BUSINESS PLANNING: TAXATION & COMPLIANCE

Nov-Dec 2024

Time allowed- 3:30 hours
Total marks- 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. Xerox Technology Limited ("Xerox") is a leading technology firm that has been engaged in various projects under the ICT division of the Government of Bangladesh since 2001. Xerox follows IFRS for maintaining its accounts and conducts annual audits with a top-tier audit firm in the country. Its financial year ends on June 30th each year.

For the assessment year 2022-23, Xerox submitted its income tax return on time under the self-assessment method and obtained a tax clearance certificate. However, the return was selected for audit, and during the audit, the Deputy Commissioner of Taxes (DCT) disallowed certain expenses, leading to an additional tax demand of Tk. 4,780,000 and delay interest of Tk. 1,250,000. The disallowances were for:

1) Canteen Expenses: Tk. 4,320,000
2) Interest on Right of Use (ROU) Assets: Tk. 2,700,000
3) Depreciation on ROU Assets: Tk. 9,000,000
4) Reversal of Bad Debt Provision: Tk. 3,100,000

Xerox filed an appeal before the Commissioner of Taxes (Appeal) and received an appeal order on August 30, 2024 which was originally served by the Commissioner of Taxes (Appeal) on May 30, 2024. The Commissioner upheld some disallowances and set aside others. The snapshot of the decision was as follows:

Sl No	Item	Disallowance by DCT	Decision of appeal	Reasons for disallowance
1.	Canteen Expenses	Tk. 4,320,000	Upheld	Treated as entertainment expenses
2.	Interest on ROU Assets	Tk. 2,700,000	Set-aside	Classified as non-business expenses.
3.	Depreciation on ROU Assets	Tk. 9,000,000	Set aside	Classified as non-business expenses.
4.	Reversal of Bad Debt	Tk. 3,100,000	Upheld	Not allowable as it is a provision.

As the tax consultant for Xerox, you requested detailed information on the office canteen expenses and the reversal of bad debts to understand the actual scenario. You received the following response:

"Dear Consultant,

Thank you for your email. Please find below the background information on the canteen expenses and bad debt reversal for your reference:

Canteen Expenses:

Xerox operates a canteen that provides snacks, tea, coffee, and fresh water to its employees. The consumption limit is based on the employee's designation, but in no case does the daily amount exceed Tk. 100 per person, while fresh water is provided free of charge.

Reversal of Bad Debt:

The company follows a policy for bad debt provisions, recognizing 50% of the provision for receivables overdue between 6 to 12 months, and 100% provision for receivables overdue for more than 12 months. In the relevant income year, there was a reversal of prior years' bad debt provisions based on these calculations. We have consistently experienced that bad debt expenses are disallowed by the DCT every year. Please also note that no bad debt has been written off since the company's operations began."

Additional Information:

- Consider todays date is October 20, 2024.
- Corporate tax rate for Xerox is 25%.

Requirements:

a) Advise Xerox about the next course of action based on the appeal order, and provide comments on timelines and further costs to be incurred by Xerox. 3

b) Draft a written submission to be filed before the DCT for justifying the deduction of interest and depreciation of ROU Assets. 5

c) Draft the grounds of appeal for the expenses upheld by the Commissioner of Taxes (Appeal) to be filed before the Tax Appellate Tribunal. Provide justification for your arguments in support of or against the decision of the Commissioner of Taxes (Appeal) based on the provisions of the Income Tax Act, 2023. 4

d) Assume Xerox failed to obtain a favorable judgment from the reassessment by the DCT as well as from the Tax Appellate Tribunal. Explain the options available to Xerox for seeking justice, including timelines and costs likely to be incurred by Xerox. 3

2. Ms. Kaniz Fatema is the proud owner of a magnificent four-story house located in the prestigious Gulshan area of Dhaka. The first floor of the house is currently rented out to commercial tenants who pay a monthly rent of Tk. 150,000. Moving up to the second and third floors, two families have taken up residence, each paying a monthly rent of Tk. 30,000 by 10 days of the current month after adjustment of advances, which was started from July 2023. To secure their tenancy, each family of second and third floors provided an advance payment of Tk. 360,000, which will be adjusted equally over a period of 24 months.

In addition to the rental income, Ms. Fatema collected a security deposit of Tk. 1,000,000 from the first floor tenant and Tk. 100,000 from each of the tenants on the second and third floors. These deposits serve as a guarantee for the proper use and maintenance of the property.

Ms. Fatema and her family enjoy the comfort and privacy of the fourth floor, which they occupy for their own residential purposes.

For the fiscal period ending on June 30, 2024, Ms. Fatema made the following payments:

i) Tk. 24,000 for municipal tax, Tk. 4,000 for land development tax and Tk. 36,000 for insurance expenses.

ii) For the year 2023-24 Tk. 672,138 was paid as interest on the home loan.

iii) Ms. Fatema obtained a home loan of Tk. 9,000,000 at an interest rate of 9% effective from 1st July 2021 and made a payment of Tk. 786,393 as interest for the fiscal period 2021-2022, prior to occupying the house starting from July 1, 2022. On 1st July 2023, the opening balance of the loan was Tk. 7,782,021, and the total repayment for the year 2023-24 including interest, was Tk. 1,368,098.

Additional information:

i) Ms. Fatema began renting out her house on July 1, 2023.

ii) She collected Tk. 5,000 each from all the tenants as a contribution towards service charges, covering common electricity and other utility expenses.

iii) The tenant on the first floor did not pay rent for the month of September 2023, citing unfavourable market conditions and non-utilization of the premises. Ms. Fatema decided to exempt the rent, fearing the potential loss of a good tenant, and treated it as a vacancy allowance, accordingly Ms. Fatema produced evidence of electric bill as required by law.

iv) For the fiscal year 2023-24, Ms. Fatema made investments in Sanchaya Patra for an amount of Tk. 10,00,000, fixed deposits with a scheduled bank for Tk. 500,000, and Govt. treasury bonds for Tk. 600,000.

v) Assume the annual value of the house is equal to the declared annual rental value and amount spent for repairs & maintenance including rent collection, and various charges didn't exceed the statutory limit.

Requirements:

a) Compute total income and taxes payable for Ms. Fatema from House Property income for the income year 2023-24 (A/Y 2024-25). 6

b) Determine the security deposit, unadjusted advance balance, and outstanding loan amount to be included in the Asset & Liability statement for the A/Y 2024-25, specifying whether they should be categorized as assets or liabilities. 3

3. **XYZ Manufacturing Limited** is a subsidiary company of XYZ International engaged in the trading, manufacturing and marketing of consumer goods. The company has been operating successfully in Bangladesh for the past 15 years. Below are the financial highlights for the year ended June 30, 2024, along with additional information relevant for computing the total taxable income and tax liability for the assessment year 2024-25:

Particulars		**Amount in Tk. Million(m)**
Revenue		11,000
Export Sales	5,000	
Local Sales	6,000	
Cost of revenue		(5,500)
Gross profit		**5,500**
Administrative expenses		(1,000)
Selling and distribution expenses		(1,500)
Profit/(loss) from operations		**3,000**
Finance expense		(140)
Foreign exchange loss		(200)
Realized loss	(50)	
Unrealized loss	(150)	
Other Income		100
Share of profit from associate	40	
Gain from sale of listed company's share	30	
Gain from sale of Vehicle	10	
Dividend Income	20	
Profit before tax		**2,760**

Additional Information:

1) Total outstanding interest aging more than 3 years amounts to Tk. 50 million after paying Tk. 100m from the outstanding balance during the year. Further, finance expense includes interest on a loan amounting to Tk. 100m, out of which nothing was paid during the year under consideration.
2) Ten motor cars have been sold during the year. Details of the sales are:
   - Acquisition cost per car was 10m.
   - Year of acquisition was AY 2022-23
   - Sale proceeds were Tk. 7m per car.
3) AIT paid while importing trading items was Tk. 100m. Import AIT amounting to Tk. 20m was related to the closing balance of the inventory (Not yet sold at the end of the year).
4) Selling expenses include discounts amounting to Tk. 80m, rebates Tk. 40m, and free goods to distributors amounting to Tk. 90m and advertisement amounting to Tk. 60m,
5) Tk. 350m donated to technical and vocational training institute approved by Ministry of Education of the Government.
6) For using the brands of the parent company, the company paid royalty Tk. 300m, which was charged to the cost of sales. Further, the company has allocated management expenses and software charges for using group software amounting to Tk. 200m, which has been included in the administrative expenses.
7) Total excess perquisites were Tk. 100m excluding the Managing Director's (MD). The following benefits were provided to the company's MD:
   - Annual basic salary – Tk. 10m
   - Free residence: The company paid annually Tk. 6m for his residence.
   - Free car facility: The company has arranged a rental car for him for which the company is required to pay Tk. 1m per year. However, the MD has shown deemed income in his income tax return amounting to Tk. 120,000 in this regard.
   - The company has paid membership fees for different types of clubs on behalf of the MD amounting to Tk. 5m.
   - Incentive bonus paid to the MD during the year under consideration was Tk. 10m.
8) The gross profit ratios between the Local sales and export unit were 60%:40%, which was allowed by the tax authority to allocate common business profit between these units.
9) Administrative expenses include depreciation of Tk. 220m on PPE and Tk. 100m on Right of Use (RoU) assets respectively. Payment for the lease of RoU assets during the year is Tk. 150m. Interest expense on lease liability amounts to Tk. 40m. Depreciation as per the 3rd schedule amounts to Tk. 160m.

10) The company has fulfilled all the conditions to qualify for the benefit of a lower tax rate for export income and the lowest corporate tax rates applicable for a private company.
11) Administrative expense includes "Retirement benefit for current service cost amounting to Tk. 20m". Company has recognized gratuity fund. Company didn't pay to the fund any amount during the year.
12) The trading liability of the company amounting to Tk. 40m, which has been offered to tax for aging more than 3 years, was paid during the year.
13) Administrative expenses include local purchase of stationery amounting to Tk. 50m on which tax has not been deducted. Administrative expenses include the reversal of provision expenses amounting to Tk. 20m, which had been offered to tax in earlier years at the time of creating the provision.
14) Advance tax paid during the year:
    - Withholding tax suffered on export – Tk. 50m.
    - Withholding tax suffered on supply – Tk. 400m.
    - AIT for importing raw materials and finished goods – Tk. 150m.
    - Withholding tax suffered on Dividend – Tk. 2m.

Requirements:

a) Compute the total taxable income along with the basis of computation for the assessment year 2024-25. 15

b) Compute the net tax liability for the assessment year 2024-25. 5

4. Sunrise Bangladesh PLC ('Sunrise Bangladesh') is a subsidiary of a global conglomerate Sunrise Corporation of Switzerland. Sunrise Bangladesh markets various electronics goods in Bangladesh, some of which it produces in its factory in Dhaka and others it sources from a contract manufacturer in China, Sunrise China Ltd, which is also a subsidiary of Sunrise Corporation. As per the group's transfer pricing policy, the contract manufacturer Sunrise China sold electronics goods to Sunrise Bangladesh at cost plus a 7.2 percent mark-up in the fiscal year 2023-2024.

The following table contains the last five year's weighted average mark-up of uncontrollable comparable companies for contract manufacturing activities:

Company	**Last 5 year's weighted average mark-up**
X	10.3%
Y	8.7%
Z	6.5%
W	9.1%
V	7.8%
U	5.9%
T	6.2%
S	8.4%
R	12.6%

As per the Income Tax Act 2023, the Bangladesh taxing authority measures the arm's length range by the interquartile range of results, which consists of the results ranging from 30% to 70%, for which a certain number of data sets are required as per the provision of the Income Tax Act 2023.

Requirements:

a) Identify the arm's length mark-up range for contract manufacturing from the above table. 8

b) Identify the arm's length mark-up in case the number of data sets available is only first 4 instead of 9 as given in the table above. 3

5. a) Alvee Footwear Limited is a 100% export-oriented company that manufactures and exports shoes to European markets. The company operates a large manufacturing facility in Savar, Dhaka, employing over 1,500 workers. Known for its eco-friendly practices, the company provides a favourable working environment for its employees.

The management has decided to open a value shop within the factory premises, where employees can purchase daily groceries at prices lower than the market rate. By sourcing products in bulk directly from manufacturers and leading suppliers, the company plans to supply groceries to the employees without applying any mark-up. Consequently, the value shop will not generate any profit.

Despite taking steps to keep grocery prices low, management is concerned about the VAT at the supply stage, which they believe at 7.5% on the supply.

Requirement:

Advise Alvee Footwear Limited on a VAT-efficient strategy that will allow employees to purchase groceries at the lowest possible price. 5

b) Mobile Cash Limited is a mobile financial services provider that offers its customers the facilities of transfer cash, pay utility bills, and conduct other allowable financial transactions through a mobile app, "GoCashless". The company charges 15% output VAT on all of its service fees and commissions. To support its business operations, the company installed information technology (IT) equipment which is integral to the mobile app. However, the company has not claimed input tax credit on this IT equipment, as it does not qualify as "inputs" as defined in Section 2(18A) of the VAT Act. The Finance Controller, however, believes that input tax credit should be allowed.

Requirement:
Advise the management of Mobile Cash Limited on whether input tax credit can be claimed for the IT equipment. 5

6. Mr. Anand, a respected economist in Bangladesh, recently conducted a study that highlighted a concerning issue regarding the effective VAT rate in the country. Despite the standard VAT rate being 15%, the actual rate experienced by businesses is significantly higher due to a substantial amount of non-recoverable VAT. One of the primary contributors to this problem is the absence of VAT registration among government agencies. Although these agencies collect VAT through treasury deposits from service recipients, they are not obligated to obtain VAT registration under the VAT & SD Act 2012. Consequently, they do not issue VAT challans, which prevents taxpayers from claiming input tax credit and imposes additional costs on companies.

Given your expertise as a Chartered Accountant well-versed in both local and international VAT practices, Mr. Anand has sought your guidance on how to address this issue effectively. The objective is to ensure VAT payment by service providers while simultaneously enhancing the recovery of legitimate input tax credit.

Requirement:
Using examples from the existing VAT & SD Act 2012, where taxpayers can claim input tax credit when dealing with unregistered suppliers supplying services in Bangladesh, prepare an advocacy note to address this issue for the next amendment of the VAT law to ensure enhance input tax credit recovery. 5

7. a) The Customs, Excise, and VAT Commissionerate - Dhaka (North) recently concluded an audit of Star Limited, covering the period from July 2017 to June 2023, spanning a total of five years. Subsequently, the Directorate of Audit, Intelligence and Investigation-VAT has issued a new letter indicating their intention to conduct a VAT audit for the period from July 2018 to June 2024. This new audit request does not specify any particular allegations.

The management of Star Limited is perplexed and uncertain about the appropriate course of action, given that a portion of the period in question has already been audited by a different VAT authority.

Requirement:
As the VAT manager of Star Limited, provide your comments to the management on the legal aspects involved in this matter. 5

b) Vodafone Limited (Vodafone/the Company) operates in Bangladesh under licenses for 4G and 5G services granted by the Bangladesh Telecommunication Regulatory Commission (BTRC). As part of the licensing agreement, Vodafone is obligated to pay an annual license fee of Taka 1 Crore. However, BTRC has not issued any tax invoices, and the National Board of Revenue (NBR) has not recognized BTRC's commercial invoices as valid tax invoices. Due to the absence of a valid tax invoice, Vodafone has deducted the entire VAT amount and claimed the input tax credit (ITC) in its VAT return based on the treasury challan.

The Commissioner of the Large Taxpayer Unit (LTU) has issued an order disallowing the claimed ITC, stating that ITC cannot be claimed based on the treasury challan. Given the significance of the amount of the ITC, the management of Vodafone is considering the next steps.

Requirement:
As the VAT manager of Vodafone, evaluate the position taken by the VAT authority and outline the remedial measures available to the company. 5

c) Toshiba Medical Systems, US (Toshiba US) is a manufacturer of advanced medical equipment such as CT scans, MRIs, Ultrasound machines, and Endoscopy devices. Hospitals and diagnostic centers in Bangladesh directly import these medical devices from Toshiba US, which is located outside of Bangladesh. These medical devices typically come with a standard warranty that covers installation, repair, and maintenance for a specified period.

To facilitate the installation and repair & maintenance services during the warranty period, Toshiba Medical Systems, US has entered into an agreement with Toshiba Medical Systems Bangladesh Private Limited (Toshiba Bangladesh). According to this agreement, Toshiba Bangladesh will provide the installation and repair & maintenance services to customers in Bangladesh at no additional charge to the customers. In return, Toshiba Bangladesh will receive a service fee from Toshiba US, which will be received in foreign currency.

Requirement:

Based on the above scenario, explain the VAT implications on the services provided by Toshiba Bangladesh to Toshiba US. 5

8. a) ACI Limited (ACI/the Company) is a prominent conglomerate in Bangladesh, specializing in the production of various fast-moving consumer goods (FMCG). Among its diverse product range, "Savlon Soap" is recognized as one of ACI's flagship brands in the country. The Company frequently imports a variety of raw materials (RM) from its affiliated entity based in India.

One of the key raw materials for soap manufacturing is "Soap Noodles". ACI consistently imports these "Soap Noodles" under the Harmonized System (HS) Code 2915.70.31, which is subject to the standard import duty. The regular import duty applicable under HS Code 2915.70.31 is as follows:

H. S. code	CD	RD	SD	VAT	AT	AIT	TTI
2915.70.31	25	3	10	15	5	5	73.96

SRO No. 164-AIN/2024/16/Customs, dated May 29, 2024, grants an exemption from Customs duty (CD) and Supplementary duty (SD) beyond the rates specified in the table below, as well as a complete exemption from Regulatory duty (RD):

H.S. code	Description of goods	CD%	SD%
2915.70.31	Sodium salt of palmitic acid **(soap noodle)** imported by Industrial IRC holder VAT compliant soap manufacturing industry	10	0

In November 2024, the company imported Soap Noodles valued at USD 10,000. The freight cost for this import was USD 2,000. The Customs authority has applied the standard rate for insurance and landing costs as per the valuation rules. The exchange rate from USD to Tk. is set at 115. The company holds an industrial IRC and regularly files VAT returns through the VAT online portal.

Requirements:

i) What are the effective rates of Customs Duty (CD), Supplementary Duty (SD), Regulatory Duty (RD), and Advance Tax (AT) for the assessment of the imported goods? 4

ii) Calculate the assessable value and import duties required for the clearance of the imported goods. [Note: 2 marks will be awarded for determining the assessable value and 1 mark for each import duty calculation] 6

b) Hope Bangladesh Ltd ('Hope') operates in the consumer goods sector in Bangladesh. It has a factory located in Bogra, where it produces high-quality consumer goods using raw materials imported from various countries. Hope follows an efficient inventory management system, such as Just in Time (JIT), and has a robust demand planning process in place. Recently, a consignment of raw materials imported from the Philippines has been disputed by the Customs Authority regarding the appropriate Harmonized System (H.S.) code. Despite having strong justification and supporting evidence, including an Advance Ruling decision from other countries, the Customs Authority insists on assessing the goods based on their determined H.S. code. If this happens, Hope will be required to pay duties at a rate twice as high as the value declared by Hope.

The procurement team is eager to have the goods released immediately, while the Customs Authority is unwilling to release the goods without receiving the duties based on their assessment.

Requirement:

As the Tax Manager of Hope, advise the company on the possible options that it should follow to release the goods without prejudicing its legal rights. 5

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