

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. a) Mr. X is a readymade garment exporter, has been maintaining an offshore account in a third country, where he has been depositing certain portion of his export earnings without disclosing those in his income tax return and so far, there has not been any question raised by any tax authority as they are not aware of this undisclosed income. Accordingly, up to 30th June 2022 Mr. X's total undisclosed income was equivalent to Tk. 30 million.

Mr. X was contemplating to buy a flat in Baridhara, Dhaka for which he wanted to bring undisclosed money back in Bangladesh but was not sure as to how he can bring the undisclosed money other than through informal channel (e.g., Hundi) for which there are huge legal exposures, which he couldn't ignore.

Looking at a new provision (section 19F of the ITO 1984) proposed in the Finance Bill announced on 9th June 2022, that undisclosed offshore cash or cash equivalent can be brought back in Bangladesh upon paying a nominal tax by disclosing the same in the return of income applicable for the assessment year 2022-2023, he thought this is an opportunity for him to legalize his undisclosed income if he brought back the money to Bangladesh within 30th June 2022. However, since he was not sure whether this proposed provision will be passed in the Parliament and will form part of the Finance Act 2022, he didn't do anything in relation to bringing back the undisclosed income within 30th June 2022. The Finance Act 2022 was passed in the Parliament as proposed in the Finance Bill for undisclosed offshore cash or cash equivalent.

Requirements:

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| i) Advise Mr. X whether he will be able to take the opportunity of section 19F of the ITO 1984 to disclose his undisclosed income in the return of income applicable for the Assessment Year 2022-2023 although income period has been passed on 30th June 2022 | 2 |
| ii) In case Mr. X brought back the money before 30th June 2022 or after (if allowed), how he would deposit the tax, indicating the tax amount to be deposited | 2 |
| iii) Exposure if any u/s 19G of the ITO 1984 for Penalty for any offshore asset not disclosed in the return or under any other laws applicable in Bangladesh | 2 |
- b) Star PLC is a 100% own subsidiary of Star A.G., has been operating in Bangladesh since 2019 as a non-listed public limited company. Under a global merger & acquisition scheme, recently Star A.G. has decided to transfer all its shares with Star Bangladesh PLC to another company in abroad, for which there will be no cash/bank transaction in Bangladesh.

Requirements:

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| i) To what extent the income arising of this transfer will be considered income deemed to accrue or arise in Bangladesh? Will your answer be different, if Star PLC is not a resident of Bangladesh? | 2 |
| ii) For the purpose of determining applicable tax, how the market value of share of Star PLC, being a Bangladeshi company not listed on a recognized stock exchange, will be determined? | 2 |
2. Mr. Z is a top Executive of a local conglomerate, whose income are coming from salaries only. For the Assessment year 2022-23, Mr. Z already submitted, his return u/s 83 of the ITO 1984 on 31st October 2022, i.e., before the Tax Day of 30th November 2022. After submission of his return, Mr. Z realized, he did give very little attention to the Asset & Liability statement (IT10BBB) and statement of expenses relating to lifestyle except for giving some basic information. Consequently, those statements were prepared by the consultant, which may cause some misstatements. Taking this into account, Mr. Z shared the following information with you being his consultant, in relation to his tax return for the Assessment Year 2022-23:

1) **Summary statement of Income for the A/Y 2022-23:**

Particulars	Amount (Tk.)
Total Income	12,000,000
Tax leviable on total income	3,000,000
Tax rebate u/s 44(2)(b)	360,000
Tax payable	2,640,000
Tax exempted and tax-free Income	2,400,000

2) **Summary Statement regarding particulars of lifestyle for the A/Y 2022-23:**

Particulars	Amount (Tk.)
Tax paid	2,640,000
Travelling Expenses (International)	1,000,000
PF contribution Own + Company	1,000,000
Children education expenses	100,000
Interest cost on borrowings for self-occupied flat	-
Family Expense including food, utilities and others	500,000
Total	5,240,000

3) **Summary Statement of Assets & Liabilities as on 30th June 2022:**

Particulars	Balance on 30th June 2022 Amount (Tk.)
Assets:	
Non-Agricultural Property (Own Flat)	19,000,000
Investments (Shares and Savings certificates)	6,000,000
Motor vehicles	2,000,000
Other fixed assets and Appliances	1,800,000
Cash in hand/Bank and other deposits	1,960,000
Total Asset	30,760,000
Liabilities:	
Secured loan from Bank against Own Flat	8,000,000
Bank loan	1,800,000
Total Liability	9,800,000
Net wealth as on last date of this income year	19,960,000
Net wealth as on last date of previous income year	12,000,000
Accretion in wealth	7,960,000
Personal & Family expenditure	5,440,000
Total Accretion of wealth	14,400,000
Source of Fund:	
i) Shown Return Income	12,000,000
ii) Tax exempted/Tax free Income	2,400,000
iii) Other receipts: Loan from Sister	500,000
Total Source of fund	13,400,000
Difference Total Accretion of wealth vs Total source of fund	0

Upon scrutiny of the above and discussion with Mr. Z, you have identified the following in relation to income year 2021-22 i.e., A/Y 2022-23:

- Mr. Z received Tk. 1,000,000 for leave fare assistance, which he utilized for travelling to USA and the entire amount was considered as exempted under Rule 33G of IT Rules 1984. In this regard, Mr. Z further informed that the leave fare assistance received last year was utilized for foreign travel and was considered exempted as well.
- Apart from provident fund contribution for own and company, Mr. Z didn't have any further investment. However, tax consultant considered total eligible amount of investment allowance based on investment amount calculated on total taxable income

iii) In the statement of expenses relating to lifestyle, following gaps were identified:

Particulars	Actual Expense	Shown in return
	Amount (Tk.)	Amount (Tk.)
Travelling Expenses (International)	1,200,000	1,000,000
Children education expenses	600,000	100,000
Interest cost on borrowings for self-occupied flat	800,000	-
Family Expense including food, utilities and others	2,000,000	500,000

iv) In the statement of Asset & Liability statement, following gaps were identified:

Particulars	Actual expense	Shown in return
	Amount (Tk.)	Amount (Tk.)
Assets:		
Non-Agricultural Property (Own Flat)	18,000,000	19,000,000
Cash in hand/Bank and other deposits	160,000	2,660,000
Liability:		
Personal & Family expenditure	8,240,000	5,240,000
Other receipts: Loan from sister	0	500,000

Requirements:

a) Prepare revised statements, upon addressing the gaps and misstatements

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b) Consider the potential exposure for the misstatements, is there any remedy available for Mr. Z under the ITO 1984?

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3. a) “B” and “E”, two young minds graduated from a reputed business school, are contemplating to start a new business in digital marketing sector looking at the unexplored enormous opportunities in this area. For starting this new business, they have following two options in relation to financing the business and for taking care of the initial hick-up periods for surpassing the break-even points:
- (1) They can start their operation as a subsidiary of a well-established company, who are ready to take more than 50% of the shares of the new company as they are highly interested to invest in this venture considering the good potentiality they feel.
 - (2) They can start their operation from their own finance, borrowings from bank and at later stage through IPO, in which case the bigger challenge will be to survive in the initial few years.
- B & E are contemplating, in the initial years, the turnover of the new company would be ranging from Tk. 5 to 10 crores.

Requirement:

Considering the benefit allowed under ITO 1984 for Start-Up business, advise them, which option they should consider upon describing the criteria and process to be followed in this regard.

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- b) Glow Industries Limited (“the Company”), a non-listed PLC has been operating in cosmetic manufacturing sector in Bangladesh since 1st July 2017. The audited income statement of the company for the year ended 30 June 2022 is given follow:

Particulars	Amount (Tk.)
Net sales	150,000,000
Cost of Sales	(91,500,000)
Gross Profit	58,500,000
Other Operating Income	7,500,000
Marketing and other General Expenses	(15,000,000)
Product Fixed Marketing Expenses	(20,000,000)
Distribution Expenses	(4,500,000)
Profit from Operations	26,500,000
Finance Expenses	(15,000,000)
Foreign exchange gain/ (loss)	(27,500,000)
Interest income	1,100,000
Profit/ (Loss) before Tax	(14,900,000)

Other information:

- (1) Net sales included Tk. 52 million, sold to an associated enterprise at cost plus 4%, while arm’s length transfer price of the same goods was cost plus 6%.

- (2) Cost of Sales included Tk. 10 million spent for R&D expenses and Tk. 2 million spent for technical assistance fee for product development for which due taxes were deducted at the time of payment.
- (3) Depreciation booked in the accounts during the year Tk. 35 million (included in cost of sales). As per tax law depreciation for the year would be Tk. 20 million (tax depreciation is lower, due to accelerated depreciation charged for certain capital machineries in earlier years).
- (4) Product Fixed Marketing Expenses included Tk. 10 million spent for promotional expenses for free goods to consumers and trade and free sample Tk. 1 million.
- (5) For using the brands of parent company, the company paid Royalty @ 5% of net sales for the income year 2021-22, which was charged to Cost of Sales.
- (6) For 5 employees, average perquisite amount was Tk. 14,50,000, while for other employees it was below Tk. 10,00,000 (existing limit under 2022-23 A/Y). It was charged to factory fixed overhead included in Cost of Sales and Marketing and Other General Expenses.
- (7) The company runs a funded gratuity scheme. For the year ended on 30th June 2022, based on the actuarial valuation, the amount paid to the fund was Tk. 2 million. Tk. 50,000 was paid to an outgoing employee. It was charged to factory fixed overhead included in Cost of Sales and Marketing and Other General Expenses.
- (8) There was entertainment expense of Tk. 0.4 million charged during the year under Product Fixed Marketing Expenses.
- (9) Finance Expenses include Tk. 4 million for the interest paid on the foreign loan received from its overseas parent company. The rate of interest is LIBOR+3.25%. The transfer pricing officers of NBR have assessed that the arm's length rate of interest of the similar loan should LIBOR+2.75% [Assume the LIBOR rate was 0.75%].
- (10) The company failed to comply with non-cash transaction condition, hence tax rate should be considered accordingly.

Requirements:

- i) Compute total income of the company. 8
- ii) Compute net tax liability of the company for the year considering assessment year 2022-2023. 4

4. a) XY Distribution Ltd. (Company) submitted an income tax return for the assessment year 2020-2021 under "normal" category. After hearing the assessee and considering the documents submitted, an assessment order was passed by the DCT against which the Company preferred an appeal before the Commissioner of Taxes (Appeals). All of the grounds of appeal, 5 in total, taken by the assessee were redressed in the order passed by the Commissioner of Taxes (Appeals). Being aggrieved, the DCT filed an appeal before the Taxes Appellate Tribunal against the order passed by the Commissioner of Taxes (Appeals). Out of the 5 grounds of appeal taken by the DCT, the Company is willing to settle 2 grounds amicably if the other 3 grounds are foregone by the DCT. The management of the Company does not wish to prolong the legal proceedings and wants to settle the disputes through ADR process.

Requirement:

As a tax consultant of the Company, you have been requested to provide your views whether the Company can settle the disputes through ADR process. 5

- b) XY India Limited, a company incorporated in India, was awarded a contract by the Government of Bangladesh for construction of a part of Rooppur Nuclear Power Plant. XY India Limited entered into an agreement with PQ Steels Limited, a company incorporated in Bangladesh, for supply of deformed bar. These deformed bars will be used for construction of physical protection system of the said power plant. Advance tax collectible on import of equipment, materials and spares for physical protection system construction project of Rooppur Nuclear Power Plant has been exempted through an SRO dated 07 July 2021 subject to fulfilment of certain conditions. A bank of India (issuing bank) opened a letter of credit in USD in favor of PQ Steels Limited (beneficiary) at the request and on behalf of XY India Limited (applicant). A meeting between PQ Steels Limited and the bank of beneficiary will be held shortly to discuss and decide whether tax is to be deducted/collected at source under section 52Q or 53BB or 52 of the ITO, 1984, from the proceeds realized, or deduction/collection of tax is not required considering exemption stated above.

Requirement:

You are a tax consultant of PQ Steels Limited and have been requested by your client to share your views with regard to deduction/collection of tax at source from the proceeds realized. 7

5. a) i) Arab A.G. of Germany holds 15% shares in Love Ltd. of Bangladesh. The total value of Assets including fixed asset at cost of Love Ltd. is Tk. 20 million, where accumulated depreciation is Tk. 8 million. Arab A.G. has given a loan to Love Ltd. of Tk. 7 million.
- Requirement:**
Examine whether Arab A.G. and Love Ltd. are associated enterprises. 2
- ii) Mango Ltd., a Bangladeshi company, takes supplies from Lichee Ltd. another Bangladeshi independent enterprise for which the prices and other terms were negotiated by another Bangladeshi company Jackfruit Ltd. Jackfruits Ltd controls shares more than twenty-five percent of voting powers of Mango Ltd.
- Requirement:**
Examine the nature of transaction between Mango Ltd. and Lichee Ltd. as to whether it needs to be disclosed in the Statement of International Transactions under the law although the transactions are being taking place between two Bangladeshi companies. 2
- b) X sold an equipment to Y (Associated Enterprise) and in turn Y sold the same machinery to Z (an independent party) at sale margin of 20% for Tk. 10,00,000, while Y incurred expenses of Tk. 10,000 in sending the equipment to Z. A similar transaction was entered into by unrelated parties with resale price margin of 25% with expenses of Tk. 12,000.
- Requirement:**
Calculate Arm's length price following Resale Price method. 4
6. Describe as per the provisions of VAT & SD Act 2012:
- a) How do you determine if any supply of goods or services are exempted from payment of VAT? 3
- b) Under what circumstances, Zero-rated supply is applicable? 2
- c) If a supply of goods or services is both exempted and Zero rated, describe how this should be considered: as exempted supply or Zero-rated supply? 2
7. S Ltd is a manufacturing organization, recently launched a new sophisticated skin care product, which is produced in its factory located in Kaliakoir, Tangail. For the purpose of ensuring stringent quality parameters, S Ltd needs to send this new product samples to an accredited laboratory in abroad namely Trust Quality Laboratory for monitoring and validating the quality parameters. For the first month, S Ltd received a bill of Tk. 10,00,000 in September'22 for the services rendered by the Trust Quality Laboratory, which has to be remitted through bank. S Ltd follows standard VAT rate under VAT & SD Act 2012.
- Requirements:**
- a) Compute the applicable amount of VAT identifying whether Trust Quality Laboratory being the service provider or S Ltd being the service recipient shall pay the VAT 2
- b) What are the conditions that S Ltd should fulfill to claim this VAT as input VAT 2
- c) Show how this VAT on import of service should be presented in the monthly VAT return, subject to S Ltd. fulfilling the conditions for claiming input VAT if remittance was made in September 2022. 5
8. a) Comment on the VAT registration requirement, VAT payment procedure and eligibility of input VAT claim under VAT and SD Act 2012 in the following cases:
- i) Bangladesh Standards and Testing Institution (BSTI), a government agency who provides testing services for releasing imported food products from Customs port 2
- ii) Electricity services provided by Dhaka Electric Supply Company (DESCO). DESCO do not provide any separate Musak 6.3 for the VAT it collects from its customer. Can customer claim input VAT? 2
- iii) Testing services provided to Bangladeshi company by accredited laboratory in Germany 2
- iv) Branch office of a foreign company 2
- b) If AV is Tk. 25,000, CD @25%, RD @ 10%, SD @ 20% ,VAT @15%, AT @5% what will be the VAT amount. 4

9. You are a newly qualified Chartered Accountant, appointed as a Business Controller in a manufacturing organization. As part of your responsibility, you are also responsible for VAT costing, which includes among others, selling price calculation considering implications of VAT under VAT & SD Act 2012.

Recently, your company decided to introduce a new product, which will be imported from Japan in finished form. The management is fully aware of that in the same sector, there are local competitors already existing in the market. Your product being imported from a developed market, your management therefore expects a premiumization over the competition. In view of this, your management wants you to review the possible targeted selling price, aiming towards profitability @ 25% of the selling price without VAT. For the purpose of VAT, the company follows standard rate, hence you may proceed for the calculation, considering the recoverability of input VAT. Company will not launch the product, if targeted selling price including VAT is exceeding 20% of the competition selling price. Average selling price of similar products marketed by competition is Tk. 850 inclusive of VAT.

Following information are relevant for the finished products to be imported from Japan:

- (1) FOB value of the consignment is US\$ 200,000
- (2) Freight charge is US\$ 4,000, Insurance US\$ 1,200
- (3) For the purpose of ascertain assessable value Landing charge to be considered 1% of CIF value
- (4) Conversion of 1 US\$ is expected to be BDT100.00 (both customs and bank rate will be same)
- (5) Standard duty rates applicable based on the applicable H.S Code of the products:
 - i) Basic duty 25%
 - ii) Regulatory duty 3%
 - iii) Supplementary duty 20%
 - iv) VAT 15%
 - v) Advance Income Tax (AIT) 5%
 - vi) Advance Tax (AT) 5%
- (6) There is a PTA benefit available for the product to be imported from Japan. In which case, the basic duty will be 5% subject to issuance of Certificate of Origin as per PTA. The exporter agreed to provide certificate of origin as per the PTA.
- (7) Overhead cost and marketing cost to be considered as 30% of total material cost.

Total 1,000 cartons will be imported under this first consignment and there will be 48 pcs of 200g Tin in one carton.

Requirements:

- a) Compute targeted selling price inclusive of VAT for one piece of 200g Tin (you may round-off). 8
- b) Compute the value addition considering input cost from in relation to import only. 2
- c) Advise the management, whether they should launch the products. 2

---The End---