CHAPTER – 7
INCOME FROM INTEREST ON SECURITIES

LEARNING OBJECTIVES

After studying Chapter 7, you shall be able to understand:

- the concept of income from interest on securities
- basis of taxation of interest on securities
- classification of securities
- concept of interest grossing up
- admissible expenses and exemptions
- cum interest and bond washing transaction
- TDS under the head interest on securities

"Income from Interest on Securities" is the second head of computing the total income of an assessee. An assessee may invest his fund in various types of securities. The income received by way of interest from those securities will be taxable under this head.

7.0 MEANING OF "INTEREST" AND "SECURITIES"

Interest: Generally the term "Interest" means the price that someone pays for the temporary use of someone else's funds. According to Section 2(38) of the ITO, 1984 – *'Interest'* means interest payable in any manner in respect of any money borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the money borrowed or debt incurred or in respect of any credit facility which has not been utilized. In such a context, interest on securities can be defined as sum of interest payable against securities issued by the government or other organizations.

Securities: The word "Security" is not defined under the Act. The Shorter Oxford English Dictionary defines the word "security" as a "document held by a creditor as guarantee of his right to payment". In other words, Securities are financial instruments that represent a creditor relationship with a corporation or government. Generally they represent agreements to receive a certain amount depending on the terms contained within the agreement.

7.1 SCOPE OF "INCOME FROM INTEREST ON SECURITIES"

According to Section 22 of the ITO, 1984, the following incomes of an assessee shall be classified and computed under the head 'Interest on Securities':

(a) interest receivable by the assessee on any security of the Government or any security approved by Government [Sec 22(a)]; and

(b) interest receivable by him on debentures or other securities of money issued by or on behalf of a local authority or a company [Sec 22(b)].

7.2 BASIS OF TAXATION ON INTEREST ON SECURITIES

According to Section 22 of the ITO, 1984 the chargeability of interest on securities is on receivable basis. Theoretically, it means that interest on securities will be taxable in the period when it is earned whether it has been received or not. But in practice, interest on securities will be taxed in the year of actual receipt. The term "Receivable" referred to the quantum of interest taxable and not to the point of time, at which it was taxable. The word "Receivable" without the actual receipt carries no meaning under this section [Seth Lalbhai Dalpatbhai vs CIT. (1952), 22 ITR 13 (Bom)]. The Lahore High Court [Central Exchange Bank Ltd. of Lahore vs CIT, (1955), 27 ITR 167 & (1960) tax Suppl.] and the Madras High Court [Karumuthu Thiagaraja Chettiar vs CIT. (1953), 24 ITR 553 (Madras)] have also taken the same view that interest on securities becomes income when it is actually received by the assessee. Although Interest Receivable indicates gross interest calculated on the face value of security, the assessee receives net interest (gross interest less tax deducted at source at specified rate).

As interest on securities is a separate head of income, therefore, even if the securities are held as trading assets within the course of any business undertaken by a bank, an insurance company, a leasing company or a stock broker, the interest must be charged under the head "Income from Interest on Securities" and not under Section 28 as income from business or profession or under Section 33 as income from other sources. But, when these securities are sold, any gain or losses from such disposal will be considered as capital gain or loss; hence will not be recorded under the head "Income from Interest on Securities". Rather, any gain from such event will be recorded under the head "Capital gain" [Central Exchange Bank Ltd. Vs. C.I.T. (1955) I.T.R. 167]

7.3 CONDITIONS FOR TAXATION ON INTEREST ON SECURITIES

According to Section 22 of the ITO, 1984, the following conditions should be met in order to be termed as an income under the head "Income from Interest on Securities":

(a) Income must be received as interest,
(b) The income must be from securities issued by the government; and
(c) Other than the government securities, income must be received from debentures or securities issued by local authorities and companies.

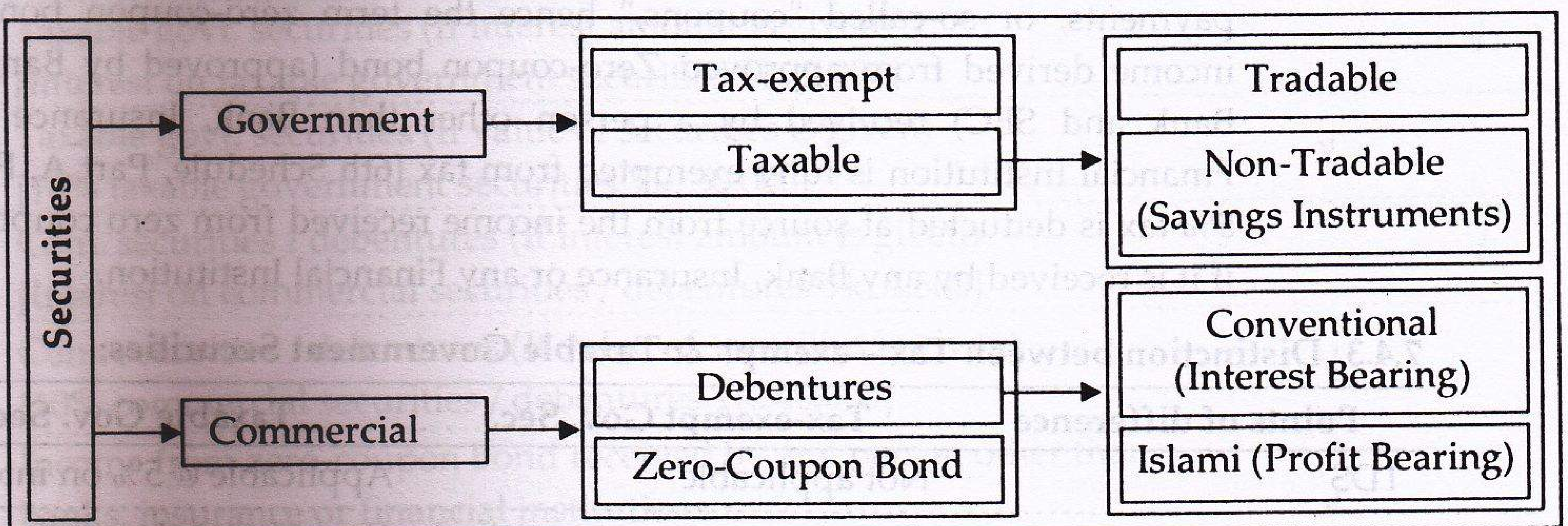
All the above conditions should be met accordingly; otherwise it will not be treated as interest on securities. The following incomes will not be considered as interest income from securities:

(a) Interest or profit received from all kind of bank deposits like savings, fixed etc.
(b) Income from investments other than securities in any government or commercial projects.
(c) Dividend from equity and preference shares of public and private limited companies.
(d) Interest on capital and loan from a person or partnership business.
(e) Interest on securities issued by any individual, Partnership Firm, Association of Persons (AOP), Club etc.
(f) Gain on sale of securities.
(g) Interest on Post Office Savings Bank – both ordinary and fixed deposit account.
(h) Interest receivable from securities issued by any foreign government.
(i) Interest received from a company on a Book-Debt / Accounts Receivable balance.

7.4 CLASSIFICATION OF SECURITIES

According to Section 22 of the ITO, 1984, securities can be broadly categorized into two categories: government and commercial securities. Government securities can be classified as **tax-exempt** and **taxable** government securities. The securities other than government securities are known as commercial securities. In Bangladesh, two types of commercial securities are issued by local authorities and companies: **debentures and zero-coupon bonds.**

As per Section 51 of the ITO, 1984 5% TDS is applied only on interest income from taxable government securities and commercial securities, whereas no tax is deducted at source on tax-exempt government securities as it is fully exempted from tax. In case of zero coupon bonds, no TDS is deducted if it is received by a person other than bank, insurance or any other financial institution as it is fully exempted from tax for them. 5% TDS will be applicable for income from zero coupon bond received by bank, insurance or any other financial institution. On the basis of the above discussion, securities are broadly classified in the following way:



7.4.1 Government securities: A Government Security is a tradable instrument issued by sovereign Government. It acknowledges the Government's debt obligation. Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called Government bonds or dated securities with original maturity of one year or more). These are the securities issued by the Bangladesh government. On the basis of tax chargeability they can be classified into two categories: Tax-exempt government securities and Taxable government securities.

(a) Tax – exempt government securities: These are the securities issued by the government with the condition that interest thereon shall not be liable to tax. [Sixth Schedule, Part A, Para 24]. Income from interest on tax-exempt government securities is not included in computation of taxable income.

(b) Taxable government securities: These are the government securities on which tax is deducted at source at specified rate. So the assessee receives net amount of interest and it is grossed up before including in income. Interests on these securities are fully taxable. Government securities which are traded in the secondary market are known as tradable government securities on which upfront (in advance for the year) 5% TDS is applicable as per Section 51(1). Savings instrument are also issued by the government but are not tradable in the secondary market. 5% TDS is also applicable on interest on savings instruments, as the case may be as per section 52D.

7.4.2 Commercial securities: According to Section 22(b), securities which are approved by the Securities and Exchange Commission (SEC) and issued by or on behalf of a local authority or a company will be considered as commercial securities.

(a) Debentures: These are the commercial securities approved by the BSEC and issued by or on behalf of a local authority or a company. 5% tax is deducted at source from the interest on such commercial securities/debentures. So the interest amount received by the assessee is net amount and hence further grossing up is required to calculate the gross amount of interest. Interest income from debentures is fully taxable. Debentures can be conventional (interest bearing) on which 5% upfront TDS is applicable) or Isalmi (profit bearing) on which 5% TDS is applicable.

(b) **Zero – Coupon Bond:** A Zero-coupon bond (also called a discount bond or deep discount bond) is a bond bought at a price lower than its face value, with the face value repaid at the time of maturity. It does not make periodic interest payments, or so-called "coupons," hence the term zero-coupon bond. Any income derived from approved Zero-coupon bond (approved by Bangladesh Bank and SEC) received by a person other than Bank, Insurance or any Financial Institution is fully exempted from tax [6th Schedule, Part A, Para 40]. 5% tax is deducted at source from the income received from zero coupon bond if it is received by any Bank, Insurance or any Financial Institution.

7.4.3 Distinction between Tax – exempt & Taxable Government Securities:

Points of difference	Tax-exempt Gov. Sec.	Taxable Gov. Sec.
TDS	Not applicable	Applicable @ 5% on interest
Grossing up	Grossing up is not required since interest is received on gross amount.	Grossing up is required since interest is received on net amount after deducting tax.
Exemption	Fully exempted	Fully taxable
Allowable deduction of expenses	Not applicable	Applicable to the extent of expenses as per Section 23.
Impact on average tax rate	As it is not included in total income, there is no impact on average rate of tax.	As it is included in total income, it causes an increase in average rate of tax.

7.5 GROSSING UP OF INTEREST

Interest income taxable under the head "Income from Interest on Securities" must be the gross amount and not the net amount. In the case of securities of the government, or securities approved by the government, debentures issued by any local authority or company unless the government otherwise directs, 5% tax is deducted from such securities at source.

But no tax is deducted at source from interest on tax-exempt government securities & income from zero-coupon bond received by a person other than any Bank, Insurance or any Financial Institution. So, net interest received from taxable government securities and debentures are needed to be grossed up to compute the gross interest. This gross interest will be considered in the computation of taxable income. The formula for grossing up of interest is:

$$\text{Gross Interest} = \text{Net Interest} \times [100 \div (100 - \text{Rate of Tax Deducted at Source})]$$

Explanation – 1: Mr. X has received Tk. 9,500 as interest on taxable government securities/debentures. Since the current rate of tax deducted at source is 5%, the amount of gross interest will be: Tk. [9,500 × 100/95] = Tk. 10,000.

Explanation 2: But if the value of taxable government securities / debentures is given, it will be possible to compute the gross interest directly. Such as, the value of Mr. X's 10% taxable government security/ debenture is Tk. 200,000. So, the amount of gross interest will be [200,000 × 10%] = Tk. 20,000.

7.5.1 Guidelines for Grossing up of Interest:

Types of Securities	Grossing Up No	Grossing Up Yes
Tax-exempt govt. securities (If interest amount is given) [Interest from tax-exempt government securities Tk. 5,000]	√	
Tax-exempt govt. securities (If value of securities is given) [10% tax-exempt government securities Tk. 50,000]	√	
Taxable govt. securities (If interest amount is given) [Interest on taxable government securities Tk. 2,000]		√
Taxable govt. securities (If value of securities is given) [10% taxable government securities Tk. 30,000]	√	
Com. securities / debentures (If interest amount is given) [Interest on commercial securities / debentures Tk. 4,500]		√
Com. securities / debentures (If value of securities is given) [10% commercial securities / debentures Tk. 40,000]	√	
Income from zero-coupon bond received by any person other than banks, insurance or financial institutions. [Income from zero coupon bond Tk. 3,000]	√	
Income from zero-coupon bond received by any bank, insurance or financial institution. [Income from zero coupon bond Tk. 3,000]		√

Summery Note: Grossing up is only required in case of taxable government securities and debentures. No grossing up is required in case of tax-exempt government securities and zero-coupon bonds (for any person other than bank, insurance or financial institution). The summary of the guidelines are as follows:

(a) When interest amount of taxable government securities/debentures is given	: Grossing up is required
(b) When value of taxable government securities / debentures is given	: Grossing up is not required

SELF REVIEW 7 – 1

Mr. Bikash has received interest from the following securities. Calculate his income from securities (evaluate each alternative independently) –

(a) interest received Tk. 16,500 from tax-exempt government securities
(b) interest received Tk. 19,000 from taxable government securities
(c) invested Tk. 2,10,000 last year in a 12% tax-exempt government securities
(d) invested Tk. 2,00,000 last year in a 12% taxable government securities

7.6 ADMISSIBLE EXPENSES OF INCOME FROM INTEREST ON SECURITIES

In computing the income under the head "Income from Interest on Securities", the following deductions from respective interests are allowable [Section 23]:

1. **Bank commission / charges for collecting interest:** Bank commission or charges which have been deducted by the bank for collecting interest will be an allowable expense. But no expense is allowable in case of interest on securities which are fully exempted from tax. Again, if bank commission is charged for purchasing securities, it will be considered as a capital expenditure and hence not to be considered as an allowable expense.

2. **Interest on borrowed capital for investment in securities:** Any interest on money borrowed for the purpose of investment in the securities by the assessee will be an allowable expense. But no expense is allowable in case of interest on securities fully exempted from tax.

From the above discussion, it is clear that allowable expenses are deducted only from interest on taxable government securities and commercial securities (debentures). It is not applicable in case of interest on tax-exempt government securities and zero-coupon bond, as they are fully exempted from tax. It should also be noted that no deduction will be allowed in respect of interest payable outside Bangladesh on which tax has not been paid or deducted.

7.7 TAX EXEMPTION ON INTEREST ON SECURITIES

Incomes from interest on securities are exempted up to the following extent as per ITO, 1984:

(i) Amount of interest on tax-exempt government securities [6th Sched, Part A, Para 24].

(ii) Amount of interest/income from zero-coupon bond [6th Sched, Part A, Para 40].

Example 1: Calculate taxable income from the given data: Total gross interest on tax-exempt government securities Tk. 5,000; Total gross interest on taxable government securities Tk. 6,000; Total gross interest from debentures Tk. 4,000 and Income from zero-coupon bond Tk. 3,000 received by an individual.

Interest on tax-exempt government securities	Tk. 5,000	
Less: exempted (full)	5,000	-
Interest on taxable government securities		Tk. 6,000
Interest on debentures		4,000
Income from zero-coupon bond	3,000	
Less: exempted (full)	3,000	-
Total		**10,000**

Example 2: Calculate taxable income from the given data: Interest on tax-exempt government securities Tk. 5,000; Interest on taxable government securities Tk. 4,750; Interest on debentures Tk. 24,700; and Income from zero coupon bond Tk. 5,000 received by an individual.

Interest on tax-exempt government securities	Tk. 5,000	
Less: exempted (full)	5,000	-
Interest on taxable government securities (4,750 × 100/ 100 - 5)		Tk. 5,000
Interest on debentures (24,700 × 100/ 100 - 5)		26,000
Income from zero-coupon bond	5,000	
Less: exempted (full)	5,000	-
Total		**31,000**

SELF REVIEW 7 – 2

Mr. Ali has received interest from the following securities. Calculate his taxable income.

(a) Total gross interest on tax-exempt government securities Tk. 5,000.

(b) Total gross interest on taxable government securities Tk. 4,000.

(c) Total gross interest on debentures Tk. 26,000.

(d) Income from zero-coupon bond received by an individual Tk. 2,000

7.8 CUM – INTEREST AND EX – INTEREST TRANSACTIONS

Generally interest on securities is given on a particular day at regular intervals. When interest on securities is received, it is added with the total income for taxation purpose. Sometimes to avoid tax on interest on securities some people sells or transfers their securities including interest to other people just before the due date. This type of interest is known as Cum Interest Transaction. Since securities are capital asset, no tax is given on the disposal value of the securities. According to the ITO, 1984, when securities are sold cum interest, the purchaser or holder of securities will be responsible to pay the tax on whole interest. Here, the seller will not pay any tax for the interest included in the sales price of securities. The reverse is the case for ex-interest transactions. Here the seller and purchaser will be assessed for interest with reference to the period for which the securities are held by the seller and the purchaser (i.e. interest income will be computed and assessed on the basis of proportionate time duration of holding the security by the seller and the buyer). There is wide scope to avoid tax in this way and Section 106 has given sufficient authority to the DCT to handle those cases of tax avoidance.

7.9 BOND WASHING TRANSACTIONS

It is another way where tax avoidance is aimed at. In this case, securities are sold cum interest with an agreement to re-sell or re-transfer the securities with a view to avoiding tax. Sometimes, securities are sold to a person whose income is less than the minimum taxable limit and then he doesn't need to pay any tax on interest on securities since his income is less than the taxable limit. On the other hand since securities are capital asset, no tax will be given on the disposal value of the securities by the seller. In this way both the seller and buyer avoid tax. If this practice is not checked, interest is includible in the total income of the transferee/purchaser, as interest is chargeable in the hands of the person who is legal owner of securities on the due date of payment of interest.

To prevent the avoidance of tax in this manner, Section 106(1) of the ITO, 1984 provides that where a security owner transfers the securities on the eve of due date of interest and reacquires them, the interest received by the transferee/purchaser will be deemed as income of the transferor/seller and, accordingly, it will be included in the total income of the transferor/seller and not the transferee/purchaser. There is wide scope to avoid tax in this way and Section 106 has given sufficient authority to the DCT to handle those cases of tax avoidance.

7.10 DEDUCTION OF TAX AT SOURCE FROM INTEREST ON SECURITIES

According to Section 51(1) of the ITO, 1984, 5% tax is deducted at source from interest or discount receivable on maturity on government securities or other securities approved by government e.g. debentures [Section – 51(1)]. If such securities are based on Islamic principles, 5% TDS will be applicable on profit or discount at the time of payment or credit, whichever is earlier [Section – 51(2)]. No tax is deducted at source from interest on tax-exempt government securities (e.g. treasury bond / bill) and zero coupon bond by any person other than banks, insurance and financial institutions [Section – 51(3).

7.10.1 Particulars to be furnished on interest on securities by a person other than the Government [Rule 10]

In the case of income chargeable under the head "Interest on securities", where the deduction is not made by or on behalf of the Government, the parson responsible for paying the interest shall, at the times of deduction, send to the Deputy Commissioner of Taxes concerned a statement showing the following particulars:

(i) Description of securities,
(ii) Period for which interest is drawn,
(iii) Numbers of securities,
(iv) Amount of interest,
(v) Dates of securities,
(vi) Amount of tax;
(vii) Amounts of securities, and
(viii) Date on which tax was deducted.

7.11 ITEMS INCLUDED IN INVESTMENT ALLOWANCE

As per the rules explained in the Part B of Sixth Schedule, investment in the following securities is considered as a part of Investment Allowance:

(a) Purchase of debentures or debenture stocks or zero-coupon bond from stock exchanges through IPO or secondary purchase.

(b) Purchase of government securities including development loans or Bonds as specified by the NBR.

(c) Purchase of Bangladesh Government Treasury Bill.

The prerequisites of this consideration will be on the basis of Para 27, 10 and 28 of Part B, Sixth Schedule respectively.

7.12 INTEREST ON SAVINGS INSTRUMENTS

In Bangladesh, different savings instruments are also issued through the Department of National Savings (Jatiya Sanchay Adhidaptor) under the savings mobilization Scheme of the Government. Unlike other government securities (Treasury bill, Treasury Bond etc.), these savings instruments are not tradable in the secondary market. The purchaser can encash it at maturity or before maturity. These The basic objectives of these savings instruments are:

- ❖ Motivating people to save money;
- ❖ Collecting scattered small savings through National Saving Schemes;
- ❖ Mitigating national budget deficit by collecting money through saving schemes;
- ❖ Bringing under socio-economic safety net of country's particular sectors of people like: women, senior citizens, Bangladeshis who are working abroad and the physical handicapped by national saving schemes;
- ❖ Playing an important role by reducing foreign aid dependence and money inflation etc.

7.12.1 Savings Instruments existing in Bangladesh

Savings Certificates	Savings Bonds
❖ 5 – Years Bangladesh Sanchaypatra	❖ Wage Earners Development Bond
❖ 3 – Monthly Profit Bearing Sanchaypatra	❖ US Dollar Premium Bond
❖ Family Savings Certificate	❖ US Dollar Investment Bond
❖ Pensioner Sanchaypatra	❖ Euro Premium Bond
	❖ Euro Investment Bond
	❖ Pound Sterling Investment Bond
	❖ Pound Sterling Premium Bond

7.12.2 Under which heads of income interest on savings instruments will be shown?

NBR has issued a circular on September 14, 2015 (File No.: 08.01.0000.030.07.008.2015/131) clarifying that ***interest on savings instruments shall be included under the head "Income from Interest on Securities" at the time of computing total income.***

7.12.3 Fully exempted interest on savings instruments:

- Any income received by an assessee from Wage earners development bond, US dollar premium bond, US dollar investment bond, Euro premium bond, Euro investment bond, Pound sterling investment bond or Pound sterling premium bond [Sixth Schedule; Part A; Para 24A].
- Any sum or aggregate of sums received as interest from pensioners' savings certificate where the total accumulated investment at the end of the relevant income year in such certificate does not exceed Tk. five lakh [6th Schedule; Part A; Para 32A].

7.12.4 TDS on Interest on savings instruments:

According to the **Section 52D** of the ITO, 1984, the following provisions are applicable for TDS on Interest on savings instruments:

- Notwithstanding anything contained in any other provision of this Ordinance or any other law being in force in respect of exemption from tax on interest of savings instrument purchased by an approved superannuation fund or pension fund or gratuity fund or a recognized provident fund or a workers' profit participation fund, any person responsible for making any payment by way of interest on any savings instruments shall, at the time of such payment, deduct income tax at the rate of **five percent (5%)** on such interest.
- No tax shall be deducted under this section where the cumulative investment at the end of the income year in the **pensioners' savings certificate** does not exceed **five lakh taka.**
- No tax shall be deducted from interest or profit arising from *Wage earners development bond, US dollar premium bond, US dollar investment bond, Euro premium bond, Euro investment bond, Pound sterling investment bond, pound sterling investment bond or Pound sterling premium bond.*

7.12.5 Minimum Tax on interest on savings instruments under Section 82C:

Notwithstanding anything contained in any other provisions of this Ordinance, any tax deducted or collected at source under the provision of section 52D shall be the minimum tax on income from **interest on savings instruments** which tax has been deducted or collected.

Example – 1: During the income year 2016-17, Mr. Tareq received Tk. 400,000 as interest on 5-Year Bangladesh Sanchaypatra on which 5% tax (Tk. 20,000) has been deducted at source under section 52D. He had no other income. In this case his tax liability will be Tk. 20,000 as it is minimum tax u/s 82C.

Example – 2: During the income year 2016-17, Mr. Zia received Tk. 300,000 as interest on 5-Year Bangladesh Sanchaypatra on which 5% tax (Tk. 15,000) has been deducted at source under section 52D. He has also received Tk. 600,000 interest on bank deposits on which 10% tax (Tk. 60,000) has been deducted at source under section 53F. He had no other income or investment allowance. Here, total income and tax liability will be calculated in the following manner:

Income from regular source (Bank interest)	Tk. 600,000
Interest on 5-Year Bangladesh Sanchaypatra (minimum tax u/s 82C)	Tk. 300,000
Total income	Tk. 900,000
Tax Liability: Tax applicable on regular source income (on 1st Tk. 250,000 nil and on next Tk. 350,000 @ 10%)	Tk. 35,000
TDS on Interest on 5-Year Bangladesh Sanchaypatra	Tk. 15,000
Total tax liability	Tk. 50,000

Total TDS (Tk. 15,000 + Tk. 60,000)	Tk. 75,000
Tax refund claim	(Tk. 25,000)

7.12.6 Admissible expenses applicable on interest on savings instruments:

No admissible expense will be allowed on interest on savings instruments on which minimum tax provision u/s 82C is applicable.

7.13 SUMMARY: INCOME FROM INTEREST ON SECURITIES:

Broad Categories	Sub-categories	Basis of chargeability
Government Securities	Tax –exempt government securities	⇒ No TDS ⇒ No Admissible Expense ⇒ Fully exempted
	Taxable government securities	⇒ 5% TDS ⇒ Grossing up is required if net interest amount is given ⇒ No grossing up is required if investment / value of securities is given ⇒ Admissible expenses are to be deducted ⇒ Fully taxable
Commercial Securities	Debentures	⇒ 5% TDS ⇒ Grossing up is required if net interest amount is given ⇒ No grossing up is required if investment / value of securities is given ⇒ Admissible expenses are to be deducted ⇒ Fully taxable
	Zero Coupon Bond*	⇒ No TDS ⇒ No Admissible Expense ⇒ Fully exempted

*5% TDS is applicable on income from zero coupon bond received by any bank, insurance or financial institution. Hence grossing up will be required in that case and the income will be fully taxable.

7.14 SUMMARY: INTEREST ON SAVINGS INSTRUMENTS

Nature of Instrument: Savings Certificates

Name	Salient Features	Basis of Chargeability
5 – Years Bangladesh Sanchaypatra (Maturity – 5 years)	❖ Can be purchased by a single Bangladeshi adult; a minor; two adults in their joint names; an adult on behalf of-a single minor, two minor jointly, himself/herself and a minor jointly and any lunatic of whom he is the guardian or manager appointed by a court of law. ❖ Purchase Limit: Max 30 lac individual & 60 lac jointly	❖ 5% TDS applicable u/s 52D ❖ Tax amount deducted is the applicable amount of tax on such income / Minimum tax u/s 82C
3 – Monthly Profit Bearing Sanchaypatra (Maturity – 3 years)	❖ Do ❖ Do ❖ Profit can be drawn after every three months	Do
Family Savings Certificate (Maturity – 5 years)	❖ Can be purchased by any adult Bangladeshi female; single Bangladeshi adult; a minor; two adults in their joint	Do

	names; an adult on behalf of-a single minor, two minor jointly, himself/herself and a minor jointly and any lunatic of whom he is the guardian or manager appointed by a court of law. ❖ Purchase Limit: Max 45 lac ❖ Profit can be drawn after every three months	
Pensioner Sanchaypatra (Maturity – 5 years)	❖ Can be purchased by any retired Govt., Semi-Govt, Autonomous, Semi-Autonomous, Armed Forces officials and Husband/Wife/Children of such deceased employees. ❖ Purchase Limit: Max 50 lac ❖ Profit can be drawn after every three months	❖ No TDS is applicable where the cumulative investment at the end of the income year does not exceed 5 lac taka. ❖ 5% TDS applicable u/s 52D where the cumulative investment at the end of the income year exceeds 5 lac taka. ❖ Tax amount deducted is the applicable amount of tax on such income/ Minimum tax u/s 82C.

Nature of the Instrument: Savings Bonds

Name	
Wage Earners Development Bond (5 years)	Euro Premium Bond
US Dollar Premium Bond (3 years)	Euro Investment Bond
US Dollar Investment Bond (3 years)	Pound Sterling Investment Bond
	Pound Sterling Premium Bond

Salient Features	Basis of Chargeability
❖ Wage Earners Development Bond can be purchased by a Bangladeshi wage earner serving abroad. ❖ Other bonds can be purchased by Non-Resident Bangladeshi FC Account holder ❖ Purchase Limit: Unlimited	❖ No TDS is applicable u/s 52D ❖ Fully exempted from tax [6th Schedule, Part A, Para 24A]

SPECIMEN FORM OF COMPUTING "INCOME FROM INTEREST ON SECURITIES"

Name of the Taxpayer

Assessment year: 2017 – 2018

Income year: 2016 – 2017

Income from Interest on securities (Sec – 22 & 23)	Tk.	Tk.
(a) Interest on tax-exempt government securities	XX	
Less: exempted – full	XX	XX
(b) Interest on taxable government securities		
[{Net interest ÷ (100 - 5)} × 100], if net interest is given	XX	
Less: allowable expenses (bank charge & interest on loan)	XX	XX
(c) Interest on debentures		
[{Net interest ÷ (100 - 5)} × 100], if net interest is given	XX	
Less: allowable expenses (bank charge & interest on loan)	XX	XX
(d) Income from zero-coupon bond	XX	
Less: exempted – full	XX	XX
Total		XX

Illustration 7 – 1:

From the given information compute the income chargeable under the head "Income from Interest on Securities" for Mr. Mahmud for the income year 2016 – 17: Income from interest on tax-exempt government securities Tk. 10,000; 13% tax-exempt government securities to the extent of Tk. 60,000; Income from interest on taxable government securities Tk. 19,000; 10% taxable government securities to the extent of Tk. 45,000; Income from interest on debentures Tk. 23,940; 8% debentures to the extent of Tk. 20,000; and Income from zero-coupon bond Tk. 15,000.

Solution 7 – 1:

Mr. Mahmud
Assessment year: 2017 – 2018; Income year: 2016 – 2017
Computation of Total Income

	Income from Interest on securities (Section – 22 & 23)	**Tk.**	**Tk.**
(a)	Interest on tax-exempt government securities	10,000	
	Interest on 13% tax-exempt government securities (60,000 × 13%)	7,800	
		17,800	
	Less: exempted – full	17,800	-
(b)	Interest on taxable government securities (19,000 × 100/ 100 - 5)	20,000	
	Interest on 10% taxable government securities (45,000 × 10%)	4,500	24,500
(c)	Interest on debentures (23,940 × 100/ 100 - 5)	25,200	
	Interest on 8% debentures (20,000 × 8%)	1,600	26,800
(d)	Income from zero-coupon bond	15,000	
	Less: exemption – full	15,000	-
	Total		**51,300**

Note: Interest on tax-exempt government securities and income from zero-coupon bond are fully exempted.

Illustration 7 – 2:

From the given information compute the income chargeable under the head Interest on Securities for Mr. Musa for the income year 2016 – 2017: 10% tax-exempt government securities valued Tk. 50,000; Interest received on taxable government securities Tk. 4,750; Tk. 18,050 as interest on debentures and Income from zero coupon bond – Tk. 15,000. The Bank has charged Tk. 100 collecting interest on tax-exempt government securities, Tk. 75 for taxable government securities and Tk. 150 for zero coupon bond. The bank has deducted Tk. 380 as commission for collecting interest on debentures. In addition, debentures were purchased by taking a bank loan of Tk. 100,000 @ 6% interest.

Solution 7 – 2:

Mr. Musa
Assessment year: 2017 – 2018; Income year: 2016 – 2017
Computation of Total Income

	Income from Interest on securities (Section – 22 & 23)	**Tk.**	**Tk.**
(a)	Interest on 10% tax-exempt govt. securities (50,000 × 10%)	5,000	
	Less: exempted – full	5,000	-
(b)	Interest on taxable govt. securities [(4,750 × 100)÷ 95]	5,000	
	Less: allowable expenses (Bank Charge)	75	4,925
(c)	Interest on debentures [(18,050 × 100)÷ 95]	19,000	

		Tk.	Tk.
	Less: allowable expenses (Bank charge)	(380)	
	Interest on loan (100,000 × 6%)	(6,000)	12,620
(d)	Income from zero coupon bond	15,000	
	Less: Exempted - full	15,000	-
	Total		**17,545**

Notes: No allowable expenses will be deducted from interest on tax-exempt government securities and zero coupon bonds.

Illustration 7 – 3:

From the given information compute income chargeable under the head Interest on Securities for Mr. Hamid for the income year 2016 – 2017:

(a) Interest on 10% tax-exempt government securities Tk. 10,000;
(b) Interest on taxable government securities Tk. 9,500;
(c) Investment on 12% debentures Tk. 120,000; and
(d) Income from zero coupon bond Tk. 15,000.

The Bank has charged Tk. 200 collecting interest on tax-exempt government securities and Tk. 100 for zero coupon bond. The bank has also deducted 5% commission for collecting interest on taxable government securities and debentures. In addition, bank loans were taken to invest in: for tax-exempt government securities Tk. 100,000 @ 5% interest; for taxable government securities Tk. 50,000 @ 6% interest and for debentures Tk. 120,000 @ 6% interest.

Solution 7 – 3:

Mr. Hamid

Assessment year: 2017 – 2018; Income year: 2016 – 2017

Computation of Total Income

	Income from Interest on securities (Section – 22 & 23)	**Tk.**	**Tk.**
(a)	Interest on 10% tax-exempt govt. securities	10,000	
	Less: exempted – full	10,000	-
(b)	Interest on taxable govt. securities (9,500 × 100 ÷ 95)	10,000	
	Less: allowable expenses [Bank charge (9,500 × 5%)]	(475)	
	Interest on loan (50,000 × 6%)	(3,000)	6,525
(c)	Interest on debentures (120,000 × 12%)	14,400	
	Less: allowable expenses [Bank charge (13,680 × 5%)]	(684)	
	Interest on loan (120,000 × 6%)	(7,200)	6,516
(d)	Income from zero coupon bond	15,000	
	Less: Exempted - full	15,000	-
	Total		**13,041**

Illustration 7 – 4:

Compute taxable income for Mr. Tomal for the income year 2016 – 2017 considering given data:

Date of purchase	Nature of Security	Purchase Price (Tk.)	Interest rate	Admissible Expense
01.01.2015	Tax-exempt	100,000	10%	Bank Charge Tk. 500 for collecting
01.01.2017	Government	50,000	12%	interest

01.07.2015	Taxable govern.	200,000	20%	Bank charge 5% of collected interest
01.09.2015 30.06.2017	Debenture	100,000 50,000	15% 10%	Bank charge Tk. 300 for collecting interest
01.07.2016	1 year Zero Coupon Bond	90,000	0%	Maturity value Tk. 100,000 and Tk. 200 was deducted by bank as commission for purchasing the bond

Solution 7 – 4:

Mr. Tomal

Assessment year: 2017 – 2018; Income year: 2016 – 2017
Computation of Total Income

Income from Interest on securities (Section – 22 & 23)		**Tk.**	**Tk.**
(a)	Interest on 10% tax-exempt govt. securities	13,000	
	Less: exempted – full	13,000	-
(b)	Interest on taxable govt. securities (200,000 × 20%)	40,000	
	Less: allowable expenses [Bank charge (38,000 × 5%)]	(1,900)	38,100
(c)	Interest on debentures (100,000 × 15%)	15,000	
	Less: allowable expenses (Bank charge)	(300)	14,700
(d)	Income from zero coupon bond (100,000 – 90,000)	10,000	
	Less: Exempted - full	10,000	-
	Total		**52,800**

Notes: (1) Interest collected on tax-exempt govt. securities: $[(100{,}000 \times 10\%) + (50{,}000 \times 12\% \times \frac{6}{12})] = 13{,}000$ (2) Interest on taxable govt. securities: Gross – Tk. 40,000; Net of 5% TDS – Tk. 38,000; Bank charge was charged on net amount as it has been collected by the bank. (3) No interest was earned on 10% debenture as it has been purchased on last day of income year 2016 – 2017. (4) No allowable expenses will be deducted from interest on tax-exempt government securities and zero coupon bonds.

Illustration 7 – 5:

Determine tax payable income for Mr. Saif from interest on securities for the income year 2016 – 2017. During the year Mr. Saif invested

(a) Tk. 60,000 in 8% tax-exempt government securities,

(b) Tk. 50,000 in 10% taxable government securities,

(c) Tk. 2,00,000 in 15% debentures (purchased on 01.01.17).

He financed Tk. 100,000 by taking 8% loan to purchase debentures. His bank has charged Tk. 2,380 as collection fee of these interests. Moreover, during the income year he has received Tk. 20,000 after expiry of the maturity period of 2-year zero coupon bond. Acquisition price of these bonds were Tk. 18,000. No bank charge was applicable for collecting interest on zero coupon bond.

Solution 7 – 5:

Mr. Saif

Assessment year: 2017 – 2018; Income year: 2016 – 2017
Computation of Total Income

Income from Securities (Section – 22 & 23):		**Tk.**	**Tk.**
(a)	Interest form tax-exempt government securities (60,000 × 8%)	4,800	
	Less: exemption (full)	4,800	-

(b)	Interest from taxable government securities (50,000 × 10%)	5,000	
	Less: Admissible expenses (2,380/23,800 × 4,750)	(475)	4,525
(c)	Interest from debentures (200,000 × 15%×6/12)	15,000	
	Less: Admissible expenses: Bank charge (2,380/23,800 × 14,250)	(1,425)	
	Interest on loan (100,000 × 8%×6/12)	(4,000)	9,575
(d)	Interest on zero coupon bond (20,000 – 18,000)	2,000	
	Less: Exempted - Full	2,000	-
	Total		**14,100**

Notes: 1. Total interest collected by bank:

Tax-exempt government securities	:	4,800
Taxable government securities	:	4,750 (5,000 – TDS @ 5%)
Debentures	:	14,250 (200,000 × 15% ×6/12) – TDS @ 5%
		23,800

2. The difference between the acquisition price and maturity value of zero coupon bond is considered as interest.

Illustration 7 – 6:

From the given information compute the income chargeable under the head Interest on Securities for Mr. Tanvir for the income year 2016-17: Interest on tax-exempt government securities Tk. 10,000; Value of 15% taxable government securities Tk. 30,000; Tk. 9,500 as interest on 12% debentures and Interest on Zero Coupon Bond Tk. 10,000. The Bank has charged Tk. 3,082 for collecting above interests. In addition to this he has taken a bank loan of Tk. 100,000 @ 6% interest to purchase additional 10% approved company debenture on January 01, 2017.

Solution 7 – 6:

Mr. Tanvir

Assessment year: 2017 – 2018; Income year: 2016 – 2017

Computation of Total Income

Income from Securities (Sec: 22 & 23):	**Tk.**	**Tk.**
(a) Interest form tax-exempt government securities	10,000	
Less: exemption (full)	10,000	
(b) Interest from taxable government securities	4,500	
Less: Admissible expenses (3,082 ÷ 38,525 × 4,275)	(342)	4158
(c) Interest from 12% Debentures (9,500 × 100 ÷ 95)	10,000	
Interest from 10% Debentures (100,000 × 10%×6/12)	5,000	
Less: Admissible expenses:	15,000	
Bank charge (3,082 ÷ 38,525 × 14,250*)	(1,140)	
Int. on loan (100,000 × 6%×6/12)	(3,000)	10,860
(d) Interest on zero coupon bond	10,000	
Less: Exemption - full	10,000	-
Total		**15,018**

Notes: 1. Total interest collected by bank:

Tax-exempt government securities	:	10,000
Taxable government securities	:	4,275 (4,500 – TDS @ 5%)

12% Debentures:	:	9,500
10% Debentures:	:	4,750 (100,000 × 10%×6/12) – TDS @ 5%
Zero Coupon Bond	:	10,000
		38,525

2. As additional 10% less tax government securities are purchased on January 01, 2017 of the income year 2016-17, interest on debenture and interest on loan has been considered for six months.
3. * Total interest on debentures collected by Bank (Tk, 15,000 less 5% TDS)

Illustration 7 – 7:

Mr. Jalal Talabani, a non-resident Bangladeshi, is a Permanent Resident of Canada. The information regarding his investments in securities during the income year 2016-17 are as follows:

(a) Tk. 100,000 in 10% Bangladesh tax-exempt Government Bond (Purchased on 01.09.15).

(b) Tk. 200,000 in 8% Canadian T Bill in Canada (Purchased on 1st July, 2016).

(c) Interest on 10% taxable government securities Tk. 2,850. The Bank has deducted Tk. 100 as collection fee.

(d) 14% Beximco Debentures were purchased from DSE at a cost of Tk. 230,000 on 1st January, 2017 (Face value is Tk. 200,000). In this regard, he has sold 13% ACI Debenture at Tk. 150,000 on the same day (The acquisition price was Tk. 130,000, Face value Tk. 125,000). Interest is paid on 30th June each year by the companies on an annual basis. The bank has charged him Tk. 500 as transaction fee.

(e) 12% debentures of ABC Ltd. of the face value of Tk. 500,000 (interest is payable on 31st December on an annual basis) were sold ex-interest on December 01, 2016 and Tk. 700,000 15% debenture of XYZ Ltd was purchased ex-interest, borrowing the additional sum from NCC Bank @ 10% interest. The Bank has charged him Tk. 1,000 as commission for the settlement of the purchase and sales and Tk. 1,500 for collecting interests. The due dates of payment of interest on 15% XYZ Debentures are September 30 and March 31.

(f) The DCT identified that he has transferred 10% debenture of Tk. 100,000 to his friend on 15th June, 2017 (interest is paid on 30th June on an annual basis) and bought it back on 3rd July, 2017 at Tk. 105,000. The DCT has identified the matter as Bond Washing.

(g) On 31st March, 2017 3 years Zero Coupon Bond of Tk. 50,000 was matured and he has received the amount as maturity value, whether the acquisition price of the same was Tk. 35,000. The collection fee of Tk. 500 was charged in this regard by his bank.

Determine tax payable income for Mr. Jalal Talabani from interest on securities for the income year 2016 – 2017.

Solution 7 – 7:

Mr. Jalal Talabani
Assessment year: 2017 – 2018; Income year: 2016 – 2017
Computation of Total Income

Income from Securities (Sec: 22 & 23):	**Tk.**	**Tk.**
(a) Interest form tax-exempt government securities	10,000	
Less: exemption (full)	10,000	-
(b) Interest from taxable government securities (2,850 × 100 ÷ 95)	3,000	
Less: Admissible expenses (collection fee)	100	2,900

(c)	Interest from debentures	80,500	
	Less: Admissible expenses	10,979	69,521
(d)	Interest from 10% debentures (bond-washing transaction)		10,000
(e)	Interest on zero coupon bond	15,000	
	Less: Exemption - full	15,000	-
	Total		**82,421**

Workings and Note:

1. 10% Bangladesh Tax Free Government Bond is a tax-free government security. Interest is considered for the whole year as it was on hand from the first day of the I/Y 2016-17.
2. As he is a non-resident, interest on Canadian T Bill will not come under the scope of his total income, as it is income earned in outside Bangladesh. In case of resident, the interest would have to be considered under the head "Foreign income" instead of "Income from Interest on Securities", as it is a security issued by foreign authority.
3. Income from debentures is calculated as follows:

(a) Interest on securities is paid always on face value. So, Interest on 14% Beximco Debenture is (200,000 × 14%) = Tk. 28,000. As the final holder, he well get the whole interest. In the similar manner, as he has sold the 13% ACI interest in the secondary market, he is no more eligible to receive any interest on it as he is not the final holder. This is an example of cum-interest. Transaction fee for purchase and sell of securities is not an admissible expense.

(b) 12% debentures of ABC Ltd. bearing the face value of Tk. 500,000 were sold before the due date of interest. So, the final holder is entitled to get the interest on such debentures. In this regard, no income by way of interest arises in the hand of Mr. Jalal Talabani. However, the sale being ex-interest, the total sale price is Tk. 500,000 plus interest accrued for 11 months (1st January, 16 to 30th November, 16) i.e. Tk. 55,000 (500,000 × 12% × 11/12) = Tk. 555,000. The surplus received Tk.55,000 (555,000 – 500,000) would be deemed to be income chargeable under the head "Capital gains".

(c) The amount of additional sum borrowed to purchase 15% XYZ Debentures at face value ex-interest is calculated as follows:

Particulars	Tk.
FV of 15% XYZ Debentures	700,000
Add: Payment for accrued interest for the period October 01, 16 to November 30, 16 [Tk. 700,000 × 15% × 2/12]	17,500
Total cost	717,500
Less: Amount received from sale of ABC Debenture	555,000
Borrowings from Bank (On December 01, 2016)	**162,500**

(d) After the acquisition, interest on 15% XYZ debentures received in the I/Y 2016-17 is only on 31st March, 2017 for six months, as he receives the interest on a semi-annual basis. So, the interest amount received on 15% debentures is (700,000 × 15% × 1/2) = Tk. 52,500. The next interest will be received on September 30, 2017 which doesn't fall in I/Y 2016-17.

(e) So, the Total interest received from debentures in the I/Y 2016-17 will be:

Interest on 14% Beximco Debenture	= Tk. 28,000
Interest on 15% XYZ Debenture	= Tk. 52,500
	Tk. 80,500
Admissible expenses:	
Bank collection fee for interests	= Tk. 1,500
Interest on loan (162,500 × 10% × 7/12)	
(From December 01, 16 to June 30, 17)	= Tk. 9,479
	Tk. 10,979

4. As the sale of 10% debentures is considered as bond washing transaction by the DCT, the interest amount will be considered as the income of Mr. Jalal Talabani.

Illustration 7 – 8:

During the income year 2016-17, Mr. Tareq had the following amounts from his investments in savings instruments:

- Tk. 80,000 as interest on 5-Year Bangladesh Sanchaypatra
- Tk. 60,000 as 3 monthly profit based Sanchaypatra (Bought on January 01, 2017)
- Tk. 100,000 as interest on Pensioner Sanchaypatra (Cumulative investment amount reached to Tk 800,000 at the end of the income year 2016-2017).
- Tk. 50,000 from Wage Earner's Development Bond

Requirement:

1. What will be total taxable income from interest on savings instruments?
2. What will be his amount of tax liability on such income, if he has no other income?
3. What will be his amount of tax liability if he has income from house property Tk. 600,000, in addition to the above incomes from savings instruments?
4. What will be his total income and net amount of tax liability on such income, if his cumulative investment in Pensioner Sanchaypatra reached to Tk. 400,000 at the end of the income year 2016-2017?

Solution 7 – 8:

1.

Particulars	Tk.	Tk.
Interest on 5-Year Bangladesh Sanchaypatra		80,000
Interest on 3 monthly profit based Sanchaypatra		60,000
Interest on Pensioner Sanchaypatra		100,000
Interest on Wage Earner's Dev. Bond	50,000	
Less: Exempted - Full	50,000	-
Total		**240,000**

Note: As cumulative investment in Pensioner Sanchaypatra reached to Tk. 800,000 at the end of the income year 2016-2017; 5% TDS is applicable on it.

2. According to section 52D, 5% TDS is applicable on income from above savings instruments which is Tk. 12,000 (5% of Tk. 240,000). Although his total income is less than the minimum non assessable limit of Tk. 250,000; the tax amount already deducted (i.e. Tk. 12,000) will be his applicable / minimum tax liability u/s 82C.

3.

Income from regular source (house property income)	- Tk. 600,000
Income on which section 82C is applicable	
(Interest on savings instruments)	- Tk. 240,000
Total Income	- Tk. 840,000
Tax Liability:	
Income Tax applicable on regular source of income @ regular rate	- Tk. 35,000
TDS on interest on savings instruments (5% of Tk. 240,000)	- Tk. 12,000
Total tax liability	- Tk. 47,000
Less: TDS	- Tk. 12,000
Tax liability to be paid with return	- Tk. 35,000

4.

Particulars	Tk.	Tk.
Interest on 5-Year Bangladesh Sanchaypatra		80,000
Interest on 3 monthly profit based Sanchaypatra		60,000
Interest on Pensioner Sanchaypatra	100,000	
Less: Exempted - Full	100,000	-
Interest on Wage Earner's Dev. Bond	50,000	
Less: Exempted - Full	50,000	-
Total		140,000

According to section 52D, 5% TDS is applicable on income from above savings instruments which is Tk. 7,000 (5% of Tk. 140,000). Although his total income is less than the minimum non assessable limit of Tk. 250,000; the tax amount already deducted (i.e. Tk. 7,000) will be his applicable / minimum tax liability u/s 82C.

Illustration 7 – 9:

Consider the following income of Mr. Amit Agarowal for the year ended on June 30, 2017:

SL	Category	Amount (Tk)
a)	Interest on Government Treasury Bill	15,000
b)	Interest on US Dollar Premium Bond	25,000
c)	Investment in 10% Taxable Government Securities	200,000
d)	Interest on 5 Year's Savings Certificate	28,500
e)	Investment in 12% Debenture	400,000
f)	Income from 1 year Zero Coupon Bond	12,000

In additional to 'Income from Interest on Securities' as listed in the above table, Mr. Agarowal also has taxable income from 'Salary' amounting to Tk. 750,000 during the year. In line with the Part B Sixth Schedule, his qualifying amount for allowable investment amounts to Tk. 150,000. Based on the information provided, compute taxable income and tax liability of Mr. Agarowal for 2017-18 assessment year.

Solution 7 – 9:

	Heads of Income	Tk.	Tk.	Tk.
a)	Income from Salary (U/S 21)			750,000
b)	Income from Interest on Securities (U/S 22)			
i)	Interest on Government Treasury Bill	15,000		
	Less: Exempted	15,000	0	
ii)	Interest on US Dollar Premium Bond	25,000		
	Less: Exempted	25,000	0	
iii)	Interest on 10% Taxable Government Securities		20,000	
iv)	Interest on 5 Year's Savings Certificate [28,500 ÷ 0.95]		30,000	
v)	Interest on 12% Debenture		48,000	
vi)	Income from Zero Coupon Bond	12,000		
	Less: Exempted	12,000	0	
				98,000
	Total Taxable Income			848,000

Investment Allowance:

Eligible Amount for tax rebate

[A]	Total Allowable Investment	Tk. 150,000
[B]	25% of the total income [excluding any income for which a tax exemption or a reduced rate is applicable under sub-section (4) of section 44 or any income from any source or sources mentioned in clause (a) of sub-section (2) of section 82C.] 25% of Tk. 818,000 (excluding Tk. 30,000)	Tk. 204,500
[C]	1.5 Crore	
	Whichever is less	Tk. 150,000

Tax Liability Calculation

		Rate	Amount
On first	Tk. 250,000	0%	0
On next	Tk. 400,000	10%	40,000
On next	Tk. 168,000	15%	25,200
On income under 82C	Tk. 30,000	5%	1,500
Total	**Tk. 848,000**		**66,700**
Less: Tax rebate on investment (150,000 × 15%)			**22,500**
Net tax liability			**44,200**

KEY POINTS

1. Interest receivable by the assessee on any security of the government or any security approved by government or from any debenture is taxable.
2. According to the ITO, 1984 the chargeability of tax is possible even if interest on securities is on due or receivable basis.
3. According to Section 22 of the ITO, 1984 income must be received as interest to be recorded under this head.
4. In computing the income under the head "Interest on Securities" deduction of bank collection fees and interest on borrowed capital are admissible.
5. Interests on Tax exempt government securities and income from zero coupon bond received by any person other than banks, insurance and financial institutions are fully exempted from tax.
6. Interest on savings instruments is recorded under the head "Interest on Securities".
7. Interest on commercial securities (debentures) is fully taxable.
8. Amount of interest income need to be grossed up when interest received is net interest from taxable government securities and debentures.
9. By cum interest transaction a holder of security can avoid tax and by bond washing transaction both the seller and buyer can avoid tax. But DCT has given sufficient authority to handle those cases of tax avoidance.
10. In Bangladesh, the rate of tax deducted at source from interest on securities is 5%.

Chapter – 7: Income from Interest on Securities

Multiple choice questions:

1. Income of an assessee shall be classified under the head 'Interest on Securities' according to –
   (a) section 19
   (b) section 20
   (c) section 21
   (d) section 22
2. Total exemption from taxable government securities and debentures amounted to –
   (a) Tk. 25,000
   (b) Nil
   (c) Tk. 15,000
   (d) Tk. 5,000
3. Which of the following shall not be considered as interest on security –
   (a) income from securities issued by the government
   (b) income from securities issued by local authority
   (c) income from securities issued by a company
   (d) income from bank deposits
4. From the following cases which interest need to be grossed up –
   (a) Interest received Tk. 10,000 from tax-exempt government securities
   (b) Interest received Tk. 10,000 from taxable government securities
   (c) Investment of Tk. 1,00,000 in 10% tax-exempt government securities
   (d) Investment of Tk. 1,00,000 in 10% taxable government securities
5. Which of the following securities is eligible for tax exemption benefit –
   (a) Tax-exempt government security
   (b) Taxable government security
   (c) Debenture
   (d) None
6. Which of the following statements is false –
   (a) In case of cum interest transaction seller will pay tax
   (b) In case of cum interest transaction buyer will pay tax
   (c) In case of bond washing transaction neither buyer nor the seller will pay tax
   (d) None of the above
7. Rate of TDS on interest on securities is –
   (a) 5%
   (b) 10%
   (c) 15%
   (d) 20%
8. Bangladesh Treasury Bond is an example of –
   (a) Tax-exempt government security
   (b) Taxable government security
   (c) Debenture
   (d) Zero Coupon Bond
9. Amount of tax exemption for interest on tax-exempt government securities is –
   (a) Full
   (b) Tk. 5,000
   (c) Tk. 20,000
   (d) Nothing

10. Amount of tax exemption for interest on debenture –
    (a) Full
    (b) Tk. 5,000
    (c) Tk. 20,000
    (d) Nil

Identify the following statements as True (T) or False (F):

1.	Dividend from equity share lies under the head income from interest on securities.	T F
2.	Taxable government securities get tax exemption benefit.	T F
3.	Cum interest transaction help the seller of security to avoid tax.	T F
4.	TDS is applicable @ 10% on interest on taxable government securities.	T F
5.	Investment in debenture is not subject to investment tax rebate.	T F

Discussion Questions:

Question 7 – 1: What is income from interest on securities? What is the basic of taxation under the head income from interest on securities?

Question 7 – 2: What are the conditions of taxation under interest on securities?

Question 7 – 3: Classify different types of securities and briefly explain each class.

Question 7 – 4: What is grossing up of interest? In which type of security the concept of grossing up is applicable? Explain.

Question 7 – 5: What are the admissible expenses under the head interest on security?

Question 7 – 6: Explain with example the tax exemption benefits applicable for different types of security.

Question 7 – 7: **"There is wide scope to avoid tax by cum interest transaction and bond washing transaction"** – explain.

Question 7 – 8: Write short note on:
- **(a)** Grossing up of interest
- **(b)** Bond washing transaction
- **(c)** Tax exempted income under the head interest on securities
- **(d)** TDS applicable for the head interest on securities
- **(e)** TDS on Interest on Pensioner Savings Certificates

Problem 7 – 1:

Followings are the income from different sources of securities income for Mr. Zia for the income year 2016 – 2017: Interest on tax-exempt govt. securities Tk. 10,000; Interest on taxable govt. securities Tk. 4,500; Interest on 10% debentures Tk. 9,000 and Interest on zero coupon bond Tk. 15,000. The Bank has charged Tk. 1,200 for collecting the above interests. In addition to this he has taken a bank loan of Tk. 100,000 @ 6% interest to purchase the 10% debentures.

Required: Compute the income chargeable under the head Interest on Securities for Mr. Zia for the income year 2016 – 2017.

Problem 7 – 2:

Mr. Jalil invested Tk. 50,000 in 10% tax-exempt government securities, Tk. 50,000 in 10% taxable government securities and Tk. 140,000 in 10% debentures. He financed Tk. 100,000 by taking 8%

loan to purchase government securities. Bank charge Tk. 1,000 as collection fee of these interests. Determine tax payable income for Mr. Jalil for the income year 2016 – 2017.

Problem 7 – 3:

From the following information compute the income chargeable under the head Interest on Securities for Ms. Veronica for the income year 2016 – 2017: Income from interest on tax-exempt government securities Tk. 9,000; 10% tax-exempt government securities to the extent of Tk. 50,000; Income from interest on taxable government securities Tk. 1,800; 10% taxable government securities to the extent of Tk. 25,000; Income from interest on 12% debentures Tk. 18,000; 15% debentures to the extent of Tk. 20,000 and Interest from zero coupon bond Tk. 8,000.

Problem 7 – 4:

From the following information compute the income chargeable under the head Interest on Securities for Mr. Jewel for the income year 2016-17: Value of 15% tax-exempt govt. securities Tk. 30,000; Interest on tax-exempt govt. securities Tk. 10,000; Interest on taxable govt. securities Tk. 9,000; Value of 15% debenture Tk. 60,000; Interest on 10% debentures Tk. 9,000 and income from zero coupon bond – Tk. 2,000. The Bank has charged Tk 1,500 for collecting the above interests. In addition to this he has taken a bank loan of Tk. 100,000 @ 6% interest to purchase the tax-exempt government securities.

Problem 7 – 5:

From the given information compute the income chargeable under the head Interest on Securities for Mr. Taleb for the income year 2016-17: Interest on tax-exempt government securities Tk. 15,000; Value of 15% taxable government securities Tk. 30,000; Tk. 9,500 as interest on 12% debentures; Value of 15% debentures Tk. 80,000 and Interest on Zero Coupon Bond Tk. 10,000. The Bank has charged Tk. 3,500 for collecting above interests. In addition to this he has taken a bank loan of Tk. 100,000 @ 6% interest to purchase additional 10% approved company debenture on October 01, 2016.

Problem 7 – 6:

During the income year 2016-17, Mrs. Nilufar had the following amounts from his investments in savings instruments: Tk. 300,000 as interest on 5-Year Bangladesh Sanchaypatra; Tk. 160,000 as 3 monthly profit based Sanchaypatra (Bought on October 01, 2016); Tk. 100,000 as interest on Pensioner Sanchaypatra (Cumulative investment amount reached to Tk 800,000 at the end of the income year 2016-2017); $5,000 from US Dollar Bond ($1 = Tk. 77 as on June 30, 2017)

Requirement:

1. What will be total taxable income from interest on savings instruments?
2. What will be his amount of tax liability on such income, if he has no other income?
3. What will be his amount of tax liability if he has income from house property Tk. 600,000, income from salary Tk. 12,00,000 (on which Tk. 120,000 was deducted at source), interest on other sources (bank deposit interest) Tk. 600,000 (on which Tk. 60,000 was deducted at source) in addition to the above incomes from savings instruments?
4. What will be his total income and net amount of tax liability on such income, if his cumulative investment in Pensioner Sanchaypatra reached to Tk. 400,000 at the end of the income year 2016-2017?

Answers:

Multiple choice questions		True/False
1. d	6. a	1. F
2. b	7. a	2. F
3. d	8. a	3. T
4. b	9. a	4. F
5. a	10. d	5. F

Self review 7 – 1:

	(a)	(b)	(c)	(d)
Interest received	Tk. 16,500			
[19,000 X 100/95]		Tk. 20,000		
[2,10,000 X 12%]			Tk. 25,200	
[200,000 X 12%]				Tk. 24,000
Less: exemption	16,500	-	25,200	-
	=	20,000	=	24,000

Self review 7 – 2:

	Income from Interest on Securities	Tk.	Tk.
(a)	Interest on tax-exempt government securities	5,000	
	Less: Fully exempted	5,000	-
(b)	Interest on taxable government securities		4,000
(c)	Interest on debentures		26,000
(d)	Income from zero-coupon bond	2,000	
	Less: Fully exempted	2,000	-
	Total		30,000

CHAPTER – 8
INCOME FROM HOUSE PROPERTY

LEARNING OBJECTIVES

After studying Chapter 8, you shall be able to understand:

- the concept of income from house property
- conditions need to be satisfied to consider income from house property
- critical evaluation of important terminologies relating to the income from house property
- non assessable income under this head
- the concept of annual value
- rental status of house property
- admissible expenses against income from house property
- TDS from house property

8.1 INTRODUCTION

"Income from House Property" is the third head of income among the seven heads mentioned in Section 20 of the ITO, 1984. According to Section 24 and 25 of the ITO, 1984, annual value of property consisting of any building or lands appurtenant thereto, of which the assessee is the owner, is chargeable to tax under this head of income after claiming deduction under Sec. 25. The said property will not include the portions of property that the assessee may occupy for purposes of any business or profession carried on by him, the profits of which are chargeable to tax.

8.2 SCOPE OF INCOME FROM HOUSE PROPERTY

According to various provisions of the Income Tax Ordinance, 1984, the following incomes are to be considered under the head "Income from House Property":

1. Annual value of any property, whether used for commercial or residential purposes, consisting of any building, furniture, fixture, fittings etc. or lands appurtenant thereto, of which the assessee is the owner. However, such portions of the property as the assessee-owner may occupy for the purpose of his business or profession, the profits of which are chargeable to annual value of such property is not assessable under this head. [Section – 24(1)].
2. If the house property is owned by two or more persons and if their respective shares are definite and ascertainable, then only proportionate income from such a property will be considered as income from house property of the assessee. Here such persons shall not constitute and deemed to be an association of persons [Sec 24(2)].
3. Where an assessee-owner of a house property receives any advance from the tenant which is not adjustable against the rent payable, the amount so received shall be deemed to be the income of the assessee for the income year in which it is received and be classifiable under the head "Income from House Property". Provided that at the option of the assessee such amount may be allocated, for the assessment purpose in equal proportion to the year of receipt and four years next following. Moreover, if such amount or part thereof is refunded by the assessee in a subsequent income year, the refunded amount shall be deducted in computing the income of the assessee in respect of that income year [u/s- 19(22)].

4. Where an assessee, in the course of any proceedings under this Ordinance, is found to have any sum or part thereof allowed or deducted but not spent in accordance with the provision of clause (h) of sub-section (1) of section 25 of this Ordinance (allowable repair and maintenance expense), such unspent sum or part thereof shall be deemed to be the income of such assessee for that income year classifiable under the head "Income from house property" [u/s- 19(30)].

8.3 CONDITIONS TO BE SATISFIED WHILE COMPUTING INCOME UNDER THE HEAD "INCOME FROM HOUSE PROPERTY"

From the analysis of the Sections 24(1), 24(2), 19(22) and 19(30), it is clear that the following conditions are to be fulfilled for considering any income under the head "Income from House Property":

1. Assessee is the legal owner of the whole house property or the owner of a part of the property or beneficiary of the property.
2. Income should be generated from let out part and not from any part used by the owner for personal purpose or for the purpose of his business or profession.
3. Property must consist of any buildings or land/lands appurtenant thereto.
4. The house may let out for residential or commercial purposes.
5. Income is the result of gross rental received less amount of admissible expenses.
6. In case of joint ownership, then only proportionate income from such a property will be considered as income from house property of the assessee.
7. Any advance against rent is also considered as the income from house property subject to some conditions in assessment procedure.
8. The unspent amount of allowable repair and maintenance expense has to be shown as income.

Illustration: (a) X owns a building. It is let out on rent. Income of the property is taxable under the head "Income from house property", as the above noted conditions are satisfied. (b) Y owns a building. It is used by him for carrying on a business or he uses the building as his office/factory/godown. In this case, no income is taxable under the head "Income from house property", as condition (2) is not satisfied. (c) X owns a house property. He lets it out to Y for 3 years (rent being Tk. 10,000 per month). Y sublets it to Z on monthly rent of Tk. 40,000. Rental income of X is taxable under the head "Income from house property". Since Y is not the owner of the house, his income is not taxable under the head "Income from house property", but is taxable under the head "Income from other sources".

8.4 A DIAGNOSTIC VIEW OF THE TERM "BUILDINGS OR LANDS APPURTENANT THERETO" OF INCOME FROM HOUSE PROPERTY

The property which consists of any building is subject matter of consideration of Section 24 of the ITO, 1984. The word "Building" has a wider connotation than what is carried on by a "House Property". The word "Building" is not defined in the ITO, 1984 and must therefore be construed in its ordinary sense. Generally, the term "Building" includes an edifice or structure or a framework, built in relation to land essentially existing in physical form, mean to last more or less permanently, for user towards residence for the owner or for others or for storing items or for carrying on of commercial activities or for any other purpose excluding ship, vessel or the like. The appurtenant lands in respect of a residential building may be in the form of a compound and playground, courtyard and backyard, kitchen-garden, cattle-shed and motor garage, etc. forming part of the building. In respect of a non-residential building, the appurtenant lands may be in the form of car-parking space, connecting roads between different departments of the factory area, drying grounds and playgrounds, etc. forming part of the building. Lands appurtenant to buildings come under house property and other lands, that is, not appurtenant to buildings and not occupied and enjoyed with them is to be considered under "Income from Other Sources".

8.5 A DIAGNOSTIC VIEW OF THE TERM "OWNERSHIP" IN RESPECT OF INCOME FROM HOUSE PROPERTY

The charge under this head is on the bona fide annual value of the property of which the assessee is the owner or deemed owner. If the assessee is not owner of the house property, he is not assessable under this head. The term "owner" is one of wide application in various connections and must be interpreted in its broadest possible meaning. The Income Tax Ordinance, 1984 does not pin down the assessing authorities to tax only the registered owner. The charge of tax under the head "Income from House Property" is on the owner, be it a legal owner or deemed owner or beneficial owner [P.J. Swaminathan vs. CIT (1984) 145 ITR 198 (Mad.)]. The test of ownership is required to be satisfied in the income year and not in the assessment year. For the purpose of tax, the owner must be that person who can exercise the rights of the owner, not on behalf of the owner but in his own right [R.B. Jodhamal Kuthiala vs. CIT (1971) 82 ITR 570 (SC).]. In this regard, the following legal opinions may also be used as reference or guideline:

1. **Legatee is the owner of Property of Deceased, not the Executor:** Where a will gives life interest in house property to specific legatee, such legatee will be the owner of the property. Income of property will be assessable in the hands of legatee and not in the hands of executor [Estate of Ambalal Sarabhai vs. CIT (2000) 245 ITR 445 (Guj.)].
2. **Ownership in case of Insolvency may vest with the Official Custodian / Receiver:** In case of insolvency Evacuee is not the owner. It is the custodian who will be assessed for the property [R.B. Jodhamal Kuthiala vs. CIT (1971) 82 ITR 570 (SC).].
3. **Agreement to Purchase does not Confer Ownership unless Assessee can be proved as owner for all intent and purposes:** An agreement to buy may confer a claim on certain rights under the Transfer of Property Act, but still he does not make the purchaser the owner until the sale deed is registered in his favor [Ramkumar Mills P. Ltd. Vs, CIT (1989) 180 ITR 464 (Kar.)]. The vendor continues to be owner of the property and is liable to be assessed under the head "Income from House Property" [CIT vs. Sultan Brothers Pvt. Ltd. (1983) 142 ITR 249 (Bom.)].
4. **Property owned by Firm:** Where the house property is owned by a partnership firm, the partners cannot be assessed as co-owners. The firm is assessable as owner [Sarvamangala Properties Ltd. vs. CIT (1973) 90 ITR 267 (cal.)].
5. **Benami Properties – Beneficial Owner to be Assessed:** Where the property is purchased by X in the name of his son, Y, the assessment of income from such property on X is valid as he is found to be the real purchaser of these property. Burden of proof to show that the assessee is that real owner in cases like this is heavily on the Income Tax Authority [M/s ER Chowdhury vs. CIT 37 DLR 210; CIT vs. Ajit Kumar roy (2001) 252 ITR 468 (Cal.)].
6. **Disputed Ownership – Assessment cannot be held up:** The assessment proceeding cannot be held up on account of dispute relating to title of the property either in or outside the Court [Keshardeo Chamria vs. CIT (1937) 5 ITR 246 (cal.)]. The decision as to who is the owner rests with the Assessing officer. The person who is in receipt of income is assessed to tax. If, however, the decision of the Court goes against the

interim decision of the tax authorities, the back years assessment are to be rectified according to the verdict of the Court.

7. **Trustees are the owner in case of property held under a Trust:** Where the property legally vests in the trustees, they are liable to be assessed in respect of such property [Vakil vs. CIT ITR 298, 302].
8. **Where the property is mortgaged:** The mortgager will pay tax on income from house property; hence the ownership has not transferred.
9. **Where the property is leased:** Generally in case of long-term lease agreement, the lessee is liable to pay tax. But in case of short-term lease agreement, the lessor will be assessed and the income will be recorded under the head "Income from Other Sources".

8.6 NON – ASSESSABLE INCOMES UNDER THE HEAD "INCOME FROM HOUSE PROPERTY"

According to the provisions of the Section 2(1), 24, 25, Para 1 & 38 of the Sixth Schedule, the following incomes from house property are non-assessable:

1. Annual value of the house used by the owner for his personal purpose i.e. for his own residence or for the purpose of his business or profession [Section 24(1)].
2. Where, the whole or part of the property is let out, a sum equal to such portion of the annual value appropriate to the vacant part as is proportionate to the period of the vacancy of such part [Section 25(1)(j & k)]
3. Any income derived from house property held under trust or other legal obligation wholly used for religious or charitable purposes [Sixth Schedule, Part A, Para 1(1)]
4. Any income derived from any building, not less than five storied, having at least ten flats, constructed at any time between July 01, 2009 to June 30, 2014 (both days inclusive), for ten years from the date of completion of construction of the building, if it is situated in any area of Bangladesh other than the areas of City Corporation, Cantonment Board, Tongi Upazila, Narayanganj Paurashaba, Gazipur Pourashava and any Pourashaba under Dhaka district [Sixth Schedule, Part A, Para 38]
5. Any income derived from any building which is situated in a land used for agricultural purpose, e.g. used by the cultivator/farmer as the dwelling or store house or other-out house by reason of his connection with such land [Section 2(1)(b)]

8.7 ANNUAL VALUE

Annual value of the house refers to the gross rental income from the house property in a particular income year. For assessment purpose, annual value is the higher of actual rental value and the municipal value of the house property. According to Section 2(3)(a) of the ITO, 1984 'annual value' shall be deemed to be in relation to any property let out –

(i) the sum for which property might reasonably be expected to let from year to year and any amount received by letting out furniture, fixture, fittings etc.; or

(ii) where the annual rent in respect thereof is in excess of the sum referred to in paragraph (i), the amount of the annual rent.

Suppose, Mr. Zia is the owner of a house which he let out at a monthly rent of Tk. 9,500. Municipal value of the house is Tk. 120,000. Here annual value of the house is –

Actual Rental Value (9,500 × 12)	Tk. 114,000	Higher one →	Annual Value Tk. 120,000
Municipal Value	Tk. 120,000		

So 'Actual Rental Value' and 'Municipal Value' are the most significant factors in computation of annual value. Municipal value is the value specified by the municipal authority and the actual rental value is the amount received from the tenant(s) as rent of the house property. But actual rental value may not always be equal to the actual rental amount received by the assessee from the house property rather it will depend on the following two situations:

SELF REVIEW 8 – 1

Mr. Akmal is the owner of a house which he let out at a monthly rent of Tk. 10,000. Calculate the annual value when municipal value of the house is –

(a) Tk. 135,000

(b) Tk. 110,000.

8.7.1 Situation – 1:

If the tenant bears any owner's expenses: If the tenant bears any expense which is supposed to be borne by the owner like repair and maintenance of the house, actual rental value will be increased by the same amount because the owner indirectly receives such extra benefit from the tenants.

Suppose, Mr. Zia is the owner of a house which he let out at a monthly rent of Tk. 9,500. Municipal value of the house is Tk. 120,000. As per the agreement, the tenant will bear all city corporation taxes relating to the house property, which amounted to Tk. 8,000 for the year. Here annual value of the house is –

Actual Rental Value: Rent received (9,500 × 12)	Tk. 114,000	Higher one
Add. Owner's expense paid by tenant	8,000	
Actual Rental Value	Tk. 122,000	Annual Value
Municipal Value	Tk. 120,000	Tk. 122,000

8.7.2 Situation – 2:

If the owner bears any tenant's expenses: If the owner of the house bears any expense which is supposed to be borne by the tenant like water and gas bill, actual rental value will be decreased by the same amount because the owner indirectly provides such extra benefit to the tenant(s) out of the amount received from them as rent.

Suppose, Mr. Zia is the owner of a house which he let out at a monthly rent of Tk. 9,500. Municipal value of the house is Tk. 120,000. As per the agreement, the owner will pay water and gas bill of the tenant, which amounted to Tk. 10,000 for the year. Here annual value of the house is –

Actual Rental Value: Rent received (9,500 × 12)	Tk. 114,000	Higher one
Less. Tenant's expense paid by owner	10,000	
Actual Rental Value	Tk. 104,000	Annual Value
Municipal Value	Tk. 120,000	Tk. 120,000

SELF REVIEW 8 – 2

Mr. Akmal is the owner of a house which he let out at a monthly rent of Tk. 10,000. Calculate the actual rental value of the house if as per agreement –

(a) the tenant paid municipal tax of Tk. 5,000

(b) the owner paid gas and water bill of the tenant Tk. 6,000.

8.8 RENTAL STATUS OF THE HOUSE PROPERTY

Actual assessment of income from this head is based on rental status of house property. Rental status house property can be classified as:

1. Fully let out house property
2. Partly let out house property
3. Fully occupied house property by the owner

8.8.1 Fully let out house property:

Annual value in such a case refers to all reasonable income (municipal value) generated from the whole house property or the actual annual rental income from the same property if reasonable income is less than actual rental income [Section: 2(3)(a)].

Suppose Mr. D is the owner of a house which he let out at a monthly rent of Tk. 8,500. Annual municipal value of the house is Tk. 96,000. Here, annual value of the house is:

Actual Rental Value (8,500 × 12)	Tk. 102,000	Higher one →	Annual Value Tk. 102,000
Municipal Value	Tk. 96,000		

8.8.2 Partly let out house property:

When a part of the house is used by the owner for his own purpose and the other part is let out then only income from the let out part is needed to be assessed. Annual value in such a case refers to all reasonable income (municipal value) generated from the let out part of the house property or the actual annual rental income from the let out part of the same property if reasonable income is less than actual rental income. Here it is to be noted that, all admissible expenses against this income should also be considered proportionately for the let out part.

Suppose Mr. Rafi is the owner of a three-storied building at Banani. He resides in the first floor and let out all other floors at a monthly annual rent of Tk. 15,000 per floor. Annual municipal value of the house is Tk. 600,000. Here, annual value of the house is:

Actual Rental Value (15,000 × 12 × 2)	Tk. 360,000	Higher one →	Annual Value Tk. 400,000
Municipal Value (600,000 × 2/3)	Tk. 400,000		

8.8.3 Fully occupied house property by the owner:

Annual value in such a case is not needed not to be computed and considered as non-assessable income according to the Income Tax Ordinance, 1984.

SELF REVIEW 8 – 3

Mr. Akmal is the owner of a house; municipal value of which is Tk. 135,000. He can let the house out at a monthly rent of Tk. 10,000. Calculate the annual value when – **(a)** the house was fully let out **(b)** half of the house was let out and **(c)** the house was fully occupied by the owner

8.9 ADMISSIBLE EXPENSES OF HOUSE PROPERTY [SECTION: 25]

Following expenses are allowed to be deducted from the annual value of the house property to calculate income from this head:

8.9.1. Land development tax or rent: Any sum payable to government as land development tax or rent on account of the land comprised in the property [Section 25(1)(a)].

8.9.2. Insurance premium: The amount of any premium paid to insure the property against risk of damage or destruction [Section 25(1)(b)].

8.9.3. Interest on mortgage loan: Where the property is subject to mortgage or other capital charge for the purpose of extension or reconstruction or improvement, the amount of any interest payable on such mortgage or charge [Section 25(1)(d)].

8.9.4. Annual tax: Where the property is subject to an annual charge (includes any tax leviable in respect of property or income from property, by local authority or government but does not include the tax leviable under this Ordinance) not being a capital charge [Section 25(1)(e)].

8.9.5. Ground rent: When the assessee is the lessee of the land on which the building is erected, he/she may need to pay ground rent in respect of the land. Where the property is subject to a ground rent, the amount of such rent is an admissible expense as per section 25(1)(f).

8.9.6. Interest on borrowed capital: Where the property has been acquired, constructed, repaired, renewed or reconstructed with borrowed capital from bank or financial institution, the amount of any interest payable on such capital is an admissible expense as per section 25(1)(g). [*Note: If the loan is taken from sources other than bank or financial institution, interest on loan will not be admissible*]

8.9.7. Interest on borrowing during construction: Where the property has been constructed with borrowed capital from bank or financial institution, and no income under section 24 was earned from that property during the period of such construction, the interest payable during that period on such capital can be adjusted against income generated from the property after construction, in three equal proportionate installments for subsequent first three years as per section 25(1)(gg).

8.9.8. Vacancy allowance: When the property was vacant during a part of the year, a sum equal to such portion of the annual value of the property is admissible as vacancy allowance as per section 25(1)(j) and section 25(1)(k).

8.9.9. Uncollectible rent: When the owner fails to collect rent from any tenants even after taking necessary action, he/she is suppose to adjust such amount of uncollectible rent with the annual value of the property, provided that he/she has to provide supporting documents in relation to such uncollectible rent subject to the fulfillment of the following conditions:

(a) That the house was legally let out.

(b) That the tenant has been vacated from the house through proper action.

(c) That no other house of the same owner was in possession of the same tenant during period of rent defaulted.

(d) That proper legal action was taken to recover the outstanding rent.

8.9.10. Repair and maintenance: Expenditure for repairs, collection of rent, water, sewerage and electricity, salary of darwan, security guard, pump-man, lift-man and caretaker and all other expenditure related to maintenance and provision of basic services, admissible limit is as follows as per section 25(1)(h):

(i) an amount equal to **one-fourth (25%)** of the annual value of the property if the property is let out for residential purpose

(ii) an amount equal to **thirty per cent (30%)** of the annual value of the property where the property is let out for commercial purpose

Here, it should be remembered that, if the actual repair and maintenance amount is less than the allowable amount, the unspent amount would have to be shown as income under the same head.

Example – 1: Suppose, Mr. Adib is the owner of two houses: one at Dhaka and another at Khulna. He has let out both the houses at an annual rental amount of Tk. 580,000 and Tk. 600,000 respectively. Municipal values of these houses are Tk. 600,000 and Tk. 575,000 respectively. House at Dhaka was let out for residential purposes whereas house at Khulna for commercial purpose. Here, admissible repair and maintenance expense is:

House at:	**Dhaka**	**Khulna**
Actual Rental Value	Tk. 580,000	Tk. 600,000
Municipal Value	600,000	575,000
Annual Value (higher one)	600,000	600,000
Admissible expenses:		
Repair and maintenance		
[Dhaka: 6,00,000 X ¼]; [Khulna: 6,00,000 X 30%]	150,000	180,000

Example – 2: Suppose, Mr. Adib is the owner of a house in Dhaka. He has let out the full house @ Tk. 100,000 per month for commercial purpose and the municipal value of the house is Tk. 1,300,000. What will be the amount of admissible repair and maintenance expense under following independent cases?

(a) Actual amount spent as repair and maintenance Tk. 400,000

(b) Actual amount spent as repair and maintenance Tk. 350,000

Solution:

Annual value: Higher of actual rental value Tk. 12,00,000 or municipal value Tk. 13,00,000 i.e. **Tk. 13,00,000.** Since the house has been let out for commercial purpose, allowable repair and maintenance expense as per section 25(1)(h) is 30% of annual value i.e. **Tk. 390,000.** Since section 19(30) has specified to show any unspent amount of such deducted amount as income under this head, it is logical that if the actual repair and maintenance expense amount is less than the allowed figure, **actual amount** should be deducted as repair and maintenance amount. If the allowable amount is deducted, then unspent amount (Allowable repair and maintenance amount – Actual repair and maintenance expense) should be shown as income under this head.

SELF REVIEW 8 – 4

Mr. Akmal owns a house, municipal value of which is Tk. 135,000. He has let the house out @ Tk. 10,000 per month and spent Tk. 45,000 as repair and maintenance expense. The house remains vacant for 2 months during the year. Calculate repair & maintenance and vacancy allowance if the house was let out for **(a)** residential **(b)** commercial purpose.

8.10 TAX DEDUCTION AT SOURCE FROM HOUSE PROPERTY

Where the tenant in respect of a house property is the government or any authority (corporation formed under any Act or Ordinance), shall deduct tax as advance tax from the rental amount @ 5%. But such amount of tax is subject to refund if income of the owner is not liable to pay tax or if amount of advance tax is more than the owner's total tax liability. No such deduction is required when the owner holds certificate stating that there is no assessable income against this assessee. According to Section 53A of the ITO, 1984 –

1. Where, the Government or any authority, corporation or body, including its units, the activities or the principal activities of which are authorized by any Act, Ordinance, order or instrument having the force of law in Bangladesh or any company as defined in clause (20) of Section 2, or any banking company or any co-operative bank established by or under any law for the time being in force or any non-governmental organization run or supported by any foreign donation or assistance or any university or medical college or dental college or engineering college or any college or school, or hospital or clinic or diagnostic centre is a tenant in respect of a house property, the tenant shall deduct from the house rent paid or payable as advance tax at the rate of 5%.

> **Explanation** – For the purpose of this section, "house rent" means any payment, by whatever name called, under any lease, tenancy or any other agreement or arrangement for the use of any building including any furniture, fittings and the appurtenant land.

2. Where, after the assessment made for the relevant year, it is found that no tax was payable by the owner of the house property or the amount of tax deducted is in excess of the amount payable, the amount deducted shall be refunded, -
   - **(a)** if no tax was payable, in full, or
   - **(b)** if the amount deducted is in excess of the amount payable, to the extent of the excess deduction to the owner of the house property.
3. Where the DCT, gives a certificate in the prescribed form to an owner of house property that, to the best of his belief, the owner is not likely to have any assessable income during the year or the income is otherwise exempted from payment of income tax under any provisions of this Ordinance, payment referred to in sub-section (1) shall be made without any deduction until the certificate is cancelled.

8.10.1 Computation of TDS from house property –

According to Section 53A of the ITO, 1984, every person mentioned in that section who is responsible for making any payment to the owner of a house property on account of house rent shall deduct an amount calculated on such payment at the rate of 5%. Here rent received is the amount after TDS. The amount of TDS can be computed as:

$$\boxed{\text{TDS} = \text{Rent Received} \times [\text{TDS Rate} \div (100 - \text{Rate of Tax Deducted at Source})]}$$

Suppose, Mr. Zia is the owner of a house which he let out at a gross monthly rent of Tk. 25,000 to a government authority. The government authority deducts tax at source at prescribed rate (5%) before paying the rent to him and Municipal value of the house is Tk. 290,000. Here annual value of the house will be calculated as follows:

Actual Rental Value: Rent received (23,750 × 12)	Tk. 285,000	Higher one
Add. TDS [285,000 × {5 ÷ (100 – 5)}]	15,000	
Actual Rental Value	Tk. 300,000	Annual Value
Municipal Value	Tk. 290,000	Tk. 300,000

SELF REVIEW 8 – 5

Mr. Miraj is the owner of a house which he let out at a gross monthly rent of Tk. 45,000 to a government authority. The government authority deducts tax at source at prescribed rate (5%) before paying the rent to him and Municipal value of the house is Tk. 500,000. Calculate the annual value of the house assuming that the tenant deducts tax at source at prescribed rate.

8.11 MAINTENANCE OF ACCOUNT IN A BANK BY THE OWNER OF HOUSE PROPERTY [IT RULE 8A, Income tax Circular No. 2 (IT)/2014 dated July 22, 2014 & SRO 216/AIN/IT/2014 dated 18/08/2014]]

Subject to the provisions of sub-rules (2) and (3), where any person having ownership or possession of any property, whether used for commercial or residential purposes, receives any sum or aggregate of sums exceeding **Tk. 25,000/-** (twenty five thousand) per month in respect of any rent of such house property or its unit, such person shall maintain a bank account in any scheduled bank for the purpose of depositing rent of the house property or its unit and deposit such rent or any advance received or receivable from such house property or its unit in such bank account. Where the person having ownership or possession mentioned in sub-rule (1) has one or more tenants and receives the sum or aggregate of sums exceeding taka 25,000/- (twenty five thousand) per month, he may maintain a separate register and record regarding particulars of the tenant or tenants and the sum or sums received.

Nothing contained in this rule shall prevent such person from recording any other particular in the register as specified in sub-rule (2). **Penalty for Non-compliance of this provision by the house owner (individual, firm, company or any other organization):** Higher of ***50% of income tax payable amount for house property income*** or ***Tk. 5,000.*** Before imposition of penalty, the assessee must be sent a notice under section 130 for hearing. If any assessee (individual, firm, company etc.) has income from business and profession, he has to pay the rent of the house/office/ shop that is used for his business / profession through bank. Otherwise, such rent payment will not be considered as admissible expenses rather will be considered as income and income tax will be applicable on such income. This provision has been taken into effect from July 01, 2014.

8.11.1Duties / Responsibilities to be performed by the house owners / tenants for house rent related issues:

(i) If the aggregate monthly house rent amount from one or more tenants exceeds Tk. 25,000, the assessee, being the owner or beneficiary of the house, shall maintain a bank account in any scheduled bank for the purpose of depositing rent of the house property;

(ii) Such bank account may also be used to deposit other incomes of the assessee in addition to house rent or advance rent;

(iii) The assessee may maintain a separate register for his convenience in records, where the monthly rent amount exceeds Tk. 25,000;

(iv) The register shall contain details and particulars of the tenants' i.e. name, address, date of rent payment, house rent amount received etc.;

(v) The assessee must notify the concerned DCT regarding the bank account details where house rent amount is deposited and the statement of such bank account must be submitted with income tax return;

(vi) In case of multiple owners of a house, bank account maintenance provision will be applicable to those owners whose proportional house property income exceeds Tk. 25,000 per month;

(vii) Tenants may pay house rent to the landlord through crossed cheque or may deposit the rent directly to the landlord's bank account. If any tenant pays the rent in cash, the landlord will deposit that amount to his bank account;

(viii) The assessee may also open and maintain a separate bank account in this regard; and

(ix) If any house owner stays in abroad and gives power of attorney to any person for the rent collection and maintenance of the house, the person having the power of attorney will be responsible to maintain the bank account.

Example – 1: Mr. Amit Hasan lives in his 6 storied paternal house at Dhanmondi R/A. There are 10 flats in the house and the ownership of the house belongs to four successors of his deceased father (Mr. Hasan himself, his mother and two sisters) by way of inheritance. Mr. Amit owns four flats of which one is used by him as his own residence and rest of the three flats are let out at a monthly rent of Tk. 25,000 per flat. His mother, who owns two flats, lives with his son Mr. Amit Hasan and her flats are also let out @ Tk. 25,000 per flat. His sisters own two flats each, which are also let out @ Tk. 25,000 per flat. Moreover, Mr. Amit has taken the possession of a flat from a Real Estate Developer at Gulshan and the registration process has not yet been completed. The flat is also let out @ Tk. 40,000 per month. He also owns two shops in Newmarket of which one is used by him for his own business and another one is let out @ Tk. 10,000 per flat. Now, on whom the requirement of a bank account will be applicable? Here,

Sl.	Particulars of House Rent	Monthly Rent Collection		
		Mr. Amit	Amit's Mother	Sisters (each)
1	Rent of Flats at Dhanmondi	Tk. 75,000	Tk. 50,000	Tk. 50,000
2	Rent of Flats at Gulshan	Tk. 40,000	-	-
3	Rent of Shop at Newmarket	Tk. 10,000	-	-
	Total monthly rent	**Tk. 125,000**	**Tk. 50,000**	**Tk. 50,000**

As monthly rent exceeds Tk. 25,000, all of them have to operate bank accounts to deposit house rent. They also have to maintain a separate register to record the relevant details of the tenants and rent collection. The tenants may (1) pay the rent through crossed cheques, (2) deposit the rent to landlord's bank account directly, or (3) pay rent in cash which will be later deposited by the landlord to the respective bank account.

Example – 2: Mr. Sagar has let out a flat in Arambag to university students. There are four rooms in the flat and in each room four students live. Each student pays Tk. 2,500 rent per month. Moreover, he has four small rooms under his possession in Mirpur from which he gets Tk. 3,000 as rent for each room. Now, will the requirement of a bank account be applicable for Mr. Sagar?

Sl.	Details of house rent	Monthly rent collection
1.	Rent from Arambag house (4 × 4 × Tk. 2,500)	Tk. 40,000
2.	Rent from Mirpur house (Tk. 3,000 × 4)	Tk. 12,000
	Total	**Tk. 52,000**

Although Mr. Sagar receives less than Tk. 25,000 from each of the tenants, he has to maintain bank account as total monthly rent exceeds Tk. 25,000.

Example – 3: Prime Bank, Mirpur Branch, is situated at a rented house. The monthly house rent is Tk. 30,000 and after deducting 5% TDS as per the law, the bank pays Tk. 28,500 as house rent. The ownership of the house belongs to four successors (2 sons and 2 daughters) of their deceased father Mr. Hasan. The successors divide the monthly house rent on the basis of the Muslim Shariah Law and in this way each son and daughter gets Tk. 9,500 and Tk. 4,750 respectively per month from the rent. Now, will the requirement of a bank account be applicable for them?

As each of them receives less than Tk. 25,000 as monthly house rent, the requirement of bank account will not be applicable for them. But if any of them owns some other houses and aggregate monthly rent exceeds Tk. 25,000 per month, the bank account maintenance will be mandatory.

Example – 4: Mr. Ahsan has been paying income taxes for last 20 years. Income from house property is one of his sources of income. In the assessment year 2015-16, he has shown house rent of Tk. 30,000 per month from a flat owned by him. After the imposition of new provisions, he has revised the deed with his tenant and received the house rent Tk. 20,000 in cash and Tk. 10,000 in cheque.

In the assessment year 2017-18, if he submits the income tax return with the bank statement showing Tk. 10,000 as monthly house rent and later during assessment period if it is found that he has shown Tk. 30,000 as monthly house rent in the assessment year 2015-16, the DCT may determine the monthly rent as Tk. 30,000 or any other reasonable value on the basis of Section 2(3) for the assessment purpose. Mr. Ahsan will have to pay income taxes on the basis of revised assessment done by the DCT and the DCT will also impose a penalty for non-compliance of Rule 8A under Section 123(2). The penalty amount will be higher of 50% of income tax payable amount for house property income or Tk. 5,000.

Moreover, it is to be provided that if any house owner shows less house rent income despite having more than Tk. 25,000 monthly house rent income, tax will be further determined under Section 93 of the ITO, 1984 (Assessment in case of income escaping assessment, etc.) and he will be fined under both section 128(Penalty for concealment of income) and section 123(2).

Example – 5: Mr. Hossain was the owner of a five storied house having ten flats. After his death, he left six successors (wife, three sons and two daughters). Five flats are occupied by the owners as their residence and rest of the flats are let out at a monthly rent of Tk. 20,000 per flat.

Under such circumstances, bank account maintenance is not mandatory as none of the owner's monthly house rent exceeds Tk. 25,000.

Example – 6: Mr. Zakir, a non resident Bangladeshi, lives in Canada. He owns a five storied building (total 10 flats) in Mirpur. He has given the power of attorney to his brother Mr. Azad for the maintenance and rent collection of the house.

Under such circumstances, on behalf of Mr. Zakir, Mr. Azad will have to operate a bank account to deposit the house rent amount. The bank statement of the account maintained by Mr. Azad will have to be submitted with the income tax return of Mr. Zakir as proof of house rent income.

Example – 7: Mr. Anis hasn't maintained any bank account to deposit house rent. In the assessment year 2016-17, he has shown total income of Tk. 14,50,000 (business income Tk. 500,000; house property income Tk. 600,000 and income from other sources Tk. 350,000). What amount of fine will be imposed on him under section 123(2) for not maintaining the bank account to deposit the house rent income? Here, his tax liability is Tk. 197,500 as shown below:

Calculation of Tax liability:

		Rate	Tk.
On the first	Tk. 250,000	0%	Nil
On the next	400,000	10%	40,000
On the next	500,000	15%	75,000
On the next	300,000	20%	60,000
Total	**14,50,000**		**175,000**
Less: investment tax credit*			nil
Net tax liability			175,000

* assuming he has no investment allowance.

Fine to be imposed for not maintaining the bank account to deposit the house rent income:

Income tax payable on house property income = (175,000 ÷ 14,50,000) × 600,000 = Tk. 72,414

Under Section 123(2), the penalty amount will be higher of 50% of income tax payable amount for house property income (i.e. 50% of Tk. 72,414) = Tk. 36,207 or Tk. 5,000. So, the penalty amount will be Tk. 36,207.

In this regard, total payable amount of Mr. Anis will be (Tk. 175,000 + Tk. 36,207) = Tk. 211, 207. If any interest or surcharge is applicable on it under section 73, it will also be imposed accordingly.

Example – 8: Mrs. Haque has income from business and profession. She has claimed Tk. 60,000 (monthly Tk. 5,000) as admissible expense for house rent. As per Rule 8A, if such amount is not paid through crossed cheque or bank transfer, it will not be considered as admissible expense rather will be considered as income from business and income tax will be applicable on such income.

SPECIMEN FORM OF COMPUTATION OF "INCOME FROM HOUSE PROPERTY"

Assessee:

Assessment year: 2017 – 2018; Income year: 2016 – 2017

Computation of total income

Income from House Property (Section 24 – 25):	**Tk.**	**Tk.**
Actual rental value	XX	
Add: Owner's expenses paid by the tenant	XX	
TDS (If deducted from income from house property)	XX	
Less: Tenant's expenses paid by the owner	(XX)	
Actual rental value	XX	
Municipal Value	XX	
Annual Value: Higher of actual rental value and municipal value		XX
Receipt of Advance u/s 19(22)*		XX
Unspent amount of allowable repair and maintenance expense**		XX
Less: admissible expenses:		XX
1. Land development tax	XX	
2. Insurance Premium	XX	
3. Interest on Mortgage Loan	XX	
4. Annual tax [Municipal or local authority tax]	XX	
5. Interest on Borrowed Capital	XX	
6. Ground Rent	XX	
7. Repair & Maintenance Expenses [Collection charge, sewerage bill, salary of guard, liftmen, caretaker] [*Admissible limit*: Resident house: 25% & Commercial house: 30%]	XX	
8. Vacancy Allowance		
9. Uncollectible Rent	XX	
10. Refund of Advance	XX	
	XX	XX
Total Income		XX

Full amount of Advance receipts may be shown as income in the income year when it is received or at the option of the assessee it may be equally allocated to the year of receipt and four years next following.

If actual repair and maintenance expense amount is less than the allowable repair and maintenance expense, the unspent amount is to be considered as income here.

Illustration 8 – 1:

Mr. Jashim is an assistant professor of a private college. He is the owner of a house at Mirpur, which has been let out for residential purpose at Tk. 19,000 per month. The municipal value of the house is Tk. 240,000 annually.

Expenses that were incurred in the income year 2016 – 2017 for that house includes: Repair expense Tk. 65,000; City Corporation tax Tk. 7,000; Rent collection expenses Tk. 12,000; Fire insurance premium Tk. 750 per quarter; and Interest on borrowed fund Tk. 2,500.

Compute income from house property for the income year 2016-17.

Solution 8 – 1:

Mr Jashim

Income year: 2016 – 2017

Assessment year: 2017 – 2018

Calculation of Total Income

Income from House Property (Section – 24):	**Tk.**	**Tk.**
Actual rental value (19,000 X 12)	228,000	
Municipal Value	240,000	
Annual Value (higher one)		240,000
Less: Admissible expenses –		
Repair and Maintenance (240,000 X 25%)	60,000	
City corporation Tax	7,000	
Fire Insurance premium (750 X 4)	3,000	
Interest on borrowed fund	2,500	72,500
Total		**167,500**

Notes:

(1) The house is for residential purpose and so repair and maintenance expense is considered as 25% of the annual value. Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount as per S19(30).

(2) Annual expenses should be deducted from the annual value of the house. So fire insurance premium converted to annual figure by multiplying 4 with quarterly premium.

Illustration 8 – 2:

Mr. Jaman has a house at Mohakhali C/A with an area of 4,800 square feet. He let out this house to a computer firm at an annual rent of Tk. 600,000. The municipal value per square feet at Mohakhali C/A is Tk. 120.

Expenses that were incurred during the income year includes:

(a) Repair expense Tk. 190,000;
(b) City Corporation tax Tk. 15,000;
(c) Fire insurance premium Tk. 9,000;
(d) Night guard's salary Tk. 7,000; and
(e) Installation of electricity line Tk. 25,000.

During the year Mr. Jaman paid installment of loan to HBFC Tk. 67,500 (principal amount is Tk. 64,000). According to the agreement the owner bears the water and gas bill of the tenant which amounted to Tk. 20,000 for the year.

Compute income from house property for the income year ended 30th June 2017.

Solution 8 – 2:

Mr. Jaman
Income year: 2016 – 2017
Assessment year: 2017 – 2018
Calculation of Total Income

	Tk.	Tk.
Income from House Property (Section – 24):		
Rental value	600,000	
Less: Tenants expenses paid by owner	20,000	
Actual Rental value	580,000	
Municipal Value (4,800 × 120)	576,000	
Annual Value (higher one)		580,000
Less: Admissible expenses:		
Repair & Maintenance (580,000 × 30%)	174,000	
City corporation tax	15,000	
Fire insurance premium	9,000	
Interest on borrowed Fund	3,500	201,500
Total Income		**378,500**

Notes:

(1) Since the house is let out for commercial purpose, repair and maintenance expense is considered as 30% of the annual value. Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount as per S19(30).

(2) Installation of electricity line is a capital expenditure, so this is not admissible.

Illustration 8 – 3:

Mr. Adib is the owner of three houses at Dhanmondi, Dhaka; Agrabad, Chittagong; and Thakurpara, Comilla. Details of these houses are given below:

Details	Dhanmondi	Agrabad	Thakurpara
Number of storied	3	1	2
Number of flats in each floor	2	1	4
Rental status	Fully let out	Occupied by the owner	Partly let out
Municipal value (annual)	Tk. 900,000	Tk. 120,000	Tk. 700,000
Rental value (each flat per month)	12,000	-	7,000
Expenses incurred:			
Repair and maintenance	240,000	25,000	165,000
Insurance premium (quarterly)	2,000		1,500
Salary of guard	15,000	5,000	7,000
Ground rent	2,000	3,000	-
Local government tax (per month)	1,200	600	500
Interest on borrowed fund	5,000	-	4,000

In Dhanmondi, Dhaka one flat remain vacant for two months period and in Thakurpara, Comilla two flats are occupied by his sons who are fully dependent on him. House at Dhanmondi has been let out for residential purpose while house at Thakurpara has been let out to a commercial firm.

Compute Mr. Adib's income from house property for the income year ended 30th June 2017.

Solution 8 – 3:

Mr. Abid
Income year: 2016 – 2017
Assessment year: 2017 – 2018
Calculation of Total Income

	Tk.	Tk.	Tk.
Income from House property (Section – 24):			
House at Dhanmondi:			
Actual Rental value (12,000 × 12 × 6)	864,000		
Municipal Value	900,000		
Annual Value (higher one)		900,000	
Less: Admissible expenses:			
Repair & maintenance (900,000 × 25%)	225,000		
Fire Insurance Premium (2,000 × 4)	8,000		
Ground rent	2,000		
Local Govt. Tax (1,200 × 12)	14,400		
Interest on borrowed Fund	5,000		
Vacancy allowance [(900,000 ÷ 6) × 2/12]	25,000	279,400	620,600
House at Thakurpara:			
Actual rental Value (7,000 × 6 × 12)	504,000		
Municipal Value (700,000 × 6 ÷ 8)	525,000		
Annual value (higher one)		525,000	
Less: Admissible expenses:			
Repair & Maintenance (525,000 × 30%)	157,500		
Insurance premium [(1,500 × 4) × 6/8]	4,500		
Local govt. Tax [(500 × 12) × 6 ÷ 8]	4,500		
Interest on borrowed fund [4000 × 6 ÷ 8]	3,000	169,500	355,500
Total			**976,100**

Notes: (1) House at Agrabad is occupied by the owner, so it is fully exempted. **(2)** The flats occupied by the son are exempted as they are fully dependent to the owner. **(3)** Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount as per S19(30).

Illustration 8 – 4:

Mr. Arup is the owner of a four-storied building at Mohakhali. Mr. Arup resides with his family in the 2nd floor and all other floors (in each floor there are two flats) are let out for residential purpose at a monthly rent of Tk. 9,200 per flat. The municipal value of the house is Tk. 900,000.

Expenses that were incurred in the income year 2016 – 2017 for that house includes:

Repair expenses Tk. 170,000; City Corporation tax Tk. 22,000; Insurance premium Tk. 16,000 Caretaker and Night guard salary Tk. 24,000; Land revenue paid Tk. 2,000; Interest on Mortgage loan paid Tk. 4,000; Alteration cost for ground floor Tk. 30,000 and Installation of IPS Tk. 25,000 During the year one of the tenants in the ground floor left the house without paying rent for one month. Mr. Arup even after taking necessary legal action fails to collect this rent. Besides, the same flat was vacant for two months during the year.

Compute income from house property for the income year.

Solution 8 – 4:

Mr. Arup
Income year: 2016 – 2017; Assessment year: 2017 – 2018
Calculation of Total Income

Income from House property (Section - 24):	**Tk.**	**Tk.**
Actual rental value (9,200 × 12 × 6)	662,400	
Municipal value (9,00,000 × 6 ÷ 8)	675,000	
Annual value (higher one)		675,000
Less: Admissible expenses:		
Repair & maintenance (675,000 × 25%)	168,750	
City corporation tax (22,000 × 6 ÷ 8)	16,500	
Insurance premium (16,000 × 6 ÷ 8)	12,000	
Land revenue paid (2,000 × 6 ÷ 8)	1,500	
Mortgage interest paid (4,000 × 6 ÷ 8)	3,000	
Vacancy allowance (6,75,000 ÷ 6 × 2 ÷ 12)	18,750	
Uncollectible rent (6,75,000 ÷ 6 × 1 ÷ 12)	9,375	229,875
Total		**445,125**

Note: (1) Alteration cost for ground floor & installation of IPS are capital expenditure. **(2)** Since, actual spending for repair and collection expenses is more than the allowable limit, there is no unspent amount.

Illustration 8 – 5:

Mr. Abedin is the owner of a four-storied building at Mirpur. In the each floor of the building there are two flats. Mr. Abedin resides with his family in one flat of the 2nd floor and in another flat of the same floor is used as residence by his elder son who is fully dependent on him. All other flats were let out for residential purpose at a monthly rent of Tk. 10,000 per flat. During the year, the owner has borne the water and gas bill of a tenant amounted to Tk. 30,000 and one of the tenants has borne repair expense of Tk. 10,000. The municipal value of the house is Tk. 960,000. Advance received Tk. 100,000 during the year and refund of advance was Tk. 40,000. Expenses related to the property for the year were: Repair expenses Tk. 190,000; City Corporation tax Tk. 22,000; Insurance premium Tk. 16,000; Caretaker and Night guard salary Tk. 24,000; Painting cost of the building Tk. 15,000; Land revenue paid Tk. 2,000; Mortgage interest paid Tk. 4,000; Legal expense Tk. 6,000; Alteration cost for ground floor Tk. 30,000; Installation of generator Tk. 50,000; and Fuel cost of generator Tk. 20,000. During the year one of the tenants in the ground floor left the house without paying rent for one month. Mr. Abedin even after taking necessary legal action fails to collect this rent. Besides that the same flat was vacant for two months during the year. Compute income from house property for the income year ended 30th June 2017.

Solution 8 – 5:

Mr. Abedin
Income year: 2016 – 2017; Assessment year: 2017 – 2018
Calculation of Total Income

Income from House property (Section - 24):	**Tk.**	**Tk.**
Annual Value:		
Rent received (10,000 × 6 × 12)	720,000	
Add: Owner's exp. paid by tenant	10,000	
	730,000	
Less: Tenant's exp. paid by owner	30,000	

Actual rental value	700,000	
Municipal value (9,60,000 × 6 ÷ 8)	720,000	
Annual value (higher one)		720,000
Advance Received		100,000
Less: Admissible expenses:		820,000
Repair & maintenance (720,000 × 25%)	180,000	
City corporation tax (22,000 × 6 ÷ 8)	16,500	
Insurance premium (16,000 × 6 ÷ 8)	12,000	
Land revenue paid (2,000 × 6 ÷ 8)	1,500	
Mortgage interest paid (4,000 × 6 ÷ 8)	3,000	
Uncollectible rent [(7,20,000 ÷ 6) × 1/ 12]	10,000	
Vacancy all. [(7,20,000 ÷ 6) × 2/ 12]	20,000	
Refund of advance	40,000	283,000
Total		**537,000**

Note: Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount as per Section 19(30).

Illustration 8 – 6:

Mr. Jalal Ahmed is the owner of a two-storied building at Gulshan. Mr. Ahmed resides with his family in one floor and another floor has been let out to a government authority at a monthly rent of Tk. 30,000. The government authority deducts tax at source at prescribed rate (5%) before paying the rent to him. The municipal value of the house is Tk. 725,000. Expenses incurred for that house during the year were: Repair expenses Tk. 110,000; City Corporation tax Tk. 22,000; Insurance premium Tk. 16,000; Caretaker and Night guard salary Tk. 24,000; Purchase of diesel for generator Tk. 12,000; Legal expense Tk. 10,000; Land revenue paid Tk. 2,000; Interest paid to HBFC Tk. 6,000; and Alteration cost for ground floor Tk. 30,000. Besides, the let out floor was vacant for two months during the year. Compute income from house property for the year ended 30.06.17.

Solution 8 – 6:

Mr. Jalal Ahmed

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from House property (Section – 24):	**Tk.**	**Tk.**
Rental value (28,500 × 12)	342,000	
Add: TDS [3,42,000 × 5 ÷ (100 – 5)]	18,000	
Actual rental value	360,000	
Municipal value (7,25,000 × 1 ÷ 2)	362,500	
Annual value (higher one)		362,500
Less: Admissible expenses:		
Repair & maintenance (362,500 × 30%)	108,750	
City corporation tax (22,000 × 1 ÷ 2)	11,000	
Insurance premium (16,000 × 1 ÷ 2)	8,000	
Land revenue paid (2,000 × 1 ÷ 2)	1,000	
Interest paid to HBFC (6,000 × 1 ÷ 2)	3,000	
Vacancy allowance (362,500 × 2 ÷ 12)	60,417	192,167
Total		**170,333**

Note: **(1)** Legal expense is not an admissible expense. **(2)** Diesel cost is a part of repair and maintenance. **(3)** Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount as per S19(30).

Illustration 8 – 7:
Mr. Aziz Ahmed is the owner of a two-storied building at Gulshan. Mr. Ahmed let out one floor for residential purpose at a monthly rent of Tk. 25,000 and another floor has been let out to a government authority at a monthly rent of Tk. 30,000. The government authority deducts tax at source at prescribed rate (5%) before paying the rent to him. The municipal value of the house is Tk. 650,000.

Expenses incurred for that house during the year were:

- **(a)** Repair expenses Tk. 100,000;
- **(b)** City Corporation tax Tk. 22,000;
- **(c)** Insurance premium Tk. 16,000;
- **(d)** Legal expense Tk. 10,000;
- **(e)** Land revenue paid Tk. 2,000; and
- **(f)** Interest paid to HBFC Tk. 6,000; Besides, the let out floor, that has been let out for residential purpose, was vacant for two months during the year.

Compute income from house property for the year ended 30.06.17.

Solution 8 – 7:

Mr. Aziz Ahmed
Income year: 2016 – 2017; Assessment year: 2017 – 2018
Calculation of Total Income

Income from House property (Section – 24):	**Tk.**	**Tk.**
Rental value:		
Residential (25,000 × 12)	300,000	
Commercial (28,500 × 12)	342,000	
Add: TDS [3,42,000 × 5 ÷ (100 – 5)]	18,000	
Actual rental value	660,000	
Municipal value	650,000	
Annual value (higher one)		660,000
Unspent repair expense (note – 1)		83,000
		743,000
Less: Admissible expenses:		
Repair & maintenance (note - 1)	183,000	
City corporation tax	22,000	
Insurance premium	16,000	
Land revenue paid	2,000	
Interest paid to HBFC	6,000	
Vacancy allowance (300,000 × 2 ÷ 12)	50,000	279,000
Total		**464,000**

Note: **(1)** Allowable repair and maintenance expense [(300,000 × 25%) + (360,000 × 30%)] = Tk.183,000. Actual repair and maintenance expense Tk. 100,000. Since, actual spending for repair expenses and collection expenses is less than the allowable limit, the unspent amount (Tk. 183,000 - Tk. 100,000) = Tk. 83,000 has to be considered as income as per Section 19(30). **(2)** Legal expense is not an admissible expense.

Illustration 8 – 8:

Mr. Arman has a two storied house at Gulshan. He lives in one floor and let out the other floor to a foreigner for residential purpose at a monthly rent of Tk. 80,000. The municipal value of the house is Tk. 2,000,000. Expenses incurred in the income year 2016 – 2017 for that house were:

- **(a)** Repair expense Tk. 300,000;
- **(b)** City Corporation tax Tk. 30,000;
- **(c)** Fire insurance premium Tk. 18,000;
- **(d)** Night guard's salary Tk. 30,000; and
- **(e)** Installation of electricity line Tk. 25,000.

During the year Mr. Arman paid installment of loan to HBFC Tk. 300,000 against a house building loan of Tk. 2,000,000 @ 6% interest. According to the agreement the owner bears the water and gas bill of the tenant which amounted to Tk. 50,000 for the year. Compute income from house property for the income year.

Solution 8 – 8:

Mr. Arman
Income year: 2016 – 2017
Assessment year: 2017 – 2018
Calculation of Total Income

	Tk.	Tk.
Income from House Property (Section – 24):		
Actual rental value:		
Rental value (80,000 × 12)	960,000	
Less: Tenants expenses paid by owner	50,000	
Actual Rental value	910,000	
Municipal Value (2,000,000 ÷ 2)	1,000,000	
Annual Value (higher one)		1,000,000
Less: Admissible expenses:		
Repair & Maintenance (1,000,000 × 25%)	250,000	
City corporation tax (30,000 ÷ 2)	15,000	
Fire insurance premium (18,000 ÷ 2)	9,000	
Int. on borrowed Fund (120,000 ÷ 2)	60,000	
		334,000
Total		**666,000**

Note:

1. **(1)** Since the house is let out for residential purpose, repair and maintenance expense is considered as 25% of the annual value. Here actual spending for such a purpose is not considerable.
2. **(2)** Installation of electricity line is a capital expenditure, so this is not admissible.
3. **(3)** Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount.

Illustration 8 – 9:

Mr. Taleb has a two storied building at Motijheel C/A. He has started the construction of the house on 1st July, 2014 and completed the construction on 30th June, 2016. After the construction, he let out the full building to a branch of Prime bank at a monthly rent of Tk. 200,000 effective from 1st July, 2016. He has also taken Tk. 2,000,000 as advance from Prime Bank. The municipal value of the house is Tk. 2,500,000.

Expenses incurred in the income year 2016 – 2017 for that house were:

(a) Repair expense Tk. 400,000;
(b) City Corporation tax Tk. 30,000;
(c) Fire insurance premium Tk. 18,000; and
(d) Installation of IPS Tk. 50,000.

Mr. Taleb borrowed Tk. 2,000,000 from Prime Bank Motijheel Branch @ 6% interest on 1st July, 2014. Per year installment of the loan is Tk. 300,000 (total interest expense during the construction period of 2 years Tk. 240,000; assuming simple interest).

Compute income from house property for the income year.

Solution 8 – 9:

Mr. Taleb
Income year: 2016 – 2017
Assessment year: 2017 – 2018
Calculation of Total Income

		Tk.	Tk.
Income from House Property (Section – 24):			
Actual rental value:			
Rental value (190,000 × 12)		2,280,000	
Add: TDS [2,280,000 × 5 ÷ (100 – 5)]		120,000	
Actual Rental value		2,400,000	
Municipal Value		2,500,000	
Annual Value (higher one)			2,500,000
Receipt of Advance [2,000,000 ÷ 5]			400,000
Unspent repair exp. u/s 19(30) [750,000 – 400,000]			350,000
			3,250,000
Less: Admissible expenses:			
	Repair & Maintenance (2,500,000 × 30%)	750,000	
	City corporation tax	30,000	
	Fire insurance premium	18,000	
	Int. on loan for construction period (240,000 ÷ 3)	80,000	
	Interest on loan for current income year	120,000	
			998,000
Total			**2,252,000**

Note:

(1) Since the house is let out for commercial purpose, repair and maintenance expense is considered as 30% of the annual value. Here actual spending for such a purpose is not considerable.
(2) 5% TDS is applicable as the building is let out to a commercial bank.
(3) Interest on loan during the construction period, is admissible in three equal proportionate installments for subsequent first three years as per section 25(1)(gg).
(4) Advance amount may be shown fully in the income year or may be allocated among 5 years at the option of the assessee.
(5) Installation of IPS is a capital expenditure, so this is not admissible.
(6) As the building is not self-occupied or partially occupied, any amount of interest expense is admissible.
(7) Since, actual spending for repair expenses and collection expenses is less than the allowable limit, the difference has been considered as income as per Section 19(30).

Illustration 8 – 10:
Mr. Atif Iqbal owns two houses one at Azimpur and another at Dhanmondi. From the following particulars compute his **(a)** income from house property for the income year 2016 – 2017 and **(b)** tax liability for the assessment year 2017 – 2018.

House at Azimpur:
This is a three storied building (in each floor there are two flats). One of the flats in first floor (flat no. 2A) is used as residence by Mr. Atif and the other flat (flat no. 2B) in the same floor is used by his son-in-law who pays nothing for it. All other flats were let out for residential purpose at a monthly rent of Tk. 8,000 each. The municipal value of the house is Tk. 480,000. He has also received Tk. 100,000 as advance from the tenants which is not adjustable to rents.

Expenses of the house for the year were:

(a) Repair expense Tk. 120,000;
(b) Rent collection expense Tk. 3,000;
(c) City corporation tax, quarterly Tk. 2,400;
(d) Land revenue paid Tk. 12,000;
(e) Salary of guard, monthly Tk. 500;
(f) Loan repayment to HBFC (including interest Tk. 4,200) Tk. 42,500; and
(g) Installation of generator Tk. 15,000.

The owner paid the water and gas bill of the tenants which amounted to Tk. 30,000 for the year. Flat no. 3B remains vacant for two months during the year. Moreover, he has refunded Tk. 25,000 advance to a tenant at the time of his departure.

House at Dhanmondi:
The house is let out to a private bank branch and received monthly rent of Tk. 47,500 net of TDS @ 5%. The municipal value of the house is Tk. 625,000. He has receipt advance of Tk. 1,000,000 in this regard which is not to be adjusted against rent.

Expenses of the house for the year were:

(a) Repair expense Tk. 200,000;
(b) Fire insurance premium Tk. 25,000;
(c) Municipal taxes Tk. 12,000;
(d) Cost of alteration Tk. 55,000;
(e) Ground rent Tk. 10,000 and
(f) Legal expenses Tk. 12,000.

According to the terms of the agreement the tenants are to bear the cost of repair which amounted to Tk. 15,000 for the year.

Investments and Expenses:
During the year, Mr. Iqbal incurred the investments and expenses as:

(i) Family expenses Tk. 350,000;
(ii) Insurance premium: Own (policy value Tk. 500,000) Tk. 40,000 and Spouse (policy value Tk. 500,000) Tk. 60,000;
(iii) Purchase of unlisted company's share Tk. 25,000;
(iv) Donation to the President's relief fund Tk. 20,000;
(v) Donation to a local club Tk. 6,000;
(vi) Donation to Government Zakat fund Tk. 30,000 and
(vii) Donation to a Mosque Tk. 10,000.

Solution 8 – 10:

Mr. Atif Iqbal
Income year: 2016 – 2017
Assessment year: 2017 – 2018
Calculation of income from house property

Income from house property (Section – 24):	**Tk.**	**Tk.**	**Tk.**
House at Azimpur:			
Actual rental value (8000 × 5 × 12)	480,000		
Less: Tenants expenses paid by owner	30,000		
Actual rental value		450,000	
Municipal Value (480,000 × 5 ÷ 6)		400,000	
Annual Value (higher one)		450,000	
Receipt of Advance		100,000	
		550,000	
Less: Admissible Expenses:			
Repair & maintenance (450,000 × 25%)	112,500		
City Corporation Tax (2400 × 4 × 5 ÷ 6)	8,000		
Land revenue paid (12000 × 5 ÷ 6)	10,000		
Interest paid to HBFC (4,200 × 5 ÷ 6)	3,500		
Vacancy allowance {(450,000 ÷ 5) × 2 ÷ 12)}	15,000		
Refund of advance	25,000	174,000	376,000
House at Dhanmondi:			
Rental value [Tk. 47,500 × 12]	570,000		
Add: TDS [570,000 × 5 ÷ (100 – 5)]	30,000		
Owner's expense paid by tenant	15,000		
Actual Rental Value		615,000	
Municipal value		625,000	
Annual Value (higher one)		625,000	
Receipt of Advance (1,000,000 ÷ 5)		200,000	
Less: Admissible Expenses:		825,000	
Repair & Maintenance (625,000 × 30%)	187,500		
Fire Insurance Premium	25,000		
Municipal Tax	12,000		
Ground rent	10,000	234,500	590,500
Total			**966,500**

Calculation of investment allowance for tax credit:

Allowable Investments	**Tk.**	**Tk.**
Insurance premium: Own	40,000	
Maximum limit (500,000 × 10%)	50,000	40,000
Spouse	60,000	
Maximum limit (500,000 × 10%)	50,000	50,000
Donation to president's relief fund		20,000
Donation to Government Zakat fund		30,000
Actual Investment		**140,000**

Maximum limit of investment: Lower of 25% of Total income i.e., Tk. 241,625 or Tk. 15,000,000	2,41,625
Investment tax credit (140,000 × 15%)	21,000

Calculation of Tax liability:

		Rate	Tk.
On the first	Tk. 250,000	0%	Nil
On the next	400,000	10%	40,000
On the next	316,500	15%	47,475
Total	**966,500**		87,475
Less: investment tax credit			21,000
			66,475
Less: TDS			30,000
Net tax liability			36,475

Notes: (1) As in the list of admissible expenses as per section 25, legal expense is not mentioned it has been ignored. **(2)** Advance amount may be shown fully in the income year or may be allocated among 5 years at the option of the assessee. **(3)** Since, actual spending for repair expenses and collection expenses is more than the allowable limit, there is no unspent amount as per S19(30).

KEY POINTS

1. Higher of Actual Rental Value (ARV) and Municipal Value (MV) will be considered as the Annual Value (AV) of the house property.
2. ARV is the amount received by the owner from the tenant(s) + owner's expenses paid by the tenant – tenant's expenses paid by the owner.
3. Any revenue generated from the adjacent premises of a building will also be considered as income from house property.
4. No assessment should be made on the property occupied by the owner (or his dependent like, spouse or son) for personal purpose.
5. To calculate income from house property admissible expenses are needed to be adjusted with AV of the property.
6. Repair and maintenance expenses, as an admissible expense, is considered as 25% of AV, when the property is let out for residential purpose and 30% of AV, when the property is let out for commercial purpose, irrespective of actual spending for such a purpose.
7. When the house remains vacant for a certain period, AV is calculated for the whole income year and subsequently proportionate amount of AV for the vacant period will be deducted from AV as admissible expense.
8. No capital nature expenditure is allowed as admissible expense.
9. Allowable deductions as per Section 25 of the ITO, 1984 are Repair and maintenance, Land development tax, Ground Rent, Annual local tax, Insurance premium, Interest on mortgage loan, Interest on borrowed fund, Vacancy allowance and Uncollectible rent.
10. When the tenant is the government or any authority (corporation), tax should be deducted at source by the tenant at the time of paying rent at a rate of 5%.

Multiple choice questions:

1. Annual value of a house property is the –
   (a) amount of actual rent received
   (b) higher of municipal value and actual rental value
   (c) lower of municipal value and actual rental value
   (d) amount of municipal value
2. When the house property is used fully for personal purpose, amount of income from house property will be –
   (a) the municipal value of the house
   (b) the fair market value of the house
   (c) Tk. 15,000 per month
   (d) Nil
3. When owner bears any tenant's expenses, it will –
   (a) reduce amount of rental value
   (b) reduce amount of municipal value
   (c) increase amount of rental value
   (d) increase amount of municipal value
4. Followings are the example of admissible expenses for Income from House Property, except –
   (a) loan installment
   (b) repair and maintenance expense
   (c) uncollectible rent
   (d) Municipal tax
5. When the house property is let out for commercial purpose, repair and maintenance expense is
   (a) 30% of the municipal value
   (b) 25% of the rental value
   (c) 25% of the annual value
   (d) 30% of the annual value
6. When the house property is used by son-in-law for free, amount of rental value is –
   (a) the municipal value
   (b) the fair market value
   (c) higher of municipal value and fair market value
   (d) none
7. Vacancy allowance is the amount equal to –
   (a) monthly rent multiplied by number of months the house remain vacant
   (b) proportionate rental value for the vacant month(s)
   (c) proportionate municipal value for the vacant month(s)
   (d) proportionate annual value for the vacant month(s)
8. Interest on borrowings during construction period is an admissible expense in the –
   (a) year when revenue is generated from the house property
   (b) subsequent year only
   (c) subsequent three years in equal amount
   (d) none of the above
9. When the house is let out to a foreign mission @ Tk. 100,000 per month, the rate of TDS is –
   (a) 3%
   (b) 5%
   (c) 7%
   (d) Nil

10. When the house is let out to a college @ Tk. 40,000 per month, the rate of tax deducted at source is –
    (a) 3%
    (b) 5%
    (c) 7%
    (d) none

Identify the following statements as True (T) or False (F):

1.	Income should be generated under the head house property from let out part and not from any part used for personal purpose.	T F
2.	If the tenant bears any owner's expense then it will increase amount of actual rental value of the property.	T F
3.	Interest on mortgage loan is an admissible expense even when the loan is taken for personal purpose not related to the property.	T F
4.	Actual amount of repair and maintenance is not relevant to calculate admissible expense relating to the house property.	T F
5.	Tax will be deducted at source when the tenant is the government or any other authoritative body.	T F

Discussion Questions:

Question 8 – 1: Explain the concept of income from house property as per the ITO, 1984.

Question 8 – 2: Define Annual value. Explain how it is computed.

Question 8 – 3: What are the conditions of taxation on 'Income from House Property'.

Question 8 – 4: Discuss the allowable deductions under the head 'Income from House Property' as per Section – 25 of the ITO, 1984.

Question 8 – 5: **"House property can be under different rental status and so assessment of income based on rental status can be different"** – explain.

Question 8 – 6: Discuss the rules relating to Tax Deducted at Source (TDS) applicable for the income under the head 'Income from House Property'.

Question 8 – 7: State the rate of TDS applicable for house property.

Question 8 – 8: Write short notes on:
(a) Income from partly let out house
(b) Annual value
(c) Actual Rental value
(d) Repair and maintenance expense

Problem 8 – 1:

Mr. Huda is the owner of a house which was rented for Tk. 12,000 per month. The municipal value of the house is Tk. 160,000 annually. Expenses incurred in the income year 2016 - 2017 for that house were:

(a) Repair expense Tk. 18,000;
(b) City Corporation tax Tk. 4,800;
(c) Caretaker salary Tk. 12,000;
(d) Rent collection expenses Tk. 1,500;
(e) Fire insurance premium Tk. 500 per month; and
(f) Interest on borrowed fund Tk. 1,500.

Required: Compute income from house property for the income year.

Problem 8 – 2:

Mr. Simanto has the stated house property income for the year ended 30th June 2017 as:

(a) Rent received for the year Tk. 600,000;
(b) Annual value of his house Tk. 650,000;
(c) He spent for repairing his house Tk. 25,000;
(d) Ground rent paid Tk. 5,000;
(e) Collection charges of rent 2% of the total rent;
(f) Paid guard's salary maintained for his house Tk. 24,000;
(g) Liftman was paid salary Tk. 30,000;
(h) Insurance premium paid Tk. 25,000;
(i) He paid bank interest due to mortgage of the house Tk. 10,000; and
(j) Land development tax paid to government Tk. 12,000.

Required: How much tax he has to pay?

Problem 8 – 3:

Mr. Belal has a house at Banani with an area of 5,000 square feet. He let out half of this house to a Insurance Company at an annual rent of Tk. 300,000. The municipal value per square feet at Banani is Tk. 125. Expenses incurred in the income year 2016 - 2017 for that house were: Repair expense Tk. 40,000; Maintenance expense Tk. 45,000; City Corporation tax Tk. 20,000; Fire insurance premium Tk. 30,000; and Installation of electricity line Tk. 20,000. During the year Mr. Belal paid installment of loan to HBFC Tk. 48,500 (interest amount is Tk. 4,200). According to the agreement the owner bears the water and gas bill of the tenant which amounted to Tk. 15,000 for the year. Besides all these Mr. Belal let out the garage just besides the building at a monthly rent of Tk. 2,000. Compute income from house property for the income year ended 30th June 2017.

Problem 8 – 4:

Mr. Imtiaz is the owner of a three-storied building (in each floor there are two flats) at Mohakhali. He resides with his family in one flat in the 2nd floor and his son, who is married and not dependent on him, resides in another flat. Moreover one of his married daughters also stays with his husband in one flat of the third floor for which they pay nothing to him. The other flats are let out at a monthly rent of Tk. 8,500 per flat. The municipal value of the house is Tk. 400,000. During the year maintenance expense paid by the tenants was Tk. 25,000 and Mr. Imtiaz paid water and gas bill of Tk. 6,000 on behalf of the tenants.

Expenses incurred in the income year 2016-2017 for that house were: City Corporation tax Tk. 15,000; Insurance premium Tk. 24,000; Caretaker and Night guard salary Tk. 24,000; Legal expense Tk. 5,000; Collection charges of rent 2% of the total rent; Installment of loan paid to HBFC Tk. 12,000 (including interest Tk. 1,500); and Alteration cost for ground floor Tk. 43,000. During the year one of the tenants in the ground floor leave the house without paying rent for one month. Mr. Imtiaz even after taking necessary legal action fails to collect this rent. Besides that the same flat remained vacant for another month during the year.

Problem 8 – 5:

Mr. Alam is the owner of three houses at Azimpur, Dhaka; Laldighi, Chittagong; and Bagicagong, Comilla. Details of these houses are given below:

Details	House at Azimpur	House at Laldighi	House at Bagicagong
Number of storied	2	2	3
Number of flats in each floor	2	2	1
Rental status	Fully let out	Occupied by the owner	Partly let out
Municipal value (annual)	Tk. 4,00,000	Tk. 1,20,000	Tk. 2,00,000
Rental value (each flat per month)	15,000	-	5,000
Expenses incurred:			
Repair and maintenance	70,000	25,000	55,000
Insurance premium (quarterly)	2,000	-	1,500
Salary of guard (per month)	2,000	1,000	1,500
Ground rent	-	4,000	-
Local government tax (per month)	1,200	600	500
Interest on borrowed fund	8,000	-	6,000

In Azimpur, Dhaka one flat remain vacant for two months period and in Bagicagong, Comilla one flat is occupied by his son-in-law who pays nothing for it. Other flats in Bagicagong were let out to a private nursing home. Compute income from house property for the income year ended 30th June 2017.

Problem 8 – 6:

Mr. Singha is the owner of a three-storied building at Mohakhali. Mr. Singha resides with his family in the 2nd floor and all other floors (in each floor there are two flats) are let out at a monthly rent of Tk. 8,700 per flat. The municipal value of the house is Tk. 660,000. The following expenses were incurred in the income year 2016 - 2017 for that house:

(a) Repair expenses Tk. 60,000;
(b) City Corporation tax Tk. 18,000;
(c) Insurance premium Tk. 15,000;
(d) Caretaker and Night guard salary Tk. 24,000;
(e) Land revenue paid Tk. 9,000;
(f) Mortgage interest paid Tk. 6,000;
(g) Interest paid to HBFC Tk. 4,500;
(h) Interest during the construction period Tk. 33,000;
(i) Alteration cost for ground floor Tk. 60,000.

During the year one of the tenants in the ground floor leave the house without paying rent for one month. Mr. Singha even after taking necessary legal action fails to collect this rent. Besides that the same flat was vacant for two months during the year. Compute income from house property for the income year ended 30th June 2017.

Problem 8 – 7:

Ms. Rodriguez is the owner of a three-storied building (in each floor there are two flats) at Mohakhali. She resides with her family in one flat in the 2nd floor and her son, who is fully dependent on her, resides in another flat. The other two floors have been let out at a monthly rent of Tk. 50,000 each to a Customer Care Center of Grameenphone Limited and a Branch of Prime Bank Limited respectively. In this regard she has received an advance of Tk. 500,000. Moreover, in addition to it she has also let out the garage in the ground floor @ Tk. 15,000 per month to the same companies at an equal proportion. The municipal value of the house is Tk. 1,500,000.

During the year maintenance expense paid by the tenants was Tk. 25,000 and Ms. Rodriguez paid water and gas bill of Tk. 6,000 on behalf of the tenants. The following expenses were also incurred in the income year 2016-2017 for that house:

(a) City Corporation tax Tk. 15,000;
(b) Insurance premium Tk. 24,000;
(c) Caretaker and Night guard salary Tk. 24,000;
(d) Legal expense Tk. 5,000;
(e) Collection charges of rent 2% of the total rent;
(f) Installment of loan paid to HBFC against a loan of Tk. 24 lac Tk. 300,000 (including interest of Tk. 240,000);
(g) Installation cost for lift and generator Tk. 50,000

During the year one of the let out floors remained vacant for one month. Compute the amount of taxable income from "Income from House Property" for the income year 2016-17.

Problem 8 – 8:
Ms. Asmit Jahan owns two houses: one at Baridhara and another at Mohammadpur. From the following particulars compute her income form house property for the income year 2016 – 2017 and also tax liability for the assessment year 2017 – 2018.

House at Baridhara:
This is a six storied building (in each floor there are two flats). One of the flats in first floor (flat no. 2A) is used as residence by Ms. Asmit and the other flat (flat no. 2B) in the same floor is used by her son-in-law who pays nothing for it. All other flats were let out at a monthly rent of Tk. 10,000. The municipal value of the house is Tk. 1,500,000. Expenses of the house for the year were: White wash expense Tk. 50,000; Repair expense Tk. 1,25,000; Rent collection expense Tk. 8,000; City corporation tax, quarterly Tk. 12,600; Land revenue paid Tk. 6,000; Salary of guard, monthly Tk. 2,500; Loan repayment to HBFC (including interest Tk. 4,200) Tk. 42,500 and Installation of generator Tk. 35,000. The owner bears the water and gas bill of the tenants which amounted to Tk. 60,000 for the year. Flat no. 3B remains vacant for two months during the year.

House at Mohammadpur:
The house is let out to a private University at a yearly rent of Tk. 800,000. The university authority deducts tax at source at prescribed rate (5%) before paying the rent to him. Municipal value of the house is Tk. 750,000 and expenses of the house for the year were: Fire insurance premium Tk. 25,000; Municipal taxes Tk. 12,000; Cost of alteration Tk. 55,000; Ground rent Tk. 10,000 and Legal expenses Tk. 12,000. According to terms of agreement the tenants is to bear the cost of repair which amounted to Tk. 60,000 for the year.

During the year Ms. Asmit incurred the following investments and expenses:

(a)	Family expenses	Tk. 4,20,000
(b)	Insurance premium	
	Own (policy value Tk. 6,00,000)	80,000
	Spouse (policy value Tk. 10,00,000)	90,000
(c)	Purchase of listed company's primary share	55,000
(d)	Donation to prime minister relief fund	40,000
(e)	Donation to local club	16,000
(f)	Purchase of Desktop Computer	55,000

Answers:

Multiple choice questions		True/False
1. b	6. b	1. T
2. d	7. d	2. T
3. a	8. c	3. F
4. a	9. d	4. T
5. d	10. b	5. T

Self review 8 – 1:

(a)	Actual Rental Value (10,000 X 12)	Tk. 1,20,000
	Municipal Value	1,35,000
	Annual Value (higher one)	**1,35,000**
(b)	Actual Rental Value (10,000 X 12)	Tk. 1,20,000
	Municipal Value	1,10,000
	Annual Value (higher one)	**1,20,000**

Self review 8 – 2:

(a) Actual Rental Value:		
Actual rent received (10,000 X 12)	Tk. 1,20,000	1,25,000
Add. Owner's expenses paid by tenant	5,000	
(b) Actual Rental Value:		
Actual rent received (10,000 X 12)	Tk. 1,20,000	1,14,000
Less. Tenants expenses paid by owner	6,000	

Self review 8 – 3:

	Fully let out	Partly let out	Fully occupied by owner
ARV: 10,000 X 12	Tk. 120,000	Tk. 60,000	-
MV:	135,000	67,500	-
AV (higher one)	**135,000**	**67,500**	-

Self review 8 – 4:

Annual Value (AV):
= higher of ARV and MV
= higher of ARV (120,000) and MV (135,000)
= 135,000

Repair and Maintenance expense:
(a) AV X 25% = 135,000 X 25% = 33,750
(b) AV X 30% = 135,000 X 30% = 40,500

Vacancy Allowance: (135,000 /12) X 2 = 22,500.

Since the actual repair expense amount is more than the allowable amount, allowable amount will be deducted as repair and maintenance expense in both the cases.

Self review 8 – 5:

Rent received (42,750 × 12)	Tk. 513,000	
Add. TDS [5,13,000 × 5/100-5]	27,000	Higher one
Actual Rental Value	Tk. 540,000	Annual Value
Municipal Value	Tk. 500,000	Tk. 540,000

CHAPTER - 9
INCOME FROM AGRICULTURE

LEARNING OBJECTIVES

After studying Chapter 9, you shall be able to understand:

- the concept of agricultural income
- characteristics of agricultural income
- classification of agricultural income
- what other special considerations determine such income than the usual definition
- nature of partial agricultural income
- admissible expenses to determine this income
- some typical agricultural income
- some typical non agricultural income
- set off and carry forward of agricultural losses
- non assessable income under the head income from agriculture

9.1 INTRODUCTION

According to Section 20 of the ITO, 1984, agricultural income is the fourth head among the seven heads of the income. It is the most important sector in the economy of Bangladesh, whereas the contribution of tax from this sector is very insignificant. In Bangladesh, agricultural income was non-assessable upto the year 1976. It has brought under the tax net through the Finance Act 1976.

9.2 AGRICULTURE

Generally the term "agriculture" refers to the production of goods through the growing of plants, animals and other life forms. It also refers to field cultivation or cultivation of the ground, which involves a combination of both basic and subsequent operations:

Basic Operations: Agriculture in its primary sense denotes the cultivation of the field and is restricted to cultivation of the land in the strict sense of the term, meaning thereby tilling of the land, sowing of the seeds, planting and similar operations on the land.

Subsequent Operations: Such operations are absolutely necessary for the purpose of effectively raising the produce and are to be performed after the produce spouts from the land, e.g. weeding, digging the soil around the growth, removal of undesirable undergrowth, and all operations which foster the growth and preservation of the produce not only from insects and pests but also from depredation from outside, tending, pruning, cutting, harvesting and rendering the produce fit for the market, would all be agricultural operations when taken in conjunction with the basic operations.

Crops or trees of spontaneous growth in forests or any other places where there is no human effort, is not considered as agriculture. As per the various provisions of the ITO, 1984, generally income generated from any land situated in Bangladesh or from any other assets used solely for agricultural purposes is considered as agricultural income.

9.3 SCOPE OF AGRICULTURAL INCOME

According to Section 2(1) of the Income Tax Ordinance, 1984, 'agricultural income' means

(a) any income derived from any land in Bangladesh and used for agricultural purposes–
   (i) by means of agriculture; or
   (ii) by the performance of any process ordinarily employed by a cultivator to render marketable the produce of such land; or
   (iii) by the sale of the produce of the land raised by the cultivator in respect of which no process, other than that to render the produce marketable, has been performed; or
   (iv) by granting a right to any person to use the land for any period; or

(b) any income derived from any building which-
   (i) is occupied by the cultivator of any such land as is referred to in sub-clause (a) in which any process is carried on to render marketable any such produce aforesaid;
   (ii) is on, or in the immediate vicinity of such land; and
   (iii) is required by the cultivator as the dwelling house or store-house or other out-house by reason of his connection with such land.

From the above definition, it can be said that any income derived from any land or Buildings in Bangladesh that are used for agricultural purposes will be considered under the head "Agricultural income". Besides all these income, as per Section 19(17), 19(19), 26(2) and 26(3) some other sources of income are also considered as income generated under this head:

9.3.1 Gain from the sale of the machinery or plant exclusively used for agricultural purpose – Here such a gain is the excess of sale proceeds over written down value of any machinery or plant exclusively used for agricultural purpose. But it is to be noted here that, such a gain cannot be more than the difference between original costs and written down value of the machinery or plant [Section – 19(17)].

Illustration: Mr. Bisu is the owner of a pump machine which was purchased for Tk. 40,000. Now to acquire an advance technology in the irrigation plant he sold the pump machine for Tk. 42,000. At the time of sales the amount of accumulated depreciation of the pump machine was Tk. 18,000. Agricultural income from the sale proceeds should be:

Cost of the machine	: Tk. 40,000
Accumulated Depreciation (at the time of sale)	: Tk. 18,000
Written down value	: Tk. 22,000
Sale proceeds	: Tk. 42,000
Total gain	: Tk. 20,000
Capital gain [Sale proceeds – Cost price]	: Tk. 2,000
Gain to be considered as agricultural income	
[Total gain – Capital gain]	: Tk. 18,000

9.3.2 Compensation money received against demolished machinery or plant exclusively used for agricultural purpose – Where any insurance, salvage or compensation moneys are received in any income year in respect of any machinery or plant which having been used by the assessee exclusively for agricultural purpose is discarded, demolished or destroyed and the amount of such moneys exceed the written down value of such machinery or plant, shall be deemed to be the income of the assessee for that income year classifiable under the head "Agricultural income". It is to be noted here that such compensation money does not exceed the difference between the original cost and the written down value less the scrap value [Section – 19(19)].

Illustration: Mr. Tareq had a Tractor which was purchased for Tk. 40,000. Due to an accident, the tractor was destroyed and the insurance company has given a compensation of Tk. 30,000. At the time of destruction accumulated depreciation of the tractor was Tk. 15,000 and the scrap value is Tk. 1,000. Agricultural income from the insurance claim proceeds should be:

Cost of the machine	: Tk. 40,000
Accumulated Depreciation (at the time of sale)	: Tk. 15,000
Written down value	: Tk. 25,000
Compensation received	: Tk. 30,000
Scrap value	: Tk. 1,000
Amount to be considered as agricultural income	
[Total compensation – (WDV – Scrap value)]	: Tk. 6,000

9.3.3 Income from sale of tea – Agricultural income derived from the sale of tea grown and manufactured by the assessee shall be computed in the prescribed manner [Section – 26(2)]. At present, 60% of the sale proceeds from the sale of tea are considered as agriculture income and rest of the 40% is as income from business and profession [Rule – 31].

SELF REVIEW 9 – 1

Mr. Ali is a farmer. He owns a tractor which was purchased for Tk. 80,000 and its WDV was Tk. 55,000 on 15th August, 2015. He sold this tractor on 15th August for Tk. 63,000. Calculate Mr. Ali's income from this sale.

9.3.4 Other agricultural income by notification – Where the Board, by notification in the official Gazette, so directs, agricultural income from the sale of rubber, tobacco, sugar or any other produce grown and manufactured by the assessee may be computed in the manner prescribed for the purpose [Section – 26(3)]. At present, 60% of the sale proceeds from the sale of tea are considered as agriculture income and rest of the 40% is as income from business and profession [Rule – 32]

From the above discussion, it is clear that agriculture would include horticulture, floriculture, arboriculture, sericulture etc. It would include the raising of grooves, plantations, raising of grass or pastures. It would extend to cultivation of all commodities of food value like sugarcane, coffee, mangoes and other fruits etc. artistic and decorative value like flowers and creepers, housing value like bamboo, timber, fuel value, medicinal and health value. It would also include growing of animals, poultry when it is not done for business purpose. Agriculture income would, however, cover only those incomes which are derived by human effort, not naturally.

9.4 CHARACTERISTICS OF AGRICULTURAL INCOME

From the various provisions of the ITO, 1984, various definitions mentioned in dictionaries and case decisions, the following characteristics are relevant to agricultural income:

(i) It must derive from any agricultural land situated in Bangladesh. The land may be situated in an urban area or in a rural area. If the land is located outside Bangladesh, any agricultural income derived from such land will not be deemed to be agricultural income. In the case of a Resident assessee, such income will be included in his total world income under the head "Foreign income" and would be liable to tax.

(ii) It must come from fundamental agricultural work like field cultivation or cultivation of the ground, in the sense of tilling of the land, sowing of the seeds, planting and similar basic and subsequent operations on the land.

(iii) Marketing of the agricultural products should be through ordinary procedure. The produce raised from the land may not have a market in its native form. It may become necessary to perform a process on the produce to make it marketable or saleable. The gain in the value of the produce by such process is also classified as income from agriculture.

(iv) Income may come from any building situated in the agricultural land or adjacent vacant agricultural land;

(v) Income may come from gain on sale or discarded value of machineries or plant used for agricultural purpose;

(vi) Some income may partially be considered as agricultural income; e.g. sale of tea, rubber, tobacco, sugar etc.

9.5 CLASSIFICATION OF AGRICULTURAL INCOME

Considering the provisions of the Income Tax Ordinance, 1984, agricultural income can be classified into following three categories:

1. Fully Agricultural Income,
2. Partly Agricultural Income; and
3. Other Agricultural Income

9.5.1 Fully Agricultural Income

According the provisions under Section 2(1), 26(1), 19(17) and 19(19) of the ITO, 1984, the following incomes are fully considered as agricultural income:

(i) Any income derived from any land and building situated on the land in Bangladesh used for agricultural purposes [Section 2(1)];

(ii) Gain from the sale of the machinery or plant exclusively used for agricultural purpose [Section 19(17);

(iii) Compensation money received against demolished machinery or plant exclusively used for agricultural purpose [Section 19(19)].

9.5.2 Partly Agricultural Income:

According the provisions under Section 26(2) and 26(3) of the ITO, 1984, the following incomes are partly considered as agricultural income:

(i) **Income derived from the sale of tea:** According to Section 26(2) of the ITO, 1984 and Rule 31 of the ITR, 1984, income derived from the sale of tea grown and manufactured by the seller in Bangladesh shall be computed as follows:

- 40% of such income was derived from business, and
- 60% of such income was derived from agriculture.

Provided that in computing such income from business an allowance shall be made in respect of the cost of planting bushes in replacement of bushes that have died or become permanently useless in an area already planted, unless such area has previously been abandoned. Provided further that, in computing such income an allowance shall be made in respect of the expenditure incurred in the income year by the assessee in connection with the development of the new areas for bringing them under tea cultivation.

(ii) **Income derived from the sale of rubber:** According to Section 26(3) of the ITO, 1984 and Rule 32 of the ITR, 1984, income derived from the sale of rubber grown and manufactured by the seller in Bangladesh shall be computed as follows:

- 40% of such income was derived from business, and
- 60% of such income was derived from agriculture.

Provided that in computing such income an allowance shall be made in respect of the expenditure incurred in the income year by the assessee in connection with the development of the new areas for bringing them under rubber cultivation.

(iii) Income from sugar mill and tobacco:

Unlike income from tea garden and rubber garden, income from sugar mill and tobacco is also considered partly agricultural income if in both the cases the farmer and the manufacturer are the same person. In such cases, agricultural and business activities are interrelated and cannot be separated easily and conveniently. Although like income from tea garden and income from rubber garden nothing has been mentioned in the income tax rule regarding computation of income from sugar mill and tobacco, it is quite logical to consider the same rule for these sources. Provided that such rule is applicable only when sugar cane and tobacco processed in the mill was also produced in the land owned by the assessee. But, if tobacco and sugarcane is sold to other manufacturers than the full amount of sale proceeds will be considered as agricultural income.

SUMMARY OF PARTLY AGRICULTURAL INCOME:

	AI*	BoP*	Reference
Income from Tea garden	60%	40%	Sec 26(2), Rule 31
Income from Rubber garden	60%	40%	Sec 26(3), Rule 32
Income from Tobacco/Sugar/ Other similar products Industry:			
Further processing is done by the assessee	60%	40%	Sec 26(3), Rule 32
No further processing and sold to others	100%	0%	Sec 26(3), Rule 32

*AI: Agricultural Income; BoP: Income from Business or Profession

9.5.3 Other Agricultural Income:

In addition to the above sources of incomes, the followings are also "Agricultural Income":

1. Income from cattle rearing
2. Income from sale of palm juice and Date juice
3. Income from sale of seeds and grass, if grown by human effort
4. Income from agricultural cooperative society which was organized for farming and cattle rearing
5. Income from land or assets used for processing the agricultural commodities to make them marketable
6. Income from land leased for agricultural purposes
7. Income from any system of sharing of crop generally known as adhi, barga or bhag.
8. Income from sale of herbal or medicinal plants
9. Income from cultivation of flower and fruits
10. Income from sale of honey if produced in agricultural land using special technologies like special box for Honey-comb.
11. Income from dairy farm, provided **(a)** assessee is the owner of the cattle **(b)** cattle are reared in cattle rearing field **(c)** Milk is processed by the assessee
12. Income from poultry farm if they are reared in agricultural land

9.6 SOME TYPICAL NON-AGRICULTURAL INCOME

1. Income from ferry ghat, mooring tarminal and fishing
2. Income from sale of produce that grow up in the agricultural land without agricultural works e.g. forest trees, wild grass, fruit and flowers grown spontaneously and without human effort
3. Income from salt production by flooding the land with sea water and then extracting salt therefrom
4. Income from cutting and selling of timber on contract
5. Interest on arrear of rent for agricultural land
6. Income from letting out vacant land not used for agricultural purpose
7. Royalty / ground rent against lease of land for mining, potteries, quarries etc.
8. Sale of soil used for brick field
9. Income from sale of water used for irrigation
10. Income from sale of forest trees, flowers, bamboo, wild grass, reeds or fruits produced naturally without any agricultural work
11. Sale of stones from quarries
12. Income from salary for working as an agricultural supervisor / manager
13. Income from sale of crops which has been purchased from others for resale
14. Income from dairy firm established for business purpose
15. Income from poultry firm established separately for business purpose
16. Income from fisheries
17. Fish hunting, ship anchor etc.
18. Income derived from butter and cheese making
19. Income received as commission for working as middleman in agro products
20. Remuneration received by managing agent at a fixed percentage of net profit from a company having agricultural income.
21. Interest received by an assessee against loan in the form of agricultural produce
22. Dividend paid by a company out of its agricultural income

9.7 ADMISSIBLE EXPENSES (SECTION – 27)

As per Section 27 of the ITO, 1984, in computing the taxable income under the head 'Agricultural Income', some expenses are allowed to be deducted from the revenues under this head. Those allowable allowances and deductions are as follows:

9.7.1 **Land Development Tax:** Any land development tax or rent paid in respect of the land used for agricultural purposes [Section 27(1)(a)].

9.7.2 **Local Tax:** Any tax, local rate or cess paid in respect of the agricultural land is subject to allowable deduction, provided that no such deduction is allowed if the tax is charged for any income arising or accruing from agricultural operations [Section – 27(1)(b)].

9.7.3 **Production Costs:** according to Section – 27(1)(c), allowable deduction as production costs includes: **(a)** For cultivating the land or raising livestock thereon; **(b)** For performing any process ordinarily employed by a cultivator to render marketable the produce of the land; **(c)** For transporting the produce of the land or the livestock raised thereon to the market; **(d)** For maintaining agricultural implements and machinery in good repair and for providing upkeep of cattle for the purpose of cultivation, processing or transportation as aforesaid;

Where books of accounts in respect of such expenses are not maintained properly, production costs will not be the amount claimed by the assessee rather it will be **60% of the market value of the produce** [Section – 27(1)(c)(ii)]. Moreover, according to Section 27(1)(c)(iii) no deduction on account of cost of production shall be admissible under this clause if the agricultural income is derived by the owner of the land from the share of the produce raised through any system of sharing of crop generally known as adhi, barga or bhag.

Illustration: Mr. Ovi's agricultural incomes are from – Sale of rice (200 mounds @ Tk. 600 per mounds), Sale of Rabi crops Tk. 55,000, Share from Barga Tk. 20,000. Mr. Ovi claimed the following expenses as allowable expenses against these incomes:

Expenses	Rice	Rabi crops	Barga
Cost of seeds	25,000	8,000	2,000
Cost of fertilizer	12,000	3,000	-
Cultivation costs	18,000	1,500	-
Repair expenses	10,500	-	-
Total	**65,500**	**12,500**	**2,000**

Mr. Ovi failed to provide proper books of accounts for Rabi crops relating to such expenses. Calculate income from agriculture for Mr. Ovi.

Expenses	Rice	Rabi crops	Barga
Sales revenue	120,000	55,000	-
Share from Barga			20,000
Less: Production costs	***65,500***	***33,000****	**-****
Agricultural income	54,500	22,000	20,000

*60% of 55,000 ** No deduction is allowed in case of Barga, adhi or bhag

9.7.4 **Insurance Premium:** Any sum paid as premium in order to effect any insurance against loss of, or damage to, the land or any crop to be raised from, or cattle to be reared on, the land [Section – 27(1)(d)].

9.7.5 **Maintenance Cost for Irrigation Plant:** Any sum paid in respect of the maintenance of any irrigation or protective work or other capital assets; and such maintenance includes current repairs and, in the case of protective dykes and embankments, all such work as may be necessary from year to year for repairing any damage or destruction caused by flood or other natural causes [Section – 27(1)(e)].

9.7.6 **Depreciation:** Depreciation expense relating to all the assets and facilities from which agricultural income is derived can be considered as allowable deduction [Section – 27(1)(f)]. Here the rate of depreciation is the rates provided in the Third Schedule of the Income Tax Ordinance (ITO), 1984.

Rate of depreciation:
[As per the Third Schedule]

Assets	Rate
1. Pucca building	10%
2. Kutcha and Pucca Building	15%
3. Kucha building	20%
4. Temporary structure	N/A*
5. Pucca walls	5%
6. Fencing of substantial material	10%

Assets	Rate
7. Tube-well	15%
8. Tanks	10%
9. Pucca irrigation channel	15%
10. Kucha irrigation channel	20%
11. Kucha irrigation wells	33.33%
12. Pucca irrigation wells	5%
13. Bullock drawn iron implements	15%
14. Bullock drawn wooden or leather implements and small other hand/implements	25%
15. Weighing machine	10%
16. Tractors and oil engines and thin implements	15%
17. Power pumping machinery	20%
18. Factor made cart of iron material with rubber tyre	15%
19. Country cart	20%
20. Steam engine	10%
21. Workshop tools	15%
22. General (machinery, implements, plants and other assets) not provided above	10%

* No rate is fixed. Renewal will be allowed as revenue expenditure.

9.7.7 **Interest on Mortgage:** Where the land is subject to a mortgage or other capital charge for the purposes of reclamation or improvement, the amount of any interest paid in respect of such mortgage or charge [Section – 27(1)(g)].

9.7.8 **Interest on Borrowed Capital:** Where the land has been acquired, reclaimed or improved by the use of borrowed capital, the amount of any interest paid in respect of such capital [Section – 27(1)(h)].

9.7.9 **Losses from the Sale of Demolished Machineries:** Where any machinery or plant which has been used by the assessee exclusively for agricultural purposes has been discarded, demolished or destroyed in the income year, the amount of losses from such destruction is allowable expense according to Section – 27(1)(i). But maximum allowable limit of such losses are:

(i) *When no insurance or compensation money has been received:*
Maximum limit = (Written down value – Scrap value)

(ii) *When insurance or compensation money received:*
Maximum limit = {(Written down value – Scrap value) – amount of insurance or compensation money received}

9.7.10 **Losses on Sale or Exchange of Machineries:** Where any machinery or plant which has been used by the assessee exclusively for agricultural purposes has been sold or transferred by way of exchange in the income year, the amount actually written off on that account in the books of accounts of the assessee is considered as allowable expenditure according to Section – 27(1)(j). But maximum limit of such amount is the difference between the written down value of the machinery or plant and the amount for which it has been actually sold or transferred.

9.7.11 **Other Expenses:** Any other expenditure, not being in the nature of capital expenditure or personal expenditure, laid out wholly and exclusively for the purpose of deriving agricultural income from the land is allowable according to Section – 27(1)(k).

SELF REVIEW 9 – 2

Mr. Ali is a farmer. He sold 100 maunds of rice @ 600 per maund. His production expenses are, cost of seeds and fertilizer Tk. 15,000; Labor costs Tk. 18,000; Union Parison tax Tk. 2,500; Transportation costs Tk. 3,000 and costs for ordinary processing Tk. 4,000. Calculate production costs for Mr. Ali, considering – **(a)** He did not maintain proper books of accounts relating to production costs **(b)** He maintain all books of accounts relating to production costs

9.8 SET OFF AND CARRY FORWARD OF LOSSES OF AGRICULTURAL INCOME

Net agricultural income is derived from deducting the admissible expenses from the total gross agricultural income. But in any assessment year, if the amount of allowable expenses is greater than the amount of gross agricultural income then it will be considered as net loss. According to Section 37 of the ITO, 1984, such loss can be set off against his income from any other head excluding "Capital Gain". According to Section 41 of the ITO, 1984, where, for any assessment year, such loss has not been so set off, it shall be carried forward to the next following assessment year, and

(a) it shall be set off against agricultural income, if any, of the assessee assessable for that assessment year; and

(b) if the loss cannot be wholly so set off the amount not so set off shall be carried forward to the next assessment year and so on for not more than **six** successive assessment years.

9.9 NON – ASSESSABLE AGRICULTURAL INCOME:

According to the various provisions of the ITO, 1984, the following agricultural incomes are non-assessable subject to some conditions:

1. Agricultural income not exceeding **Tk. 200,000** is non-assessable for an individual assessee, where only source of his income is agriculture [6th Schedule,Part A,Para 29].

   > **Explanation:** Total income of Mr. Hasan in the income year 2015-16 is Tk. 650,000 and his only source of income is agriculture. In this case up to Tk. 200,000 is non-assessable and he is also eligible to enjoy the normal non-assessable limit of Tk. 250,000 (in case of woman, elderly citizens of more than 65 years old Tk. 300,000, for disable persons Tk. 375,000 and for gazette wounded freedom fighters Tk. 425,000) and his taxable total income will be Tk. 200,000 (650,000 – 200,000 – 250,000). In case of having income from other heads such exemption of up to Tk. 200,000 will not be applicable.

2. Any income thus including agricultural income of an indigenous hillman of any of the hill districts of Rangamati, Bandarban and Khagrachari, which has been derived solely from economic activities undertaken within the said hill districts [Sixth Schedule, Part A, Para 27].

3. Subject to the conditions made hereunder any income from poultry for the period from 1.07.11 to 30.06.15 [Sixth Schedule, Part A, Para 42]-

   (a) if such income exceeds Tk. 1,50,000/- an amount not less than 10% of the said income shall be invested in the purchase of Government bond or securities within six month from the end of the income year;

   (b) the person shall file return in accordance with the provisions of Section 75(2)(c) of the ITO, 1984; and

   (c) no such income shall be transferred by way of gift or loan within five years from the end of the income year.

9.9.1 Reduced Tax Rate for certain Agricultural Incomes [SRO No. 199-AIN/IT/2015 dated 01/07/2015]:

Any income from production of pelleted poultry feed, production of pelleted feed for fish, shrimp & cattle, production of seeds, marketing of locally produced seeds, cattle farming, dairy farming, frog farming, horticulture, Silk tree plantation, Bee keeping, Silk worm firming, mushroom farming, floriculture is taxable at a reduced tax rate as follows:

Income	Tax Rate
On first Tk. 10 lac	3%
On next Tk. 20 lac	10%
For the rest of the amount	15%

9.9.2 Reduced Tax Rate for poultry firm [SRO No. 254-AIN/IT/2015 dated 16/08/2015]:

Income from poultry firm will be taxed at following rate:

Income	Tax Rate
On first Tk. 20 lac	nil
On next Tk. 10 lac	5%
For the rest of the amount	10%

9.9.3 Reduced tax rate on income from Poultry, Shrimp & fish hatchery, fisheries Firm [SRO No. 255-AIN/IT/2015 dated 16/08/2015]:

Income	Tax Rate
On first Tk. 10 lac	nil
On next Tk. 10 lac	5%
For the rest of the amount	10%

SPECIMEN FORM OF COMPUTATION OF "INCOME FROM AGRICULTURE"

Assessee:

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Computation of total income

Income from Agriculture (Section – 26 & 27):	**Tk.**	**Tk.**
Sale of crops	XX	
Income from any land or building used for agricultural purposes	XX	
Income from granting a right [*'Borga', "adhi" or "bhag"*]	XX	
Income from tea garden or rubber garden [60%]	XX	
Revenue profit by sale of discarded or demolished agri. machines	XX	
Other income relating to agri. [sale of palm juice, rearing of cattle]	XX	XX
Less: Admissible expenses –		
(a) Land development tax	XX	
(b) Any other taxes [local taxes, cess etc]	XX	
(c) Production costs	XX	

- Cost for cultivating the land or raising live-stock
- Ordinary processing costs to make crop marketable
- Transportation cost of crops or livestock to market
- Maintenance cost of agricultural equipments & up keeping of cattle for cultivation*

(d) Insurance Premium	XX		
(e) Repair and Maintenance of irrigation plant	XX		
(f) Depreciation	XX		
(g) Interest on Mortgage Loan	XX		
(h) Interest on Borrowed Capital	XX		
(i) Losses due to sale of cultivable land	XX		
(j) losses due to discard or demolish of agri. machineries	XX		
(k) Other revenue expenses	XX	XX	
Total Income**		**XX**	

* <u>If proper books of accounts related to production costs are not maintained,</u> an expenditure equivalent to 60% of sale proceeds of the produce is allowed as admissible expense

** When agriculture is the only source of income, assessee is allowed to get an exemption of a maximum amount of Tk. 200,000 [Sixth Schedule, Part A, Para 29].

Illustration 9 – 1:

Agricultural income of Mr. Zahir for the income year ended 30th June, 2017 are Sale of paddy 150 maunds @ Tk. 600 per maund; sale of jute 100 maunds @ Tk. 800 per maund; sale of rabi crops Tk. 65,000; sale of tea Tk. 70,000; income from borga Tk. 20,000; and lease of agricultural land Tk. 30,000. Expenses relating to all these income are cost of seeds and fertilizer Tk. 40,000; cultivation costs Tk. 65,000; transportation costs Tk. 15,000; ordinary processing costs Tk. 25,000; land revenue paid Tk. 7,000; union parisad tax Tk. 4,400; crop insurance premium Tk. 5,600; allowable depreciation Tk. 3,000; and interest on borrowed fund Tk. 2,800. Compute taxable income for Mr. Zahir considering **(a)** he kept proper books of accounts **(b)** he kept necessary books of accounts.

Solution 9 – 1:

(a) When proper books of accounts were not maintained:

Mr. Zahir
Income year: 2016 – 2017; Assessment year: 2017 – 2018
Calculation of Total Income

Income from Agriculture (Section – 26 & 27):	**Tk.**	**Tk.**	**Tk.**
Income from sale of paddy (150 × 600)	90,000		
Income from sale of jute (100 × 800)	80,000		
Income from sale of rabi crops	65,000		
Sale of Tea (70,000 × 60%)	42,000		
Income from Borga	20,000		
Lease of Agricultural land	30,000	327,000	
Less: Admissible expenses:			
1. Production costs (235,000 × 60%)	141,000		
2. Land revenue paid	7,000		
3. Union parisad tax	4,400		
4. Crop insurance premium	5,600		
5. Allowable depreciation	3,000		
6. Interest on borrowed fund	2,800	163,800	163,200
Income from Business and Profession:			
Sale of Tea (70,000 × 40%)			28,000
Total			**191,200**

Notes: (1) Production costs: 60% of sales proceeds; i.e., 60% of (Income from sale of Paddy Tk. 90,000 + Income from sale of Jute Tk. 80,000 + Income from sale of rabi crops Tk. 65,000 = Total sales proceeds Tk. 235,000. **(2)** Production cost is not allowable for partly agricultural income.

(b) When proper books of accounts were maintained:

Mr. Zahir
Income year: 2016-2017; Assessment year: 2017-2018
Calculation of Total Income

Income from Agriculture (Sec – 26 & 27):	**Tk.**	**Tk.**	**Tk.**	**Tk.**
Income from sale of paddy (150 × 600)		90,000		
Income from sale of jute (100 × 800)		80,000		
Income from sale of rabi crops		65,000		
Sale of Tea (70,000 × 60%)		42,000		
Income from Borga		20,000		
Lease of Agricultural land		30,000	327,000	
Less: Admissible expenses:				
1. Production costs –				
Cost of seeds and fertilizer	40,000			
Cultivation costs	65,000			
Transportation costs	15,000			
Ordinary processing costs	25,000	145,000		
2. Land revenue paid		7,000		
3. Union parisad tax		4,400		
4. Crop insurance premium		5,600		
5. Allowable depreciation		3,000		
6. Interest on borrowed fund		2,800	167,800	159,200
Income from Business and Profession:				
Sale of Tea (70,000 × 40%)				28,000
Total				**187,200**

Illustration 9 – 2:

Mr. Rahman is a farmer whose only income is from agriculture. Compute taxable income for Mr. Rahman for the year ended on 30th June, 2017 considering: Sale of rice 150 maunds @ Tk. 710 per maund; Sale of potato 300 maunds @ Tk. 150 per maund; Income from Borga Tk. 40,000; lease of agricultural land Tk. 300,000. Expenses relating to all these income are: Cost of seeds and fertilizer Tk. 36,500; labor charge Tk. 40,000; maintenance costs of agricultural equipments Tk. 4,000; union parisad tax Tk. 5,800; crop insurance premium Tk. 8,200; depreciation on tractor @ 20% Tk. 14,000. Mr. Rahman has borrowed fund from Krisi Unnayon Bank by Tk. 40,000 at an annual interest rate of 15% on 15th October 2016. Allowable depreciation for tractor as per the 3rd Schedule of the ITO, 1984 is at the rate of 15%. Cost of seeds and fertilizer includes Tk. 1,500 spent against Borga. He maintains books of accounts properly.

Solution 9 – 2:

Mr. Rahman
Income year: 2016 – 2017; Assessment year: 2017 – 2018
Calculation of Total Income

Income from Agriculture (Section – 26 & 27):	**Tk.**	**Tk.**	**Tk.**
Income from sale of rice (150 × 710)		106,500	

Income from sale of potato (300 × 150)	45,000	
Income from borga	40,000	
Income from lease of agricultural land	300,000	491,500
Less: Admissible expenses:		
1. Production costs (note – 4)	79,000	
2. Union parisad tax	5,800	
3. Crop insurance premium	8,200	
4. Allowable depreciation (note – 1)	10,500	
5. Interest on borrowed fund (note – 2)	4,250	107,750
Total		383,750
Less: exemption (up to 200,000)		200,000
Total		**183,750**

Notes: (1) Allowable depreciation = (14,000 ÷ 0.20) × 0.15 = 10,500 **(2)** Interest on borrowed fund = (40,000 × 15%) × 8.5 ÷ 12 = 4,250 **(3)** No production costs are allowed for share from borga. So cost of seeds and fertilizer is allowable up to (36,500 – 1,500) or 35,000. **(4)** Production costs: Cost of seeds and fertilizer Tk. 35,000 + Labor charge Tk. 40,000 + Maintenance costs of agricultural equipment Tk. 4,000 = Total 79,000. **(5)** As agriculture is the only source of income for Mr. Rahman, he is allowed to get Tk. 200,000 exemption in assessing his income.

Illustration 9 – 3:

Income of Mr. Hossain for the year ended 30th June, 2017 includes, sale of jute 300 maunds @ Tk. 700 per maund; sale of rice 225 maunds @ Tk. 550 per maund; income from lease of agricultural land Tk. 48,000; income from ferry ghat Tk. 27,000; income from tea garden Tk. 80,000 and income from sale of honey Tk. 20,000. Expenses relating to all these income are: Land revenue paid Tk. 9,000; Union parisad tax Tk. 6,800; Crop insurance premium Tk. 11,500; Allowable depreciation Tk. 8,000; Interest on mortgage loan Tk. 4,750 and Maintenance costs for irrigation plant Tk. 7,200. Mr. Hossain had a weighing machine which was purchased at Tk. 18,000. It has become obsolete and has been discarded at Tk. 9,500. At the time of sales the written down value of the machine was Tk. 13,000. Moreover, he has also sold a tractor at a price of Tk. 42,000 (cost Tk. 40,000, Accumulated depreciation Tk. 3,000). In addition to this he had a pump machine which was destroyed by fire and the Insurance compensation amount Tk. 10,000 (cost 20,000; Acc. Dep. Tk. 12,000, Scrap Tk. 2,000). When asking for proper books of accounts Mr. Hossain failed to provide any supporting documents for production costs, although he claimed Tk. 210,000 as production costs. Compute taxable income for Mr. Hossain.

Solution 9 – 3:

Mr. Hossain

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from Agriculture (Section – 26 & 27):	**Tk.**	**Tk.**	**Tk.**
Income from sale of Jute (300 × 700)	210,000		
Income from sale of Rice (225 × 550)	123,750		
Income from lease of agricultural land	48,000		
Income from tea garden (80,000 × 60%)	48,000		
Income from sale of honey	20,000		
Gain on sale of tractor	3,000		
Gain on insurance compensation	4,000	456,750	

Less: Admissible expenses:			
1. Production costs (note – 1)	200,250		
2. Land revenue paid	9,000		
3. Union parisad tax	6,800		
4. Crop insurance premium	11,500		
5. Allowable depreciation	8,000		
6. Interest on mortgage loan	4,750		
7. Maintenance cost of irrigation plant	7,200		
8. Losses due to discard of machine (note – 2)	3,500	251,000	205,750
Income from Business or profession (Section – 28):			
Income from tea garden (80,000 × 40%)			32,000
Capital gain (Section – 31):			
Capital gain from tractor			2,000
Income from other sources (Section – 33):			
Income from ferry ghat			27,000
Total income			**266,750**

Notes: (1) Calculation of production costs: 60% of (Income from sale of Jute (300 X 700) Tk. 210,000 + Income from sale of Rice (225 X 550) Tk. 123,750); i.e., 60% of Total sales proceeds Tk. 333,750 = Tk. 200,250 **(2)** Losses due to discard of weighing machinery: WDV of the machine Tk. 13,000 less Disposable price Tk. 9,500 = Tk. 3,500 **(3)** Gain on sale of Tractor: Total gain = Sales price – WDV = Tk.42,000 – Tk. 37,000 = Tk. 5,000; Capital gain = Sales price – cost = Tk. 2,000 (to be recorded under the head capital gain); Revenue gain = Total gain – capital gain = Tk. 3,000 (to be recorded under the head Agricultural income) **(4)** Gain/loss on insurance compensation = [Compensation – (WDV - Scrap)] = [Tk. 10,000 – (Tk. 8,000 – Tk. 2,000)] = Tk. 4,000 (gain).

Illustration 9 – 4:

Compute taxable income of Mr. Masum from the given particulars related to the year ended 30th June, 2017: Sale of Rice 205 maunds @ Tk. 675 per maund; Income from lease of agricultural land Tk. 78,000; Income from salt production Tk. 15,000; Income from rubber garden Tk. 92,000; Sale of forest tree Tk. 20,000; and income from sale of fish from pond Tk. 35,000. He didn't maintain the books of accounts properly. Expenses relating to all these income are: Production costs Tk. 85,000; Land revenue paid Tk. 8,000; Interest on loan Tk. 2,300; Union parisad tax Tk. 4,275; Purchase of tractor Tk. 70,000; Repair and Maintenance cost of tractor Tk. 3,000; Maintenance of a kutcha irrigation plant Tk. 12,000 and donation to co-operative society Tk. 6,000.

Solution 9 – 4: **Mr. Masum**

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from Agriculture (Section – 26 & 27):	**Tk.**	**Tk.**	**Tk.**
Income from sale of Rice (205 × 675)	138,375		
Income from lease of agricultural land	78,000		
Income from rubber garden (92,000 × 60%)	55,200	271,575	
Less: Admissible expenses:			
1. Production costs (138,375 × 60%)	83,025		
2. Land revenue paid	8,000		
3. Interest on loan	2,300		
4. Union parisad tax	4,275		
5. Maintenance of kutcha irrigation plant	12,000	109,600	161,975

Income from Business or Profession (Section – 28):		
Income from rubber garden (92,000 × 40%)		36,800
Income from other sources (Section – 33):		
Income from salt production	15,000	
Income from sale of forest tree	20,000	
Income from sale of fish from pond	35,000	70,000
Total		**268,775**

Illustration 9 – 5:

From the given particulars of Mr. Adib Ahsan, compute taxable income for the income year 2016 – 2017: Sale of Rice 250 maunds @ Tk. 600 per maund; Sale of Jute 100 maunds @ Tk. 400 per maund; Sale of Rabi Crops Tk. 50,000; Yearly lease of agricultural land Tk. 20,000; Sale of forest timber and bamboo Tk. 6,000; Income from Tea garden Tk. 30,000; Income from Rubber garden Tk. 40,000; Income from Tobacco industry Tk. 30,000; Income from Sugar industry Tk. 50,000; Income from cattle rearing Tk. 3,000; Income from sale of Palm and Date Juice Tk. 6,000 and income from sale of Honey Tk. 5,000. Expenses for cultivation are as follows:

Cultivation Expenses	Rice and Rabi crops	Jute
Cost of seeds and fertilizer	Tk. 25,000	Tk. 7,000
Labor charge	5,000	2,000
Cost of pump machine hire	3,000	1,000
Repair expense of agri equipments	500	-
Transportation cost	2,000	500

When the income tax authority asked for books of accounts regarding cultivation expenses, Mr. Adib failed to provide proper records for Jute. Other related expenses for the year were: Union parisad tax Tk. 2,000; land revenue Tk. 1,000; crop insurance premium Tk. 2,500; Allowable depreciation Tk. 5,000; and maintenance cost of irrigation plant Tk. 4,000. He had a pump machine which was purchased at Tk. 25,000. It has become obsolete and has been discarded at Tk. 12,000. The written down value after charging depreciation on the basis of prescribed rate at the ITO, 1984 estimated at Tk. 10,000. He has taken agricultural loan of Tk. 50,000 @ 8% interest per annum.

Solution 9 – 5: **Mr. Adib Ahsan**

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from Agriculture (Section – 26 & 27):	**Tk.**	**Tk.**	**Tk.**
Sale of rice (250 × 600)	150,000		
Sale of Jute (100 × 400)	40,000		
Sale of rabi crops	50,000		
Yearly lease of agricultural land	20,000		
Income from tea garden (30,000 × 60%)	18,000		
Income from rubber garden (40,000 × 60%)	24,000		
Income from Tobacco industry (30,000 × 60%)	18,000		
Income from Sugar industry (50,000 × 60%)	30,000		
Income from cattle rearing	3,000		
Income from sale of Palm and Date juice	6,000		
Income from sale of honey	5,000		
Gain from sale of obsolete equipment (note – 2)	2,000	366,000	

Less : admissible expenses			
1. Production expenses (note – 1)	59,500		
2. Union parisad Tax	2,000		
3. Land Revenue	1,000		
4. Crop insurance premium	2,500		
5. Allowable Depreciation	5,000		
6. Maintenance cost of irrigating plant	4,000		
7. Interest from borrowed fund (50,000 × 8%)	4,000	78,000	288,000
Income from Business or profession:			
Income from tea garden (30,000 × 40%)		12,000	
Income from rubber garden (40,000 × 40%)		16,000	
Income from Tobacco industry (30,000 × 40%)		12,000	
Income from Sugar industry (50,000 × 40%)		20,000	60,000
Income from Other Sources			
Sale of forest timber and bamboo			6,000
Total Income			354,000

Notes: (1) Production costs for rice & Rabi Crops: Cost of seeds & Fertilizer Tk. 25,000 + Labor charge Tk. 5,000 + Cost of pump machine hire Tk. 3,000 + Repair expanses of agricultural equip. Tk. 500 + transportation cost Tk. 2,000 = Total Tk. 35,500 and Production Costs for jute (40,000 × 60%) = Tk. 24,000. Total production costs = (35,500 + 24,000) = Tk. 59,500. **(2)** Since accounts have not been maintained properly regarding jute cultivation, 60% of the sale proceeds have been considered as allowable production cost for jute. **(3)** Gain from sale of obsolete equipment = sales – WDV = 12,000 – 10,000 = Tk. 2,000.

Illustration 9 – 6:

Compute taxable income and tax liability of Mr. Jamir Ali, a 71 years old farmer of Bhola District, from the following particulars related to the income year ended on 30.06.17; assuming that his only source of income is agriculture and are from sale of paddy 200 maunds @ Tk. 400 per maund; sale of jute 150 maunds @ Tk. 600 per maund; sale of rabi crops Tk. 60,000; income from agricultural cooperative society which was organized for farming Tk. 25,000; income from lease of agricultural land Tk. 200,000; income from Barga Tk. 225,000; income from sale of herbal or medicinal plants Tk. 30,000; income from lease of storehouse used for storing crops Tk. 20,000; income from sale of tobacco to BATC Tk. 20,000; income from sale of sugarcane to Government Sugar mill Tk. 35,000.

Mr. Jamir Ali had a pump machine which was purchased for Tk. 40,000. To acquire an advance technology in the irrigation plant he has sold the pump machine for Tk. 40,000. At the time of sale the amount of accumulated depreciation of the pump machine was Tk. 18,000. Moreover, he also had a weighing machine which was purchased at Tk. 18,000. It has become obsolete due to a fire and the Insurance Company has given a compensation of Tk. 8,500. At the time of fire the written down value of the machine was Tk. 13,000 and after the fire the scrap value was amounted to Tk. 1,000. He didn't maintain the books of accounts properly but expenses claimed by him includes: production costs Tk. 200,000; land revenue paid Tk. 8,000; interest on loan Tk. 2,500; union parisad tax Tk. 4,000; purchase of tractor Tk. 70,000; maintenance of agricultural equipments and maintenance of the irrigation plant Tk. 12,000. In addition to it, during the year Mr. Jamir Ali also incurred different investments and expenses, which includes: Family expenses Tk. 50,000; life Insurance premium (policy value Tk. 200,000) Tk. 25,000; purchase of unlisted company's share Tk. 25,000; donation to president's relief fund Tk. 20,000; donation to a local club Tk. 6,000; donation to Government Zakat fund Tk. 30,000; and purchase of gold Tk. 27,000.

Solution 9 – 6: **Mr. Jamir Ali**

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from Agriculture (Section – 24):	Tk.	Tk.	Tk.
Income from sale of Paddy (200 × 400)	80,000		
Income from sale of Jute (150 × 600)	90,000		
Sale of Rabi Crops	60,000		
Income from Agricultural Co-operative Society	25,000		
Income from lease of agricultural land	200,000		
Income from Barga	225,000		
Income from sale of herbal or medicinal plants	30,000		
Income from lease of storehouse used for storing crops	20,000		
Income from sale of tobacco to BATC	20,000		
Income from sale of sugarcane to Government Sugar mill	35,000		
Gain on sale of pump machine (Note – 1)	18,000	803,000	
Less: Admissible expenses:			
1. Production costs (Note - 2)	189,000		
2. Land revenue paid	8,000		
3. Interest on loan	2,500		
4. Union parisad tax	4,000		
5. Maintenance of irrigation plant	12,000		
6. Loss from fire of weighing machine (Note – 3)	3,500	219,000	584,000
Less: Exemption – up to Tk. 200,000 (Note - 4)			200,000
Total			**384,000**

Calculation of investment allowance

Insurance premium (own)	Tk. 25,000	
Maximum limit: 2,00,000 X 10%	20,000	Tk. 20,000
Donation to president's relief fund		20,000
Donation to Government Zakat fund		30,000
Actual Investment		**70,000**
Maximum limit of investment:	1,50,00,000	
Or, 25% of Total income = 25% of 3,84,000	96,000	
	Lower one	**96,000**
So, Investment allowance allowed for tax credit		**70,000**
Tax credit / rebate @ 15% on allowable investment: (70,000 × 15%)		**10,500**

Calculation of Tax liability

		Rate	Tk.
On the first	Tk. 300,000	0%	Nil
On the next	84,000	10%	8,400
Total	384,000		8,400
Less: investment tax credit			10,500
Net tax liability			**(2,100)**

As the calculated tax liability is less than the minimum tax liability amount, the net tax liability of Mr. Jamir Ali will be Tk. 3,000 for the assessment year 2017-18.

Notes: (1) Calculation of gain on sale of pump machine: Cost of the machine: Tk. 40,000; Accumulated Depreciation (at the time of sale): Tk. 18,000; Written down value: Tk. 22,000; Sale proceeds: Tk. 40,000; So, Total gain [Sale proceeds – WDV]: Tk. 18,000; Capital gain [Sale proceeds – Cost price]: Nil and Gain to be considered as agricultural income [Total gain – Capital gain]: Tk. 18,000. **(2)** Allowable production cost: 60% of total sale proceeds from produced goods, i.e., 60% of (Sale of paddy Tk. 80,000 + Sale of jute Tk. 90,000 + Sale of rabi crops Tk. 60,000 + Sale of herbal or medicinal plants Tk. 30,000 + Sale of tobacco Tk. 20,000 + Sale of sugarcane Tk. 35,000) = 60% of Tk. 315,000 = Tk. 189,000. **(3)** Losses due to discard of weighing machinery: WDV of the machine Tk. 13,000 Less: Scrap value 1,000 less: Compensation received Tk. 8,500 = Loss from fire of weighing machine Tk. 3,500. **(4)** Since he has only agricultural income, upto Tk. 200,000 is exempted from tax. **(5)** Since further processing was absent in case of tobacco and sugarcane, the entire amounts have been considered as agricultural income. **(6)** As the assessee is more than 65 years old, the minimum non-assessable limit is Tk. 300,000 for the assessment year 2017-18.

Illustration 9 – 7:

Compute taxable income and tax liability of Mr. Taleb Ali, from for the income year ended on 30th June, 2017 considering his income from the following sources:

Sale of Paddy 1,000 maunds @ Tk. 400 per maund; sale of Jute 500 maunds @ Tk. 600 per maund sale of Rabi Crops Tk. 160,000; income from lease of agricultural land; Tk. 100,000; income from Fisheries Tk. 125,000; income from mushroom farming Tk. 130,000; income from Sale of tea Tk. 200,000; and income from Dairy farming Tk. 120,000.

He didn't maintain the books of accounts properly but claimed expenses for production costs Tk. 200,000; land revenue paid Tk. 8,000; interest on loan Tk. 2,500; union parisad tax Tk. 4,000; Purchase of tractor Tk. 70,000; and maintenance of the irrigation plant Tk. 12,000. In addition to it, during the year Mr. Taleb Ali also incurred investments and expenses, which includes: family expenses Tk. 50,000; life Insurance premium (policy value Tk. 200,000) Tk. 25,000; purchase of cow for dairy firm Tk. 125,000; donation to prime minister's higher education fund Tk. 20,000; purchase of 5 year Bangladesh Savings Certificate Tk. 100,000; donation to Government Zakat fund Tk. 30,000; and purchase of gold Tk. 27,000.

Solution 9 – 7:

Mr. Taleb Ali

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from Agriculture (Section – 24):	**Tk.**	**Tk.**	**Tk.**
Income from sale of Paddy (1,000 × 400)		400,000	
Income from sale of Jute (500 × 600)		300,000	
Sale of Rabi Crops		160,000	
Income from lease of agricultural land		100,000	
Income from Sale of tea (200,000 × 60%)		120,000	
Agricultural Income on which reduced tax rates (3%) are applicable:		1,080,000	
Income from fisheries	125,000		
Income from mushroom farming	130,000		
Income from dairy farming	120,000	375,000	
Less: Admissible expenses:		1,455,000	
1. Production costs	516,000		
2. Land revenue paid	8,000		
3. Interest on loan	2,500		

4. Union parisad tax	4,000	
5. Maintenance of kutcha irrigation plant	12,000	542,500
Income from Business and Profession :		912,500
Income from Sale of tea (200,000 × 40%)		80,000
Total		**992,500**

Calculation of investment allowance

Insurance premium (own)	Tk. 25,000	
Maximum limit: 2,00,000 X 10%	20,000	Tk. 20,000
Donation to PM's higher education fund		20,000
Purchase of 5 year Bangladesh Savings Certificate		100,000
Donation to Government Zakat fund		30,000
Actual Investment		**170,000**

Maximum limit of investment: Lower of Tk. 15,000,000 and 25% of total income i.e., 25% of 992,500 or Tk. 248,125. As actual investment is within the maximum limit, investment allowance allowed for tax credit is on Tk. 170,000 @ 15% i.e., investment tax credit is Tk. 25,500.

Calculation of Tax liability

		Rate	Tk.
On the first	Tk. 2,50,000	0%	Nil
On the next	3,67,500	10%	36,750
On reduce rate income	3,75,000	3%	11,250
Total	9,92,500		48,000
Less: investment tax credit			25,500
Net tax liability			**22,500**

Illustration 9 – 8:

Mr. Hatem Ali, a new entrepreneur, started his agricultural firming activities after passing from Bangladesh Agricultural University. He is very aware of the reduced rate of taxes for some typical nature of agricultural income and involved himself into those activities. During the income year 2016-17 his agricultural incomes were: sale of pelleted poultry feed Tk. 200,000; sale of locally produced seeds Tk. 200,000; income from cattle farming Tk. 200,000; income from Dairy farming Tk. 100,000; income from bee keeping Tk. 200,000; and Income from sale of flowers Tk. 800,000.

He maintained the books of accounts properly and claimed Tk. 500,000 as admissible expenses. In addition to it, during the year he has invested Tk. 200,000 in Dhaka Stock Exchange through secondary market shares. Compute taxable income and tax liability of Mr. Hatem Ali, for the income year ended on 30th June, 2017

Solution 9 – 8:

Mr. Hatem Ali

Income year: 2016 – 2017; Assessment year: 2017 – 2018

Calculation of Total Income

Income from Agriculture (Section – 24):	**Tk.**	**Tk.**	**Tk.**
Sale of pelleted poultry feed		200,000	
Sale of seeds		200,000	
Income from cattle farming		200,000	

Income from dairy farming	100,000	
Income from bee keeping	200,000	
Sale of flowers	800,000	
	1,700,000	
Less: Admissible expenses:	500,000	
Total		**1,200,000**

Calculation of investment allowance: Purchase of shares Tk. 200,000 is the actual investment.

Maximum limit of investment: Lower of Tk. 15,000,000 and 25% of total income i.e., 25% of 1,200,000 or Tk. 300,000. As actual investment is within the maximum limit, investment allowance allowed for tax credit is on Tk. 200,000 @ 15% i.e., investment tax credit is Tk. 30,000.

Calculation of Tax liability*

		Rate	Tk.
On the first	Tk. 10,00,000	3%	30,000
On the next	2,00,000	10%	20,000
Total	12,00,000		50,000
Less: investment tax credit			30,000
Net tax liability			**20,000**

* Here the rate has been considered as per **[SRO No. 199-AIN/IT/2015 dated 01/07/2015]**

KEY POINTS

1. Agricultural income means income generated by means of agriculture and even also from sale of produce which was processed only to make them marketable.
2. Generation of income by granting a right to any person to use the land for any period is also an agricultural income.
3. Gain on sale of machineries exclusively used for agricultural purpose is an agricultural income whereas loss from such sale is an admissible expense.
4. If compensation money received against demolished machinery or plant exclusively used for agricultural purpose then the compensation is also an income provided that compensation money cannot exceed the difference between original costs and the written down value less the scrap value.
5. In case of partial agricultural income like, income from sale of tea, rubber, sugar mill and tobacco, 60% of the income should be considered as income from agriculture provided sugar cane and tobacco should also produce in the land owned by the assessee.
6. When no books of account are maintained, 60% of the sales proceed of agricultural produce will be allowed as the production cost.
7. Depreciation is an admissible expense but subject to prescribed rates only.
8. Income from sale of produce that grow up in the agricultural land without agricultural works is not an agricultural income.
9. Royalty from lease of mine, fish hunting, ship anchor etc. are not an agricultural income.
10. When agriculture is the only source of income, an assessee is allowed to get an exemption of a maximum amount of Tk. 200,000.

Multiple Choice Questions:

1. Agricultural income means any income derived from any of the following activities, except –
   (a) produce that grow up in the agricultural land without agricultural works
   (b) any process to make the produce marketable
   (c) granting a right to any person to use the land for any period
   (d) from any building or its surrounding area occupied by the cultivator for agricultural purpose
2. A weighing machine that has a cost of Tk. 22,000 with a written down value of Tk. 18,000 has been sold out for Tk. 25,000. How much gain should be considered as agricultural income –
   (a) Tk. 7,000
   (b) Tk. 4,000
   (c) Tk. 25,000
   (d) Tk. 18,000
3. How much income from sale of rubber or tea should be considered as agricultural income –
   (a) 100%
   (b) 80%
   (c) 60%
   (d) 40%
4. How much income coming out from tea / rubber garden should be considered as business income –
   (a) 100%
   (b) 80%
   (c) 60%
   (d) 40%
5. How much of the agricultural income is exempted when agriculture is the only source of income of an assessee:
   (a) Tk. 200,000
   (b) Tk. 400,000
   (c) Tk. 2,75,000
   (d) Tk. 3,00,000
6. Where books of accounts in respect of production cost is not maintained by the assessee, how much expense is admissible as production cost –
   (a) 40% of the produce's market value
   (b) 60% of the produce's market value
   (c) 80% of the produce's market value
   (d) cost as reported by the assessee
7. What percentage of depreciation is allowed for weighing machine as admissible expense –
   (a) 5%
   (b) 10%
   (c) 15%
   (d) 20%
8. What percentage of depreciation is allowed for tractor as admissible expense –
   (a) 5%
   (b) 10%
   (c) 15%
   (d) 20%

9. Which of the followings is an example of typical agricultural income –
   (a) Royalty against lease of mine
   (b) Income from poultry farm
   (c) Sale of forest wood
   (d) Fish hunting
10. Which of the followings is not an example of typical agricultural income –
   (a) income from cattle rearing
   (b) income from tobacco and palm tree
   (c) income from poultry farm
   (d) income from sale of water used for irrigation

Identify the following statements as True (T) or False (F):

Statement	
1. By granting a right to any person to use the agricultural land for any period is not an agricultural income.	T F
2. Total gain from sale of agricultural assets is an agricultural income.	T F
3. 40% of income from sale of tea and rubber should be considered as income under the head 'Income from Business and Profession'.	T F
4. For pucca irrigation channel depreciation is allowable @ 15%.	T F
5. Income from cattle rearing is a non-agricultural income.	T F

Discussion Questions:

Question 9 – 1: Define agricultural income as per the ITO, 1984.
Question 9 – 2: State the characteristics of agricultural income.
Question 9 – 3: Discuss the classification of agricultural income.
Question 9 – 4: Explain the nature of partly agricultural and typical agricultural income with examples.
Question 9 – 5: What expenses are admissible in the computation of agricultural income?
Question 9 – 6: How would you compute income from the following sources:
(a) Income from tea garden
(b) Income from rubber garden
Question 9 – 7: **"Any income of a farmer is to be treated as agricultural income"** – do you agree? Explain.
Question 9 – 8: Discuss the provisions of set off and carry forward of losses of agricultural income.
Question 9 – 9: What is meant by non-assessable agricultural income?
Question 9 – 10: Write short note on:
(a) Partly agricultural income
(b) Production cost as an admissible expense
(c) Non agricultural income
(d) Depreciation allowance

Problem 9 – 1:
Compute taxable income for Mr. Moin considering **(a)** he did not keep proper books of accounts **(b)** he kept necessary books of accounts. Particulars of agricultural income for Mr. Moin for the income year ended 30th June, 2017 are: Sale of Paddy 80 maunds @ Tk. 500 per maund; Sale of Jute 120 maunds @ Tk. 800 per maund; Sale of tea Tk. 70,000; Sale of Rabi crops Tk. 87,000; and Income

from Barga Tk. 10,000. Expenses relating to all these income are: Cost of seeds and fertilizer Tk. 35,000; Cultivation costs Tk. 53,000; Transportation costs Tk. 8,000; Ordinary processing costs Tk. 9,000; Land revenue paid Tk. 5,000; Union parisad tax Tk. 5,400; Crop insurance premium Tk. 10,600; Allowable depreciation Tk. 4,000; and Interest on borrowed fund Tk. 3,800.

Problem 9 – 2:

Mr. Rusho Rahman is a farmer whose only income is from agriculture. Particulars of Mr. Rusho Rahman for the year ended on 30th June, 2017 are: Sale of rice 110 maunds @ Tk. 650 per maund; Sale of potato 400 maunds @ Tk. 165 per maund; Income from Borga Tk. 20,000; Income from lease of Agricultural land Tk. 30,000; and Income from poultry farm Tk. 42,000. Expenses relating to all these income are as follows: Cost of seeds and fertilizer Tk. 30,700; Labor charge Tk. 39,200; Maintenance costs of agricultural equipments Tk. 1,800; Union parisad tax Tk. 3,900; Crop insurance premium Tk. 6,800; and Depreciation on tractor @ 20% Tk. 16,000. Mr. Rahman has borrowed fund from Grameen Bank Tk. 60,000 at an interest rate of 14% per annum as on January 01, 2016. Allowable depreciation for tractor as per third schedule of income tax ordinance, 1984 is at the rate of 15%. Compute taxable income for Mr. Rusho Rahman.

Problem 9 – 3:

Particulars of Mr. Lutfur Rahman for the year ended 30th June, 2017 are: Sale of Jute 250 maunds @ Tk. 650 per maund; Sale of Rice 112 maunds @ Tk. 580 per maund; Income from lease of agricultural land Tk. 28,000; Income from ferry ghat Tk. 5,000; Income from tea garden Tk. 80,000; Income from Sugar industry Tk. 100,000; and Income from sale of honey Tk. 4,500. Expenses relating to all these income are as follows: Land revenue paid Tk. 8,500; Crop insurance premium Tk. 8,300; Allowable depreciation Tk. 4,250; Interest on mortgage loan Tk. 3,750; Maintenance costs for irrigation plant Tk. 6,200; and Union parisad tax Tk. 5,450. Mr. Rahman had a weighing machine which was purchased at Tk. 10,500. It has become obsolete and has been discarded at Tk. 3,500. At the time of sales the written down value of the machine was 5,200. When asking for proper books of accounts Mr. Rahman failed to provide any supporting documents for production costs though he claimed Tk. 195,720 as production costs. Compute taxable income for the year.

Problem 9 – 4:

Compute taxable income of Mr. Ali from the given particulars related to the year ended 30th June, 2017: Sale of Rice 183 maunds @ Tk. 650 per maund; Income from lease of agricultural land Tk. 28,000; Income from salt production Tk. 18,000; Income from rubber garden Tk. 67,000; Income from sale of forest tree Tk. 32,000; and Income from sale of fish from pond Tk. 24,000. Expenses relating to all these income are: Production costs Tk. 67,000; Land revenue paid Tk. 7,200; Interest on loan Tk. 2,250; Union parisad tax Tk. 3,300; Purchase of tractor Tk. 85,000; Development of a new kutcha irrigation plant Tk. 8,000; and Donation to co-operative society Tk. 4,000.

Problem 9 – 5:

Compute taxable income of Mr. Enamul for the income year 2016 – 2017 considering: Sale of Rice 155 maunds @ Tk. 650 per maund; Sale of Jute 210 maunds @ Tk. 385 per maund; Sale of Rabi Crops Tk. 87,500; Yearly lease of agri. land Tk. 25,500; Sale of Bamboo Tk. 3,200; Income from Tea garden Tk. 70,000; Income from Rubber garden Tk. 65,000; Income from cattle rearing Tk. 4,400; Income from sale of Palm Juice Tk. 8,700; and Income from sale of Honey Tk. 4,300.

Expenses for cultivation are as follows:

	Rice and Rabi crops	Jute
Cost of seeds and fertilizer	Tk. 28,000	Tk. 6,000
Labor charge	15,000	5,000
Cost of pump machine hire	2,700	1,300
Repair expense of agri equipments	1,200	-
Transportation expenses	1,800	700

When the income tax authority ask for books of accounts regarding cultivation expenses, Mr. Enamul failed to provide proper records for Rice and Rabi crops. His other expenses are: Union parisad tax Tk. 3,500; Land revenue Tk. 1,200; Crop insurance premium Tk. 4,500; Allowable depreciation Tk. 4,800; Maintenance cost of irrigation plant Tk. 3,750. He had a pump machine which was purchased at Tk. 32,000. It has become obsolete and has been discarded at Tk. 8,000. The written down value after charging depreciation at ITO prescribed rate estimated at Tk. 8,500. He has taken agricultural loan Tk. 45,000 @ 8% interest p.a.

Problem 9 – 6:

Compute taxable income and tax liability of Mr. Athar Ali, a 67 years old farmer, from the particulars related to the income year ended on 30th June, 2017, which are:

- **(i)** Sale of Paddy 200 maunds @ Tk. 400 per maund;
- **(ii)** Sale of Jute 150 maunds @ Tk. 600 per maund;
- **(iii)** Sale of Rabi Crops Tk. 60,000;
- **(iv)** Income from agricultural co-operative society which was organized for farming Tk. 25,000;
- **(v)** Income from lease of agricultural land Tk. 100,000;
- **(vi)** Income from Barga Tk. 125,000;
- **(vii)** Income from sale of herbal or medicinal plants Tk. 30,000;
- **(viii)** Income from lease of storehouse used for storing crops Tk. 20,000;
- **(ix)** Income from tobacco industry Tk. 20,000;
- **(x)** Income from sale of sugar Tk. 35,000; and
- **(xi)** Income from sale of tea Tk. 20,000.

Mr. Athar Ali had a pump machine which was purchased for Tk. 40,000. To acquire an advance technology in the irrigation plant he has sold the pump machine for Tk. 42,000. At the time of sale the amount of accumulated depreciation of the pump machine was Tk. 18,000. Moreover, he also had a weighing machine which was purchased at Tk. 18,000. It has become obsolete and has been discarded at Tk. 9,500. At the time of sale the written down value of the machine was Tk. 13,000.

He didn't maintain the books of accounts properly. Expenses claimed by him are: Production costs Tk. 200,000; Land revenue paid Tk. 8,000; Interest on loan Tk. 2,500; Union parisad tax Tk. 4,000; Installation of irrigation plant Tk. 70,000; Maintenance of the irrigation plant Tk. 12,000.

In addition, during the year Mr. Athar Ali also incurred the investments and expenses for:

- **(i)** Family expenses Tk. 50,000;
- **(ii)** Life Insurance premium (policy value Tk. 3,00,000) Tk. 25,000;
- **(iii)** Purchase of debenture from primary market Tk. 25,000;
- **(iv)** Donation to Aga Khan Development Network Tk. 20,000;
- **(v)** Donation to a local mosque Tk. 6,000;
- **(vi)** Donation to Government Zakat fund Tk. 30,000; and
- **(vii)** Purchase of Furniture Tk. 27,000.

Answers:

Multiple choice questions		True/False
1. a	6. b	1. F
2. b	7. b	2. F
3. c	8. c	3. T
4. d	9. b	4. T
5. a	10. d	5. F

Self review 9 – 1:

Cost of the machine	: Tk. 80,000
Written down value	: Tk. 55,000
Sales proceeds	: Tk. 63,000
Total gain	: Tk. 8,000

This total gain will consider as agricultural income as no capital gain arises out of this sales.

Self review 9 – 2:

(a)

	Tk.	Tk.
Sale (100×600)		60,000
Less: admissible expenses-		
Production costs [60,000 X 60%]	36,000	
Union parisad tax	2,500	
		38,500
		21,500

(b)

	Tk.	Tk.	Tk.
Sale			60,000
Less: admissible expenses-			
Production costs			
Cost of seeds	15,000		
Labor cost	18,000		
Transportation cost	3,000		
Ordinary processing cost	4,000		
		40,000	
Union parisad tax		2,500	
			42,500
			17,500