

[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. Mr. Javed Sharif FCA is a chartered accountant in practice. He is a Partner of MS Javed Rashid and Co. Fuzzy Trading Limited is one of his regular clients in taxation and advisory services. His partner Mr. Harunur Rashid FCA has also been providing statutory audit service to the company for the last 02 (two) years and has also been appointed as the statutory auditor for next year in the last AGM. The company has pending tax disputes with income tax authority for the last 05 (five) years. The company has filed appeal before the Taxes Appellate Tribunal for the Assessment Year 2021-2022. The appeal involves a tax dispute BDT 30,000,000 encompassing impact of disallowances under 06 (six) heads of expenses including disallowances under Section 30 of the Income-tax Ordinance, 1984. The company management wants to expedite the dispute resolution process and issued a request for quotation to Mr. Sharif to facilitate and take the appeal proceedings on behalf of the company. The company management prosed a basic fee of BDT 100,000 and a contingent fee of BDT 50,000 for each BDT 5,000,000 reduction in income tax demand consequent to the Tribunal Order. Considering the above, answer the following questions.

Requirements:

- a) Is there any threat to compliance with the fundamental principles of ethics for professional accountants in accepting the proposed engagement? 2
- b) What factors Mr. Sharif may consider in evaluating the threats, if any? 2
- c) Should Mr. Sharif accept the proposed engagement as it is? If yes, justify your position, if not, suggest appropriate safeguard/modification to the proposed engagement. 3
2. You are a practicing Chartered Accountant working for an accounting firm reputed for tax consultancy services. Your accounting firm has been working as a retainer for XY Ltd for the last 5 years. XY Ltd upon completion of its assessment for the assessment year 2020-21 shared the copies of the assessment order for getting appropriate tax advice from your firm. In relation to this, apart from the other disallowances, Tax Manager of XY Ltd (known to you for earlier acquaintance) drew your attention on the following and requested you, not to put this under appeal proceedings as this has resulted in reduction of tax liability instead of increase:

- (1) Tk. 200 million paid to the Workers Participation Fund (WPF) for paying to the eligible beneficiaries of the company under the Bangladesh Labour Act 2006 has been disallowed on the ground that this is merely an appropriation of profit rather than an admissible expense
- (2) However, while assessing the tax, the assessing officer instead of adding it back, inadvertently deducted it from the total taxable income. Consequently, the total taxable income was reduced to this extent, which resulted in reduction of tax liability amounting to Tk. 60 million as explained below:

Particulars	Amount (in million Tk.)
Taxable income declared by XY Ltd after deducting WPF amount as deductible expenses	4,000
Added back WPF amount as inadmissible expenses being considered by DCT as appropriation of profit	200
Taxable amount computed by the DCT	3,800
Tax liability as per XY Ltd (Tk. 4,000 million x 30%)	1,200
Tax liability as per DCT (Tk. 3,800 million x 30%)	1,140
Reduction in tax liability for WPF impact	60

Requirements:

- a) Explain whether XY Ltd should take up the WPF disallowance matter in its appeal proceedings highlighting the consequences in the next years. 2
- b) Identify key fundamental principles and matters to be considered along with possible resolutions thereon for the above requests. 3

3. Mrs. Raka, after completing 25 years of service, went for a voluntary retirement scheme on 31st December 2021 as declared by the company. Immediately after the retirement, Mrs. Raka started her own business in the areas where she excelled her skills and insights over the years. In relation to this, Mrs. Raka following further information are available for the income year 2021-2022:

A. Income from salary (1st July 2021 to 31st December 2021):							
i)	Total Salary and allowances transferred to the bank account of Mrs Raka for the period from Jul'21 to Dec'21 was Tk. 48,00,000 after deduction of salary tax Tk. 600,000, provident fund own contribution Tk. 390,000 (company contributed the similar amount) and staff loan Tk. 210,000.						
ii)	As part of the voluntary retirement scheme, Mrs. Raka received 9 month's gross salary as ex-gratia payment (you need to compute the amount)						
iii)	Apart from the above, Mrs. Raka received following amount during final settlement after 31 st December 2021:						
	<table> <tr> <th>Description</th><th>Amount (Tk.)</th></tr> <tr> <td>Provident fund (funded, recognized by National Board of Revenue)</td><td>1,00,00,000</td></tr> <tr> <td>Gratuity (funded, recognized by National Board of Revenue)</td><td>2,75,00,000</td></tr> </table>	Description	Amount (Tk.)	Provident fund (funded, recognized by National Board of Revenue)	1,00,00,000	Gratuity (funded, recognized by National Board of Revenue)	2,75,00,000
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Provident fund (funded, recognized by National Board of Revenue)	1,00,00,000						
Gratuity (funded, recognized by National Board of Revenue)	2,75,00,000						
iv)	Apart from the taxes deducted on salary paid for the period from July to December, an additional tax of Tk. 20,00,000 was withheld from Mrs. Raka during the final settlement of her dues from the company						
v)	The break-up gross salary: 65% basic salary, 30% house rent allowances and 5% fixed incentive bonus						
vi)	Consider Mrs Raka had made sufficient investment to be eligible to claim full tax rebate u/s 44(2) of the ITO 1984						
B. Income from distribution business for distribution of consumer goods in Bangladesh (1st January 2022 to 30th June 2022):							
i)	Value of sales for supply of goods to different retailers was Tk. 2,00,00,000 against which Tk. 45,000 was collected by the company at source u/s 53E(3) of the ITO, 1984						
ii)	Overall gross margin on sales was average 5%, on the other hand overall distribution costs for distributing the products as mentioned above was 80% of the gross margin						
iii)	Tax withheld above u/s 53E(3) is considered as minimum tax u/s 82C of the ITO 1984						
C. Other source of income (1st January 2022 to 30th June 2022):							
i)	Total income generated from Chicken farm for the said period was Tk. 400,000						
ii)	Total income generated from Fish Hatchery for the said period was Tk. 700,000						

Requirements:

- Total income
 - Net tax liability
4. Mobile Finance Limited, hereinafter referred to as "MobiFin," is a non-listed limited liability company registered under the Companies Act 1994, offering a wide range of mobile financial services, including mobile transactions (cash-in, cash-out, send money, etc.), utility bill payment, in-store and e-commerce payment, inward remittance, salary disbursement, mobile recharge, and other value-added financial services. The company was incorporated on January 01, 2021, and it is a fully owned subsidiary of a private commercial bank in Bangladesh. Find below the financial information of the company.

Mobile Finance Limited

Statement of Profit or Loss and Other Comprehensive Income

For the period ended December 31, 2021

Particulars	Amount in Tk.
Revenue	290,230,000
Cost of services	(87,340,000)
Gross profit/(loss)	202,890,000
General and administrative expenses	(36,000,000)
Selling and marketing expenses	(74,000,000)
Profit/(loss) from operations	92,890,000
Non-operating income	27,000,000
Net profit/(loss) before income tax	119,890,000
Income tax expenses	(3,500,000)
Net profit/(loss) after income tax	116,390,000

Mobile Finance Limited
Statement of Financial Position
As at December 31, 2021

Particulars	Amount in Tk.
Assets	
Non-current assets	
Property, plant & equipment	238,255,556
Intangible assets	64,078,032
Total non-current assets	302,333,588
Current assets	
Investment in securities	200,000,960
Advance, deposit & pre-payments	121,402,340
Inventories	88,900,600
Receivables from customers	32,320,735
Cash and cash equivalents	77,875,324
Total current assets	520,499,959
Total assets	822,833,547
Shareholders' equity and liabilities	
Shareholders' equity	
Paid up capital	50,000,000
Retained earnings	116,390,000
Total shareholders' equity	166,390,000
Non-current liabilities	283,898,200
Current liabilities	
Operational payable	203,987,320
Others payable	44,274,776
Provision for expenses	120,783,251
Provision for income tax	3,500,000
Total current liabilities	372,545,347
Total liabilities & shareholders' equity	822,833,547

Other information:

- Property, plant, and equipment include furniture and fixtures for Tk. 12,000,000, a new motor vehicle for Tk. 18,000,000, and machinery for Tk. 208,255,556. All property, plant, and equipment are brand new and have not been previously used in Bangladesh. The company has accounted for depreciation for the property, plant, and equipment for Tk. 63,764,564.
- Intangible assets include Tk. 20,000,000 for a license fee for 25 years for providing mobile financial services, Tk. 32,000,000 for imported computer software, and Tk. 12,078,032 for Bangladeshi-made computer software. The company has provided Tk. 6,407,803 for the amortization of the intangible assets.
- General and administration expenses include Tk. 1,734,720 for entertainment expenses, royalty of Tk. 1,750,650, technical assistance fees of Tk. 820,340, and pre-commencement expenses of Tk. 500,000.
- During the year, the company paid perquisites of Tk. 1,850,000 each for 7 employees, including a disabled female employee.
- All transactions of the company have been made through the banking channel. However, in a special circumstance, the company made a cash payment of Tk. 4,025,000 for government charges during the year.
- None of the company's customers are a tax-deducting authority as per the Income Tax Ordinance, 1984. Therefore, no deductions have been made during the year.

Requirements:

- Compute total income of the company for the assessment year 2022-2023. 15
- Compute tax liability of the company for the assessment year 2022-2023. 5

5. Exotic Hotel Services Bangladesh Limited is a company incorporated in Bangladesh. It has constructed a multistoried five-star hotel in Dhaka. The hotel is constructed under the guidance of Rosher Water Garden Hotel Limited, a company incorporated in France and is maintaining a global hotel chain across the world. Rosher Water Garden Hotel Limited also holds 25% ordinary shares in Exotic Hotel Service Limited. Exotic Hotel Services Limited uses the trademark of Rosher Water Garden Hotel and runs the hotel under the name of Rosher Bangladesh Water Garden Hotel. Exotic has adopted all the operational and service guidelines and process of Water Garden Hotel Limited. Rosher also maintains strict quality control and other hotel service facilities under international guidelines.

Rosher charges USD 100 per hour for each of the staff assigned for using the trademark, Rosher's guidelines and hotel management service. In this regard Rosher has deputed 05 European staff from its human resource pool to Exotic Hotel Services Bangladesh Limited. Considering 40 working hours in a week for each of the expatriates, total royalty payment arrives at USD 1,040,000. Exotic has appointed you as its tax consultant. Rosher has also agreed to provide necessary support for the purpose of transfer pricing analysis. On your request, Rosher has provided you a total cost per hour per staff before interest and taxes of USD 80 with a certificate from its statutory auditor providing a reasonable assurance on the same. You have checked a European transfer pricing database for comparable data on net margin of similar service providers. You have found information of a similar service provider as detailed below.

Particulars	Amounts in USD
Royalty revenue	2,000,000
Direct labor	(800,000)
Operating expenses	(400,000)
Selling expense	(250,000)
Administrative expense	(100,000)
Interest	(50,000)
Profit before tax	400,000
Taxes @ 35%	(140,000)
Net profit after tax	260,000

The abovementioned figures have been arrived after converting the amounts from Euro to USD.

Bangladesh has a Double Taxation Avoidance Agreement (DTAA) with France. The management of Exotic Hotel Services Bangladesh Limited assuming that the payment would not attract any income tax in Bangladesh with respect to the DTAA whereas the authorized dealer bank is asking for withholding income tax at the time of outward remittance from Bangladesh. You have found the total amount of royalty charged by Rosher is within the threshold mentioned in Section 30(h) of the Income-tax Ordinance, 1984.

Requirements:

Considering the above, answer the following questions.

- a)
 - i) Is the royalty income of Rosher Water Garden Hotel taxable in Bangladesh? Explain your position with the regard to the provisions of the Income-tax Ordinance, 1984. 2
 - ii) Is the royalty income subject to withholding income tax under the local income tax law? If yes, at what rate? 1
 - b)
 - i) Would your answer be different re withholding income tax rate with regard to the provisions of the DTAA? If yes, explain your position. 2
 - ii) What course of action would you suggest to the management of Exotic Hotel Services Bangladesh Limited to avail the benefits, if any, under the DTAA? 2
 - c)
 - i) Are Exotic Hotel Services Bangladesh Limited and Rosher Water Garden Hotel associated enterprise? If yes, explain why. 2
 - ii) Determine arm's length amount of royalties that may be allowed by income tax authority following Transactional Net Margin Method. 3
 - iii) Calculate the amount of transfer pricing adjustment, if any and the tax exposure. 2
6. Explain input tax credit (VAT rebate) eligibility under the following circumstances as per the VAT law considering other compliances were met in applicable cases:
- a) Z Ltd, a manufacturing concern procured a new raw material from White Ltd worth Tk. 11,50,000 inclusive of 15% VAT to be used as a new ingredient for a regular product manufactured by it, which the goods have been received at its registered premises on 15th February 2023. The revised input output coefficient is yet to be submitted in this regard. For submitting the monthly VAT return for the month of February'23 in March'23, Z Ltd wants to claim the relevant VAT paid on purchase of this new ingredient. Can Z Ltd claim this input VAT rebate now? 3

- b) In January 2023, White Ltd imported certain raw materials for which Customs authority determined the assessment value on higher base compared to its declared value. Accordingly, under a provisional assessment, along with duties with higher value, the assessed VAT was Tk. 150,000 out of which along with duties, White Ltd paid Tk. 100,000 as cash and for Tk. 50,000 it furnished a bank guaranty with the consent of customs authority. To carry the goods from customs port to factory, it paid Tk. 1,10,000 (inclusive of VAT) to a Transport Contractor (service code S048) in the same month. Indicate the amount of VAT White Ltd can claim as rebate in the month of January 2023 explaining the reason. 3
- c) In the month of February 2023 Shark Ltd, a manufacturing concern remitted Tk. 20,00,000 to a foreign testing laboratory abroad for providing analytical test report of its product sample sent to the foreign laboratory through courier. Being the nature of service is import of service and service recipient is responsible for payment of VAT, Shark Ltd deposited Tk. 300,000 through treasury deposit as asked by the concerned Authorised Dealer bank making the remittance. Now Shark Ltd wants to claim this VAT amount of Tk. 300,000 as input tax credit through this treasury deposit document only treating this similar like as Mushak 6.3. Can Shark Ltd do this? Explain. 3
- d) In the month of February 2023 Cloud Ltd, a manufacturing concern imported full cream milk powder from New Zealand at 20% increased cost caused by stiff increase of international market price and foreign currency devaluation, which resulted in increase of overall input cost by 15%. The VAT amount it paid for this import of milk powder was Tk. 72,00,000. Now Cloud Ltd wants to claim this VAT amount of Tk. 72,00,000 as input tax credit for the month of February 2023 monthly VAT return. Can Cloud Ltd do this? Explain. 3

7. Digestive Biscuits Industries Ltd is a manufacturer of popular biscuits brand HAPPY. Currently it is selling a 200g biscuit pack to its distributors (dealer) at a price of Taka 85.00 inclusive of VAT. For this pack distributor's margin including VAT was Taka 5.00, retailer's margin including VAT was Taka 10.00 and MRP was fixed at Taka 100.00. On 9th June 2022 during the budget announcement in the Parliament, the Finance Minister declared that there will be a supplementary duty @ 2% imposed on all sorts of biscuit products at manufacturing stage, which has been reflected in the subsequent SRO issued on the same day. Considering the market competitiveness and affordability of the consumers, your company decided that it will not change its MRP, which means it will absorb the incidence of newly introduced supplementary duty (SD) by adjusting its selling price to distributor. The existing value addition of the product is 30%. There is no change in input cost after introduction of this new SD.

Requirements:

- a) Compute the revised selling price to distributor without VAT and revised value addition% showing the full price structure up to MRP considering before and after scenario of total input cost, value addition, SD and VAT. 6
- b) What would be the effective date for levying such SD as declared in the Finance Bill? 2
8. Mr. Rafique Ansari was the head of IT operations of the largest cement manufacturer of the country. Previously he worked for the largest nation-wide optical fiber network provider company in Bangladesh and different banks. Throughout his career in IT operations in diverse nature of industries, he has gained valuable experience in providing IT support in SAP ERP, Oracle ERP and banking software implementation and related solutions. Mr. Ansari has decided to exploit his knowledge and experience in IT sector and decided to start his own business. His company has all the regulatory registrations and already achieved accreditation from SAP and Oracle to implement and maintain the respective ERPs in Bangladesh. The company has been awarded an SAP ERP implementation Job for a plastic goods manufacturer. It has also received a work order for maintaining the Oracle ERP of a telecommunication company for five years. The revenue and cost budgets for both of the projects have been provided below.

Particulars	SAP ERP Implementation in BDT	Oracle ERP maintenance in BDT
Contract value	55,000,000	120,000,000
Cost of service		
Salaries and allowances	(25,000,000)	(50,000,000)
Technical fees to SAP and Oracle	(9,000,000)	(18,000,000)
Import of software license	(4,000,000)	(7,000,000)
Legal and professional fees	(1,500,000)	(3,000,000)
Advertisement	(1,000,000)	(2,000,000)
Office rent	(1,500,000)	(6,000,000)
Electricity	(1,000,000)	(2,000,000)
Other overhead	(250,000)	(500,000)
Income tax (exempt from tax)		
Net profit	11,750,000	31,500,000

The contract value has been negotiated excluding VAT which will be borne by the client. All the expenses are inclusive of applicable VAT. Mr. Ansari is not actually content with the profit scenario since there may be many other incidental operating expenses during the course of the jobs which cannot be estimated/budgeted at this moment. However, he wants to work with and retain the clients to foster future business. Mr. Ansari knows that the VAT rate in Bangladesh is 15% and there is scope of input tax credit. However, the tax consultant of Mr. Ansari advised that the rate of VAT on contract value would be 5% and such VAT will be deducted at source by the client. There will not be any input tax credit. Supply chain department of clients are also urging for 5% reduced VAT rate. Mr. Ansari is little confused and has sought your advice if any optimization can be done from VAT perspective. He has conveyed you that if input tax credit can be availed, he may allow 2% discount to the clients provided that 15% VAT rate would not harm the clients.

Requirements:

- a) Suggest Mr. Ansari that which one is the appropriate VAT rate for an IT service provider? 2
 - b) Which output VAT rate would you suggest for Mr. Ansari? Support your answer with necessary analysis. 8
 - c) What would be the rate of VAT deduction at source on contract value? Would it erode the profit from operations? 3
9. a) Hyundai Power Company, a registered company in South Korea, is planning to establish an Independent Power Company (IPP) in Bangladesh with a capacity to produce 100 MW of electricity per year. The company is currently reviewing tax and other fiscal incentives available for the IPP. During a discussion meeting, the representative of Hyundai Power Company discussed various issues, including the tax regime and business environment. While discussing tax incentives, they inquired about the VAT implications on royalty amounts. As a tax consultant, you are requested to discuss the rate and payment process of VAT on account of royalty payments to Hyundai Power Company, South Korea.

Requirement:

Explain VAT on royalty payment based on the given scenario. 5

- b) You are the tax consultant of Azhar Trading Company Limited, the sole distributor of an international tyre manufacturer company based in Italy. The tax manager of the company informed you about payment of VAT against some procurements in the month of February 2023 as mentioned below.
 - i) Payment of legal fee of BDT 345,0000 in cash. The legal counsel has provided a legitimate tax invoice;
 - ii) VAT assessed of BDT 3,600,000 on import of a consignment of tyres. The company has the original bill of entry in its custody. Due to shortage of place in the warehouse, the tyres have not been brought in the warehouse of the company rather temporarily stored in a rented warehouse;
 - iii) VAT paid on rent of showrooms BDT 2,500,000;
 - iv) Advertisement in a daily newspaper. The newspaper has provided tax invoice. Azhar trading issued account payee cheque in favor of the newspaper;
 - v) Telephone bill issued by BTCL, electricity bill issued by DPDC and invoice issued by Chattogram Port Authority for port charge. None of the service provider issued any legitimate tax invoice;
 - vi) Bill received from transport contractors of BDT 230,000 including 15% VAT for transporting goods (tyres) from Chattogram port to the warehouse and subsequent distribution of tyres from warehouse to showrooms. The transport contractor provided legitimate tax invoice.

Requirement:

The tax manager is confused if input tax credit can be availed against the above mentioned procurements. Advise the tax manager on the same. 6

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