

[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. a) Company XYZ, a manufacturing company, received a tax assessment from the tax authorities stating that they owe Tk. 5 million in additional taxes for the assessment year 2018-19. However, XYZ disagreed with the assessment and believed that they have correctly calculated and paid their taxes. Instead of going through a lengthy and costly litigation process, XYZ decided to pursue alternative dispute resolution (ADR) to resolve the tax dispute. They engaged in negotiations and discussions with the tax authorities to reach a mutually acceptable resolution.

After several rounds of discussions, XYZ and the tax authorities agreed to a settlement where XYZ agrees to pay Tk. 1 million as a compromise amount to resolve the dispute. This settlement was documented in a formal agreement between both parties as per law. However, in the current fiscal year, the tax authority wants to reopen this case as they believe a significant amount of government revenue has been lost.

Requirement:

Describing the consequences of the ADR process and settlement, explain whether Tax authority can reopen this case.

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- b) Mr. Sharif Hasnain FCA and his family members hold most of the shares in the Maisha group of companies. The group includes parents, subsidiaries and sister concerns. In addition, Mr. Hasnain has a sole proprietorship construction business. Most of his construction businesses are for road and bridge construction projects floated by local governments and usually take more than one year to complete. Mr. Hasnain provides provident fund and gratuity fund benefits for the employees working under different concerns of Maisha group and his sole proprietorship business. Mr. Hasnain is also a partner of a professional advisory firm providing taxation and corporate advisory services. During the financial year 2023-24, the firm is expected to generate cash revenue of BDT 45,000,000 and accruals may be 25% of the same. Mr. Hasnain is used to follow IFRS in preparation of financial statements of the companies under the Maisha group but followed cash basis of accounting for the rest of the businesses so far. Mr. Hasnain knows that a new income tax law has recently been passed in the national parliament. Mr. Hasnain has requested you to prepare a memo on changes brought about in the new income tax law regarding method of accounting, audit of financial statements and impact of such changes on his businesses.

Requirements:

Considering the above, prepare a memo for Mr. Sharif Hasnain briefly stating:

- i) the changes introduced in the ITA, 2023 regarding method of accounting comparing the same with International Financial Reporting Standards; 4
 - ii) incremental powers of income tax authority with regard to method of accounting and making disallowances at the time of income tax audit and assessment comparing the same with those provided in the ITO, 1984; 3
 - iii) any incremental cash flow impact with the risk related with income tax assessment with regard to revised provisions of the income tax law and any ethical concern thereto. 3
2. Palak Sawdagar is an employee of GB Limited, earning a monthly salary of Taka 190,000, while his wife, Ms. Sumi Sawdagar, works at PC Limited, a registered company under the Companies Act 1994. Mr. Palak Sawdagar is a shareholding of PC Limited with a 20% ownership stake and he has not engaged in any executive role. Ms. Sumi Sawdagar receives a monthly salary of Taka 75,000 from PC Limited, along with a pick and drop facility using a car with a 1500cc engine capacity, provided by her employer. She holds a Taxpayers' Identification Number (TIN) but has never filed a tax return in the past. PC Limited has advised her to submit a tax return on time for the assessment year 2024-25 and provide proof of submission to comply with recent changes in tax law as she holds an executive role in the company.
- Palak Sawdagar owns a house rented for Taka 35,000, including Taka 5,000 as a service charge, with a market rental value of Taka 40,000 per month. The house was constructed at a cost of Taka 60,00,000, fully financed by HSBC Bank with a 12% annual interest rate in the year 2020. Mr. Palak Sawdagar paid bank interest amount of Taka 72,000 in the fiscal year 2021-22, Taka 68,000 in the fiscal year 2022-23,

and expecting interest expenses of Taka 65,000 for the fiscal year 2023-24. The house became ready for rental in July 2023, and Ms. Sumi Sawdagar has been paying a monthly premium of Taka 5,200 for house insurance, along with a city corporation tax of Taka 1,200 per month. While reconciling rent received from the tenant with the bank statement, Mr. Palak Sawdagar discovered that he did not receive rent in January and February 2024 due to the house being vacant in those two months he forgot to record that.

Mr. Palak Sawdagar, using a Toyota sedan car purchased in 2016 at Taka 15,00,000, decided to purchase another sedan car for Ms. Sumi Sawdagar at a cost of Taka 30,00,000, to be financed through a bank loan. A tax consultant informed him that owning more than one car at a time would increase his tax burden; therefore, he transferred his existing car to Ms. Sumi Sawdagar at a value of Taka 5,00,000 on January 15, 2024, and decided to purchase the new car in March 2024. Considering the duty imposed by the government on imports of luxurious items, including sedan cars, Mr. Palak Sawdagar estimated the market value of the transferred car to be Taka 20,00,000.

Mr. Palak Sawdagar pays Taka 15,000 per month for family insurance to MetLife, and PC Limited covers children's education expenses at a monthly cost of Taka 10,000, which Mr. Palak Sawdagar has been considering as his income. Furthermore, Mr. Palak trusts only in risk-free investments, therefore, he has invested an amount equivalent to Taka 10,00,000 in Government securities in the income year 2023-24.

Requirements:

- i) Suggest tax planning strategy to minimize the Sawdagar family's tax liabilities for the assessment year 2024-25, **considering provisions of the Income Tax Act, 2023, and the Finance Act, 2023**, and quantify the amount of tax they can save. 12
 - ii) PC has initiated deducting tax at source at a 50% higher rate from the salary disbursed in the month of December as Ms. Sumi Sawdagar failed to provide proof of submitting return on or before 30 November 2024. Explain tax consequence if she submits return at a later date of the Tax Day and suggest way forward in relation to excess deduction at source. 3
3. Swan Apparels Limited is a 100% export-oriented ready-made garments manufacturer, producing the finest clothes for American buyers. It has eco-friendly manufacturing facilities established in Gazipur, which were recognized as Leadership in Energy and Environmental Design (LEED) compliant since 2019. The company receives export proceeds in USD, which are realized through HSBC Bank in Bangladesh. All of its production costs are borne through the banking channel. The financial highlights for the year ended June 30, 2023, along with additional information, are provided below:

Swan Apparels Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2023

Particulars	Amount in Tk.
Export	15,00,00,000
Cost of goods sold	(10,00,00,000)
Gross profit/(loss)	5,00,00,000
Administrative expenses	(3,50,00,000)
Selling and marketing expenses	(40,00,000)
Profit/(loss) from operations	1,10,00,000
Other income	4,00,00,000
Net profit/(loss) before income tax	5,10,00,000
Income tax expenses	(50,00,000)
Net profit/(loss) after income tax	4,60,00,000

Swan Apparels Limited
Statement of Financial Position
As at 31 December 2023

Particulars	Amount in Tk.
Assets	
Non-current assets	
Property, plant & equipment	12,00,00,000
Intangible assets	70,00,000
Total non-current assets	12,70,00,000
Current assets	
Investment in securities	2,00,00,000
Advance, deposit & pre-payments	20,00,00,000

Inventories	3,00,00,000
Receivables from customers	4,00,00,000
Cash and cash equivalents	5,00,00,000
Total current assets	34,00,00,000
Total assets	46,70,00,000
Shareholders' equity and liabilities	
Shareholders' equity	
Paid up capital	19,43,00,000
Retained earnings	18,70,00,000
Total shareholders' equity	38,13,00,000
Long term loan	1,30,00,000
Current liabilities	
Operational payable	4,70,00,000
Others payable	62,00,000
Provision for expenses	1,20,00,000
Provision for income tax	75,00,000
Total current liabilities	7,27,00,000
Total liabilities & shareholders' equity	46,70,00,000

Additional information:

- (1) Other income includes (1) recovery of bad debts for Tk. 35,00,000 which was written off in the financial year 2020 and was allowable expenses in computing tax, (2) export cash subsidy from the government for Tk. 1,20,00,000, (3) dividend income for Tk. 80,00,000 from the investment in the securities, (4) rewards from the government for Tk. 25,00,000 for being best exporter, and realised foreign exchange gain for Tk. 17,50,000 with connection to import of a Plant.
- (2) The Managing Director and the Head of Export participated in an export fair in Germany in the month of July 2023 and company secured Tk. 2,50,00,000 equivalent export order from that event. Company has spent Tk. 13,75,000 for that foreign tour which is included in the administrative expenses. It is notable that Managing Director bought a gift for his relative living in Germany for Tk. 75,000 which is also included in the foreign tour expenses.
- (3) Property, plant, and equipment include a leasehold premises for Tk. 2,00,00,000 and with this respect company booked Tk. 20,00,000 as depreciation expenses and interest for Right of Use assets for Tk. 15,00,000 for the financial year. Both expenses included in the administration expenses. Please note, actual rental payment for the leasehold premises during the income year was Tk. 17,50,000. Company charges 20% depreciation for the plant and tax law allows the same depreciation rate for tax purpose.
- (4) Selling and marketing expenses include an amount of BDT 5,00,000 which has been used for the payment for a TVC on the occasion of its 5th anniversary of the business.
- (5) Advance, deposit and prepayments includes (1) tax deducted from the proceeds of export at source for Tk. 10,50,000, (2) tax deducted at source from the dividend income for Tk. 16,00,000 and (3) tax deducted at source from export cash subsidy for Tk. 12,00,000. During the income year company made all of the income and expenses through banking channel.

Requirements:

Answer should be given following the provisions of the Income Tax Act 2023 and the Finance Act 2023.

- a) Compute total income of the company for the assessment year 2024-2025. 6
 - b) Compute tax liability of the company for the assessment year 2024-2025. 3
 - c) Assume, Swan Apparels Limited submit its tax return on 10 December 2024. Compute the revised tax liability as company failed to submit return on time. 3
 - d) Company has reported Tk. 35,00,000 as bad debt which is written off in the books of account. Explain the conditions regarding admissibility of bad debt for tax purpose and what actions could have been taken to qualify the conditions. 3
4. a) FruitCo, a company based in Bangladesh, produces a unique non-alcoholic beverage called "Fruit Mountain." It sells this beverage to high-end nightclubs across Asia through associated distributors, who report a gross margin of 10%. The market price for one can of "Fruit Mountain" is USD 100. FruitCo does not sell the beverage to independent distributors in Bangladesh or other Asian countries.

There is a comparable beverage called "Nature Valley" produced by JuiceCo, a local company in Bangladesh. The market price for one can of "Nature Valley" is also USD 100. Distributors of "Nature Valley" report a gross margin of 12% per can sold.

Requirements:

- i) Calculate Arm's length price following Resale Price method. 4
- ii) Highlight two key challenges under Resale Price method. 2

- b) Khidmah and Pious, based in UAE, brews a very exclusive non-alcoholic beverage called "the Miarge". It sells this beverage to high-end clubs and restaurants across the Middle east and Asia via associated distributors. The market price for one can of "the Mirage" is USD 20 in UAE. Khidmah and Pious is contemplating to incorporate a subsidiary in Bangladesh to import and distribute its product in Bangladesh. There are comparable distributors in UAE that sell "the Cheers". This is a competing alcoholic beverage produced by Jinn & Juice, a company based in the Netherlands. The market price for one can of "the Cheers" in UAE is also USD 20. Distributors of the Cheers report gross profit of 5% per can across middle east and Asia. Price of one can of "the Cheers" in Bangladesh is BDT 3,000. Customs duty in Bangladesh per can is BDT 310.

Requirement:

Propose an arm's length import price per can for Bangladesh subsidiary of Khidmah and Pious adopting resale price method. 3

- c) Rising Construction Co. Ltd. is a construction company of China and established a branch office in Bangladesh. It has won a river bank construction project floated by Bangladesh Water Development Board. Due to the ongoing crisis of foreign currency in Bangladesh, the head office of the branch paid a designing fee of USD 2,000,000 for the project from its own fund to an independent Chinese designing firm. The head office would recover it from the branch at actual cost (i.e. without any profit) when the branch would be able to pay the same in USD. The branch recognized a designing fee expense and corresponding liability to its head office in its financial statements.

Requirement:

Suggest the appropriate TP method and code for this transaction for reporting it in the statement of international transactions of the branch as supported by logics you think fit. 2

5. a) Sky Ltd ('Sky') is a manufacturing company that has been operating successfully in the consumer goods sector in Bangladesh for the past 10 years. Sky has a factory located in Savar, Dhaka, two warehouses (one in Chattogram and another in Khulna), and a Sales Center in Dhaka. All of these locations are registered under a Central BIN. The following information is relevant for the month of January 2023:

- i) The value of goods supplied at the standard rate was Tk. 2,53,00,000.
- ii) The value of services supplied at the standard rate was Tk. 74,75,000.
- iii) The value of goods supplied for export to Sri Lanka was Tk. 2,50,00,000.
- iv) Under a newly launched instalment selling scheme, Sky sold goods with a value of Tk. 2,40,00,000 (excluding VAT), payable in 12 instalments. The amount receivable for this month has been duly received.
- v) Customers returned goods with a value of Tk. 17,25,000 for previously supplied products. A credit note was issued with the appropriate VAT amount.
- vi) Raw materials purchased from a local supplier at the standard rate amounted to Tk. 1,15,00,000. 60% has been received at the factory and 20% has been received at the Chattogram warehouse, while the rest is still with the supplier.
- vii) Materials imported from Singapore had VAT paid at the customs port amounting to Tk. 10,36,800, and Advance tax (VAT) of Tk. 2,07,360.
- viii) Sky placed an order for a certain supply to Endora Ltd to be used as inputs for a special supply for a reputed customer's International Mother Language Day celebration in Bangladesh. However, the program was cancelled, resulting in Sky cancelling the order with Endora Ltd and paying a compensation of Tk. 600,000 as per the contract. Sky also received an amount of Tk. 900,000 for the cancellation of the program by that reputed customer.
- ix) For advertisement, the agency sent a bill of Tk. 69,00,000 at the standard rate with a challan. However, the amount will be paid after the completion of the 45-day credit period.
- x) Transport services for carrying goods to customers amounted to Tk. 330,000, including VAT at a rate of 10%.
- xi) VAT deducted against receiving the supply of goods was Tk. 600,000, for which Mushak 6.6 was duly issued.

- xii) For using the brand name, Tk. 2,00,00,000 was paid as royalty to the parent company in Germany. As the nature of the services is the import of services, Sky deposited the applicable VAT at the time of remittance.

Requirement:

Compute the net VAT amount payable for the month of January 2023. Standard rate VAT is 15%. For identifying the VAT amount, please use VAT factor where applicable.

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- b) Mr. B, proprietor M/s B & Associates, an importer of medical books, has been running his business through his registered premises at New Market, Dhaka, after obtaining a BIN under the VAT & SD Act 2012 applicable in Bangladesh since 1st November 2023. Mr. B sells all the imported books through the following channels:
- 1) Retail: Directly to medical students from the registered premises at New Market, Dhaka.
 - 2) Supplies: To various medical colleges based on participation in tenders.

For the month of January '24, the following information is relevant to Mr. B's book business:

- i) Sales to medical students: Tk. 15,00,000.
- ii) Supplies to three medical colleges against the tender: Tk. 50,00,000. Against these supplies, Tk. 3,75,000 was collected and deposited by the respective colleges as VAT deduction at source, considering Mr. B as a procurement provider.
- iii) Since started his business, Tk. 3,00,000, in December'23 and Tk. Tk. 5,00,000 in January '24 was collected by Customs Authority at port point being Advance Tax (AT) @ 5% against import of medical books.

Mr. B was informed by the concerned Business Association dealing with the book business that educational books are considered as cultural services and are therefore exempted from payment of VAT. Considering this, Mr. B has never submitted monthly VAT returns, assuming that he only has VAT liability for supplies to medical colleges in the capacity of a procurement provider. Since the VAT has already been collected and deposited by the recipients of the supply, he believes he doesn't have any other responsibilities under the law. Due to this, Mr. B didn't claim the AT paid at the port point as input tax credit, as he felt there's no room for adjustment of such AT against any output VAT.

In view of the above and based on a recent visit by a VAT inspector Mr. B has following questions in mind to have a better clarity as per the VAT & SD Act 2012:

- i) Whether there is a fixed 5% VAT applicable for the sale of imported books from the retail outlet at the registered premises, as enquired by the VAT inspector.
- ii) Whether Mr. B, being registered under VAT law, has a legal responsibility to file monthly VAT returns as per the law.
- iii) As mentioned by the VAT inspector, whether Mr. B can claim the AT paid at the port as input tax credit, subject to payment of VAT at 15% following the actual value addition method and submitting an Input Output Coefficient.
- iv) Mr. B is also wondering why the colleges collect VAT at source against the payment for supplies made through participation in tenders if the supply of books is exempted from payment of VAT.

Requirement:

As a consultant specializing in VAT law, Mr. B has approached you to review the aforementioned details from a VAT law perspective and provide appropriate advisories.

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6. a) Mr. C, a Bangladeshi national and an employee of the Bangladeshi company PQR Ltd, travels to India for medical treatment. During his stay, he receives medical services such as a surgical procedure and consultations with doctors. As PQR reimburses all medical expenses for its employees, the question arises as to whether:
- i) The services received by Mr. C should be treated as an import of service.
 - ii) Whether the service falls within the purview of the Reverse Charge mechanism, and therefore, whether 15% VAT is payable.

Requirement:

As a consultant specializing in VAT law, please advise Mr. C.

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- b) Bangladesh Marine Shipping Lines (BMSL) is one of the few national flag vessel container carriers and going to start its operation from 1st of March 2024. It will run feeder vessels across transshipment hubs of Singapore, Colombo, Port Klang, Malaysia and the Port of Jebel Ali, UAE. It will transport containers owned by foreign shipping lines/ Main Line Operators (MLOs). You have recently joined the company as the tax manager.

Requirements:

The CFO of the company has requested you to prepare a memo on the VAT implications of the following transactions.

- i) BMSL has entered into a contract with a foreign main line operator running mother vessels from the deep sea port of Colombo to the Port of New York and New Jersey. BMSL will load containers from the Chittagong port and transport them to Colombo. The foreign main line operator will pay BMSL USD 150 for each of the containers carried from Chittagong to Colombo; 3
 - ii) One of the reputed importer companies in Bangladesh has a general cargo ship mainly used from importing wheat. The structure of the cargo ship is like that it can also be used as a container carrier. Due to the war situation and tension in black sea, the importer has temporarily decided to stop running the ship and import wheat from Russia and Ukraine. Instead the company has agreed with BMSL to lease the ship for carrying containers for BDT 500,000 per month; 3
 - iii) BMSL purchased a used feeder vessel from South Africa requiring some major repair and maintenance. BMSL has received an invoice for BDT 1,000,000 for supplying steel plates from a local steel re-rolling mill. The steel plates were used for repairing the ship in a local dry dock. 2
 - iv) BMSL has received an invoice of BDT 1,500,000 from the local dry dock for repair and maintenance of the feeder vessel purchased from South Africa. The vessel is now ready for operating voyages in the deep sea. 2
 - v) BMSL will be charged by Chittagong Port Authority (CPA) for receiving different services a Chittagong port e.g. port and piloting charge, berthing charge, mooring charge etc. BMSL estimates it would be required to pay around BDT 650,000 per month as charges for using the port. CPA does not provide any tax invoice. 2
7. T Traders is a major commercial importer that has been involved in the consumer goods business in Bangladesh for many years. Considering the consumer preference for foreign products, T Traders imports finished goods under global brands (parallel imports), which are also produced and marketed in Bangladesh by the local subsidiary (rightsholder) of the original brand owners. To make its business viable due to high duty rates under the correct H.S. Code, T Traders typically imports parallel branded goods through misdeclaration (H.S. Code, value, and quantity).

XYZ Bangladesh PLC ('XYZ') is the rightsholder of the BLUE branded Chocolate, which produces and markets the products in Bangladesh under a license granted by the original brand owner. Recently, upon receiving information about a new consignment imported by T Traders, which has been declared under a different HS code (Olive Oil) with significantly lower duty rates, XYZ filed an application with the Customs Authority for a physical examination of the goods to determine whether any BLUE branded products were imported through misdeclaration. After the physical examination of the goods, the Customs Authority identified the following:

- i) The consignment contained 10 tons of BLUE branded chocolate.
- ii) The description of the goods and H.S. Code were differed from the H.S. Code for chocolate.
- iii) The actual quantity of the goods was 10 tons, but it was declared as 7 tons.
- iv) The declared value of the imported goods, including freight and insurance, was US\$ 14,000, whereas the minimum assessable value for chocolate goods is US\$ 5.5/kg.
- v) The conversion rate used by Customs was Tk. 110 per 1 US\$.
- vi) If T Traders had been able to import the goods under their declared H.S. Code, the duty rate would have been 10%, with no regulatory duty or supplementary duty. However, for chocolate, the duty rates applicable are as follows: basic duty 25%, regulatory duty 5%, and supplementary duty 45%.

Requirements:

- a) Identify the total duty that would have been evaded by T Traders, if the assessment is done based on the declaration of T Traders 8
 - b) Describe the penal measures that T Traders may have to face due to the mis-declaration. 3
8. Fixme Perfumeries Limited (FPL) is an importer of luxury perfumeries and deodorants in Bangladesh. It has recently imported a consignment of luxury perfumeries from France. The exporter raised a commercial invoice of USD 45,000. Freight is USD 4,500. Insurance premium is 1.5% and landing charge is 1%. The customs assessing officer determined the appropriate HS Code as 33072000 and a fair of Value of USD 47,000. Applicable CD, RD and SD are 25%, 20% and 30% consecutively.

Requirement:

Determine the total tax incidence at import stage as per the assessing officer including, VAT, AIT and AT. Assume USD 1 equals to BDT 107. 4

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