

**CMA JANUARY-2022 EXAMINATION
ADVANTAGE LEVEL-II
ADVANCED INCOME TAX & VAT**

Model Solution

Solution of the Q. No. 1

(a) Candidate is expecting to draft a formal advice to Mr Kamrul Islam mentioning the provisions for special tax treatment in respect of investment in securities for disclosing undisclosed income as per section 19 AAAA of the Income Tax Ordinance 1984.

Date: Exam date

Mr Mr Kamrul Islam
Old Dhaka
Bangladesh

Subject: Advice regarding disclosing of undisclosed amount of Tk 10 crore in income tax return for the income year 2021-2022.

Referring our discussion yesterday, please see below the income tax provisions for disclosing undisclosed money through investment in securities.

1. To avail the opportunity for disclosing undisclosed money through investment in securities, you must invest Tk 10 crore in BSEC approved securities through BO account during the period 1 July 2021 to 30 June 2022.
2. You have to pay tax @25% on your investment (i.e. Tk 25,000,000) and 5% penalty on such tax (i.e. Tk 1,250,000). So, you have to pay a total of Tk 26,250,000 through pay order or automated challan with in 30 days from such investment to the DCT. Then, no question will be asked by the tax authority regarding the source of your income. Note that if you are not able to deposit such tax and penalty within 30 days from the date of investment, then the disclosed investment to be considered as an "income from other sources" and tax will be imposed at regular rate.
3. You have to submit a declaration form (IT D2020) to the DCT for such investment.
4. You cannot withdraw any money from the capital market within one year from such investment. If you withdraw any money or keep any money in BO account rather investing in securities, you have to pay penalty on such withdrawal @10%.

If you comply with the above provisions, then you can disclose Tk 10 Crore as an investment in Income tax return for the income year 2021-2022.

Hope it is clear to you. Should you have further asking, please feel free to ask in this regard.

Yours truly,

-Sd-

(b)

**Mr Aminur Rahman (Government Employee – Deputy Secretary)
Income Year: 2020-2021
Assessment Year: 2021-2022**

Determination of total income and tax liability:

Income from Salary	
Basic salary (56,500*12)	= 678,000
Festival bonus (56,500*2)	= 113,000
Medical allowance = 18,000 exempted	-----
New year bonus = 11,300 exempted	-----
Income from other sources:	
<u>Lecture Honorarium</u>	<u>59,000</u>

Total income 850,000

Computation of tax liability:

First 300,000 @0%	Nil
Next 100,000@5%	5,000
Next 300,000 @10%	30,000
<u>Remaining 150,000 @15%</u>	<u>22,500</u>
Total tax liability	57,500
<u>Less: Investment allowance (W-1)</u>	<u>31,875</u>
<u>Tax payable</u>	<u>25,625</u>

Working 1: Investment Allowance calculation:

PF Contribution (14,000x12)	168,000
Welfare fund (150x12)	1800
Group Insurance (100x12)	1200
<u>DPS (5000 maximum x12)</u>	<u>60,000</u>
<u>Total</u>	<u>231,000</u>

Eligible Amount:

(a)Total investment	231,000
(b)25% of total income 850,000	212,500
(c)	15,000,000

Which one is lower: i.e. 212,500

As the total income does not exceed Tk 15 lakh, total allowable investment allowance will be (212,500 x15%) = 31,875/-

Note: As per SRO 211 dated 21 June 2017, all salary income except basic salary, festival bonus or bonus are exempted from income tax for government employees. However, honorarium from lecture, or other source of income will not be tax exempted as per the SRO.

(c)

As per section 52 (1)(bb), Meri Gold Ltd must make the payment through bank transfer/cross cheque/using any Bangladesh Bank approved mobile financial service. The company has to deduct source tax @3% from the total amount before making the payment to M/s, Rasel Traders. Otherwise, this amount will be inadmissible, and tax will be imposed using regular rate.

After deducting the source tax, Meri Gold Ltd has to deposit the tax with the government exchequer within 15 days from the end of the month of deduction and must provide deposit challan to M/s, Rasel Traders.

Solution of the Q. No. 2

(a)

Income Year: 2020-2021

Assessment Year: 2021 – 2022

Assessee: XYZ

Net profit as per accounts	Tk. 200,000
Add: <i>Inadmissible</i> expenses	
Salaries to Partners A: 36,000; B: 45,000; C: 48,000	Tk. 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	<u>135,000</u>
	474,000
<u>Taxable income of the firm</u>	<u>Tk 674,000</u>

**Total Income of Each Partner
Partners**

	A	B	C	Total	Amount left to be distributed
Amount to be distributed					674,000
Salaries	36000	45000	48000	129,000	545,000
Interest	40,000	-	50,000	90,000	455,000
Commission	---	30,000	-	30,000	425,000
Profit (2:2:1 ratio)	170,000	170,000	85,000	425,000	-----
Total amount allocated	246,000	245,000	183,000		674,000 -

(b)

To
The CEO
Intragenic Ltd
The UK

Subject: Advice on transfer pricing method and implication for newly developed vaccine.

Dear Sir

As per section 107EE, the subsidiary needs to file the Transfer Pricing Return for purchasing the new vaccine from its parent in the UK.

In case of determining transfer pricing method, we need to take into the fact that this is a very unusual product (Vaccine) and it is being sold by the Parent Company at all other countries at a fixed price. As the subsidiary will act only as a distributor and resale the product, the transfer pricing method would be "Comparable uncontrolled Method" TPM Code:01

Also, as the vaccine is supplied to all the countries of the world at the same rate (\$ 250), there will not be any transfer pricing adjustment.

Thanking you for approaching to us for this matter.

Kind regards,
-Sd-

(c)

The Company maintains the records of economic activity centrally and manufactures, imports, stores, and supplies "similar goods" (i.e. same kind of electronic items) from all their factories, central depot, regional depots and sales depots respectively. Hence, Symphony Ltd is eligible to obtain central registration for all their units.

As per SRO 263/2019, if any manufacturer produces and supplies, imports identical or similar goods from two or more places and maintains all records and accounts of economic activity in a central unit can obtain central registration.

Solution of the Q. No. 3

(a)

Assessee: XYZ Ltd.	Assessment Year: 2021 – 2022	Income Year ended on December 2020
Net profit as per accounts		Tk. 19,700,000
Less: Income for consideration at separate head		
(a) Interest	Tk. 1,000,000	
(b) Capital gain on sale of shares of listed companies	<u>2,500,000</u>	(3,500,000)
Add: Inadmissible Expenses		
<i>Salary and wages</i>		
(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		600,000
(b) Gratuity provision Tk. 15,00,000 disallowed being no such provision is allowable u/s 29 of ITO 1984		1,500,000
(c) Gratuity Tk. 10,00,000 disallowed being not Approved by the NBR		1,000,000
<i>Security service</i>		
Disallowed fully U/s 30(aa) being VAT was not deducted at source		300,000
<i>Donation.</i>		
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.		180,000
<i>Board Meeting Attendance Fee</i>		
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)		300,000
<i>Other Expenses</i>		
(a) Entertainment expense of Tk. 5,00,000 spent on MD's birthday party which is personal expenditure, and no such expense is allowable u/s 29		500,000
(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. 1,265,00,000 x 1% = Tk. 12,65,000. As it is within limit, nothing needs to add back.		Nil
<i>Corporate Income Tax</i>		
Tax is not allowable expenditure u/s 29. So disallowed income tax fully		4,500,000
Income for Business or Profession		<u>25,080,000</u>

Income from Interest on securities (Sec. 22)	1,000,000
Capital Gain (Sec. 31)	
Capital Gain from sales of Shares of Listed Co.	2,500,000
Less: Capital loss of Tk. 10,00,000 for the A/Y 2018-2019	
Carried forward for set off u/s-40 (Tk. 10,00,000 – Tk. 5,000)	995,000
Total Income	27,585,000
Computation of Tax Liability	
Tax on income other than Capital Gain @ 22.5% (as dividend paid more than 20%)	Tk. 5,868,000
Tk: 2,75,85,000 – 15,05,000 = 2,60,80,000 × 22.5%	
Tax on Capital Gain @ 10% as per SRO No. 269 of 2011 Tk.15,05,000 × 10%	150,500
	6,018,500
Add: Simple Interest for non-payment of adequate advance tax u/s 73: Tk. 58,68,000 × 75% = Tk. 4,401,000 less: advance tax paid (45,00,000 × 60%) Tk. 2,700,000 =	
Tk. 1,701,000 @ 10% for 2 years, assuming it was not paid u/s 64 for 2 years.	340,200
(From 1 st April 2018 to 31 st March 2020) (Assuming date of assessment is 31.03.20)	6,358,700
Less: Advanced Tax paid (60% of Tk. 45,00,000)	2,700,000
	3,658,700
	Net Tax Payable
	3,658,700
Test of minimum tax: 0.60% of Gross receipt of Tk. 13,00,00,000 = 780,000 which is lower than tax at normal tax rate. So net tax payable will be Tk. 3,357,700.	

(b)

Balance brought forward from previous Return Period	Tk 1000
Add: Input VAT during current return period	30,000
Total input VAT	31,000
Less: output VAT collected on sale	15,000
Balance of input vat to be carried to next return period	16,000

In above case, there is no vat liability since M/s Sabrina Traders has already paid more VAT i.e. Tk 16,000.

Solution of the Q. No. 4

(a)

Mrs. Nusrat Jahan
Income year 2020-2021
Assessment year 2021-2022

Computation of total income and tax liability

Income from Bangladesh	Tk 2,000,000
Income from Sweden	Tk 600,000
Income from Russia	Tk 1,000,000
Income from Singapore	Tk 400,000
Total income	Tk 4,000,000

Tax liability:

On first income Tk 350,000 @0%	-
On Next Tk 100,000 @ 5%	5000
On Next Tk 300,000 @10%	30,000
On Next Tk 400,000 @15%	40,000

On Next	Tk 500,000 @ 20%	100,000
On balance	Tk 2,350,000 @ 25%	5,87,500
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Total tax		782,500
Less: Double taxation relief (Note 5)		190,000
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Net tax payable		595,000

Mandatory Notes:

1. Average tax rate in Bangladesh $(782,500/4,000,000)*100 = 19.56\%$
2. No tax relief will be received for income from Russia due to lack of DTAA as per NBR.
3. Tax relief for income from Sweden (DTAA exists) = $600,000*25\% = 150,000$. However, maximum limit is Tk 117,375 ($600,000 * 19.56\%$)
4. Tax relief for income from Singapore (DTAA exists) = 25% or average tax rate i.e 19.56% whichever is lower = $400,000*19.56\% = 78,240$
5. Total double taxation relief is = $117,375 + 78,240 = \text{Tk } 195,614$

(b)

In every situation taxable income and withholding tax are same because his yearly gross salary is Tk 6,000,000; whereas ceiling for house rent exemption is Tk 300,000, medical allowance is Tk 120,000 and conveyance allowance is Tk 30,000. Altogether he will get total yearly exemption of Tk 450,000 which is the highest as per ITO and same in every situation. His taxable salary will be $(6,000,000 - 450,000) = 5,550,000$ in all situations. Consequently, withholding tax in every alternative will be same. Tax planning will not work here due to high salary range for Mr. Sin To Zo

(c)

Decreasing adjustment means any of the following adjustments namely,

- a. A decreasing adjustment for the money paid as advance tax;
- b. A decreasing adjustment in respect of withholding taxes;
- c. A decreasing adjustment applicable as a result of an annual re-calculation;
- d. A decreasing adjustment for issuing credit note;
- e. A decreasing adjustment for input tax paid against export;
- f. A decreasing adjustment where there is a decrease in the vat rate
- g. A decreasing adjustment claimed for a negative net amount carried forward from a previous tax period;
- h. A decreasing adjustment allowed for VAT overpaid in a previous tax period; or
- i. Any other prescribed decreasing adjustment.

Solution of the Q. No. 5 (a)

<i>Stage – 1: Importer</i>	<i>Tk.</i>	<i>Stage – 2: Whole seller</i>	<i>Tk.</i>
CIF price of imported goods (Tk. 100,000 × 200)	20,000,000	Cost of purchase from importer	10,170,600
Add: Clearing and other charges	<u>100,000</u>	Less: Input VAT recoverable	<u>1,326,600</u>
Total cost of input	20,100,000	Net COGS	8,844,000
Input VAT recoverable	<u>Nil</u>	Add: Profit @ 10%	<u>884,400</u>
Net COGS (for 200 units)	<u>20,100,000</u>	Selling price excluding VAT	9,728,400
Net COGS (80 units)	8,040,000	Add: Output VAT @ 15%	<u>1,459,260</u>
Add: Profit (10%)	<u>804,000</u>	Selling price inclusive of VAT	<u>11,187,660</u>
Selling price excluding VAT	8,844,000		
Add: Output VAT @ 15%	<u>1,326,600</u>		
Selling price inclusive of VAT	<u>10,170,600</u>		

<i>Stage – 3: Retailer</i>	<i>Tk.</i>	<i>Stage – 4: Customer</i>	<i>Tk.</i>
Cost from wholesaler (80 units)	<u>11,187,660</u>	Cost of purchase from Retailers	
Cost of 60 units	8,390,745	(60 units)	8,381,620
Less: Input VAT recoverable [14,59,260/80*60]	<u>1,094,445</u>		
Net COGS	7,296,300		
Add: Maintenance and selling costs (2,000 × 60)	<u>120,000</u>		
Total COGS	7,416,300		
Add: Profit 10%	<u>741,630</u>		
Selling price excluding VAT	8,157,930		
Add: Output VAT @ 15%	<u>1,223,690</u>		
Selling price inclusive of VAT	<u>83,81,620</u>		

Workings:

	<i>Importer (200 units)</i>	<i>Wholesaler (80 units)</i>	<i>Retailer (60 units)</i>	<i>Consumer (60 units)</i>
Output VAT	13,26,600	14,59,260	12,23,690-	
Less: Input VAT	--	<u>13,26,600</u>	<u>10,94,445</u>	
Gross VAT Payable	<u>13,26,600</u>	<u>132,660</u>	<u>129,245</u>	
Net VAT Payable	13,26,600*60/80 =994,950	132,660*60/80 = 99,495	129,245	

VAT to be borne by the consumer (for 60 units) = 994,950 + 99,495 + 129,245 = 12,23,690

(b)

C & F Value	150,000/-
Insurance	1,500/-
Landing Charge	1,515/-
AV	= 153,015/-
CD	= 38,253.75
RD	= 4,590.45/-
SD	= 117,515 Tk.
VAT	= 47,006.21
AIT	= 7,650.75 Tk.
AT	= 15,668.74 Tk.
Total Tax	= 230,685.42 Tk.
Total Value	= 383,700 Tk.

(c) Economic activity means any activity carried on regularly or continuously for making supply of any goods, services or immovable property, and

(a) also includes the following activity, namely

- (i) any business, profession, vocation, means of earning livelihood, manufactures or undertaking of any kind, whether or not for profit;
- (ii) supply of any goods, service or property made under any lease, license or any similar arrangement
- (iii) any one-off initiative un the nature of a commercial activity or enterprise or
- (iv) any activity carried out at the beginning or at the end of such an activity; but

(b) shall not include the following activities, namely-

- i. any service rendered by an employee to his employer
- ii. any service rendered by any director or a company
- iii. any recreational pursuit or hobby carried on a non-commercial basis; or
- iv. any prescribed activity carried on by the government without any commercial motive.

= THE END =