SUGGESTED ANSWER

TAX PLANNING & COMPLIANCE

March-April 2024

Time allowed- 3:30 hours
Total marks- 100

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Question# 1 (a):

Company XYZ, a manufacturing company, received a tax assessment from the tax authorities stating that they owe Tk. 5 million 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 income 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 re-open this case as they believe a significant loss of government revenue.

Requirement:

Describing the consequences of the ADR process and settlement, explain whether Tax authority can legally re-open this case. **[Marks 4]**

Question# 1 (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; **[Marks 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; **[Marks 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. **[Marks 3]**

Answer to the Question# 1(a):

When both the parties reach a settlement through Alternative Dispute Resolution (ADR) and formalize it in an agreement, usually it is final and binding for both assessee and tax department. The settlement agreement represents the mutual acceptance and resolution of the tax dispute. Section 305 of the Income Tax Act 2023 supports this position by stating that, despite any provision in the Act, an agreement reached under sub-section (9) of section 304 shall be binding on both parties and cannot be challenged in any authority, Tribunal, or court by either the assessee or by the income tax authority.

However, Section 304(4) of the Income Tax Act 2023 states that the agreement will be void if it is subsequently discovered that it was concluded through fraud or misrepresentation of facts. In this case, apart from indicating the revenue loss, no other reasons have been provided as a basis for reopening the case. Therefore, unless the tax authority can establish that the agreement was reached through fraud or misrepresentation of facts, there is no scope for reopening the case.

Answer to the Question# 1(b) (i):

Section 72 to Section 75 of the Income Tax Act (ITA), 2023 deal with the method of accounting and audit of financial statements. According to Section 72 of the ITA, 2023, income of a person shall be computed in accordance with the method of accounting regularly employed by the assessee. This provision appears to be similar with that provided in the Income-tax Ordinance (ITO), 1984. Companies have been required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRSs) and get them audited by a chartered accountant in compliance with International Standards of Auditing (ISA) as it was in the previous law also. However, in addition to companies, section 73 of the ITA, 2023 requires following persons to prepare financial statements following IFRS and get them audited by a chartered accountant following ISA.

i. Any firm having turnover more than BDT 30,000,000;
ii. Any Association of Persons (AOP);
iii. Any fund;
iv. Any person having income from long term contract.

According to Section 74 of the ITA, 2023, business income of a person from a long term contract in an income year shall be computed following the percentage of completion method irrespective of his/her/its natural/legal form. Percentage of completion method is also a requirement of paragraph 39 of IFRS 15: Revenue from Contracts with Customers. Section 74 in this regard defines long term contracts as contracts for production or construction, performance of which would require more than 06 (six) months from the date of initiation of contract work and would not be completed within the assessment year.

Section 74 essentially resorted to the input method for measuring percentage of work completed as referred in IFRS 15. According to Section 74 of the ITA 2023, percentage of work completed will be measured by the ratio of expenses incurred before completion of a year to the total estimated/budgeted expense to complete the work. Such ratio is to be multiplied with the total contract revenue to determine the revenue attributable to an income/assessment year. According to IFRS 15, in case, the contract covers two or more accounting periods, accumulated revenue already recognized in earlier year(s) must be subtracted from total revenue arrived after multiplying the ratio of work completed. Though IFRS 15 allows output method (e.g. a survey of work done) for measuring percentage of work completed, Section 74 of the ITA, 2023 does not mention for it.

Answer to the Question# 1(b) (ii):

According to Section 72 of the ITA, 2023, the Deputy Commissioner of Taxes (DCT) has been mandated with the power to approve change in method of accounting on the basis of application from the taxpayer subject to the condition that the changed method would transparently represent the income of the taxpayer. No such authority has been given to the DCT in the ITO, 1984. Apart from the above, the National Board of Revenue has been entrusted with the authority to determine by rules the method of accounting and verification thereof of any business or any class of business or any source of income. This provision is similar to that of the ITO, 1984.

According to Section 75 of the ITA, 2023, income tax authority has been empowered with authority to disregard claim for deductions in the case of any income tax audit and assessment irrespective of any provisions regarding the method of accounting and audit of financial statements, if the claim is not verifiable. This provision is contrary to the provisions of audit of financial statements where a chartered accountant provides opinion on true and fair presentation of financial statements audited by him. However, in the earlier law, such authority was given to income tax authority only in the course of failure to maintain method of accounting regularly, failure to maintain accounts and documents according to the rules set out by NBR and failure of prepare financial statements of companies in accordance with IFRS and getting the same audited by a chartered accountant.

Answer to the Question# 1(b) (iii):

Mr. Hasnain is already following IFRS for preparation of financial statements of companies belonging to Maisha group. However, considering the revised provisions of income tax law regarding method of accounting, the Mr. Hasnain having business of long term construction contracts/businesses has to follow IFRS as method of accounting for the construction business under his sole proprietorship. He has to follow percentage of completion method and more precisely input method for measuring income from construction business for a particular income/assessment year. The advisory firm in which he is a partner also needs to prepare financial statements following IFRS onwards in contrast to previously adopted cash basis of accounting. Hence it may be inferred that the firm would have cash flow impact on accrued revenue in the form of incremental income tax outflow on the same. Mr. Hasnain also needs to ensure that all the provident and gratuity funds under Maisha group of companies prepare their financial statements following IFRS. The financial statements of long term construction businesses, the funds and the firm are to be audited by a chartered accountant in accordance with ISA.

In addition, Mr. Hasnain needs to be well aware of maintaining documents in support of the figures presented in the audited financial statements, especially for the accruals and provisions, and deductions claimed on the basis of the same to encounter any unethical proposal from any party concerned with regard to income tax audit and assessment. This has become a matter of crucial importance with regard to incremental power given to income tax authority to make disallowance on the grounds of non-verifiability of the claims irrespective of preparation of financial statements by IFRS and audit of the same by a chartered accountant following ISA.

Question no 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. **[Marks 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. **[Marks 3]**

Answer to the Question# 2(i):

Existing tax position of Mr. Palak Sawdagar			**Amount**
Salary income from GB	1,90,000	x12	22,80,000
Less: 1/3rd of salary or 450,000 [lower one]			4,50,000
			18,30,000
Other income from PC Limited	10,000	x12	1,20,000
Income from rent (Note-1)			3,68,333
Total income in IY 2023-24			**23,18,333**

Tax of Mr. Palak [if rate remains same for AY 2024-25]	**Income**	**%**	**Amount**
On Taka	3,50,000	0%	-
Next	1,00,000	5%	5,000
Next	3,00,000	10%	30,000
Next	4,00,000	15%	60,000
Next	5,00,000	20%	1,00,000
Rest	6,68,333	25%	1,67,083
			3,62,083
Investment tax credit (Note-5)			69,550
Tax liabilities			**2,92,533**

Note-1: Income from rent			
Rental value	35,000	x12	4,20,000
Annual value	40,000	x12	4,80,000
Higher one,			4,80,000
Less:			
Interest IY 2023-24			65,000
1/3rd of Previous year's interest (Note-2)			46,667
			1,11,667
Income from rent			**3,68,333**

Note-2: Previous year's interest	
IY 2021-22	72,000
IY 2022-23	68,000
	1,40,000
1/3rd of interest can be claimed in IY 2023-24	46,667

Note-3: Vacancy was not notified in writing to the DCT thus not eligible for deduction.

Note-4: Gain tax will not be applicable on sale of personal belongings like personal Car.

Note-5: Investment and of Palak Sawdagar

Family Life Insurance	15,000	x12	1,80,000
Government securities			5,00,000
			6,80,000

Allowable investment tax credit:

3% of income	69,550	
15% of investment	1,02,000	
Taka 10,00,000	10,00,000	
Lower one		**69,550**

Existing tax position of Ms. Sumi Sawdagar

Salary	75,000	x12	9,00,000
Less: 1/3rd of salary or 450,000 [lower one]			3,00,000
Taxable salary income			**6,00,000**

Tax of Ms. Sumi [if rate remains same for AY 2024-25]	**Income**	**%**	**Amount**
On Taka	4,00,000	0%	-
Next	1,00,000	5%	5,000
Next	1,00,000	10%	10,000
			15,000
Investment tax credit			-
Tax liabilities			**15,000**

Note-6: Pick and drop facility is not considered as car benefit thus no income is added.

Tax planing for Sawdagar Family.

Mr. Palak is paying tax at the highest slab rate. He has invested 1 million in securities, but he is not receiving the full tax benefit as the allowable investment in government securities is Tk. 500,000. To optimize his investment tax credit, he could consider gift of Tk. 500,000 to his wife so that she can invest in Govt. securities.

Ms. Sumi is paying insurance premiums and city corporation tax for the house property owned by her husband. These expenses can be covered by Mr. Palak, and they will qualify as allowable expenses against rental income, potentially reducing the tax liability.

Expenses borne by PC Limited for Mr. Palak's children can be attributed to his wife, as she is subject to a lower tax rate compared to Mr. Palak.

Overall tax savings due to tax planning

Mr. Palak	**Amount**
Previous income	23,18,333
Less: Other income from PC	1,20,000
Adjustment for rent income:	
Insurance Premium	62,400
City corporation tax	14,400
	21,21,533

Reduction in taxable income	1,96,800
Tax save @ 25%	49,200
Less: investment tax credit lost	5,904
Total tax savings of Mr. Palak Sawdagar	**43,296**

Ms. Sumi	**Amount**
Previous income	9,00,000
Children education expenses from PC Limited	1,20,000
	10,20,000
Less: 1/3rd of salary or 450,000 [lower one]	3,40,000
Taxable income	**6,80,000**

Tax liability [if rate remains same for AY 2024-25]	**Income**	**Rate**	**Amount**
first	4,00,000	0%	-
next	1,00,000	5%	5,000
Rest	1,80,000	10%	18,000
			23,000
Less: Investment tax credit @ 3%			20,400
Net tax [minimum tax]			**5,000**

Tax savings of Ms. Sumi	
Previous	15,000
Now	5,000
	10000
Thus amount of total tax saved by Sawgadar family is	
(43, 296 + 10,000)	**53,296**

Answer to the Question# 2(ii):

In general, monthly 4% delay interest on total tax liability shall be paid if return is not submitted within the Tax Day. Moreover, investment tax credit, tax exemptions and reduce tax rate facility shall not be eligible and tax shall be paid at usual tax rate.

However, Tax Day for submitting return of an individual is 30 November following the income year unless otherwise allowed by the tax authority through official gazette. Moreover, Tax Day for a new individual taxpayer submitting first time return is 30 June following the income year. Since, Ms. Sumi Sawdagar is going to submit her tax return first time, her return submitting deadline will expire on 30 June 2025. Therefore, deducting tax at a higher rate for not producing proof of submission of return shall not be applicable for Ms. Sumi. She should communicate specific provision of this law with her employer requesting them for deducting tax at source as usual.

Question# 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 was 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. During the income year company made all of the income and expenses including production cost through 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 30 June, 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 30 June, 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. It was written off in the financial year 2020-2021 and was allowable deduction in computing tax,

(2) export cash subsidy from the government Tk. 1,20,00,000,

(3) dividend income Tk. 80,00,000 from the investment in shares,
(4) rewards from the government for Tk. 25,00,000 for being best exporter,
(5) realized foreign exchange gain for Tk. 17,50,000 in connection with 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 got 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 premise for Tk. 2,00,00,000 and with this respect company claimed Tk. 20,00,000 as depreciation and interest for Right of Use assets for Tk. 15,00,000. Both expenses are included in the administration expenses. Whereas 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 the 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 company's 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.

Requirements:

a) Compute total income of the company for the assessment year 2023-2024. **[Marks 6]**
b) Compute tax liability of the company for the assessment year 2023-2024. **[Marks 3]**
c) Assume, Swan Apparels Limited submit its tax return on 10 April, 2024. Compute the revised tax liability as the company failed to submit return on time. **[Marks 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. **[Marks 3]**

Answer to the Question# 3(a):

Swan Apparels Limited
Computation of total income (AY 2023-24)

		Taka
Net profit before tax		5,10,00,000
Less: Other income		4,00,00,000
		1,10,00,000
Add:		
Depreciation of leasehold premises (ROU asset)	20,00,000	
Interest on ROU assets	15,00,000	
Adjustment in Depreciation of Plant (Note-1)	1,75,000	36,75,000
		1,46,75,000
Less:		
Rent paid for leasehold premises		(17,50,000)
Income from business		**1,29,25,000**
Other income (Note-4)		1,22,50,000
Export cash subsidy (Final Tax)		1,20,00,000
Special business income- Recovery of bad debts		35,00,000
Income from financial assets - Dividend income		80,00,000
Exempted income – Assuming that Govt. rewards are tax exempted as per SRO		25,00,000
Disallowed exp. u/s 55 - gift to MD's relatives (Note-2)		75,000
Total income		**5,12,50,000**

Note-1: Foreign exchange gain shall be adjusted with the cost of imported plant; thus an adjustment has been given for the excess depreciation. Gains shall reduce the depreciable value of the Plant. Thus, adjustment amount would be Tk. 1,75,000 (17,50,000 x 10%)

Note-2: Assume entire foreign tour expenses of Tk. 13,00,000 is expended for the purpose of business and company will be able to explain it before the tax authority, thus, considered the entire amount as allowable expenses. Only gift to MD's relatives are non-business expenses thus should be disallowed.

Note-3: expenses for TVC is considered as advertisement expenses; thus should be allowed.

Note- 4: Other income

As per Profit or loss account		4,00,00,000
Less:		
Recovery of bad debts	35,00,000	
Export cash subsidy	1,20,00,000	
Dividend	80,00,000	
Govt. rewards	25,00,000	
Foreign exchange gain	17,50,000	2,77,50,000
		1,22,50,000

Answer to the Question# 3(b):

Swan Apparels Limited
Computation of tax liabilities (AY 2023-24)

Income	**Amount**	**Tax rate**	**Tax liabilities**
Income from garments export business	1,31,00,000	10.0%	13,10,000
Other income (Note-4)	1,22,50,000	27.5%	33,68,750
Export cash subsidy	1,20,00,000	10%	12,00,000
Special business income- Recovery of bad debts	35,00,000	27.5%	9,62,500
Income from financial assets - Dividend income	80,00,000	20.0%	16,00,000
Exempted income - Govt. rewards	25,00,000	0.0%	-
Disallowed u/s 55 - gift to MD's relatives	75,000	27.5%	20,625
Total	**5,14,25,000**		**84,61,875**
Tax at source from export proceeds		10,50,000	
Tax at source from dividend income		16,00,000	
Tax at source from export cash subsidy		12,00,000	38,50,000
Tax payable			**46,11,875**

Note: tax at source on export cash subsidy is the final tax liability.

Answer to the Question# 3(c):

Section 174 of the Income Tax Act, 2023, mandates that person failed to submit return on or before the Tax Day shall pay tax as C=Ax(1+0.04xB), where, C= Total tax payable, A=Tax would have been payable where returns were submitted within Tax Day, however, in computing tax payable under A, exemptions shall not be allowed and regular tax shall be payable.

Therefore, A in the formula would be:

Income	Amount	Tax rate	Tax liabilities
Income from the business	1,31,00,000	27.5%	36,02,500
Other income (Note-4)	1,22,50,000	27.5%	33,68,750
Export cash subsidy	1,20,00,000	10%	12,00,000
Special business income- Recovery of bad debts	35,00,000	27.5%	9,62,500
Income from financial assets - Dividend income	80,00,000	20.0%	16,00,000
Exempted income - Govt. rewards	25,00,000	27.5%	6,87,500
Disallowed expenses u/s 55 - gift to MD's relatives	75,000	27.5%	20,625
Total	**5,14,25,000**		**1,14,41,875**

B is the number of months delayed in submitting return after the Tax Day. Here, Tax Day is 15th January 2024 and return is submitted on 10th April 2024. Months delayed: 3 months

Tax payable would be: [1,14,41,875 x (1+0.04 x 3)]= 1,28,14,900

Answer to the Question# 3(d):

The Income Tax Act, 2023 outlines specific actions that a taxpayer must take in relation to bad debt for it to be accepted by the tax authority. Section 51 of the Act stipulates that bad debt will be considered admissible if the following two conditions are fulfilled:

(1) Before writing off the bad debt, the taxpayer must have undertaken all reasonable steps to collect the debt.
(2) The full amount of the bad debt or a part of it should have been included in the income in any preceding income years.

To comply with the above provisions, a company should provide sufficient evidence to demonstrate that it has taken steps to recover the bad debt. These steps may include:

(1) Providing reminders for collection: This could involve mailing or written communication, which can serve as proof of the company's efforts.
(2) Initiating legal actions for recovery: Providing evidence of legal actions taken, such as a legal notice or documentation of legal proceedings, supports the company's claim of attempting to recover the bad debt.
(3) Proper authorization for the write-off: The company should ensure that the write-off was carried out with proper authorization. Meeting minutes and approval documentation can serve as evidence in this regard.

By following and documenting these steps, the company can strengthen its case and enhance the likelihood of the bad debt being accepted by the tax authority in accordance with the provisions of the Income Tax Act, 2023.

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. [Marks 4]
ii) Highlight two key challenges under Resale Price method. [Marks 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. **[Marks 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. **[Marks 2]**

Answer to the Question# 4(a) (i):

To determine the arm's length transfer price for the supply of "Fruit Mountain" to the associated distributors in Bangladesh, we can consider comparable distributors of a competing non-alcoholic beverage in the local market. Based on this information, we can use the Resale Price Method (RPM) to determine the arm's length transfer price for "Fruit Mountain" in Bangladesh.

The RPM compares the resale price charged by the distributors to the end customers to an appropriate gross margin percentage.
Hence,
Arm's Length Resale Price = Market Price - Gross Margin
Arm's Length Resale Price = USD 100 - USD 12
Arm's Length Resale Price = USD 88

Answer to the Question# 4(a) (ii):

1) Identifying Comparable Transactions: Finding reliable and comparable transactions between unrelated parties can be challenging, especially if the product or service being sold is unique or specialized. It requires careful analysis and consideration of various factors such as product characteristics, market conditions, and contractual terms.
2) Determining the Appropriate Resale Price Margin: Calculating the appropriate resale price margin can be complex. It involves analyzing comparable transactions to determine the range of resale price margins observed in the market. Factors such as industry-specific characteristics, economic conditions, and functions performed by the distributor need to be considered.

Answer to the Question# 4(b):

SL	Particulars	Amounts in BDT
1	Market price of one can of the Cheers	3,000
2	Gross margin of associated distributors	(150)
3	Customs duty imposable at import stage	(310)
4	Arm's length import price	2,540

Answer to the Question# 4(c):

The core objective of transfer pricing regulations is to impose tax based on fair price of transactions between associated enterprises. Since the branch would reimburse the designing fee to the head office at actual cost i.e. without any profit, the transaction is already in arm’s length. No specific transfer pricing method is to applied to determine fair price of the transaction. The appropriate TP method would be the “Other method” as mentioned in Section 235(‘Cha’) of the ITA, 2023 and for the purpose of reporting the transaction in the statement of international transactions of the branch, the TPM code would be 6.

Question no 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 2024:

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 2024. Standard rate VAT is 15%. For identifying the VAT amount, please use VAT factor where applicable. **[Marks 8]**

Question no 5(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. **[Marks 6]**

Answer to the Question# 5(a):

Sky Ltd
Computation of net VAT payable for the month of January 2024

Particulars	Note	Base Value Amount (Tk.)	VAT Amount (Tk.)
SUPPLY - OUTPUT TAX:			
For supply of goods at standard rate		22,000,000	3,300,000
For supply of goods on installments at standard rate	**1**	2,000,000	300,000
For supply of goods at "0" rate (Export)		25,000,000	-
For supply of service at standard rate		6,500,000	975,000
Import of service (Royalty)- output VAT	**2**	20,000,000	3,000,000
Total Output Tax (A)			**7,575,000**
SUPPLY - INPPUT TAX			
Standard Rated Goods (import)		6,912,000	1,036,800
Standard Rated Goods (local)	**3**	8,000,000	1,200,000
Advertisement services	**4**	6,000,000	900,000
Transport service 80% rebateable		300,000	36,000
Input tax credit on import of service (Royalty)- input VAT	**2**	20,000,000	3,000,000
Total Input Tax (B)			**6,172,800**
INCREASING ADJUSTMENTS (VAT)			
Due to VAT Deducted at Source by the supply receiver			600,000
Money received against cancellation of contract		900,000	135,000
Total Increasing Adjustment (C)			735,000
DECREASING ADJUSTMENTS (VAT)			
Credit note issued against market return		1,500,000	225,000
Advance tax (VAT) paid at port point			207,360
Total Decreasing Adjustment (D)			432,360
NET VAT PAYABLE			
Net payable from the above (A-B+C-D)			1,704,840
Break-up of deposits January 2023:			
Deposit for Import of Service (Royalty)	**2**	3,000,000	
Deposit for VAT Deducted at Source (VDS)		600,000	
Other normal deposit after the month close		1,104,840	
		4,704,840	

Note-1: On instalment sale, VAT is payable to the extent the payment is received

Note-2: Under reverse charged mechanism, as per section 20(2) of the VAT & SD Act, 2012, VAT payable by the recipient of a taxable supply of imported service is both output VAT and Input VAT of that person. Further, in terms of section 46(1)(kha) of the VAT and SD Act, 2012, input tax credit against such service shall not be allowed if payable output VAT is not shown separately against imported service in the VAT Return by service recipient.

Note-3: Input tax credit is allowed to the extent the goods are received in the registered premises in terms of section 46(1)(Gha) of the VAT & SD Act, 2012. Both the factory premises and Warehouse in Chattagram are registered premises being part of the Central BIN

Note-4: For Advertising services, input tax credit is not depended on payment.

Answer to the Question# 5(b):

Date:

The Proprietor
M/s B & Associates

Subject: Regarding the queries in relation supply of imported educational books of M/s B & Associates.

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 queries of the VAT inspector in relation to the sale and supply of books from the registered premises of M/s B & Associates:

Requirement (i):

A fixed 5% VAT applicable for the sale of imported books from the retail outlet at the registered premises:

As per Sub-para (Kha) under Para 3 of the Second part of the First Schedule of the VAT & SD Act, 2012, the supply of books is considered as services related to Cultural matters, and therefore, the payment of VAT has been exempted. This exemption has been further confirmed through Special Order no. 07/Musak/2020 dated 12 February 2020. Hence, when selling medical books from the retail outlet under the registered premises, there will be no VAT payment required as it is exempted from the payment of VAT.

Requirement (ii):

Mr. B has a legal responsibility to file monthly VAT returns as per the law:

Being registered under the VAT & SD Act 2012, Mr. B has a legal responsibility to file VAT returns every month in accordance with the procedures defined in the law. As per section 64(1) of the VAT & SD Act, 2012 Every person, whether registered, enlisted, or required to be registered or enlisted, must file the return for each tax period within a period not exceeding 15 (fifteen) days after the expiration of such tax period, in the manner prescribed by the Board.

Provided that return is to be submitted on the next working day if 15th day is government holiday.

If Mr. B fails to submit his monthly VAT returns, he will be subject to penal measures, which amount to Tk. 5,000, as stated in Section 85(1)(f) of the VAT & SD Act.

Requirement (iii):

Whether Mr. B can claim the Advance Tax paid at the port point as input tax credit, subject to payment of VAT @ 15% following actual value addition method for which he needs to submit the Input Output Coefficient:

AT is not considered as input tax; instead, it is an Advance VAT collected at the port point in anticipation of the future Output VAT that the registered person may have to pay at the time of supplying VAT-imposable goods. Therefore, there is no requirement to pay VAT at a rate of 15% following the actual value addition method, nor is there a need to submit the Input Output Coefficient.

However, provided that Mr. B fulfills the other conditions of the law, he can claim the AT as decreasing adjustment in prescribed manner in the return of related tax period or within subsequent four tax periods, as referenced in Section 31(3) and 48(2)(a) of the VAT & SD Act, 2012.

Requirement (iv):

Whether the colleges can 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:

When supplying medical books to colleges through participation in tenders, Mr. B assumes the role of a Procurement Provider since he is an importer and not the publisher of the books. In terms of sub-para (Kha) under Para 3 of second part of the First Schedule of the VAT & SD Act, 2012, supply of books is considered as services related to Cultural matters which is exempted from payment of VAT. However, in terms of Special Order No. 07/Mushak/2020 dated 12 February 2020, for supply of books, Procurement Providers are excluded from this exemption i.e., there is an indication to charge VAT @7.5% under Service Code S037.00.

Further, if we go through the explanation of Procurement Provider (Service Code S037.00) mentioned in S.R.O. No. 240-Law/2021/163-VAT dated 19 June 2021, supply of exempted goods or service has been excluded from such explanation i.e., supply of exempted goods or service shall not be considered under Procurement Provider. Here, it is to be noted that exempted supply has been defined under section 2(3) to mean that any supply specified in section 26 of the VAT & SD Act, 2012. And as per section 26 of the same act, notwithstanding anything contained in the VAT & SD Act, the following supplies shall be exempted from VAT, namely –

(a) Any supply or import specified in the First Schedule; or
(b) ……………………..

Hence, there is no option to consider the supply of medical books (exempted through First Schedule of the VAT & SD Act, 2012) as taxable supply considering Procurement Provider (Service Code S037.00).

Considering the same, respective medical colleges will not deduct any VAT while making payment to M/S B & Associates.

In view the above, we would advise you to provide the response to VAT Audit 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 no 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. **[Marks 4]**

Question no 6(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; **[Marks 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; **[Marks 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. **[Marks 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. **[Marks 2]**

Answer to the Question# 6(a):

i) Imported services are defined as services received by a person in Bangladesh from a person located outside Bangladesh in exchange for any consideration. However, in this case, although the service is received by a person from a person located outside Bangladesh, it was not rendered within Bangladesh. Therefore, this service should not be treated as an import of services.

ii) According to the VAT & SD Act applicable in Bangladesh, VAT is applicable to the supply of goods and services within the country. Since Mr. C received the medical services outside Bangladesh, it is unlikely that VAT would be applicable to these specific services. Consequently, it would not fall under the purview of the Reverse Charge mechanism and therefore 15% VAT would not be applicable under the Bangladesh VAT law.

Answer to the Question# 6(b) (i):

According to Section 24(11)(c) of the VAT & SD Act, 2012, supply of services to a person unregistered and non-resident directly connected with operation or management of an ocean-going ship or an aircraft engaged in international transport is zero rated. Hence VAT @ 0% will be imposed on container carrying fee receivable from the foreign main line operator.

Answer to the Question# 6(b) (ii):

SRO No. 186/law/2029/43-VAT dated 13 June 2019 provides definition and scope of different services. According to the SRO, lease of ships comes under the definition of "Rent-a-vehicle service provider" under service code S049.00 since the definition includes lease of launch, speedboat, trawler or any similar conveyance run on water. There is no reduced rate for "Rent-a-vehicle service provider" in the Third Schedule to the VAT & SD Act, 2012. Hence the service would attract VAT @ 15% and according to the SRO No. 240-law/2021/163-VAT dated 29 June 2021, such VAT is to be deducted at source and deposited to the Government exchequer within the prescribed timeline.

Further, in terms of sub-clause (Gha) of clause 18(Ka) of section 2 of the VAT & SD Act, 2012, purchase, rent or lease of vehicle has been excluded from the definition of Input. However, in terms of clause (Ka) of sub-section (2) of section 46 of the VAT & SD Act, 2012, input tax credit on acquisition of vehicle shall be allowed if dealing/trading in vehicle, renting them out or supplying transportation services are included in the economic activities of such person.

For the instant case, BMSL has taken rent/lease of such ship not purchased or acquired. Hence, input tax credit on the same shall not be allowed.

Answer to the Question# 6(b) (iii):

According to Section 23(5) of the VAT & SD Act, 2012, any goods supplied in the course of repair, maintenance, cleaning, renovation, modification, or otherwise physically affecting an ocean-going ship or an aircraft or any other vessel of the like engaged in international transport shall be zero-rated. Since the steel plates have been purchased for repair, maintenance, renovation and modification of an ocean going ship, the supply would attract VAT @ 0%. The supplier would issue tax invoice imposing VAT @ 0% and there would not be any VAT deduction at source.

Answer to the Question# 6(b) (iv):

According to Section 24(11)(b) of the VAT & SD Act, 2012, a supply of service for repair, maintenance, cleaning, renovation, modification, or otherwise physically affecting an aircraft or an ocean-going ship engaged in international transport is zero rated. Since a repair and maintenance service has been taken for an ocean going ship engaged in international transport, the supply would attract VAT @0%. The supplier would issue tax invoice imposing VAT @ 0% and there would not be any VAT deduction at source.

Answer to the Question# 6(b) (v):

According to Section 15(1) and Section 15(3) of the VAT & SD Act, 2012, services of a port attract VAT @ 15%. There is no reduced rate for port services in the Third Schedule to the VAT & SD Act, 2012. The service also does not fall under the jurisdiction of VAT deduction at source. According to Section 46(3)('Uo') of the VAT & SD Act, 2012, invoice issued by a port is considerable as tax invoice. Hence according to section 46(1)('Ttha') of the VAT & SD Act, 2012, BMSL can claim credit of VAT payable on port services. In case the claim of credit creates a negative balance in the VAT return, BMSL can claim refund of the same from VAT authority following the provisions of the VAT & SD Act, 2012 and VAT & SD Rules, 2016.

Question no 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 (rights holder) 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 mis-declaration (H.S. Code, value, and quantity).

XYZ Bangladesh PLC ('XYZ') is the rights holder 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 mis-declaration. 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 **[Marks 8]**
b) Describe the penal measures that T Traders may have to face due to the mis-declaration. **[Marks 3]**

Answer to the Question# 7(a):

Computation of total Duties and taxes that, T Traders would have evaded:

Summary:	**In Tk.**
Total duties and taxes payable under Chocolate HS Code (Note-1)	8,097,146
Total duties and taxes payable under Olive Oil HS Code (Note-2)	575,498
Amount of duties and taxes would have been evaded	**7,521,648**

Working Note-1:
Assessment of duties and taxes under correct HS Code for BLUE Chocolate

Component			**For the Consignment**
Quantity in kg (10 ton physically found)			**10,000**
CIF value as per invoice			14,000
Landing charge 1% on CIF value		USD	140
Value of goods for assessment purpose		**USD**	**14,140**

Minimum assessable value US$ 5.5/kg for 10 tons		USD	55,000
Insurance charge @1%	(55,000 X 1%)	USD	550
Landing charge @1%	(55000 + 550) X 1%	USD	555.5
Value of goods considering minimum assessable value		**USD**	**56,105.5**
Assessable value (Higher of CIF vs minimum value)		USD	**56,105.5**
Assessable value in Tk @ 1 USD = Tk. 110	**110.00**	**Taka**	**6,171,605**
Customs duty	25%	Taka	1,542,901
Regulatory duty	5%	Taka	308,580
Supplementary duty	45%	Taka	3,610,389
Value of VAT chargeable value			**11,633,475**
Value Added Tax	15%	Taka	1,745,021
Advance Income Tax	5%	Taka	308,580
Advance Tax	5%	Taka	581,674
Total duties and taxes in Tk.		Taka	**8,097,146**

Working Note-2:
Assessment of duties and taxes under mis-declared HS Code as Olive Oil

Component			**For the Consignment**
Quantity in kg (declared quantity 7 ton)			**7,000**
CIF value as per invoice			14,000
Landing charge 1% on CIF value		USD	140
Value of goods for assessment purpose		USD	14,140
Minimum assessable value (Not applicable)		USD	-
Assessable value (Higher of CIF vs minimum value)		USD	**14,140**
Assessable value in Tk. @ 1 USD = Tk. 110	**110.00**	**Taka**	**1,555,400**
Customs duty	10%	Taka	155,540
Regulatory duty	0%	Taka	-
Supplementary duty	0%	Taka	-
Value of VAT chargeable value			**1,710,940**
Value Added Tax	15%	Taka	256,641
Advance Income Tax	5%	Taka	77,770
Advance Tax	5%	Taka	85,547
Total duties and taxes in Tk.		Taka	**575,498**

Answer to the Question# 7(b):

The penal measures that T Traders may face for deliberate mis-declaration are as follows [under Section 156(1)(14) of the Customs Act 1969]:

i) T Traders shall be liable to a penalty of at least twice but not exceeding four times the amount of the duties evaded in relation to the offense committed, and the goods involved shall be subject to confiscation.
ii) Additionally, upon conviction by a Magistrate, T Traders may be subject to rigorous imprisonment for a term not exceeding 5 years or a fine not exceeding Taka 50,000, or both.

Question no 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. **[Marks 4]**

Answer to the Question# 8:

S.L.	Particulars	Base of tax/charge	Base in BDT	Tax/charge rate	Tax/charge in BDT
1	Cost of goods, USD 47,000×107	(Fair value as per assessing officer)	5,029,000	-	-
2	Freight USD 4,500×107	Invoice	481,500	-	-
3	CFR Value	Sum of cost & freight	5,510,500	-	-
4	Insurance charge (1.5% of CFR)	CFR Value	5,510,500	1.5%	82,658
5	CIF Value	Sum of cost, insurance and freight	5,593,158	-	-
6	Landing Charge (1% of CIF)	CIF Value	5,593,158	1%	55,932
7	Assessable Value (AV)	CIF+ landing charge	5,649,089	-	-
8	Customs Duty (CD 25% of AV)	AV	5,649,089	25%	1,412,272
9	Regulatory Duty (RD 20% of AV)	AV	5,649,089	20%	1,129,818
10	Supplementary Duty (SD)	AV+CD+RD	8,191,179	30%	2,457,354
11	VAT	AV+CD+RD+SD	10,648,533	15%	1,597,280
12	AIT (U/S 120 of the ITA, 2023)	AV	5,649,089	5%	282,454
13	Advance Tax (AT)	(AV+CD+RD+SD)	10,648,533	5%	532,427
14	Total tax incidence				**7,411,605**

---The End---