

# Suggested Answer

## July-August 2024

### TAX PLANNING & COMPLIANCE

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.]

#### **Question 1(a)**

Food Grains Limited ("FGL") is a limited liability company registered under the Companies Act, 1994, and engaged in importing food grains from Egypt and selling them in the local market. It is a wholly-owned subsidiary of FGL UK Limited. The gross profit margin of FGL for the last 5 years was 9.9%, 9.52%, 8.7%, 6.93%, and 6.3%. In the assessment year 2022-2023, FGL filed its corporate tax return under self-assessment with a reported net profit of Taka 10 crore, and the gross margin was 6.3%. The return was selected for audit, and the company received the assessment order on June 26, 2024, with an additional tax claim of Taka 2.5 crore. Upon reviewing the assessment order, FGL observed that a substantial amount of genuine expenses incurred for the operation had been disallowed on the grounds that tax at source from the payment had not been complied with and insufficient documentation was furnished in support of those expenditures.

Another surprise came to the attention of FGL's Bangladesh management when the Deputy Commissioner of Taxes ("DCT") estimated its revenue to maintain the gross profit margin at 9.9%. Here is the extract of the assessment order:

"A perusal of records and returns of income tax documents shows that the assessee company processed various types of food grains by importing and selling them in the market and earning income. During the tax year under review, the taxpayer company showed the total sales of Taka 330 crore and Gross Profit of 6.3%. Considering the market scenario, we believe the sale and associated gross profit have been understated by the company. Therefore, the sale of the company for the assessment year has been estimated to Taka 350 crore, and in light of the past records of the taxpayer company's documents in income tax, the gross profit has been estimated at 9.9%."

The assessment order shocked the local management as FGL is a compliant company upholding all the regulations applicable to its operation in Bangladesh. Furthermore, the financial statements have been audited by one of the leading firms in Bangladesh, which is well-known for upholding professionalism and audit quality. Local management inquired with the tax consultant regarding the unfavorable assessment and came to know that the tax official was approaching the consultant to offer a job opportunity to his cousin at FGL, bypassing the company's recruitment policy. The consultant discussed this matter with FGL's local tax manager, who refused the offer.

After communicating the tax audit outcomes, the local finance director, Mr. Tanvir Ahmed, has been requested to reply to the following questions by the group tax manager sitting in the UK. The local finance director is not sure whether he should share the underlying job offer by the tax officer with the group tax manager.

- Shall we go for the appeal to get a favorable order to establish that our line of business cannot have a fixed gross profit in place as the price of the commodity varies with the dynamics of the international market?
- What are the key matters we must know regarding the first appeal?
- What are the likely outcomes you believe in the best- and worst-case scenarios we may expect in appeal proceedings?
- What would be the timelines for filing the appeal and getting the order?

#### **Requirements:**

- i) Draft an email on behalf of local finance director to the group tax manager of FGL addressing the questions raised by him. **[Marks 8]**
- ii) Discuss the ethical issues associated with the placement offer made by the tax official and should it be communicated with the group tax manager? **[Marks 5]**

**Question 1(b)**

Mr. A, a foreign national employed in XYZ's quality assurance department, receives a monthly salary of Tk. 800,000. As per his employment condition, he periodically returns to his home country (every four months) for a week and renews his tourist visa before returning to Bangladesh. However, XYZ has employed Mr. A without obtaining any work permit from the Bangladesh Investment Development Authority (BIDA), which is a mandatory requirement for employing foreign nationals in Bangladesh. Consequently, Mr. A is unable to remit funds to his family under the official quota allowed by law. As a result, he resorts to purchasing cash dollars from the curb market and carries them while traveling back to his home country. Additionally, for the income year 2023-24, XYZ has an assessed payable tax of Tk. 100 million.

**Requirements:**

Considering provisions of the Income Tax Act 2023 and the Finance Act 2023 (ignoring the provisions of the tax laws related to the assessment year 2024-25):

- i) Describe the potential tax liabilities and legal consequences for XYZ if it is discovered that they have employed Mr. A without the necessary work permit and how this may impact their assessed payable tax for the income year 2023-24 from a tax law perspective. **[Marks 3]**
- ii) Describe from a tax law standpoint, the potential consequences Mr. A may face for working without a work permit include potential penalties, deportation, and restrictions on future entry into Bangladesh. **[Marks 2]**

**Answer to the question# 1(a) (i):**

**Subject:** Response to tax Appeal Outcomes and Recommendations

Dear Mr./Ms.

I hope this email finds you well. Following the recent tax audit outcomes for the assessment year 2022-2023, I am writing to provide a detailed response to your queries.

**Appeal:**

It seems that the tax authority has relied on past records of sales and margins, which is impractical in the business world. If these estimates continue for future periods, the company may face substantial tax burdens. Sales and GP should ideally reflect the market scenario, but it appears the tax authority did not consider the dynamics of the commodity market, further, our historical financial data reflects these variations, and we can substantiate that a fixed gross profit margin is not feasible for our line of business.

Therefore, it is advisable to challenge the decision before the tax appellate authorities to prevent future misguided assessments.

**Key matters:**

Appeal has to be filed before the Commissioner of Taxes (Appeals). No appeal is permitted if returns are filed but tax liability has not been paid before or at the time of filing return. Appeal shall be filed in prescribed forms and manner along with a fee of BDT 200.

The appellate authority shall designate a day and place for the hearing and provide notice to the appellant. The appellate authority may permit the appellant to raise any ground of appeal that was inadvertently omitted before or at the time of the hearing. However, the appellate authority shall not admit any documents or evidence that were not presented before the DCT unless satisfied with the reasons provided.

**Appeal decision:**

Best-Case Scenario: The appellate authority acknowledges our argument and adjusts the gross profit margin in line with our actual financial performance, leading to a reduction or elimination of the additional tax claim.

Worst-Case Scenario: The appellate authority upholds the current assessment, maintaining the additional tax claim of Taka 2.5 crore. However, even in this scenario, we will have exhausted all available remedies to ensure compliance and transparency.

**Timelines:**

We must file the appeal within 45 days from the date of receiving the assessment order. Typically, an appeal order shall be passed within 150 days from the end of the month of filing appeal, and within 30 days the appeal order shall be communicated.

Please let me know if you need any further information or clarification on these points.

Best regards,

**Tanvir Ahmed**

Finance Director

**Answer to the question# 1(a) (ii):**

The tax official's attempt to influence the assessment by offering a job opportunity to his cousin is a clear case of bribery and corruption. Such actions undermine the integrity of the tax system and create an unfair advantage. The consultant and FGL's tax manager acted ethically by refusing the offer, upholding the company's recruitment policy and maintaining professional standards. It is essential to maintain transparency and accountability in all dealings with tax authorities to avoid any legal or reputational repercussions.

Yes, the placement offers made by the tax official should be communicated to the group tax manager. Transparency within the organization is crucial, and the group tax manager must be aware of any unethical practices that may affect the company's operations and reputation. This will also help in deciding the appropriate course of action and ensure that such incidents are handled correctly and reported to the relevant authorities if necessary.

**Answer to the question# 1(b) (i):**

The potential exposure for XYZ for employing Mr. A, who does not have any permission from any appropriate authority to work in Bangladesh.

As per Section 19 of the Income Tax Act 2023, any person employs or allows, without prior approval of the Bangladesh Investment Development Authority (BIDA) or any competent authority of the Government, as the case may be, any individual not being a Bangladeshi citizen to work at his business or profession at any time during the income year, such person shall be charged additional tax at the rate of fifty per cent (50%) of the tax payable on his income or taka five lakh, whichever is higher in addition to tax payable under this Income Tax Act 2023. Accordingly, XYZ may exposed to penalty of Tk. 50 million, being higher of 50% of the tax payable by XYZ for that A/Y and Tk. 500,000.

**Non-Compliance Penalties:** By employing Mr. A without obtaining the required work permit from BIDA, XYZ is in violation of immigration laws in Bangladesh. As a result, the company may face penalties, fines, or legal consequences imposed by the relevant authorities for non-compliance.

**Answer to the question# 1(b) (ii):**

Potential exposure for Mr. A. not being a Bangladeshi citizen without prior approval of the Bangladesh Investment Development Authority (BIDA) or any competent authority of the Government are as follows:

- 1) As per Section 243(a) of the Income Tax Act 2023, if tax authority identifies, Mr. A will not be allowed to leave the country without providing a tax clearance certificate obtained from tax Authority.
- 2) Other Legal Consequences:
  - i. As Mr. A is working in Bangladesh without the necessary work permit, it will be considered as a violation of immigration laws. He may face legal consequences, including fines, deportation, or other penalties imposed by the authorities.
  - ii. Financial Risks: As Mr. A cannot remit funds through official channels, he purchases cash dollars from the curb market to carry back to his home country. This exposes him to potential money laundering law violation risks and consequences thereon.

**Question 2**

Mr. Saiful Islam is a veteran War Wounded Freedom Fighter (Gazetted) and a dual citizen (Bangladeshi by birth and USA nationality through immigration), worked as a contractual employee in a development organization in Nepal from 1st January 2019 to 30th November 2023. After completing his stint in Nepal and a short vacation, Mr. Islam returned to Bangladesh on 1st December 2023. He started a consultancy and supply business in Bangladesh from 1st February 2024. As part of his consultancy business, Mr. Islam often travels abroad. He seeks your advice on how to file his tax return in compliance with the tax laws related to the assessment year 2024-25. To assist you, Mr. Islam has provided the following information:

<b>Income from abroad:</b>	
<b>Description</b>	<b>Amount (Taka)</b>
Ex-employer in Nepal remitted for Employee Share Option Scheme (ESOP) granted earlier:	
Gross amount accrued for the period July 2022 to June 2023:	2,500,000
Gross amount accrued for the year July 2023 to 30 <sup>th</sup> November 2023:	2,000,000
The amount was remitted to his bank in USA on 15 <sup>th</sup> January 2024 after withholding tax @ 25%, (Bangladesh and Nepal have a double tax avoidance treaty)	
Consultancy fees remitted net-off tax @ 10% by an Indian Company on 30 <sup>th</sup> April 2024 for services provided for an Indian company in February 2024 credited to his bank account in USA (Bangladesh and India have a double tax avoidance treaty)	900,000

<b>Consultancy services provided in Bangladesh:</b>	
<b>Description</b>	<b>Amount (Taka)</b>
For consultancy services provided during 1st February 2024 to 30th June 2024 fees earned from a public limited company on which, the company deducted tax at source @ 10% u/s 90 of the Income Tax Act 2023 and Withholding Tax Rules 2023	2,000,000
Supply of chemicals to Company Y up to 30 June 2024 (Tk. 100,000 being 5% was already deducted as tax u/s 120 of the Income Tax Act 2023 by Customs authorities at port point on 1st March 2024 and Company Y deducted @ 3% on the total supply value taking into account the tax already collected by Customs authorities at port point).	4,000,000
Note: This Supply business will be assessed u/s 163 of the Income Tax Act 2023.	

Expenses made by Mr. Islam during 2023-24 income year	
Description	Amount (Taka)
Expenses relevant for supply business including material cost	2,800,000
Expenses relevant for non-supply business	1,000,000
Bank interest for working capital for non-supply business	300,000
On account of purchase of Bangladesh Shanchay Patra on 25th June 2024	3,000,000

**Requirements:**

Considering the withholding tax provisions as per the Income Tax Act 2023 and individual tax rate as per Finance Act 2024 compute:

- Total income for the income year 2023-2024. [Marks 7]
- Tax liability for the income year 2023-2024 considering the withholding taxes deducted. [Marks 3]

**Answer to the question# 2(a) & (b):**

**Mr. Islam**  
**Income Year from 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024**  
**Assessment Year: 2024-25**  
**Computation of total income**

Heads of income	Note	Amounts in Taka	Amounts in Taka	Amounts in Taka
<b>Income from employment: (Section 32)</b>	2			
Remittance by ex-employer in Nepal for Salary (ESOP)			2,000,000	
Less: Exempted Salary (As per 6th schedule Part 1)			(450,000)	
<b>Income from employment</b>				1,550,000
<b>Income from business: (Section 45-55)</b>				
<b>Consultancy business:</b>				
Company in Feb'24 credited to his bank account in Consultancy fees remitted by Indian Company on 30 April 2024 for services provided for an Indian USA after deduction of tax @ 10% at source	3		1,000,000	
Consultancy fees earned in Bangladesh for consultancy services provided during 1st February 2024 (tax at source @ 10% u/s 90 of the Income Tax Act 2023 and Withholding Tax Rules 2023)			2,000,000	
<u>Admissible expenses</u>				
Expenses relevant for non-supply business		1,000,000		
Bank interest for working capital for non-supply business		300,000	(1,300,000)	
<b>Total income from consultancy business</b>				1,700,000
<b>Supply business: (income tax deducted at source is considered as minimum tax u/s 163)</b>				3,250,000
Supply of chemicals to Company Y up to 30 June 2024			4,000,000	
<u>Admissible expenses</u>				
Expenses relevant for supply business including material cost			(2,800,000)	
<b>Income from supply business</b>				1,200,000
<b>Total income</b>				4,450,000

<b>Tax</b>	<b>Slab</b>	<b>Rate</b>	<b>Amounts in Taka</b>
On the 1 <sup>st</sup>	500,000	0%	0
On the next	100,000	5%	5,000
On the next	400,000	10%	40,000
On the next	500,000	15%	75,000
On the next	500,000	20%	100,000
Balance	1,250,000	25%	312,500
Sub-total	3,250,000		532,500
On supply income (u/s 163) normal tax being higher than withholding tax (Note-4)	1,200,000	Minimum tax	300,000
<b>Total Tax</b>	<b>4,450,000</b>		<b>832,500</b>
Rebate: [15% on 500,000 on Shanchay patra= Tk.75,000 or 3% of Tk. 15,00,000=46,500]			<b>(46,500)</b>
Net tax liability after investment tax rebate			<b>786,000</b>
<u>Less:</u>			
Double taxation relief (Foreign Tax credit as per sec 244(4) Withholding tax credit allowed on Salary income in Nepal (Note-5)			<b>(273,775)</b>
Withholding tax credit allowed on Consultancy income in India (Note-6)			(100,000)
Less: Tax deducted at source in Bangladesh (Note-7)			(320,000)
<b>Net tax liability</b>			<b>92,225</b>

#### Calculation of eligible amount for investment allowances u/s 76 of Income Tax Act, 2023:

<b>Description</b>	<b>Amounts in Taka</b>
Investment in Sanchaya Patra	3,000,000
Maximum allowed in Shanchay patra	500,000
15% of Actual Investment	75,000
Or	
(total income Tk. 44,50,000 - income u/s 163 Tk. 29,00,000)=15,50,000 X 3%	46,500
Or	1,000,000
Whichever is lower	46,500
Thus allowable investment tax rebate would be	46500

#### Note: 1

Mr. Islam arrived in Bangladesh on 31<sup>st</sup> Decmber'23, hence for the purpose of the AY 2024-25, Mr. Islam's status would be resident being it's 183 days.

#### Note: 2

Remittance by ex-employer in Nepal for ESOP (Treated as Salary income as employee share scheme):

For the income year 2023-24, Mr. Islam is a resident tax payer in Bangladesh. Salary income of Taka 2,500,000 (gross) accrued for the income year 2022-23 should be out of the scope of total income u/s 26 of the Income Tax Act 2023. Because, this income was generated outside Bangladesh beyond this tax period, when his status was non-resident.

Salary income of Taka 2,000.000 (gross) accrued or arises to him outside Bangladesh for the year 2023-24 (up to November'23) should be within the scope of total income u/s 26 of the Income Tax Act 2023. Because, this income was generated within the same tax period, when his status was resident

#### Note-3

Consultancy income of Taka 1,000,000 (grossed up: 900,000/(1-90%)) accrued or arises to him outside Bangladesh for the year 2023-24 (January 2024) should be within the scope of total income u/s 26 of the Income Tax Act 2023. Because, this income was generated within the same tax period, when his status was resident. Whether the money was received in USA is not a question, as Resident tax payer's income is assessed on global income basis.

**Note-4**

Description	Amounts in Tk.
Tax liability for Supply business (u/s 163)	
Profit as per normal Tax calculation as per 25% slab,	300,000
or	
Withholding tax, treated as minimum tax u/s 163 $[40,00,000 \times 3\% = 120,000 - 100,000]$	20,000
Whichever is higher	300,000
<b>Thus tax liability for supply business u/s 163</b>	<b>300,000</b>

**Note-5**

Description	Amounts in Tk.
Withholding tax credit allowed on Salary income in Nepal Gross salary (ESOP) earned	
Taxable in Bangladesh Withholding tax in Nepal @ 25% of Tk. 20,00,000=	500,000
Average tax rate in Bangladesh including foreign income	17.6629%
(Total tax liability Tk. 786,000/Total Income Tk. 44,50,000)	
Maximum credit allowed @ 17.6629%	273,775
Credit to be allowed (lower of maximum allowed vs actual)	<b>273,775</b>

**Note-6**

Description	Amounts in Tk.
Withholding tax credit allowed on Consultancy income in India	
Gross consultancy fee earned Taxable in Bangladesh Withholding tax in India @ 10%	100,000
Average tax rate in Bangladesh including foreign income Total tax liability/Total Income)	17.6629%
Maximum credit allowed @ 17.6629%	176,629
Credit to be claimed (lower of maximum allowed vs actual)	<b>100,000</b>

**Note-7**

Description	Amounts in Tk.	Amounts in Tk.	Amounts in Tk.
Withholding tax in Bangladesh:			
On consultancy services to be provided up to 30 June 2024 (Taka 2,000,000 X 10%)			200,000
<u>On Supply business of Tk. 4,000,000:</u>			
Tax paid at import point u/s 120		100,000	
Tax deducted at supply stage u/s 89 (Taka 4,000,000 x 3% = 120,000 - 100,000 = Tk. 20,000)		20,000	
			120,000
<b>Total withholding tax in Bangladesh</b>			<b>320,000</b>

**Question 3**

Oracle Ltd ("Oracle" or "the company") is a publicly listed limited company on two stock exchanges in Bangladesh. The company has been involved in the manufacturing and marketing of consumer goods for the past 15 years. Oracle operates its own manufacturing unit for its manufactured goods and also imports finished goods for its trading unit.

For the fiscal period ended on 30 June 2024, following information were disclosed in the financial statement of the company, which are relevant for computing income tax for Oracle for the income year 2023-2024 (A/Y 2024-2025):

Particulars	Amount in Crores Taka
Turnover (including Turnover of Trading unit and exports unit)	2,000
Net Income before tax	200

In addition to the above, following information were also made available relevant for its tax assessment:

- 1) During the fiscal period 2022-23, the company out of its own manufactured goods, made exports to Sri Lanka, Maldives, and Nepal
- 2) Profit before tax includes Tk. 3 crores as gain on sale of fixed asset. The asset was sold at Tk. 5 crores, whose original cost was Tk. 3 crores and written down value was 2 crores as per book, while the value was Tk. 1 crore as per tax.
- 3) The company maintains a funded gratuity scheme for its permanent employees and for the year 2022-23 it created a provision for Tk. 9 crores based on actuarial valuation, out of which it paid Tk. 8 crore to the fund. From the fund Tk. 2 crores were paid to 4 outgoing employees.
- 4) Interest on foreign loan was Tk. 3 crores. The rate of interest charged by the offshore bank is 6% per annum. The arm's length rate in this regard is to be considered as LIBOR+3% (assume the LIBOR rate will be 1% throughout the period).
- 5) Excess perquisite was Tk. 3 crores and Royalty expenses charged was 100 crores.
- 6) Depreciation charged as per book was Tk. 20 crores (Tk. 1 crore included on account of fixed asset sold during the year), whereas tax depreciation was 25 crores.
- 7) The Gross Profit ratios between manufacturing, trading unit and Export unit were 65%:25%:10% which was allowed by tax authority to allocate common business profit between these units.
- 8) For the fiscal period 2023-24, Customs authority collected Tk. 15 crores as advance income tax u/s 120 of ITA 2023 on account of goods traded under Trading unit.
- 9) Due to the ongoing liquidity crisis in financial sector, for the fiscal period 2023-24, Oracle distributed only stock dividend of Tk. 14 crore, which was around 10% of the net income after tax, rest it transferred to general reserve for distribution of dividend in the coming years, when the situation will be normal.
- 10) Oracle Ltd fulfils all the conditions to qualify for the lowest corporate tax rates applicable for a publicly traded company.

**Requirements:**

Determine the following for Oracle for the income year ended on 30 June 2023:

- a) Total Income [**Marks 8**]
- b) Gross Tax liability [**Marks 3**]

**Answer to the question# 3(a):**

<b>Income from business:</b>	<b>Tk. in crore</b>
Profit before tax as per statement of profit and loss and other comprehensive income	200
Accounting gain on sale of fixed assets for separate consideration (note-01)	(3)
	197
Revenue gain on sale of fixed assets (3 crore purchase price-1 crore tax WDV)	2
	<b>199</b>
<b>Inadmissible expenses as per provision of tax law:</b>	
Accounting depreciation for separate consideration as per 3 <sup>rd</sup> schedule	20
Gratuity provision (as provision is not allowable at tax law other than actual transfer to fund)	9
Excess perquisites as per section 55	3
Excess royalty expenses as per section 55 (100 crore-10% of 200 crore=80 crore)	80
	<b>112</b>
	<b>311</b>
<b>Admissible expenses as per provision of tax law:</b>	
Tax depreciation (assuming that tax dep not allowed in the year of sale of fixed asset)	(25)
Gratuity amount actually transferred to the fund	(8)
	<b>(33)</b>
<b>Income from business</b>	<b>278</b>



Allocation of business income among manufacturing unit (other than section 163) trading unit (section 163) and Export unit on the basis on gross profit ratio given in the question:

Unit	Ratio	Amounts in Tk. (crore)
Manufacturing unit(other than section 163 and Export)	65.00%	180.70
Trading unit(section 163)	25.00%	69.5
Export unit (TDS on export not given in the question so not u/s 163)	10.00%	27.8
<b>Income from business</b>		<b>278</b>

**B. Capital gain:**

From sale of fixed asset (5 crore sales price-3 crore purchase price) 2

**Total income (A+B) 280**

**Answer to the question# 3(b):**

Tax liability/payable	Amounts in TK.
<b><u>Business income from manufacturing undertaking (other than other income falling under minimum tax u/s 163 (2)):</u></b> [Tax @20% on Tk. 180.7 minimum tax u/s 163(5)]	36.14
<b><u>Income from trading unit (u/s 163):</u></b> Tax payable @20% on Tk. 69.5=13.90 or AIT at import stage u/s 120=15 Higher one	15
<b><u>Income from export unit:</u></b> as per SRO Tax @ 12% on Tk. 27.80 or TDS @1% on export proceeds whichever is higher but TDS figure is not given in the question	3.34
Total tax on business income	54.48
<b>Capital gain:</b> Tax @ 15% on Tk. 2.00 [Turnover tax=2,000 x 0.60%=12 + C/G 2 x 0.60%=0.012/20 x 15=0.009=total 12.009 crore which is lower than regular tax of Tk. 54.78 crore. So regular tax will be applicable]	0.30
<b>Tax payable before charging tax on stock dividend and transfer to retained earnings :</b>	<b>54.78</b>
Charge of tax for shortfall in cash dividend (14 crore x 10%) [u/s 23 of the ITA, 2023]	1.40
Charge of tax for transfer exceeding 70% of net income after tax to retain earnings [u/s 22 of the ITA 2023] {Tk. [(200 crores-54.78 crores) = 145.22 crore x 10% =	14.52
<b>Gross tax payable before considering AIT at import stage</b>	<b>70.70</b>

**Notes:**

[1] Since the lender bank and the borrower company are not associated enterprises, so transfer pricing adjustment not needed.

[2] In this math, there is no special business income as per section 56

[3] In case of calculating tax as per section 22, current year's available data is taken into consideration as previous year's data is not given in the question. Moreover, current year's data is more logical than previous year's data and at Income Tax Ordinance, 1984 it was mentioned current year not previous year.

#### **Question 4(a)**

You have been working as the lead tax consultant at MMH Chartered Accountants and contacted by some foreign investors for providing tax advice. The investors would incorporate a subsidiary company in Bangladesh. The company would manufacture high quality tires for different types of vehicles. The potential investors have incorporated companies in country A, country B and country C. Any of the companies set up in these countries may be holding company of the Bangladesh subsidiary and investment can come from any of these countries. Bangladesh has double taxation avoidance agreement with country B and country C but not with country A. Corporate tax rates in Country B and Country C are 25% and 17% respectively whereas Country A is tax heaven country having no tax exposure. The investors would inject both equity and loan. The Bangladesh subsidiary would also pay a fixed amount of royalty. Distribution of dividend to shareholders is exempt from tax in each of the countries. Details of projected income and withholding tax rates have been provided below.

##### **Projected Income**

<b>Particulars</b>	<b>Amounts in USD</b>
Earnings before interest, royalty and taxes	600,000
Royalty	(100,000)
Interest	(150,000)
Profit before tax	350,000

<b>Particulars</b>	<b>Percentage of withholding taxes as per DTAA</b>		
	Country A	Country B	Country C
Dividend	No DTAA	10%	15%
Royalty	No DTAA	10%	15%
Interest	No DTAA	10%	15%

##### **Requirement:**

Considering the above mentioned information, calculate the effective tax rate on earnings before interest, royalty and taxes for the ultimate shareholders with regard to investment from country A, country B and country C and suggest from which country the investment may come. For the sake of calculation assume that 100% of after tax profit will be available for distribution as dividend. Credit of tax withheld in Bangladesh will be available (to the extent of tax liability) in the country of the holding company. There is no need to convert USD into Taka. **[Marks 8]**

#### **Question 4(b)**

Nixon GMBH, Germany is a leading manufacturer of garments and textile machineries and equipment in the world. It incorporated a subsidiary company in Bangladesh and completed constructed of factory back in May 2023 for manufacturing high quality sewing, cutting, dying machineries and spare parts and selling the same in the readymade garments and textile industry of Bangladesh. The factory of the company is located at Bangabandhu Sheikh Mujib Shilpa Nagar, commonly known as Mirsarai Economic Zone and started commercial production from July 2023. The company needs to import materials from its parent in Germany. In addition, it takes technical assistance and remits technical knowhow fee quarterly to its parent company in Germany. Since the income of the company is 100% exempt from income tax for the first three years vide SRO No. 104-law/Income tax/2020 dated 25 March 2020, the management of the company believes that it does not have any obligation for transfer pricing study and documentation. The CFO of the company has approached you for validation of the same.

##### **Requirement:**

Briefly evaluate the position of the management of Nixon GMBH mentioning the tax exposure, if any. **[Marks 3]**

**Answer to the question # 4(a):**

Particulars	Country A	Country B	Country C
	<b>Amounts in USD</b>		
Earnings before interest, royalty and taxes	600,000	600,000	600,000
Royalty	(100,000)	(100,000)	(100,000)
Interest	(150,000)	(150,000)	(150,000)
Profit before tax	350,000	350,000	350,000
Corporate tax in BD @27.5%	(96,250)	(96,250)	(96,250)
Profit after tax	253,750	253,750	253,750
WHT oh dividend (N-1)	(50,750)	(25,375)	(38,063)
WHT on royalty (N-1)	(20,000)	(10,000)	(15,000)
WHT on interest (N-1)	(30,000)	(15,000)	(22,500)
Total Bangladesh tax	(197,000)	(146,625)	(171,813)
Holding co. tax exposure (N-2)	0	0	0
Global tax exposure	(197,000)	(146,625)	(171,813)
Earnings before interest, royalty and taxes	600,000	600,000	600,000
Effective tax rate	33%	24%	29%

**Note 1**

In the absence of any double taxation avoidance agreement with Country A, withholding tax rate of 20% as per Income Tax Act, 2023 has been considered;

**Note 2****Calculation of holding co. tax exposure**

Particulars	Country A	Country B	Country C
Royalty	100,000	100,000	100,000
Interest	150,000	150,000	150,000
Dividend	253,750	253,750	253,750
Total income	503,750	503,750	503,750
Corporate tax rate	0%	25%	17%
Corporate tax	0	(125,938)	(86,674)
Credit of Bangladesh tax	0	125,938	86,674
Net tax exposure	0	0	0

Credit of Bangladesh tax has been allowed to the extent of withholding tax paid in Bangladesh.

**Answer to the question # 4(b):**

According to Section 236(4) of the ITA, 2023, transfer pricing adjustment attracts income tax liability at regular rate irrespective of any income tax exemption. Hence, Nixon GMBH would be required to pay tax on transfer pricing adjustment, if any, disregarding the income tax exemption allowed by SRO No. 104-law/Income tax/2020 dated 25 March 2020. The company is advised to maintain proper transfer pricing documents and transfer pricing study so that transfer pricing adjustment, if possible, can be avoided. In the case of failure to maintain TP documentation and failure to file statement of international transactions, the Deputy Commissioner of Taxes may impose following penalties.

Sl.	Non-compliances	Penalties
A	Failure to comply with the notice or requisition issued by the DCT u/s 235(5) of the ITA, 2023	Not exceeding 1% of the value of each international transaction u/s 276 of the ITA, 2023.
B	Failure to keep, maintain or furnish any information or documents or records as per section 237 of the ITA, 2023	Not exceeding 1% of the value of international transaction u/s 277 of the ITA, 2023
C	Failure to furnish the statement of international transactions as per section 238 of the ITA, 2023	Not exceeding 2% of the value of international transaction u/s 278 of the ITA, 2023
D	Failure to furnish a report from CA or CMA as per section 239 of the ITA, 2023	A sum not exceeding Tk.3,00,000 u/s 279 of the ITA, 2023

### **Question 5**

Wolverine Bangladesh PLC ("Wolverine"), a manufacturing concern operating in the FMCG sector since 2017, recently in July 2024 underwent a VAT return review by Divisional VAT authority for the fiscal period 2023-2024. Wolverine received a show cause notice from the divisional team, requiring a response within seven (7) working days. The VAT issues and relevant facts are as follows:

- a) **Issue:** Wolverine claimed input tax credit of Tk. 65 million. However, the Divisional VAT authority alleges that Tk. 25 million of this amount should be canceled. This is because the Divisional VAT authority discovered that the respective VAT challans lacked the proper address of Wolverine, although the registration number was properly mentioned. In support of this, the Divisional VAT authority shared a statement of all purchase challans, where the address is different from the address mentioned in the existing BIN.

**Facts:** Wolverine changed its registered premises address effective from 1st January 2024, and completed all necessary formalities as per the law. The challans identified by the Divisional VAT authority contain previous registered addresses, as they were procured prior to the change of registered address.

- b) **Issue:** Wolverine claimed input tax credit of Tk. 34 million for VAT paid on packaging materials used in a special promotional campaign. The Divisional VAT authority contends that this amount should be canceled as the packaging materials used for the promotional campaign should be considered as promotional materials and therefore fall outside the definition of input under the law.

**Facts:** Wolverine argues that the packaging materials used for this special promotional campaign were included in Musak 4.3, and a revised input-output coefficient was submitted. Therefore, Wolverine believes that these packaging materials should be eligible for input tax credit.

- c) **Issue:** The Divisional VAT authority summarized that during this period, the cost of the main raw materials used by Wolverine had increased on average by 15%, which is more than the allowable limit of 7.5%. As per them, unless a revised Input Output Coefficient is submitted, Wolverine cannot claim input tax credit for the additional cost. The Divisional VAT authority computed that as such Tk. 13 million was claimed in excess of their legitimate entitlement and therefore recommended its cancellation.

**Facts:** Wolverine did not submit any revised Input Output Coefficient as the total cost of the input did not exceed 7.5%, even though the raw material price had increased on average by 15%.

- d) **Issue:** Tk. 5 million paid as VAT at the time of remittance of technical knowhow fee was shown in the VAT return in January 2024 as an increasing adjustment instead of Output VAT, and input tax credit was also claimed based on the deposited challan. The Divisional VAT authority argues that this is an import of service and there is a procedural lapse under section 46(1) (KHA) of the VAT & SD Act 2012. Therefore, the input tax credit should be canceled.

**Facts:** Wolverine believes that there is no difference in whether the amount is shown under increasing adjustment or under Output VAT, as the financial result will be the same. Therefore, Wolverine sees no issue in claiming the input tax credit of Tk. 5 million.

**Requirement:**

As consultant, assess the matter and provide arguments and remedies for Wolverine in accordance with the VAT & SD Act 2012, considering the provisions of the Finance Act 2023(not the Finance Act, 2024), if applicable. [Marks 10]

**Answer to the question# 5:**

Date:  
The finance & Control  
Director Wolverine PLC

Subject: Assessment of the legal position and possible arguments/remedies thereof on the alleged non-compliances under VAT & SD Act 2012 based on VAT returns reviewed by Divisional VAT Authority for the period 2023-24.

Dear Sir,

This refers to your letter ref. no .....dated..... on the subject matter. We've gone through the matter in details and scrutinized the same as per the provisions of VAT & SD Act, 2012, relevant Rules, SROs and Orders thereof if any. Based on this, we summarize below our assessment on the alleged non-compliances as pointed out by the Divisional VAT Team including possible arguments/remedies thereof:

**Issue (i):****Assessments and arguments/remedies:**

Wolverine changed its registered premises address, effective from January 1st, 2024, and completed all necessary formalities as per the law. The challans identified by the VAT authority still contain the old addresses, as they were procured prior to the change of registered address. This can be further substantiated by the Purchase Account Book (Musak 6.1) and Musak 2.5, which provide communication on the change of address submitted to the authority. Therefore, we do not see any non-compliance, and as a result, the entire amount claimed as input tax credit should be allowed.

**Issue (ii):****Assessments and arguments/remedies:**

Wolverine used the packaging materials for the special promotional campaign, which were included in Musak 4.3, and a revised input-output coefficient was submitted. Although the packaging material was used for special packaging purposes during the special promotional campaign, it did not lose its character as an input, as defined under section 2(18KA) of the VAT & SD Act 2012. In fact, upon careful analysis of the definition of input under section 2(18KA) of the VAT & SD Act 2012, it is evident that the definition includes packaging material without further qualification regarding its use for normal purposes or promotional campaigns. Therefore, we are of the opinion that these packaging materials used for the special promotional campaign should be eligible for input tax credit.

**Issue (iii):****Assessments and arguments/remedies:**

As per section 46(1)(DHA) of the VAT & SD Act 2012, if the total input cost increases by more than 7.5%, no input credit shall be allowed for the increased amount unless a revised input-output coefficient (Musak 4.3) is submitted. In the case of Wolverine, no revised Input Output Coefficient was submitted as the total cost of the input did not exceed 7.5%. despite the average increase in raw material prices by 15%. Therefore, we are of the opinion that claiming input tax credit for the increased raw material price is not an issue as long as the total input cost increase remains below 7.5%. Hence, no input tax credit should be cancelled.

**Issue (iv):****Assessments and arguments/remedies:**

For the import of services, where the service provider is a non-resident staying abroad and cannot obtain registration under the VAT law applicable in Bangladesh, the reverse charge mechanism has emerged as a solution to address this circumstance. However, there are certain mandatory compliances that must be fulfilled in order to claim input tax credit for VAT payment on imported services.

According to section 46(1)(KA) of the VAT & SD Act 2012, it is specified that in order to claim input tax credit for imported services, the amount must be shown separately in the return as output tax as well. In this case, Wolverine failed to comply with this requirement, although there is no impact on the amount of VAT payable. Here it is to be noted that in terms of rule 49(3)(Ka) of the VAT & SD Rules, 2016, amendment of return can be submitted within 4 (four) years of submission of the relevant return. However, in terms of rule 49(3)(Kha) of the VAT & SD Rules, 2016, amendment of return cannot be submitted if the VAT authority starts any audit or enquiry or in any other manner the error is discovered. Accordingly, considering the provisions of law, as VAT authority has already started enquiring the VAT Returns, amendment shall not be allowed. Therefore, Wolverine can not mitigate the potential financial risks of having the input tax credit of Tk. 5 million cancelled.

Finally, we would like to inform you that on the matters pointed out by the Divisional VAT team, you're in a strong defendable position, except issue under (iv).

In view the above, we would advise you to provide the response to Divisional VAT team within the timeline they specified and if you need any further assistance in this regard, please do not hesitate to contact us.

Thank you.

Yours-sincerely,

**Consultant**

**Question 6(a)**

Illuminating Bangladesh Limited (IBL) manufactures and distributes different types of lamps in Bangladesh. A summary of assets and liabilities of the company as on 30 June 2023 is provided as below.

<b>Assets</b>	<b>Figures in BDT</b>	<b>Liabilities and equity</b>	<b>Figures in BDT</b>
Property plant and equipment	35,000,000	Share capital	50,000,000
Inventories	120,000,000	Retained earnings	75,700,000
Trade receivables	40,000,000	Trade payable	8,600,000
Advance, deposits and prepayments	15,000,000	Provision for tax	8,700,000
Advance income tax	3,500,000	Deferred tax liability	5,500,000
Cash and cash equivalents	5,000,000	Loan from bank	70,000,000
<b>Total</b>	<b>218,500,000</b>		<b>218,500,000</b>

The company has signed an agreement to transfer the whole business (i.e. all the assets, production facilities and human resources) to a competitor lamp manufacturer namely, Dhaka Lamp Company Limited (DLCL). It has offered a transfer price of BDT 150,000,000 and will also take over all the liabilities of the company. DLCL would utilize all the assets of IBL and continue to run the production facility under its own brand name. All the goods will also be marketed under the brand of DLCL. VAT authority has a disputed demand against IBL for BDT 4,000,000 which is pending for adjudication before the VAT Appellate Tribunal. IBL is yet to recognize any provision for the same.

**Requirement:**

Considering the above, explain the VAT implication of transfer of all the assets and liabilities from IBL to DLCL. Briefly explain if there is any condition in the VAT laws to effect such transfer. **[Marks 5]**

**Question 6(b)**

The factory manager of Angel informed its management that its Boiler used in the factory requires certain repairs, which is not possible in Bangladesh and therefore it needs to be sent to the supplier in Italy. Accordingly, the Boiler is to be re-imported to Bangladesh after being exported for repairs, however there will be no change in its forms, features, characteristics, and the qualitative standards.

**Requirement:**

Quoting the reference of law, describe how the value for assessment of VAT on such Boiler shall be determined when it will be re-imported back to Bangladesh. **[Marks 4]**

**Answer to the question# 6(a):**

According to Section 36 of the VAT and SD Act, 2012, transfer of a going concern is not considered as a supply under the VAT and SD Act, 2012 and does not attract VAT. In this case, a going concern or a running business establishment has to be acquired with an intent to keep the economic activity running after the sale is effected and the purchaser has to fully acquire all that is necessary for an uninterrupted management of the economic activity transferred. Transfer of the going concern/business establishment would require payment of all due VAT liabilities before effecting the transfer. Alternatively, it requires submission of an application to Commissioner of VAT for permitting the transfer without payment of the dues. In this case, the purchaser has to submit continuous and unconditional bank guarantee of a scheduled bank for payment of arrear VAT liabilities before a minimum of 15 (fifteen) days of the sale of such business.

Considering the abovementioned provisions of the VAT law, transfer of business from IBL to DLCL would not attract any VAT but in this case, IBL has to pay the pending demand. Alternatively, if DLCL wants to continue the pending litigation, it has to file an application before the Commissioner of VAT for permitting the transfer without payment of the demand. In this case it has to submit continuous and unconditional bank guarantee of a scheduled bank for payment of arrear VAT liabilities, in case the ultimate outcome of the pending case goes against DLCL. According to Rule 22 of the VAT & SD Rules, 2016, if the Commissioner finds the bank guarantee appropriate after verification, s/he may grant permission for transfer of the going concern within 7 days of receiving the application. In the case of transfer of a going concern, the seller i.e. IBL has to provide the prescribed documents and information to the purchaser i.e. DLCL.

- a. Latest information of ownership;
- b. Complete set of financial statements;
- c. Statement of all the assets;
- d. Statement of all the liabilities;
- e. Information of pending lawsuits;
- f. Statement of registration, license with/from different departments of the Government;
- g. Other relevant information.

**Answer to the question# 6(b):**

As per section 29 of the VAT & SD Act 2012, when the Boiler is re-imported back to Bangladesh, the value for assessment of VAT on such Boiler shall be determined based on the combination of the value to the extent that it is enhanced as a result of the repair and the expenses incurred on their insurance, freight and landing charges provided that the forms, features, characteristics and the qualitative standards of the goods remain unchanged after such repairs.

**Question 7**

ABC Trading Ltd. ("ABC") is a diversified trading company based in Dhaka, Bangladesh, engaged in importing and distributing various goods including electronics, textiles, and industrial machinery. ABC is registered under the VAT & SD Act, 2012, and complies with VAT regulations applicable in Bangladesh. The company sources products from suppliers across Asia and Europe and distributes them to local wholesalers, retailers, and also exports to neighboring countries. During the VAT period ending June 30, 2023, ABC had the following transactions and records:

**Sales:**

- 1. Sales of electronics to local retailers: Taka 40,000,000 (including VAT at 15%).
- 2. Sales of textiles to local wholesalers: Taka 30,000,000 (excluding VAT at 15%).
- 3. Sales of industrial machinery to local factories: Taka 20,000,000 (including VAT at 15%).
- 4. Export sales of electronics to India: Taka 15,000,000 (zero-rated).
- 5. Export sales of textiles to Nepal: Taka 10,000,000 (zero-rated).

**Purchases:**

1. Purchase of electronics from suppliers in China: Taka 25,000,000 (excluding VAT at 15%).
2. Purchase of textiles from local manufacturers: Taka 20,000,000 (including VAT at 15%).
3. Purchase of industrial machinery from suppliers in Germany: EUR 1,000,000 (including VAT, converted to BDT).

**Expenses:**

1. Freight and logistics expenses for imported goods: Taka 5,000,000 (including VAT at 15%).
2. Advertising and promotional expenses: Taka 3,000,000 (excluding VAT at 15%).
3. Staff salaries and benefits: Taka 8,000,000 (not subject to VAT).

ABC applied for a VAT refund on export sales for the previous period amounting to Taka 2,500,000, which was approved and received during the current month. During the VAT audit by the internal auditor for the previous months, it was identified that ABC had incorrectly calculated VAT on certain imports, resulting in an underpayment of VAT.

**Requirements:**

Considering the above circumstances and the VAT regulations in Bangladesh, answer the following questions:

- a) Calculate the output VAT liability for ABCTL for the period ending June 30, 2023. **[Marks 4]**
- b) Calculate the input VAT that ABCTL can reclaim for the period ending June 30, 2023. **[Marks 4]**
- c) Discuss the corrective measures ABCTL should take regarding the incorrect VAT calculation on imports identified during the previous periods' audit. How should ABCTL rectify this error? **[Marks 4]**
- d) Explain the VAT implications and compliance requirements for ABCTL's export sales to India and Nepal under the Bangladesh VAT & SD Act, 2012. **[Marks 4]**

**Answer to the question# 7(a):****Domestic sales:****Sales of electronics to local Retailers:**

Sales Value (including VAT): Taka 40,000,000

VAT Liability (15%); Taka 40,000,000 / 1.15 x 15% = Taka 5,217,391

**Sales of textiles to wholesalers:**

Sales Value (excluding VAT): Taka 30,000,000

VAT Liability (15%): 4,500,000

**Sales of industrial machinery to factories:**

Sales Value (including VAT): Taka 20,000,000

VAT Liability (15%): Taka 20,000,000 / 1.15 x 15% = Taka 2,608,696

For export, VAT liability shall be zero.

**Total output VAT liability:**

Total Output VAT Liability = Taka 5,217,391 + Taka 4,500,000 + Taka 2,608,696 = Taka 12,326,087

**Answer to the question 7(b):****VAT on purchases:**

Purchase of Electronics from Suppliers in China: Taka 25,000,000 x 15% = Taka 3,750,000

Purchase of textile from local manufacturer: Taka 20,000,000 x 15/115 = 2,608,696

Purchase of industrial machinery from Germany: Taka 1,000,000 x 117 x 15/115 = 15,260,870

**Total = Taka 21,619,566**

**VAT on expenses:**

VAT on Freight and Logistics Expenses: Taka 5,000,000 x 15/115 = Taka 652,174

Advertising and Promotional Expenses: Taka 3,000,000 x 15% = Taka 450,000

**Total = Taka 1,102,174**

**Total input VAT: Taka 21,619,566 + 1,102,174 = Taka 22,721,740**



**Answer to the question# 7(c):**

ABC Trading Ltd. should take the following steps to rectify the incorrect VAT calculation on imports:

**Review and correct:** Review the import documentation and VAT calculations to identify the specific errors made.

**Calculate correct VAT:** Recalculate the VAT payable on the imports based on the correct VAT rate and value of imports.

**Amendment of VAT returns:** Amend the VAT returns for the periods affected by the incorrect calculations to reflect the accurate VAT liabilities.

**Payment of additional VAT:** Pay any additional VAT liabilities identified as a result of the correction.

**Documentation:** Maintain clear documentation of the corrections made and ensure compliance with VAT regulations moving forward.

**Answer to the question# 7(d):**

**Export sales to India and Nepal**

**Zero-rated supplies:**

Export sales of goods to India and Nepal are considered zero-rated supplies under the Bangladesh VAT & SD Act, 2012.

**Implications:**

ABC Trading Ltd. does not charge VAT on these export sales.

**Compliance requirements:**

- Maintain proper documentation to substantiate export transactions, including invoices, shipping documents, and customs declarations.
- Maintain proper VAT records (including Tax Invoice) under the VAT & SD Act and Rules.
- Claim input tax credit attributable to these zero-rated exports on usual manner as per section 46.
- Ensure decreasing adjustment of AT.
- Ensure decreasing adjustment of SD (where applicable) attributable to these zero-rated exports subject to procedures described in VAT & SD Act and Rules.
- Ensure compliance with export regulations and VAT reporting requirements specified under the VAT & SD Act, 2012.
- Provide evidence of export to substantiate zero-rating during VAT audits or assessments.

### **Question 8**

Pharma World Ltd., a multinational pharmaceutical company, is planning to expand its operations into Bangladesh. The company intends to import raw materials, semi-finished products, and specialized machinery for its new manufacturing plant in Dhaka. Pharma World Ltd. has partnered with a local pharmaceuticals company, Bionic Medicine Bangladesh Ltd., to facilitate the import process and ensure compliance with Bangladesh customs regulations.

- Pharma World Ltd. has received an initial shipment consisting of the following items:
- Active Pharmaceutical Ingredients (API): 500 kg of a patented API, invoiced at \$100 per kg.
- Semi-finished Products: 2000 units of semi-finished tablets, invoiced at \$5 per unit.
- Specialized Machinery: A state-of-the-art tablet pressing machine, invoiced at \$50,000.

During the customs clearance process, Pharma World Ltd. and Bionic Medicine Bangladesh Ltd. encountered several challenges, including issues related to customs valuation, applicable duties and taxes, and the classification of goods under the Harmonized System (HS) code. Additionally, they need to consider potential delays and penalties due to non-compliance with customs regulations.

#### **Requirements:**

- a) Calculate the customs value of the total shipment if Bangladesh Customs decides to use the transaction value method. Include relevant duties and taxes such as customs duty, VAT, and any other applicable charges. Assume the following rates:
  - i) Customs Duty on API: 10%
  - ii) Customs Duty on Semi-finished Products: 5%
  - iii) Customs Duty on Machinery: 15%
  - iv) VAT: 15% on all items
  - v) AT: 5% for all items
  - vi) AIT: 5% for all items
  - vii) Landing Charges: 1%.
- b) Explain the methods of customs valuation that may be used to determine the value if transaction value method is not appropriate. **[Marks 3]**
- c) Describe the importance of correctly classifying goods under the Harmonized System (HS) Code. **[Marks 2]**
- d) Outline the key compliance requirements Pharma World Ltd. must meet to avoid delays and penalties during the customs clearance process in Bangladesh. **[Marks 2]**
- e) Suggest strategies Pharma World Ltd. and Bionic Medicine Bangladesh Ltd. can implement to mitigate risks associated with customs clearance, including potential non-compliance and logistical challenges. **[Marks 3]**

#### **Answer to the question# 8(a):**

##### **Invoice values:**

- API:  $500 \text{ kg} \times \$100/\text{kg} = \$50,000$
- Semi-finished Products:  $2000 \text{ units} \times \$5/\text{unit} = \$10,000$
- Machinery: \$50,000
- Total Invoice Value:  $\$50,000 + \$10,000 + \$50,000 = \$110,000$

Note: Assumed that freight charges are included in invoice value.

##### **Insurance:**

- API:  $\$50,000 \times 1\% = \$500$
- Semi-finished Products:  $\$10,000 \times 1\% = \$100$
- Machinery:  $\$50,000 \times 1\% = \$500$

Total Insurance charge =  $\$500 + \$100 + \$500 = \$1,100$

**Landing charge:**

- API:  $(\$50,000 + \$500) \times 1\% = \$505$
- Semi-finished Products:  $(\$10,000 + \$100) \times 1\% = \$101$
- Machinery:  $(\$50,000 + \$500) \times 1\% = \$505$

Total Landing charge =  $\$505 + \$101 + \$505 = \$1,111$

**Assessable Value:**

- API:  $(\$50,000 + \$500 + \$505) = \$51,005$
- Semi-finished Products:  $(\$10,000 + \$100 + \$101) = \$10,201$
- Machinery:  $(\$50,000 + \$500 + \$505) = \$51,005$

Total assessable value =  $\$51,005 + \$10,201 + \$51,005 = \$112,211$

**Customs duties:**

- API:  $10\% \text{ of } \$51,005 = \$5,100.5$
- Semi-finished Products:  $5\% \text{ of } \$10,201 = \$510.05$
- Machinery:  $15\% \text{ of } \$51,005 = \$7,650.75$

Total Customs Duty:  $\$13,261.3$

**Total assessable value and Customs duties:**

$\$112,211 + \$13,261.3 = \$125,472.3$

**VAT (15% on assessable value and customs duty):**  $15\% \text{ of } \$125,472.3 = \$18,820.85$

**Advance Tax (AT) (5% on assessable value and customs duty):**  $5\% \text{ of } \$125,472.3 = \$6,273.62$

**Advance Income Tax (AIT) (5% on assessable value):**  $5\% \text{ of } \$112,211 = \$5,610.55$

**Total customs value:**

Total assessable value and customs duties + VAT + AT + AIT =  $(\$125,472.3 + \$18,820.85 + \$6,273.62 + \$5,610.55) = \$156,177.32$

**Answer to the question# 8(b):**

In terms of rule 3(Kha) of Customs Valuation (determination of value for import of goods) Rules, 2000, if the transaction value method is not appropriate, the following methods can be used in chronological manner:

- 1) **Transaction value of identical Goods:** Uses the transaction value of identical goods sold for export to the same country and at or about the same time as the goods being valued.
- 2) **Transaction value of similar Goods:** Uses the transaction value of similar goods sold for export to the same country and at or about the same time as the goods being valued.
- 3) **Deductive value method:** Based on the resale price in the importing country, less any costs incurred after importation such as transport and insurance.
- 4) **Computed value method:** Based on the cost of production of the goods, plus an amount for profit and general expenses typically reflected in sales of goods of the same class or kind.
- 5) **Fallback/other method:** Uses reasonable means consistent with the principles and general provisions of the customs valuation agreement, adapted to fit specific circumstances.

**Answer to the question# 8(c):**

Correct classification of goods under the Harmonized System (HS) code is important because:

- 1) **Determination of duties and taxes:** The HS code determines the applicable customs duties, VAT, and other taxes, which directly affect the total cost of imported goods.
- 2) **Regulatory compliance:** Proper classification ensures compliance with import regulations, avoiding penalties, delays, and possible seizure of goods. It also facilitates accurate and efficient customs clearance procedures.

**Answer to the question# 8(d):**

To avoid delays and penalties, Pharma World Ltd. must meet the following key compliance requirements:

- 1) **Accurate documentation:** Provide correct and complete documentation, including invoices, packing lists, bills of lading, certificates of origin, and import permits.
- 2) **Correct HS classification:** Accurately classify all goods under the appropriate HS codes to ensure the correct calculation of duties and taxes.
- 3) **Timely payment of duties and taxes:** Ensure prompt payment of all applicable customs duties, VAT, AT, AIT, and any other charges.
- 4) **Adherence to regulatory standards:** Comply with Bangladesh's regulatory standards and requirements for pharmaceuticals and machinery, including obtaining necessary approvals and certifications.

**Answer to the question# 8(e):**

To mitigate risks associated with customs clearance, the following strategies can be implemented:

- 1) **Engage experienced Clearing & Forwarding Agent (C&F Agent):** Partner with experienced Clearing & Forwarding Agent (C&F Agent) who are familiar with Bangladesh's customs regulations to ensure accurate and efficient processing.
- 2) **Pre-clearance procedures:** Use pre-clearance services to review and verify all documentation before shipment arrival, minimizing errors and delays.
- 3) **Compliance training:** Conduct regular training for staff on customs regulations and procedures to ensure they are aware of the latest requirements and best practices.
- 4) **Robust tracking and monitoring:** Implement a tracking system to monitor the shipment's progress and address any issues promptly.
- 5) **Contingency planning:** Develop contingency plans to handle unexpected delays or compliance issues, including alternative logistics arrangements and additional resources for urgent problem-solving.

--- The End---