	19,700	
Dividends paid	9,000	(10)

Additional Information

(1) Interest revenue comprises interest on government bonds issued in 2011 and purchased by ABC Ltd. in 2014.

(2) Gain on sale of shares arose from the following purchase and sale of shares of a company listed with DSE and CSE:

Bought in 2011 cost	Tk. 12,00,000
Sold in 2014 proceeds of sale	Tk. 37,00,000

(3) Salaries and wages include inter alia salary of Finance Manager Tk. 6,00,000 (consolidated) paid in cash (not by cheque or bank transfer), gratuity (unapproved) provision of Tk. 15,00,000 and gratuity payment of Tk. 10,00,000.

(4) Security services include payments to a private security company. No VAT was deducted at source from such payments.

(5) Donations were all paid in 2014 to ICMAB, specially designated for the purchase of library books, computers and training materials.

(6) No income tax and VAT was deducted at source from Board meeting attendance fee paid to 10 (ten) directors.

(7) Other expenses include inter alia:

(a) Entertainment expenses of Tk. 5,00,000 spent on MD's birthday party; and

(b) Four foreign travels of MD, each costing Tk. 2,00,000. All foreign trips were for business purposes.

(8) ABC Ltd. has always used written down value depreciation and same depreciation rates for both accounts and tax purposes.

(9) Corporate income tax is the amount estimated before preparation of the tax return. 60% of the estimated amount of tax has been paid as advance tax during the year 2014.

(10) Dividend has been paid at the rate of 25%.

The company has a capital loss of Tk. 10,00,000 carried forward from the assessment year 2013-2014. ABC Ltd. is a publicly traded company.

Required: Compute the total income and the total income tax liability of ABC Ltd. while making the above computations, any non-compliance of the relevant provisions of the tax laws (income tax as well as VAT) by the company are to be considered strictly in accordance with the legal provisions for such non-compliances. If considered necessary, you may make assumptions in the light of the relevant tax provisions. *(CMA Adapted)*

Solution 18C – 6:

ABC Ltd.
Computation of Total Income
For the year ended on December 2016
Assessment year: 2017 – 2018

		Taka
Net profit as per accounts		1,97,00,000
Less: Income for consideration at separate head:-		
(a) Interest	Tk. 10,00,000	
(b) Capital gain on sale of shares of listed companies	25,00,000	35,00,000
		1,62,00,000
Add: Inadmissible Expenses		
(1) Salary and wages		
(a) Salary of finance Manager Tk. 6,00,000 disallowed as per provision of section 30(i) being paid in cash not by crossed cheque of bank transfer		6,00,000
(b) Gratuity provision Tk. 15,00,000 disallowed being no such provision is allowable u/s 29 of ITO 1984		15,00,000
(c) Gratuity payment Tk. 10,00,000 disallowed being not Approved by the NBR		10,00,000
		31,00,000
(2) Security service Tk. 3,00,000 Disallowed fully under section 30(aa) being VAT was not deducted at source		3,00,000
(3) Donation.Tk.18,00,000 Disallowed fully as it is not allowable business expenditure u/s 29. Moreover, donation was made to ICMAB which is not approved Institution of NBR. So it will not be considered for CSR also.		1,80,000
(4) Board Meeting Attendance fee Tk. 3,00,000 TDS not applicable but VDS is applicable on Board meetings Attendance fee. AS VAT was not deducted at source from Board meeting attendance fee, so disallowed such expense u/s 30(aa)		3,00,000
(5) Other Exp. Tk. 30,00,000		
(a) Entertainment exp. of Tk. 5,00,000		

Spent on MD's birthday party which is personal expenditure and no such personal expenditure is allowable u/s 29	5,00,000
(b) Foreign travel for business purpose Tk. 8,00,000 It is allowable u/s 30(k) up to 1% of the disclosed turnover which is Tk. 12,65,00,000 x 1% = Tk. 12,65,000. As it is within limit, so nothing to add back from here.	Nil
(6) Corporate Income Tax Tk. 45,00,000 Tax is not an expense and hence it is not allowable expenditure u/s 29. So disallowed corporate income tax fully	45,00,000
	88,80,000
Income for Business or Profession	2,50,80,000
Income from Interest on securities (Sec. 22)	10,00,000
Capital Gain (Sec. 31)	
Capital Gain from sales of Shares of Listed Co.	25,00,000
Less: Capital loss of Tk. 10,00,000 for the A/Y 2013-2014 Carried forward for set off u/s-40 (Tk. 10,00,000 – Tk. 5,000)	9,95,000
	15,05,000
Total Income	**2,75,85,000**

Tax Calculation:

Tax on income other than Capital Gain @ 22.5% (as dividend paid more than 20%)	58,68,000
Tk. 2,75,85,000 – 15,05,000 = 2,60,80,000 x 22.5% =	
Tax on Capital Gain @ 10% as per SRO No. 269 of 2011 Tk.15,05,000 x 10%	1,50,500
	57,17,500
Add: Simple Interest for non-payment of adequate advance tax u/s 73	
Tk. 58,68,000 x 75% = Tk. 44,01,000	
Less: advance tax paid (45,00,000 x 60%) = Tk. 27,00,000	
Tk. 17,01,000 x 10% for 2 years	
(Assuming it was not paid as per provision of section 64) for 2 years	3,40,200
(From 1st April 2015 to 31st March 2017) (Assuming date of assessment is 31.03.17)	
	60,57,700
Less: Advanced Tax paid (60% of Tk. 45,00,000)	27,00,000
Net Tax Payable	33,57,700
Test of minimum tax:	
0.60% of Gross receipt of Tk. 13,00,00,000 =	7,80,000
Which is lower than tax at normal tax rate. So net tax playable will be	33,57,700

Illustration 18C – 7:

From the following Profit & Loss Account of Oman Bank, a non-resident bank, for the year ended on 31/12/2016, compute total taxable income and tax liability:

	Debit (Tk.)		Credit (Tk.)
Salaries and allowances	20,00,000	Interest and commission	1,20,00,000
Interest on deposit	40,00,000	Gain from sale of old car	10,00,000
Car maintenance	5,00,000		
Head office expenses (as per allocation by head office)	3,00,000		
Bad debt	6,00,000		

Provision for bad debt	4,00,000	
Audit fee	2,00,000	
Depreciation	15,00,000	
Technical fee	1,00,000	
Scholarship to poor students	8,00,000	
Special reserve	2,00,000	
Advertisement	7,00,000	
Entertainment	8,00,000	
Traveling :		
(a) within the country	50,000	
(b) outside the country (including head office tour)	4,50,000	
Net profit	4,00,000	
	1,30,00,000	1,30,00,000

Additional Information:

(1) Salaries and allowances include incentive bonus to employees Tk. 3,00,000.

(2) VAT at source was not deducted from car workshop bill of Tk. 2,00,000.

(3) Provision for bad debt is within 1% of classified loan.

(4) Tax depreciation as per tax law is Tk. 10,00,000.

(5) Advertisement bill paid to advertisement agency for periodic advertisement to private TV channel. No tax at source was deducted from the bill because agent submitted their bill without any break-up of commission.

(6) The car sold was purchased 5 years ago at Tk. 50,00,000 and its book value (assumed to be written down value as per tax law) was Tk.25,00,000 at the time of sale at Tk.35,00,000

(CMA Adapted)

Solution 18C – 7:

Oman Bank
Computation of Total Income
For the year ended on 31st Dec. 2016
(Assessment year: 2017-18)

	Taka	Taka
A. Income from Business:		
Net profit as per profit and loss account	4,00,000	
Less: capital gain from sale of car (for consideration at separate head of Income)	10,00,000	
Shown Business Loss		6,00,000
Less: - disallowances of expenditures for consideration as per tax Law		
1. Depreciation (for consideration as per 3rd Schedule)	15,00,000	
2. Entertainment –(for consideration as per Rule-65)	8,00,000	
3. Head office Exp. –(for consideration as per Section 30(g))	3,00,000	
4. Technical Fee –(for consideration as per 30(h))	1,00,000	
5. Overseas Travelling –(for consideration as per 30(k))	4,50,000	
6. Incentive Bonus –(for consideration as per 30(j))	3,00,000	34,50,000
Income:		28,50,000

Add: - Inadmissible Expenses		
1. Car workshop Bill Payment Tk. 2,00,000 Out of total car maintenance of Tk. 5,00,000, car workshop bill payment was Tk. 2,00,000 where from no VAT at source was deducted. The Items from where VAT is to be deducted Car workshop Bill payment is one of them. So for non deduction of VAT at source, Car workshop bill payment is disallowed as per provision of section 30(aa) of ITO, 1984		2,00,000
2. Provision for bad debt Tk. 4,00,000 Provision for bad debt was allowable expenditure for banking companies up to assessment year 2006-07. As there is no such provision for the year under consideration, so disallowed fully		4, 00,000
3. Scholarship to poor students Tk. 8,00,000 As it is not business related expenditure so disallowed fully. 10% rebate facility is applicable in case of CSR if it is disbursed through Govt. approved educational institution and also fulfillment of other conditions. As there is no such information in the question so the bank will not be entitled to get 10% rebate facility		8,00,000
4. Special Reserve Tk. 2,00,000 Reserve is not an item of P & L. Moreover there is no information about the nature of such reserve and whether it is Govt. approved or not. So disallowed fully as section 29(1) (V) is not complied with		2,00,000
Advertisement Tk. 7,00,000 As it is not direct advertisement so TDS @ 3% is not applicable as per section 53 (k) Rather section 52A is applicable on commission paid to advertising agent. But as the quantum of commission is not identifiable and as NBR, has not declared any truncated base like private security service agency commission and stevedoring agency commission, so as there is no way to deduct tax at source, expenditure claimed will be allowed fully and nothing will be added back as per section 30(aa).		Nil
Less:		16,00,000
1. Tax Depreciation (as per 3rd schedule)	10,00,000	
2. Incentive Bonus (as per section 30 (j)	40,000	
3. Overseas travelling 1% of disclosed turnover i.e., Tk. 1,20,00,000	1,20,000	11,60,000
		4,40,000
Income base on which Entertainment H/O exp. and technical fee is allowable *(Reference NBR Clarification no 1 of 2003)*		32,90,000

	Less: Allowable exp. as per section 30		
	1. Entertainment (as per rule -65)		
	on 1st the 10,00,000@ 4%	40,000	
	on balance the 22,90,000@ 2%	45,800	85,800
	2. H/O Exp. 10% of assessed business income comes at Tk. 32,90,000 × 10% = 3,29,000 but the claim is Tk. 3,00,000 so the claim is allowed	3,00,000	
	3. Technical fee 8% of 32,90,000 come at Tk. 2,63,200/- but the actual claim is Tk.1,00,000/- As the actual claim is lower than the ceiling of entitlement, so the claim is allowed	1,00,000	4,00,000
	Income from Business:		28,04,200
B.	**Capital Gain:**		
	Capital Gain from sale of car shown Tk. 10,00,000		10,00,000
	As there is no information regarding the WDV, purchase price, sales price etc. gain as per tax law is not possible to calculate. So is assume that the car purchased and sold in the same year so that there is no question of deprecation, and if that is no depreciation then there is question of revenue gain from sale of car in addition to capital gain. Thus the capital shown by the bank is accepted		
	Total Income:		38,04,200

Tax calculation		
on Tk. 28,04,200 Tax @ 42.50%	11,91,785	
on Tk.10,00,000 tax @ 15%	1,50,000	
Tax liability:		**13,41,785**

Illustration 18C – 8:

The profit and loss account of Care Pharmaceuticals for the year ended on June 30, 2017 reports net income of taka 2,000,000. A careful scrutiny of accounts and supporting documents revealed the following facts:

During the year the company sold some of its pharmaceutical supplies that remained unused for a long time in the storeroom. The company sold the supplies for a loss of taka 150,000 as the expiry period is very close and charged such loss against current year's profit. The company recovered taka 20,000 from bad debt that was written off earlier and was allowed. The amount so recovered was credited to sundry debtors account. The company had taka 80,000 interests due to Bangladesh Development Bank Limited in the year 2010 and such interest was shown as allowable deduction in that year. Still, such interest remains unpaid. The company has a trading liability with one overseas company to the tune of taka 150,000 which has been totally waived by the overseas company under special agreement during this year.

During the year, the company sold one equipment for taka 180,000 which was purchased at a total cost of taka 130,000 and had a written down value of taka 90,000 on the date of sale. The company reports taka 90,000 as gain on sale of equipment in the credit side of profit and loss account. Due to a sudden fire on the factory building, the extended portion of the building is totally destroyed

and compensation received from the insurance company totaled taka 250,000. In addition, the company realized an additional sum of taka 30,000 by selling the scrap. The extension was constructed at a total cost of taka 400,000 and depreciation charged to date amounts to taka 50,000. The company sold a scientific apparatus used for scientific research for taka 80,000 which was originally purchased at taka 150,000 and fully depreciated. The sale proceed is not recorded at all.

The company have had export quota for exporting garments to EU countries. As the company has recently changed the line of operation (switched from garments manufacturing to pharmaceuticals), it transferred the export quota to another garments manufacturer for an annual sum of taka 70,000. Such income is not reported at all. The company claimed investment allowance for new machinery installed during the year costing taka 1,000,000 which is entitled to accelerated depreciation. Bonus and commission to the field representatives at the rate of 4 months pay taka 300,000 including 1 month's pay as festival bonus. But the general practice of bonus and commission for the similar business is two months pay. Sum of taka 120,000 paid to an institution for scientific research which is not approved by NBR. Besides, sum of taka 500,000 is expensed for establishing a hospital for the benefit of employees without any charge. The company has not claimed any other deduction or allowance.

Salary of taka 500,000 and rent of taka 80,000 were paid without deducting tax at source. Payment of brokerage and commission of taka 60,000 made to a non-resident without deducting tax at source. Annual perquisites enjoyed by MD, Chairman and 5 members of BOD amounts to taka 4,125,000. Accounting depreciation charged to the account is taka 250,000 but tax depreciation amounts to taka 300,000 excluding the amount of accelerated depreciation on machinery. Value of the free sample distributed was taka 200,000. Annual turnover during the year was taka 8,000,000. Expenditure on foreign travels for holidaying and recreation of the employees and their dependants to the extent of the amount equivalent to three months basic salary of taka 360,000; actual expenditure being taka 400,000 and that the travel was not oftener than once in two years. Sum of taka 50,000 expended to train employees (Bangladeshi citizen) in connection with a scheme approved by the Board. The company expensed a sum of taka 200,000 for visits abroad as a member of trade delegation sponsored by the government.

Annual membership fee of taka 150,000 is paid to Bangladesh Pharmaceutical Society which is a professional institution recognized by the Board. Expenditure on publicity and advertisement amounts taka 300,000 and Entertainment expenditure, taka 150,000.

Required: Compute the taxable income of the company.

Solution 18C – 8:

Care Pharmaceuticals
Status: Resident Company
Income Year: 2016 – 2017
Assessment Year: 2017 – 2018

	Taka	Taka
Income from Business or Profession:		
Net Profit as per Profit and Loss Account		2,000,000
Add: Inadmissible Expenses		
Excess Bonus paid to Field Representatives	120,000	

	Amount paid for conducting scientific research	120,000	
	Salary and Rent paid without TDS	580,000	
	Payment to Non-resident without TDS	60,000	
	Excess amount of Perquisites	800,000	
	Depreciation	250,000	
	Excess cost of Free Sample	40,000	
	Excess amount in Holidaying and Recreation	60,000	
			2,030,000
			4,030,000
Less:	Expenses Admissible but not Shown		
	Accelerated Depreciation on Machinery	800,000	
	Depreciation	300,000	
			1,100,000
Add:	Income not Credited to P/L Account		2,930,000
	Bad Debt Recovered	20,000	
	Interest due to Bangladesh Development Bank Ltd.	80,000	
	Waiver of a Trading Liability	150,000	
	Sale proceed of Scientific Apparatus	80,000	
	Receipt from transferring Export Quota	70,000	
			400,000
			3,330,000
Add:	Revenue Profit on Sale of Equipment		40,000
			3,370,000
Less:	Income received from Non-Business Heads		
	Gain on Sale of Equipment		90,000
	Adjusted net profit before allowance for Entertainment Exp.		3,280,000
Add:	Entertainment allowance to be considered separately		150,000
			3,430,000
Less:	Admissible Entertainment Allowance		88,600
	Taxable income under the head business		3,341,400
	Non-Business Income: Capital Gain		50,000
	Total taxable Income		**3,391,400**

Notes:

1. Loss on sale of supplies is an allowable deduction as such supplies does not fall under capital asset as per the definition given in sec 2(15).
2. Amount of bad debt recovered will be the current year's profit and should be credited to the profit and loss account as such bad debt was allowed earlier.
3. As the interest due to Bangladesh Development Bank Limited is not paid within three years, such interest will be deemed to be current year's income [U/s – 19(15)(aa)].
4. As the company received waiver of a trading liability during this year, it should be shown as deemed income of the year [U/s – 19(15) (b)].
5. Computation of Gain,

   Capital Gain and Revenue Gain from the sale of equipment:
   Sale Proceed of the asset taka 180,000; Written Down Value Tk. 90,000;
   So, Gain on Sale Tk. 90,000;
   Out of which capital gain is Tk. 50,000 [sale proceeds less initial cost of the asset] and rest Tk. 40,000 is revenue gain.

6. As the insurance compensation received (taka 250,000) is less than the amount of written down value of the building (taka 350,000), it is not taxable [U/s – 19(15)].
7. Sale proceed of the asset used for scientific research shall be the deemed income in the year of sale under section 19(20).
8. The rate of accelerated depreciation on machinery for the first year is 80%.
9. Calculation of amount of excess bonus paid to field representatives:
   Payment for 1 month, taka 60,000 (taka 300,000 ÷ 5).
   So, allowable bonus will be taka 180,000 (2 months bonus and 1 months festival bonus).
   Excess amount paid is taka 120,000 (taka 300,000 – taka 180,000).
10. The amount expensed for hospital is allowable deduction as it charges nothing against services from the employees and the company claims no deduction or allowance in this regard.
11. Allowable amount of perquisites to MD, Chairman and 5 Directors will be taka 3,325,000 (taka 475,000 × 7). Thus, excess amount of perquisite is taka 800,000 (taka 4,125,000 – taka 3,325,000) that is not allowed.
12. The allowable rate of free sample for a pharmaceutical industry is 2% for annual turnover upto taka 5 crore. The turnover of the company were taka 8,000,000 and free sample allowed is taka 160,000 (2% of taka 8,000,000). Thus, excess amount was taka 40,000 (taka 200,000 – taka 160,000) that is not allowed.
13. Three (3) moths basic salary taka 360,000 and 3/4th of actual expenditure (3/4th of 400,000) Tk. 300,000. Excess amount paid that is not allowed Tk. 60,000.
14. Amount of admissible entertainment allowance:
    On the first taka 1,000,000 @ 4% taka 40,000 and
    on the balance taka 2,430,000 @ 2% 48,600.
    So, on total income of taka 3,430,000 taka 88,600.

KEY POINTS

2. As per ITO, 1984 "Company" means a company as defined in the Companies Act, 1913 (VII of 1913) or Companies Act, 1994.
3. For a Company, "Resident", in respect of any income year, means a Bangladeshi company or any other company the control and management of whose affairs is situated wholly in Bangladesh in that year [U/s – 2(55)(c)].
4. A company assessee shall have to furnish a return setting forth therein its total income by the 15th day of July each year or within 6 months from the end of the income year whichever is later.
5. Where loss is assessed in any head of income, the company is entitled to set off the loss against its income assessed in other heads of that year excluding loss on speculation business and loss on capital gain.
6. Every company assessee shall pay advance tax in four equal installments falling on 15th Sept.; 15th Dec.; 15th March and 15th June of each financial year if the latest assessed income exceeds Tk. two lakhs.
7. Companies are not required to pay any minimum tax.
8. If any publicly traded company other than bank, insurance, financial institutions declare dividends at the rate of more than 20%, it will enjoy 10% of tax rebate on applicable tax.
9. For Bank, Insurance and Financial Institutions the applicable tax rate is 45%.
10. Accelerated depreciation on cost of machinery is admissible for new industrial undertaking in the first three years of commercial production @ 50%, 30% and 20% respectively.
11. In case of company, "undistributed profit" means total income with accumulated profit including free reserve.

Multiple choice questions:

1. A resident company should fulfill the following conditions except –
   (a) Should be a Bangladeshi company
   (b) Management and control should be in Bangladesh
   (c) Body corporate constituted by any law in Bangladesh
   (d) Should be publicly traded company
2. A company assessee shall have to furnish a return by the –
   (a) 15th July
   (b) 30th September
   (c) within 6 months from year end
   (d) later of a & c
3. Unabsorbed depreciation can be carried forward for –
   (a) 6 successive assessment year
   (b) next assessment year
   (c) unlimited period
   (d) no more than current year
4. Every company assessee shall pay advance tax in four equal installments falling on –
   (a) 15th Sept.; 15th Dec.; 15th March and 15th June
   (b) 15th June;15th Sept.; 15th Dec. and 15th March
   (c) 15th March: 15th June; 15th Sept. and 15th Dec.
   (d) 15th Dec.; 15th March 15th June and 15th Sept.
5. If the amount of advance tax together with the TDS, is less than 75% of the tax payable on the basis of regular assessment, what rate of interest is leviable –
   (a) 5%
   (b) 10%
   (c) 15%
   (d) 20%
6. Initial depreciation allowance on machinery for first year is @ –
   (a) 25%
   (b) 50%
   (c) 80%
   (d) 100%
7. Industry set up in EPZ is totally exempted from tax for a period of –
   (a) 4 years
   (b) 6 years
   (c) 8 years
   (d) 10 years
8. Listed companies are entitled to 10% tax rebate if they declare dividend @ –
   (a) 15% and above
   (b) 20% and above
   (c) less than 15%
   (d) less than 20%
9. Minimum tax limit for a company that reports loss in the income year is –
   (a) 0.25% of turnover
   (b) Tk. 3,000
   (c) 0.03% of Gross Receipt
   (d) None of the above

10. At least what percentage of capital a mobile phone operator company should issue through IPO to pay tax at minimum rate –
    (a) 5%
    (b) 10%
    (c) 15%
    (d) 20%

Identify the following statements as True (T) or False (F):

		T	F
1.	Minimum tax of a company will be Tk. 5,000.	T	F
2.	If a banking company states profit 50% higher than capital and reserve, it will not pay tax on excess profit.	T	F
3.	The charge of additional tax is applicable @ 5%.	T	F
4.	Capital gain arising out of Transfer of stocks and shares of any company registered under Companies Act, 1994 is taxed @ 15%.	T	F
5.	A company declared no divided will pay tax @ 40%.	T	F

Discussion Questions:

Question 18A – 1: What is meant by a company under ITO, 1984?

Question 18A – 2: State the conditions required to be a resident company.

Question 18A – 3: Discuss the implication of withholding tax and advance payment of tax from a company perspective.

Question 18A – 4: **"Company enjoys a number of fiscal incentives"** – explain.

Question 18A – 5: State the procedure of assessment of a company.

Question 18A – 6: In which situations a company can claim tax rebate and at what rate?

Question 18A – 7: Cite different tax rates applicable to different types of companies under finance ordinance 2008.

Question 18A – 8: Write short note on:
(a) Industrial company
(b) Set off and carry forward of losses
(c) Charge of additional tax
(d) Charge of minimum tax

Problem 18C – 1:

The profit and loss account of XYZ & Co is given below for the assessment year 2017-18.

XYZ & Co
Profit and Loss Account
For the year ended on June 30, 2016

Dr.			Cr.
Cost of Goods Sold	1,200,000	Sales	3,600,000
Salaries	500,000	Dividend	80,000
Rent	120,000	Interest	30,000
Advertisements	120,000	Gain on sale of Asset	30,000
Interest on Loan	80,000	Interest on Tax-Free Securities	25,000
Utility Expenses	60,000		
Charity	150,000		
Transportation Expenses	100,000		

Audit Fee	150,000		
Bad Debt	80,000		
Contribution to RPF	70,000		
Income Tax paid in Advance	50,000		
Fines paid to Customs	20,000		
Annual Membership	15,000		
Legal Expenses	40,000		
Insurance Premium	35,000		
Sundry Expenses	12,000		
Depreciation	80,000		
Net Profit	213,000		
Total	3,725,000		3,725,000

Other information:

1. Salaries paid without deducting tax at sources.
2. Tax depreciation amounts to taka 100,000.
3. Legal expenses are paid due to the litigation against the company.
4. The company has sold an asset for taka 100,000 that the company has purchased 4 years back at a cost of taka 80,000 with a written down value of taka 70,000 to date.

Required: Determine the taxable income of the company and net tax liability thereof. Assume that ABC & Co is a public limited company for the purpose of tax computation.

Problem 18C – 2:

The financial statement extract for XYZ & Co for the income yean ended on June 30, 2017 is given below:

XYZ & Co

Trading, Profit & Loss and Profit & Loss Appropriation Account

For the Year ended on June 30, 2017

Dr.			Cr.
Beginning Inventory	50,000	Sales	2,500,000
Purchase	1,000,000	Ending Inventory	100,000
Wages	100,000		
Fuel, Power and Gas	60,000		
Gross Profit	1,390,000		
	2,600,000		2,600,000
Salary	200,000	Gross Profit brought down	1,390,000
Repairs	40,000	Share Premium	400,000
Extension	150,000	Recovery of Bad Debt	5,000
Interest on Debenture	30,000	Refund of Income Tax	15,000
Lawyers Fee	20,000	Dividend	60,000
Audit Fee	45,000	Gain on Sale of Asset	20,000
Advance Income Tax	40,000		
Bad & Doubtful Debt	15,000		
Gift	25,000		
Loss on Sale of Investment	15,000		
Loss of Stock due to Fire	120,000		
Penalty	25,000		

Depreciation	60,000		
Net Profit	1,105,000		
	1,890,000		1,890,000
Commission to Managing Agent	82,000	Net Profit brought down	1,105,000
Bonuses to Shareholders	218,000		
Provision for Taxation	40,000		
Dividends	80,000		
Balance	685,000		
	1,105,000		**1,105,000**

Other Information:

1. Tax depreciation amounts to taka 80,000.
2. The company has sold an asset for taka 100,000 that the company has purchased 4 years back at a cost of taka 100,000 with a written down value of taka 80,000 to date.
3. Extension was made to the building.
4. The penalty was collected by the customs authority.

Required: Determine the taxable income of the company and net tax liability thereof. Assume that ABC & Co is a public limited company for the purpose of tax computation.

Problem 18C – 3:

The income statement for the year ended June 30, 2017 of Juvenile Inc. is given below:

Juvenile Inc.

Income Statement

Dr.	For the year ended June 30, 2017		Cr.
Salaries	350,000	Gross Profit	1,250,000
Office Rent	80,000	Dividend	60,000
Commission	30,000	Share Transfer Fee	40,000
Advertisements	60,000	Share Premium	60,000
Donation	40,000	Gain on Sale of Furniture	20,000
Interest on Debenture	60,000		
Provision for Bad Debt	25,000		
Copyright	30,000		
Penalty	30,000		
Audit Fee	40,000		
Law Charges	30,000		
Loss on Fire	40,000		
Advance Income Tax	25,000		
Insurance Premium	15,000		
Reserve Fund	40,000		
Depreciation	70,000		
Net Profit	465,000		
	1,430,000		**1,430,000**

Other Information:

1. Salary includes perquisites to the extent of taka 250,000.
2. Tax Depreciation amounts to taka 90,000.

3. Law chares are incurred due to the filing of a court case by the company against one of its competitor for infringement of trademark.
4. Donation is made to authorized institutions.
5. Company has declared 15% cash dividend and another 10% stock dividend.
6. During the year, the company sold office furniture for taka 80,000. The initial cost of the furniture sold was 90,000 with written down value of taka 60,000.
7. The advertisement expenses were made for 3 years.

Required: Determine the taxable income of the company and net tax liability thereof. Assume that Jonesville Inc. is a public limited company for the purpose of tax computation.

Problem 18C – 4:

From the following Profit and Loss Account for the year ended 30th June 2017 of Y Ltd, determine total income and tax liability.

Y Ltd.

Profit and Loss Account

For the Year ended on June 30, 2017

Dr.			Cr.
Remuneration to MD	30,000	Gross Profit	463,000
Salaries	80,000	Dividend Income	25,000
Contribution to RPF	40,000	Recovery of bad debt	4,000
Rent and Taxes	30,000	Share transfer fee	8,000
Repairs	25,000		
Utility	15,000		
Fire Insurance Premium	12,000		
Penalty	18,000		
Audit Fees	30,000		
Printing, Stationery & Postage	17,000		
Compensation from RPF	32,000		
Office Equipment	40,000		
Advertisement	30,000		
Entertainment	10,000		
Bad Debt	12,000		
Depreciation	33,000		
Net Profit	46,000		
	500,000		500,000

Other Information: (1) Rent and Taxes included VAT of taka 5,000 which was paid for importing an office equipment during the year. **(2)** Penalty was due to income tax authority due to tax evasion. **(3)** The company is a publicly traded company. **(4)** The recovered portion of bad debt was allowed for deduction in earlier years. **(5)** Tax depreciation taka 40,000. **(6)** Repairs included taka 4,000 spent for the installation of a second hand air conditioner in the flat of Chairman.

Problem 18C – 5:

The profit and loss account of Safe Pharmaceuticals for the year ended on June 30 2017 reports net income of taka 2,500,000. A careful scrutiny of accounts and supporting documents revealed: During the year the company sold some of its pharmaceutical supplies that remained unused for a long time in the storeroom. The company sold the supplies for a loss of taka 250,000 as the expiry

period is very close and charged such loss against current year's profit. The company recovered taka 30,000 from bad debt that was written off earlier and was disallowed. The amount so recovered was credited to sundry debtors account. The company had taka 80,000 interests due to Bangladesh Development Bank Limited in the year 2012 and such interest was shown as allowable deduction in that year. Still, such interest remains unpaid. The company has a trading liability with one overseas company to the tune of taka 100,000 which has been totally waived by the overseas company under special agreement during this year.

During the year, the company sold one equipment for taka 200,000 which was purchased at a total cost of taka 130,000 and had a written down value of taka 100,000 on the date of sale. The company reports taka 100,000 as gain on sale of equipment in the credit side of profit and loss account. Due to a sudden fire on the factory building, the extended portion of the building is totally destroyed and compensation received from the insurance company totaled taka 450,000. In addition, the insurance company realized an additional sum of taka 30,000 by selling the scrap. The extension was constructed at a total cost of taka 400,000 and depreciation charged to date amounts to taka 50,000.

The company sold a scientific apparatus used for scientific research for taka 80,000 which was originally purchased at taka 150,000 and depreciated for taka 70,000 till date. The sale proceed is not recorded at all. The company have had export quota for exporting garments to EU countries. As the company has recently changed the line of operation (switched from garments manufacturing to pharmaceuticals), it transferred the export quota to another garments manufacturer for an annual sum of taka 60,000. Such income is not reported at all. The company claimed investment allowance for new machinery installed during the last year costing taka 1,000,000 which is entitled to accelerated depreciation.

Bonus and commission to the field representatives at the rate of 4 months pay taka 300,000. But the general practice of bonus and commission for the similar business is two months pay. Sum of taka 120,000 paid to an NBR approved institution for scientific research. Sum of taka 200,000 is expensed for establishing a school for the benefit of employees without any charge. The company has not claimed any other deduction or allowance. Salary of taka 500,000 and rent of taka 80,000 were paid without deducting tax at source. Payment of brokerage and commission of taka 60,000 made to a non-resident without deducting tax at source. Excess amount of perquisites given to employees is taka 430,000.

Accounting depreciation charged to the account is taka 350,000 but tax depreciation amounts to taka 300,000 excluding the amount of accelerated depreciation on machinery. Value of the free sample distributed was taka 150,000. Annual turnover during the year was taka 9,000,000. Expenditure on foreign travels for holidaying and recreation of the employees and their dependants to the extent of the amount equivalent to four months basic salary of taka 480,000; actual expenditure being taka 400,000 and that the travel was not oftener than once in two years. Sum of taka 50,000 expended to train employees (Bangladeshi citizen) in connection with a scheme approved by the Board.

The company expensed a sum of taka 200,000 for visits abroad as a member of trade delegation sponsored by the government. Annual membership fee of taka 150,000 is paid to Bangladesh Pharmaceutical Society which is a professional institution recognized by the Board. Expenditure on publicity and advertisement is taka 250,000 and Entertainment expenditure, taka 180,000.

Required: Compute the taxable income of the company.

APPENDIX:

Computation of Income of Some Special Type of Business:

As per sections 28(2), 28(3), and 19(14) there are some special type of business like bank, insurance, leasing and like nature due to their typical nature of operation, where some special considerations are necessary for computing taxable income. As the readers may require such information, we have discussed these special types of business in this appendix.

Assessment of Bank:

According to Income Tax Ordinance, 1984, banks may have earnings from two different sources:

a) Income from business or profession; and
b) Interest on securities.

In this appendix, we will discuss only the income of banks from business or profession to be in line with the scope of this chapter. To assess the income of a bank, some special points are required to be considered carefully.

1. **Provision for bad and doubtful debt** and interest thereon made by a commercial bank including the Bangladesh Krishi Bank and the Rajshahi Krishi Unnayan bank, is allowed as deductions to the extent of 1% of the total outstanding loan including interest thereon or the amount of actual provision for such bad and doubtful debt and interest thereon in the books of the assessee, whichever is less. If any amount out of the amount so deducted is ultimately recovered the same shall be deemed to be a profit of the year in which it is recovered. [Sec29(xviiiaa)]

2. When a banking company operating under Bank Company Act, 1991 shows profit in its return of income at an amount exceeding 50% of its capital and reserve, the bank shall pay an **excess profit tax** for that year at the rate of 15% on such excess profit. (Sec 16C). For the purpose of capital and reserve computation, Bangladesh Bank BRPD circular is relevant.

3. In the case of Bangladesh Development Bank Ltd., Investment Corporation of Bangladesh and any commercial bank including Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank, the income by way of interest in relation to such categories of bad and doubtful debt as the Bangladesh Bank may classify, shall be taxed in the income year in which it is credited to the profit and loss account or in the income year in which it is actually received, whichever is earlier. [Sec 28(3)]

Example:

ABC Bank Ltd., a bank incorporated in Bangladesh, has submitted the following audited income statement showing profit before tax of TK 258,000 for the income year 2016-17. You have been provided with the notes supporting the figures to compute the tax liability of the bank for the respective assessment year:

	Tk.	Tk.
Interest Income		650,000
Interest Paid on Deposits & Borrowings etc.		200,000
		450,000
Net Interest Income		100,000
Income from investments		60,000
Commission, Exchange and Brokerage		81,000
Other Operating Income (20+61)		**691,000**
Total Operating Income (A)		
Less: Operating Expenses		
Payment to Employees	215,000	
Postage and Telegrams	5,000	
Rent, Rates & Insurance, etc.	11,000	
Legal Charges	2,000	
Directors' Fees	2,000	
Auditors' Fees	1,000	
Repairs to Premises	60,000	
Stationery, Printing and Advertisements	72,000	
Stamps	3,000	
Charges on Loan Losses	5,000	
Other Expenses of Business	15,000	
Total Operating Expenses (B)		**391,000**
Profit / (Loss) before Provision (C=A-B)		300,000
Provisions:		
Specific Provision	12,000	
General Provision	30,000	
Total Provision (D)		42,000
Total Profit / (Loss) before Taxes (C-D)		**258,000**

Supporting Information:

1. Accounting depreciation charged was Tk. 50,000 whereas tax depreciation is Tk. 80,000.
2. Inadmissible expenses have been found as follows:

Perquisites	Tk.	50,000
Printing and Advertisement (capital nature)		40,000
Other expenses (tax is not deducted at sources)		10,000

3. Balance Sheet (extract):

Paid up Capital	Tk.	2,000,000
Statutory Reserve		750,000
Retained Earnings		250,000
Dividend Equalization Fund		200,000

4. Classification of Loans and Advances:

Unclassified	Tk.	2,100,000
Sub-standard		850,000
Doubtful		1,145,000
Bad/Loss		10,250,000

5. Entertainment Expenses amounts to Tk. 65,000 for the period.

Solution:

ABC Bank Limited
Assessment Year: 2017 – 2018
Computation of Taxable Income and Tax Liability

	Taka	Taka
Net Profit as per audited accounts		258,000
Less: Income to be considered separately		
Income from Investment		100,000
		158,000
Add: Expenses to be considered separately		
Accounting Depreciation	50,000	
Provision for Bad and Doubtful Debt	42,000	
Entertainment Expenses	65,000	157,000
Add: Inadmissible Expenses		
Perquisites	50,000	
Printing and Advertisement	40,000	
Other Expenses	10,000	100,000
		415,000
Less: Expenses admissible but under separate rates		
Tax Depreciation	80,000	
Provision for Bad and Doubtful Debt (Note 1)	42,000	122,000
		293,000
Add: Income from Investments		100,000
		393,000
Less: Entertainment Expenses (Note 2)		15,720
Total Taxable Income		**377,280**

Calculation of Tax Liability:

Net Tax Liability	Tk. 377,280 @ 40%	**Tk.**	**150,912**

Notes:

1. Total loans outstanding irrespective of classifications amounted to Tk. 14,345,000. Thus, 1% of the loan amounts to 143,450. But, actual provision made amounts to Tk. 42,000 which is less and therefore allowed.
2. The rate for allowable entertainment expenses is 4% on income of first Tk. 1,000,000 and 2% on rest, if any. Thus, in this case entertainment expense will be Tk. 15,720 (4% of Tk. 393,000).

Answers:

Multiple choice questions		True/False
1. d	6. a	1. F
2. d	7. d	2. F
3. c	8. b	3. T
4. a	9. d	4. F
5. b	10. b	5. T

Self review 18C – 1:

75% of total assessed income is	: Tk. 285,000
Advance Tax + TDS (Tk. 120,000 + Tk. 32,000)	: Tk. 152,000
Shortfall: Tk. 285,000 – Tk. 152,000	: Tk. 133,000
Interest required to be paid: 10% of Tk. 133,000	: Tk. 13,300

Self review 18C – 2:

a. ABC plc is required to pay additional tax at the rate of five per cent on the undistributed profit in addition to tax payable under IT Ordinance.

b. XYZ Banking Company shall pay an excess profit tax for that year at the rate of fifteen per cent on so much of profit as it exceeds fifty per cent of the aggregate sum of the capital and reserve.