

CHAPTER - 10

INCOME FROM BUSINESS OR PROFESSION

LEARNING OBJECTIVES

After studying Chapter 10, you shall be able to understand:

- ⊕ the concept of income from business or profession
- ⊕ allowable deductions under the head
- ⊕ inadmissible expenses under the head
- ⊕ method of accounting
- ⊕ depreciation allowance
- ⊕ the concept of balancing allowance, balancing charge and capital gain

According to Income Tax Law applicable in Bangladesh, incomes are to be categorized in seven (7) specific heads as mentioned in section 20 of ITO, 1984. Income from business or profession is the fifth head although the head is the most complex one and is of paramount importance to the income tax authority as most of the taxes (in terms of volume) are collected under this head. Here, the authors have tried to make the complex issue as simple as possible for the readers to make it more informative and interesting.

10.1 BUSINESS & PROFESSION

10.1.1 Meaning of Business

The word 'Business' is defined in Section 2(14) to include any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture. Though the definition is not exhaustive, it covers every facet of an occupation carried on continuously and systematically by a person by the application of his labor and skill with a view to earning profit. To regard an activity as a business, there must be a course of dealings, either actually continued or contemplated to be continued with a profit motive and not for sport or pleasure. It is not necessary that business should always consist of activities of trade commerce or manufacture. Even activities of rendering services to others fall within the four corners of the expression 'business'. Thus, the definition of business being an inclusive definition and not being exhaustive is indicative of extension and expansion and not restriction.

Explanation:

1. **Business includes trade:** The term 'trade' is defined by the Shorter Oxford English Dictionary as "the practice of some occupation, business or profession habitually carried on, especially when it is practiced as a means of livelihood or gain". In general, trade implies buying goods and selling them to make profit.
2. **Business includes commerce:** If a person purchases goods with a view to sell them at profit, it is an ordinary case of trade. But for commerce transactions are repeated on a large scale.
3. **Business includes manufacture:** The word "manufacture" is defined by the Oxford English Dictionary as making of articles or materials by physical labor or mechanical power. Manufacture is a process which results in an alteration or change in goods which are subjected to such manufacture. In a manufacturing process raw materials are purchased and processed to get the final consumable products.

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4. **Business includes adventure or concern in the nature of trade, commerce or manufacture:** The word 'business' in its commercial sense implies an element of continuity. But the income-tax law does not require any series of transactions to constitute business. Even a single and isolated transaction may fall within the definition of business as being an adventure in the nature of trade, provided the transaction bears clear indication of trade. A transaction can be termed as an adventure in the nature of trade, commerce or manufacture if some elements of trade or business are present therein and not necessarily all elements be present. A single plunge may be enough, provided it is clearly demonstrated that the plunge is made in the water of trade, like, research & development, new product development, etc.

10.1.2 Meaning of Profession:

Profession involves the idea of an occupation requiring purely intellectual skill or manual skill on the basis of some special learning. There should be some special qualification of a person apart from skill and ability, which is required in carrying on any activity which could be considered as a profession. This could be having education in a particular system either in a college, university or institute or it may be even by experience. Examples of profession are doctor, lawyer, auditor, architecture, painter, sculpture, surgery etc. As per Section 2(49), profession includes vocation. The term 'vocation' refers to any activity on which a person spends a major part of his time in order to earn his livelihood. Such as hawker, ferryman, carpenter, potter, social works, preaching religion, singer, actor etc.

10.1.3 Distinction between Business, Profession is of no Importance:

Distinction between business, profession and vocation is of no importance in the computation of taxable income. What does not amount to "profession" may amount to "business" and what does not amount to "business" may amount to "vocation". The Act treats them on an equal footing and the charging provisions for computing taxable income are the same for all of them.

10.2 SCOPE OF INCOME FROM BUSINESS AND PROFESSION [SECTION – 28]

The following income of an assessee shall be classified and computed under the head 'income from business or profession', namely:

- (a) Profits and gains of any business or profession carried on, or deemed to be carried on, by the assessee at any time during the income year;
- (b) Income derived from any trade or professional association or other association of like nature on account of specific services performed for its members;
- (c) Value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession;
- (d) The amount, value of the benefit and the trading liability referred to in sec 19(15); e.g.
 - ⊕ Any amount received whether in cash or in any other manner as collection of any loss charged earlier; any bad debt that was written off in an earlier period;
 - ⊕ Any amount previously charged as interest expense but remained unpaid for three income years shall be deemed to be the income during the income year immediately following the expiry of the said three years;
 - ⊕ Any benefits received in respect of trading liability should be the income in the year of such receipt if not considered earlier;
 - ⊕ If any trading liability, either in part or full, has not been paid in 3 years after the deduction made in this respect, such amount be deemed to be the income during the income year immediately following the expiry of the said 3 year;

- (e) The excess amount referred to in section 19(16); for example – the balancing charge of any building, machinery, plant used for the purpose of business or profession, disposed of.

Example: Suppose, a machine was sold at Tk. 80,000 with a written down value of Tk. 50,000 and was originally purchased at Tk. 70,000. In this case, the total gain on sale will be Tk. 30,000 (sale proceeds minus WDV). Now, whether this gain can be shown as balancing charge? As per rule, balancing charge must not exceed Tk. 20,000 (original cost minus WDV). Hence, total gain of Tk. 30,000 will be distributed as Tk. 10,000 as capital gain (Sale Proceeds minus Original Cost) and Tk. 20,000 as balancing charge (Sale Proceeds minus WDV). So balancing charge is nothing but the revenue gain that can be shown as income under this head. Whereas, capital gain will be shown as income under the head of capital gain. In this case, if the machine was sold less than the original cost, say, at Tk. 60,000, there will be no capital gain. The balancing charge in this case would be Tk. 10,000 (Tk. 60,000 – Tk. 50,000) only.

- (f) The excess amount referred to in section 19(18); for example - Insurance compensation received against any building, machineries or plant, used for the purpose of business or profession, that is demolished, destroyed or discarded to the extent the amount equals to balancing charges.

Example: Suppose a machine with Tk. 70,000 original cost and Tk. 50,000 written down value is totally destroyed by fire against which there is an active insurance policy. If Tk. 60,000 can be recovered from the insurance company, then balancing charge will be Tk. 10,000 (Recoverable value minus WDV) which must not exceed Tk. 20,000 (Original Cost minus WDV). In such case, there is no chance of having capital gain. But the maximum amount of balancing charge will further be reduced, if any money can be recovered through scraping. If, in this situation, the burnt machine can be sold in the market as a scrap value of Tk. 2,000, maximum amount for balancing charge will be Tk. 18,000 (Original Cost minus WDV minus Scrap Value)

- (g) The sale proceeds referred to in section 19(20); for example – sale proceeds of any asset used for scientific research to the extent such proceeds do not exceed the amount of expenditure allowed as deduction under section 29(1)(XX).
- (h) The amount of income under section 19(23); for example – 3% (Rule 30A) of the export value of the garments exportable against the export quota as transferred to any assessee.

Partial income under the head as per different rules:

- (a) Income derived from the sale of *tea* grown and manufactured by the seller in Bangladesh shall be computed as if 40% of such income was derived from business and 60% of such income was derived from agriculture (Rule 31);
- (b) Income derived from the sale of *rubber* grown and manufactured by the seller in Bangladesh shall be computed as if 40% of such income was derived from business and 60% of such income was derived from agriculture (Rule 32);
- (c) Tobacco, sugar or other agricultural products that needs industrial process to make it marketable. Here, income from business will be (Final Sale Proceeds – Fair value of the raw materials produced). (Rule 30)

Explanation: no further deduction shall be made in respect of any expenditure incurred by the assessee as a cultivator or receiver of the produce in kind.

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- (a) If an asset is sold at taka 100,000 with initial cost of taka 70,000 and WDV of taka 60,000. Compute capital gain and balancing charge.
- (b) How much of the income derived from the production and manufacturing of tea should be shown as income from business?

10.3 ALLOWABLE DEDUCTIONS / ADMISSIBLE EXPENSES:

10.3.1 Under IT Ordinance, 1984 (Sec 29) –

Under section 29 of the ITO 1984, certain expenses are allowed for deduction though this is not an exhaustive one. Ideally any business related expenses or losses can be deducted to compute the profits and gains if that is required for the normal course of business. But the expenses for future liability settlement are not allowed as allowable deduction (except some exceptions like the bad and doubtful debt for banks). As per Section 29, the following allowances and deductions shall be allowed in computing the income under the head “Income from Business and Profession”, namely:

- (a) **Rent of Premise:** The amount of any rent paid for the premises in which the business of profession is carried on; [sec 29(1)(i)]

Proportional rent is allowed for deduction if premises are partially used for dwelling and no deduction is allowed if the house is owned by the assessee.

- (b) **Repair of Hired Premise:** The amount paid for repairs of hired premises in which the business or profession is carried on if the assessee has undertaken to bear the cost of such repair; [sec 29(1)(ii)]

Proportional rent is allowed for deduction if premises are partially used for dwelling.

- (c) **Interest on Borrowed Capital:** The amount of interest paid or and profit shared with a bank run on Islamic principles in respect of capital borrowed for the purpose of the business or profession; [sec 29(1)(iii)]

If such capital relates to replenishing the cash or to any other asset transferred to any other entity, when lending of money is not the business of transferor, the interest expenses or profit should be proportionate to the extent relates to assessable part only.

- (d) **Distribution of Profit:** Any sum paid by way of profit by a bank run on Islamic principles on deposits; [sec 29(1)(iv)]
- (e) **Transfer to Special Reserve Account:** Amount carried to any special reserve not exceeding 5% of total income by such financial institutions as approved by the Government provided that the aggregate amount standing in such reserve does not exceed the paid up share capital of the institution; [sec 29(1)(v)]
- (f) **Current Repairs:** Amount paid due to current repairs to buildings, machinery, plant or furniture used for the purpose of business or profession; [sec 29(1)(vi)]
- (g) **Insurance Premium:** Insurance premium paid for policy purchased against risk of damage, destruction or loss of buildings, machinery, plant, furniture, stocks or stores that relates to business or profession; [sec 29(1)(vii)]
- (h) **Depreciation:** Depreciation allowances of business assets or bridge or road or fly over owned by a physical infrastructure undertaking as admissible under the third schedule; [sec 29(1)(viii)]

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- (i) **Amortization of License Fee:** As admissible under the 3rd Schedule [Sec 29(1)(viiiia)]
- (j) **Investment Allowance for Ships:** Investment allowance to an amount equivalent to 20% of the original costs for a ship being a passenger vessel plying ordinarily on inland waters, or a fishing trawler, which is entitled to a special depreciation allowance under paragraph 8 of the Third Schedule for the year in which the ship or the trawler is first put to use for public utility; [sec 29(1)(ix)]
- (k) **Obsolescence allowance:** computed in the manner specified in paragraph 10 of the Third Schedule if any building, machinery, plant or any other fixed asset not being imported software, has been discarded, demolished or destroyed or has been sold or transferred; i.e. Obsolescence allowance = WDV – Sale proceeds [sec 29(1)(xi)]
- (l) **Allowance for Disabled or Dead Animals:** Write off allowance for animals if it has died or become permanently useless, an amount equivalent to the difference between the original cost and the sum, if any, realized by sale or other disposition of the carcass of the animal; [sec 29(1)(xii)]
- (m) **Land Development Tax or Local Taxes:** Any sum paid on account of land development tax or rent, local rates or municipal taxes in respect of any premises used by the assessee for the purpose of business or profession; [sec 29(1)(xiii)]
- (n) **Bonus or Commission:** Any bonus or commission paid to the employees for services rendered (not payable as profits or dividends), that fulfills followings: [sec 29(1)(xiv)]
- ⊕ If paid in line with the general practice of similar business or profession,
 - ⊕ If the business or profession reports operating profit in the year,
 - ⊕ If paid according to the service and other rules of the employee,
- (o) **Bad Debt:** The amount of any debt that has become established as irrecoverable and has actually been written off during the income year; for banking or money lending business carried on by the assessee, it would represent money lent in the ordinary course of business; [sec 29(1)(xv)]
- (p) **Old Bad Debt:** Any debt actually written off and irrecoverable but not established as such and was not allowed earlier if established in the income year would be allowed as a deduction; [sec 29(1)(xvi)]
- (q) **Additional Bad Debt:** Any debt actually written off as irrecoverable for an income year and the DCT is satisfied that the debt become irrecoverable in an earlier income year not falling beyond four years immediately preceding the income year when it was written off; [sec 29(1)(xvii)]
- (r) **Provision for Bad and Doubtful Debts:** Provision for bad and doubtful debts made by certain banks were applicable for some assessment years. But for the assessment year 2013-14 this is not admissible. [Sec 29(1)(xviiiia) and 29(1)(xviiiiaa)]
- If any amount out of the amount so allowed is ultimately recovered, the same shall be deemed to be a profit of the year in which it is recovered.
- (s) **Expenditure on Scientific Research:** Any revenue expenditure laid out or expended on scientific research in Bangladesh related to the business carried on by the assessee; [sec 29(1)(xix)]
- (t) **Payment for Scientific Research:** Any capital expenditure laid out or expended on scientific research in Bangladesh related to the business carried on by the assessee; [sec 29(1)(xx)]

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If this deduction is allowed in any income year, no depreciation on such asset would be allowed under clause (viii) or (ix).

- (u) **Donation to Research Body:** Any sum paid to a scientific research institute, association or other body engaged in such scientific research, or to a university, college, technical school or other institution, approved by the board, for the purpose of scientific research or technical training related to the class of training carried on by the assessee; [sec 29(1)(xxi)]
- (v) **Payment to Educational Institution or Hospital:** Any revenue expenditure laid out or expended on any educational institution or hospital established for the benefit of the employees of the assessee, their families and dependents or on the training of industrial workers; [sec 29(1)(xxii)]

Provided that the services provided or training imparted is free of cost and no deduction or allowance is claimed for such expenditure under any other clause.

- (w) **Donation to Educational Institution or Hospital:** Any capital expenditure laid out or expended on the construction and maintenance of any educational institution or hospital established for the benefit of the employees of the assessee, their families and dependents or on any institute for the training of industrial workers; [sec 29(1)(xxiii)]

Provided that the services provided or training imparted is free of cost and no deduction or allowance is claimed for such expenditure under any other clause.

- (x) **Expenditure on Training :** Any expenditure laid out or expended on the training of citizens of Bangladesh related to a scheme approved by the board; [sec 29(1)(xxiv)]
- (y) **Expenses on Traveling Abroad as a member of Trade Delegation:** Any revenue expenditure incurred by an assessee in connection with visits abroad as a member of a trade delegation sponsored by the government; [sec 29(1)(xxv)]
- (z) **Subscription to a Registered Trade Organization:** Any sum paid on account of annual membership subscription to a registered trade organization within the meaning of the Trade Organizations Ordinance, 1961 or to a professional institution recognized by the board; [sec 29(1)(xxvi)]
- (aa) **Other Revenue Expenditures:** Any revenue, not personal, expenditure laid out or expended wholly and exclusively for the purpose of the business or profession of the assessee; [sec 29(1)(xxvii)]

10.3.2 Under IT Rules, 1984 –

Under IRO, 1984, some deductions are allowed upto a certain limit as follows:

- (a) **Entertainment Expense [Rule 65]:**

Income, profits and gains of the business and profession (before charging such allowance)	Allowable rate
On the first Tk. 10 lakh	4%
On the balance / rest of the amount	2%

- (b) **Foreign Travel Allowance of Employees [Rule 65A]:**
Foreign travels for holidays and recreation of an employee and his dependants (spouse and minor children including step and adopted children) for once in every two years to the extent of 3 months basic or three-fourths of the actual expenditure,

whichever is less, shall be admissible; But in this regard, payment exceeding Tk. 10,000 shall not be allowed as a deduction unless such payment is made by a crossed check drawn on a bank or by a crossed bank draft.

(c) Free Sample Distribution [Rule 65C]:

Expenditure on distribution of free sample is admissible as given below:

Ceiling of Turnover	Pharmaceutical Industries	Food, Cosmetics and toiletries Industries	Other Industries
Up to Tk. 5 crore	2.00 %	1.00%	0.50 %
Above Tk. 5 crore to Tk. 10 crore	1.00 %	0.50%	0.25%
Above Tk. 10 crore	0.50%	0.25%	0.10%

10.3.3 Admissible Business Losses:

It is obvious that business profit cannot be computed without allowing a business loss. A trading loss of business is deductible in computing the profit earned by the business even though there is no specific provision in the Act for allowance thereof. Business losses can be allowed as deduction only if the following conditions are satisfied:

- Condition 1:** Losses should be revenue in nature.
- Condition 2:** Losses should be incurred during the income year.
- Condition 3:** Losses should be incidental to the business or profession carried on by the assessee.
- Condition 4:** It should not be notional or fictitious.
- Condition 5:** It should have been actually incurred and not merely anticipated to incur in future.
- Condition 6:** There should not be any, direct or indirect, restriction under the Act against the deductibility of such loss.

In following cases, it has been held that the loss is incidental to business and is deductible in computing the income chargeable under "Income from Business and Profession":

- (a) Loss of stock-in-trade as a result of enemy action, or arising under similar circumstances;
- (b) Loss of stock-in-trade due to destruction by fire and other natural calamities or due to an act of God;
- (c) Loss arising because failure on the part of the assessee to accept delivery of goods;
- (d) Depreciation in funds kept in foreign country for purchase of stock-in-trade;
- (e) Loss due to exchange rate fluctuations of foreign currency held on revenue account;
- (f) Loss arising from sale of securities held in the regular course of business;
- (g) Loss of cash and securities in a banking company on account of burglary (may be after banking hours);
- (h) Loss incurred on realization of amount advanced in connection with business;
- (i) Loss of security deposited for the purposes of acquisition of stock-in-trade;
- (j) Loss caused due to breach of contract for delivery of goods by either party;
- (k) Loss on account of embezzlement by an employee;
- (l) Loss caused due to forfeiture of a deposit made by the assessee for properly carrying out of contract for supply of commodities;

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- (m) Loss incurred due to theft or burglary in factory premises during working hours;
- (n) Loss of raw material, finished goods in transit;
- (o) Loss arising from negligence or dishonesty of employees;
- (p) Loss incurred on account of insolvency of banker with which current account is maintained by the assessee;
- (q) Loss incurred due to freezing of the stock-in-trade by enemy action;
- (r) Loss incurred by a sugar manufacturing company by foregoing advance made to sugarcane growers who used to sell sugarcane crop exclusively to the company;
- (s) Loss because non-recovery of advances given by the assessee-company (engaged in the business of financing its subsidiaries) to its 100 percent subsidiary company;
- (t) Loss incurred by a holding company which has guaranteed a loan taken by its subsidiary company;

Note: Where an assessee seeks to deduct from his business profits certain losses, the onus of proving that such loss occurred, falls on him.

10.3.4 Other Admissible Expenses under Accounting Principles –

Section 29 of IT Ordinance, 1984 and Rule 65 of IT Rules, 1984 deals with specific issues regarding allowable deductions where the practitioners may have chance to charge wrong amount as deductions if there is no specific provisions or guidelines over those issues. But apart from the issues discussed, there may be a lot of other expenses incurred by the assessee for continuing his business or profession. In those cases, general accounting principles will be applied to decide whether the expense is deductible or not.

These expenses may also be discussed in terms of *Residuary or Omnibus Clause* under section 29(1)(xxvii). Some of such expenses are pointed out below:

- ⊕ Revenue expenditure on publicity, campaign and advertisement;
- ⊕ Accounting and audit fees;
- ⊕ Compensation to employees or directions due to dismissal, suspense;
- ⊕ Compensation to an employee for injury or accident met while on duty;
- ⊕ Litigation expenses / legal fees incurred in partnership for validating the contract or for protecting interest of the business;
- ⊕ Employers contribution to provident fund (PF), approved gratuity and superannuation fund;
- ⊕ Perquisites or leave allowance given to employees;
- ⊕ Royalty paid against patent or copy right;
- ⊕ Telephone and telegraph expenses;
- ⊕ Incentives given to employees to motivate to produce or work more;
- ⊕ Production, transportation and marketing expenses of inventories;
- ⊕ Renewal fees of licenses;
- ⊕ Expenses incurred in defending a case for damages for breach of contract;
- ⊕ Any sort of legal fees incurred for the sake of business or profession;
- ⊕ Expenditures incurred to alter articles or memorandum of association;
- ⊕ Commission for securing orders, getting tenders, retaining customers;
- ⊕ Sales tax, VAT, water & road tax, municipal tax, excise duty, customs duty etc.;
- ⊕ Expenses incurred in defending the assessee's title over his assets;
- ⊕ Welfare expenditure incurred for employees;
- ⊕ Traveling expense of the directors for business purpose;
- ⊕ Gift to employees;

- ⊕ Brokerage paid for raising loan to finance business;
- ⊕ Stamp and registration charges for the purpose of entering into agreement for obtaining overdraft facilities;
- ⊕ Commission paid to selling agents;
- ⊕ Contribution to a trade syndicate to preventing uneconomic competition;
- ⊕ Periodical payment for the use of goodwill;
- ⊕ Annual listings fees paid to stock exchanges;
- ⊕ Expenses incurred to secure the termination of a disadvantageous trade liability etc.

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- (a) How much of the amount carried to any special reserve is allowed for deduction?
- (b) What will be the allowable entertainment expenses if total income amounts to taka 1,000,000.
- (c) How much of the cost of free sample is admissible for a pharmaceutical industry for a turnover of taka 40,000,000.

10.4 INADMISSIBLE EXPENSES

10.4.1 Under IT Ordinance, 1984 (Sec 30) –

As per section 30 of the IT Ordinance, 1984, some expenses do not qualify for deduction partly or fully. Such expenses are as follows:

- (a) If salaries paid to the employees without deducting taxes at source (TDS); [sec 30(a)]
- (b) If any payment is made by the assessee to any person without deducting/crediting taxes at sources in accordance with the provisions of Chapter VII; [sec 30(aa)]
- (c) If salaries paid to the employees who are required to obtain a twelve-digit TIN but fails to obtain the same at the time of making such payment; [sec 30(aaa)]
- (d) Any payment made after the Tax Day by way of salary to an employee if the employee is required to file the return of income but fails to file the same on or before the Tax Day or obtain time extension, as the case may be; [sec 30(aaaa)]
- (a) Any payment by way of interest/salary/commission, or remuneration made by a firm or an association of persons to any partner or any association member; [sec 30(b)]
- (b) Any payment of brokerage or commission made to a person who is not a resident in Bangladesh unless tax has been deducted there from under section 56; [sec 30(c)]
- (c) Any payment to a provident fund or other fund established for the benefit of the employees unless the employer has made effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are taxable being income falling under the head "Salaries"; [sec 30(d)]
- (d) So much of the expenditure by an assessee on the provision of perquisites or other benefits to any employee as exceeds Tk. 475,000 and to any employee who is a person with disability, as exceeds Tk. 25,00,000; [sec 30(e)]

The provision of this clause shall not be applicable to an employer where perquisites or other benefits were paid to, an employee in pursuance of any Government decision published in the official Gazette to implement the recommendation of a Wage Board constituted by the Government

- (e) Any expenditure in respect of the following is in excess of the amount or rate prescribed in this behalf and as is not, in the cases of sales and services liable to excise duty, supported by excise stamp or seal, namely
 - ⊕ entertainment;

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- ⊕ publicity and advertisement;
 - ⊕ foreign travels of employees and their dependents for holidaying and recreation; and
 - ⊕ distribution of free samples; [sec 30(f)]
- (f) Expenditure exceeding 10% of the net profit disclosed in the statement of accounts under the head of Head Office Expenses by a company not incorporated in Bangladesh under Company Act, 1994; [sec 30(g)]
- (g) Any payment of royalty, technical services fee, technical knowhow/assistance fee exceeding 8% of the net profit disclosed in the statement of accounts. [Sec 30(h)]
- (h) Salary or allowance expense if it is not paid by crossed check or bank transfers to the employees whose monthly salary or allowance is Taka 15,000 or more. [Sec 30(i)]
- (i) Exp. by way of incentive bonus exceeding 10% of the net profit disclosed in the statement of accounts. [Sec 30(j)]
- (j) Expenditure by way of overseas traveling expense exceeding 1.25% of disclosed turnover. Provided that nothing of this clause shall apply to the overseas traveling expenses by an assessee engaged in providing any service to the Government where overseas traveling is a key requirement of that service. [Sec 30(k)]
- (a) Any payment by way of commission paid or discount made to its shareholder director by a company. [Sec 30(l)]
- (b) Any payment by a person exceeding taka 50,000 or more, otherwise than by a crossed check or bank transfer excluding payment for the purchase of raw materials; salary or remuneration made to any employee, without prejudice to an obligation referred to in clause (i); and any payment for government obligation. [Sec 30(m)]
- (c) Any payment by way of any rent of any property, whether used for commercial or residential purposes, otherwise than by a crossed cheque or bank transfer. [Sec 30(n)]
- (d) Any payment made to a person who is required to obtain a twelve-digit Taxpayer's Identification Number under clauses (xxviii), (xxix) and (xxx) of sub-section (3) of section 184A but fails to hold the same at the time of payment. [Sec 30(o)]

Note: Provision for disallowance: Notwithstanding anything contained in sections 28, 29 and 30, the Deputy Commissioner of Taxes (DCT) shall not make any disallowance or deduction for any year from any claim made by an assessee in the trading account or profit or loss account without specifying reason for such disallowance or deduction. (Under Sec 30A)

10.4.2 Inadmissible Business Losses:

The following losses are not deductible from business income:

- (a) Loss which is not incidental to trade or profession, carried on by the assessee;
- (b) Loss incurred due to damage, destruction, etc. of capital assets;
- (c) Loss incurred due to sale of shares held as investment;
- (d) Loss of advances made to set up new business which ultimately could not be started;
- (e) Depreciation of funds kept in foreign currency for capital purposes;
- (f) Loss arising from non-recovery of tax paid by an agent on behalf of the non-resident;
- (g) Anticipated future losses;
- (h) Loss relating to any business or profession discontinued before the commencement of income year;
- (i) Loss arising as a result of seizure and confiscation of illegal stock-in-trade;
- (j) Loss incurred in the closing down of the business;
- (k) Loss caused by forfeiture of advance given for purchase of capital assets

- (l) Violation of law is not a normal incident of trade and an expense incurred by way of penalty for infraction of laws is not deductible as business loss.

10.4.3 Other Inadmissible Expenses –

The list of inadmissible expenses given in Sec 30 is not inclusive one. There are some other inadmissible expenses that may be discussed in terms of *Residuary or Omnibus Clause* under section 29(1)(xxvii). Some of such expenses are pointed out in the following figure.

- ⊕ Past losses, in case of change of business;
- ⊕ Penalty, fine and damages paid in connection with infringement of law;
- ⊕ Payments made for acquisition of goodwill;
- ⊕ Fees paid to obtain license to investigate and search minerals;
- ⊕ Any payment to partner in any form;
- ⊕ Income tax and Provision for income tax;
- ⊕ Reserve for bad debt and reserve for discount;
- ⊕ Contribution to unrecognized provident fund;
- ⊕ Capitalized expenditure in any form;
- ⊕ Preliminary expenses, underwriting commission, writing off share discount;
- ⊕ Loss of speculative business;
- ⊕ Fund embezzlement after office hour;
- ⊕ Fund embezzlement by stranger during office hour
- ⊕ Expenses for protecting against competition;
- ⊕ New years' presentation to employees;
- ⊕ Cost of copy right, patent etc;
- ⊕ Loss on sale of capital asset;
- ⊕ Legal expenses for income tax, alteration of capital, company dissolution;
- ⊕ Contingent liability;
- ⊕ Personal expenses of assessee;
- ⊕ Payment of fine for violation of law;
- ⊕ Contribution to political parties;
- ⊕ Excess remuneration paid to the employee who have relation with the partner;
- ⊕ Gratuity paid to a single employee when it was not the practice of the company to give gratuities;
- ⊕ Expenditures incurred for issuing of shares.

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State the limit of expenses that is not admissible – (a) perquisites or other benefits (b) head Office Expenses (c) royalty, technical services fee, technical knowhow fee or technical assistance fee (d) incentive bonus (e) overseas traveling expense

10.5 METHOD OF ACCOUNTING

10.5.1 Under IT Ordinance, 1984 –

IT Ordinance, 1984 remains silent in terms of dictating the method of accounting. Rather in section 35 it has made the prerogative of the assessee to follow any method of accounting system as employed by him on regular basis. Though there is no clear guideline regarding the accounting system to be employed, the section made the requirements of an accounting system clear. From the following subsections it becomes clearly evident.

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- (1) All income classifiable under the head "Agricultural income", "Income from business or profession" or "Income from other sources" shall be computed in accordance with the method of accounting regularly employed by the assessee. [Sec 35(1)]
- (2) Notwithstanding anything contained in sub-section (1), the Board may, in case of any business or profession, or class of business or profession, or any other source of income, or any class of persons or class of income, by a general or special order, direct that the accounts and other documents shall be maintained in such manner and form, and the mode of payments of commercial transactions recorded in such manner and form, as may be prescribed or as may be specified in such direction; and thereupon the income of the assessee shall be computed on the basis of the accounts maintained, payments made and transactions recorded accordingly. [Sec 35(2)]
- (3) Without prejudice to the preceding sub-sections, sections, every public or private company as defined in the Companies Act, 1913 (VII of 1913) or Companies Act, 1994, shall, with the return of income required to be filed under this Ordinance for any income year, furnish a copy of the trading account, profit and loss account and the balance sheet in respect of that income year certified by a chartered accountant to the effect that the accounts are maintained and the statements are prepared and reported in accordance with the Bangladesh Accounting Standards (BAS) and the Bangladesh Financial Reporting Standards (BFRS), and are audited in accordance with the Bangladesh Standards on Auditing (BSA)". [Sec 35(3)]. The DCT without pointing out any defect whatsoever in respect of the audited accounts of the assessee disallowed certain deductions on omnibus grounds which are not sustainable in law [*Titas Gas (T&D) Co Ltd Vs. Commissioner of Taxes 53 DLR 209*].
- (4) Where –
 - (a) No method of accounting has been regularly employed, or if the method, employed is such that, in the opinion of the Deputy Commissioner of Taxes, the income of the assessee cannot be properly deduced therefrom; or
 - (b) In any case, to which sub section (2) applies, the assessee fails to maintain accounts, make payments or record transactions in the manner directed under that sub-section; or
 - (c) A company has not complied with the requirements of sub section (3);
 the income of the assessee shall be computed on such basis and in such manner as the Deputy Commissioner of Taxes may think fit. [Sec 35(4)]

10.5.2 Under IT Rules, 1984 –

Rule 8 of IT Rules gives a clear guideline regarding the method and even the form (specimen) of such accounts to be maintained by medical practitioners, whether known as doctors, surgeons, physicians, dentists, psychiatrists, homeopaths, tabibs, voids, veterinary surgeons or by any other name and by legal practitioners (including IT practitioners), accountants, auditors, architects and engineers in the following forms, namely:

Forms	Name	Maintained By
Form A (1)	Cash Register	Medical Practitioner
Form A (2)	Cash Register	Legal Practitioner
Form B	Payment Book	Both Medical and Legal Practitioner
Form C	Receipt Book	Both Medical and Legal Practitioner

But in sub-rule 7, the assessee has been given the right to add any further columns or particulars in the specified form or even to go for some additional forms if he may think fit to maintain his own requirement.

10.6 PREVAILING ACCOUNTING SYSTEMS

The assessee is free to select his own accounting system. But the condition is that the system should be maintained over the periods. He cannot switch over the practices from time to time. Because, there remains an option to evade tax if he has been given the chance to do that. Till date, we have three different types of accounting system, namely:

1. **Cash Basis of Accounting:** In this system, records are only made when cash is received or paid. No records are kept for accrual or outstanding amounts. If books of account are kept by an assessee on the basis of cash system of accounting, income actually collected during the income year is taxable whether it relates to the income year or some other year(s). Similarly, expenditure actually paid during the income year is deductible irrespective of the fact whether it relates to the income year or some other year(s). In Governmental accounting system and in some profession like Doctors, Lawyer, Chartered Accountants; this basis of accounting is customary.
2. **Accrual Basis of Accounting:** In this system the records are made as early as when the revenue is earned and expenses are incurred, whether cash is received or not. Sometimes, it is termed as **mercantile system**. In this system, net profit or loss is calculated after taking into consideration all income and expenditure of a particular accounting year irrespective of the fact whether they are received or paid. As the whole corporate world follows this system, this should be the ideal system under Generally Accepted Accounting Principles (GAAP).
3. **Mixed / Hybrid System:** In this system, both cash and accrual basis is merged depending on the nature of operation prevalent in the business of assessee. For example, receipts may be recorded on cash basis and payment may be recorded on accrual basis. This method is also as good as the other methods as section 35 has given the choice over the assessee himself.

10.7 DEPRECIATION ALLOWANCE (U/S 29 AND THE THIRD SCHEDULE)

Depreciation is the scientific way of quantifying the value for the wear and tear loss of all tangible fixed assets except land. Due to the use of those assets, the economic value in terms of serviceability in future declines and such declined amount is charged as depreciation against profit in respective years. Though in IT Ordinance or Rules, depreciation is not defined, the method of depreciation is to be followed as mentioned therein. In section 29(1)(viii), it has been mentioned that the allowance for depreciation is admissible under the Third Schedule of IT Ordinance, 1984.

10.7.1 Depreciable Assets –

Building, machinery, plant and furniture owned by an assessee and used for the purpose of business or profession carried on by him is eligible for depreciation allowance. Here, furniture includes fittings [Para 11(1), Third Schedule]; plant includes ships, vehicles, books, scientific apparatus and surgical equipment used for the purpose of business or profession [Para 11(2), Third Schedule]; ship includes a steamer, motor vessel, sail, tug boat, iron or steel flat for cargo, wooden cargo boat, motor launch and speed boat [Para 11(4), Third Schedule].

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10.7.2 Basis for charging Depreciation –

According to Third Schedule of IT Ordinance, 1984 two basis are used for charging depreciation, namely:

1. **Actual Costs:** Ocean going ships
2. **Written Down Value:** All depreciable assets except ocean going ships

Explanation:

Actual Costs: [Para 11(6) (a, b, c, d, e), Third Schedule]

- ⊕ In the case of motor vehicles, being passenger vehicles or sedan cars, not plying for hire, the actual cost to the assessee shall be deemed not to exceed twenty five lakh taka.
- ⊕ Any grant, subsidy, rebate or commission and the value of any assistance received by an assessee from government or any other authorities or persons and any deduction or allowance admissible shall be excluded to compute actual cost.
- ⊕ Where the asset is acquired as a used one from its previous owner, the cost deemed not to exceed the fair market value as on the date of such acquisition.
- ⊕ Where the asset is inherited, cost will be the amount of written down value to its successor.
- ⊕ If the asset is imported and installed for the purpose of business and profession in Bangladesh, the cost should be adjusted for any foreign currency fluctuation gain or loss.

Written Down Value: [Para 11(5), Third Schedule]

- ⊕ At the year of purchase, the actual costs to assessee will be the written down value.
- ⊕ If the asset was acquired at an earlier period, the written down value will be the actual cost thereof to the assessee as reduced by the aggregate of the allowances for depreciation allowed under IT Ordinance, 1984.

10.7.3 Types of Depreciation Allowance –

As per the 3rd Schedule, there are four different types of depreciation allowance, namely:

- 10.7.3.1. Normal Depreciation Allowance
- 10.7.3.2. Initial Depreciation Allowance
- 10.7.3.3. Accelerated Depreciation Allowance
- 10.7.3.4. Special Depreciation Allowance

10.7.3.1 Normal Depreciation Allowance (As per Para 3, Third Schedule) –

The allowance for normal depreciation under paragraph 2 shall be computed at the rate specified in Para 3, Third Schedule that may be amended by the Board, from time to time, by notification in the official gazette, for the assets owned by the assessee and used for the purpose of business and profession only.

Table: Rates of Normal Depreciation

Classification of Assets	Rate	On the:
1. (a) Buildings (general)	10	WDV
(b) Factory Buildings	20	WDV
2. Office equipment	10	WDV
3. Furniture and Fittings	10	WDV
4. Machinery and Plant:		
(a) General Rate	20	WDV
(b) Special Rate –		
❖ Ships		
(i) Ocean going ships (new)	12	WDV
(ii) Ocean going ships (second hand), age at the time of purchase		

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⇒ less than 10 years	12	Original Cost
⇒ 10 years or more	24	Original Cost
(iii) Inland ships including steamers, motor vessels, sails, tug boats, iron or steel flats for cargo boats, wooden cargo boats, motor launches and speed boats	24	WDV
❖ (i) Batteries, X-Ray and electro-therapeutic apparatus and accessories thereto;	20	WDV
(ii) Machinery used in the production and exhibition of cinematographic films;	20	WDV
(iii) Motor vehicles all sorts not plying for hire;	20	WDV
(iv) Motor vehicles all sorts plying for hire.	24	WDV
(v) Computer and computer equipment	30	WDV
(vi) Imported computer software	10	WDV
❖ (i) Professional and reference books;	30	WDV
(ii) Aircraft, aero-engines and aerial photographic apparatus;	30	WDV
(iii) (Moulds used in the manufacture of glass or plastic goods or concrete pipe.	30	WDV
❖ Mineral oil concerns –		
(i) Below ground installations;	100	WDV
(ii) Above ground installations, that is to say, portable boilers, drilling tools, well head tanks and rigs.	30	WDV
❖ physical infrastructure undertaking-		
(i) Bridge	2	WDV
(ii) Road	2	WDV
(iii) Fly over	2	WDV
(iv) Pavement runway, taxiway	2.5	WDV
(v) Apron, termac	2.5	WDV
(vi) Boarding bridge	10	WDV
(vii) Communication, Navigation aid and other equip.	5	WDV

Source: Para 3, the Third Schedule, IT Ordinance, 1984

[**Note:** Any asset that fall under the description 'Machinery and Plant' having useful life not more than one year, allowance is not allowed though the cost of renewal or replacement thereof shall be allowed as a revenue expenditure. (Para 5, Third Schedule)]

10.7.3.2 Initial Depreciation Allowance (As per Para 5A, Third Schedule) –

Where any building has been newly constructed or any machinery or plant has been installed in Bangladesh after the 30th Day of June, 2002, an amount by way of initial depreciation allowance in respect of the year of construction or installation or the year in which such building, machinery or plant is used by the assessee for the first time for the purpose of his business or profession or the year in which commercial production is commenced, whichever is the later, shall be allowed at the following rates, namely:

- | | |
|--|---|
| (a) In the case of building | : 10% of the cost thereof to the assessee |
| (b) In the case of machinery or plant other than ships or motor vehicles not plying for hire | : 25% of the cost thereof to the assessee |

[**Note:** Initial Depreciation Allowance will be in addition to Normal Depreciation Allowance.]

10.7.3.3 Accelerated Depreciation Allowance (As per Para 7, 7A, 7B; Third Schedule) –

Accelerated depreciation means charging depreciation at a higher rate from the very beginning. It was first introduced in 1982 for 5 years thereafter, then extended for further years and through different Finance Acts. As per Para 7, 7A, 7B of the Third Schedule, accelerated depreciation allowance can be summarized as:

Para	Requirements of Assets for Qualification	Rates of Accelerated Depreciation
7	Any new machinery or plant, other than office appliances and road transport vehicles, has been or is used in an industrial undertaking set up in Bangladesh between 01.07.1977 and 30.06.2012 (both day inclusive)	50% of the actual cost – in the first year of commercial production 30% of the actual cost – for the next following second year 20% of the actual cost – for the next following third year
7A	Any new machinery or plant, other than office appliances and road transport vehicles, has been or is used in the expansion unit or in the treatment and disposal of toxic and environmentally hazardous wastes or in the collection or processing of biodegradable wastes or in the research and development of any industrial undertaking, set up between 01.07.1995 and 30.06.2005 (both day inclusive) <i>Note: This depreciation allowance has of no use, as the period has not been extended after 2005.</i>	80% of the actual cost - in the first year of commercial production or operation 20% of the actual cost - for the next following year
7B	In the case of any machinery or plant (other than office appliances and road transport vehicles) which, not having been previously used in Bangladesh, has been or is used in an industrial undertaking as referred to in section 46B of the Ordinance and set up in Bangladesh between the 01.07.2014 and 30.06.2019 (both days inclusive), an amount by way of accelerated depreciation allowance shall, subject to some specified conditions set out in subparagraph (2), be allowed and computed as follows, namely :- Conditions to be fulfilled, namely:	50% of the actual cost of plant and machinery – for the first year in which the undertaking starts commercial production 30% of the actual cost of plant and machinery – for the second year 20% of the actual cost of plant and machinery – for the third year
	(a) that the industrial undertaking is owned and managed by a Bangladeshi company, or a body corporate formed in pursuance of an Act of Parliament, having its registered office in Bangladesh;	
	(b) that it belongs to the industrial undertaking as specified in subsection (2) of section 46B;	
	(c) that the particulars required for the pur-	

-pose of entitlement to, or claiming accelerated depreciation allowance under this paragraph have been furnished; and

- (d) that the application in the prescribed form for accelerated depreciation allowance under this paragraph, as verified in the prescribed manner, is made to the Board within six months from the end of the month of commencement of commercial production; and the application is accompanied by a declaration in writing that the undertaking has not been approved for, and that no application in respect of the undertaking has been made or shall be made to the Board for approval of, exemption from payment of tax under section 46B or 46C of this Ordinance for any period.

Note: The machinery or plant on which accelerated depreciation has been allowed under this paragraph shall not be entitled to any other depreciation allowance under this Ordinance.

10.7.3.4 Special Depreciation Allowance (As per Para 8, Third Schedule) –

A ship, plying ordinarily in inland waters being a passenger vessel, or not being a ship ordinarily plying on inland waters, or a fishing trawler registered in Bangladesh, which has been or is brought into use in Bangladesh for the first time on any date between 01.07.1982 and 30.06.1995 (both days inclusive) and in the property of the assessee, special depreciation allowance is allowed and computed as: for the first year 40% of the original cost; for the second year 30% of the original cost; and for the third year 30% of the original cost.

[Note: This special allowance has of no use, as the period has not been extended after 1995.]

SELF REVIEW 10 – 4

1. What is the method of accounting followed in case of (a) income from business or profession? (b) Income of a medical practitioner.
2. What is the basis for charging depreciation of ocean going ships?
3. What are the different types of depreciation allowance?

10.7.4 Limitation in respect of Depreciation Allowance (Para 9, Third Schedule) –

- (1) Total of Depreciation Allowance, in no case, will be higher than the original cost;
- (2) If the full amount of depreciation allowance cannot be charged due to insufficient profit, it may be set off against profits from any other business; if the allowance is not fully absorbed, it can further be set off from the income of other heads in the same income year. Even if some amount is left unabsorbed, it may be carried forward to the following years for setting off against profits. In case of insufficient profits, the

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allowance should be charged, as it will turn the result as losses that can be carried forward for six consecutive years only whereas unabsorbed depreciation allowance can be carried forward for an indefinite time till the full amount is absorbed.

10.7.5 Amortization of license fees (Para 10A, Third Schedule) –

Where a resident company paid any sum as license fees (Spectrum Assignment Fees, GSM license fees, license acquisition fees or license renewal fees paid by a cellular mobile phone operator or any other license fee, paid by any other company engaged in providing specialized services, if such license is integral to the operation of the company) before or after July 01, 2012 wholly or exclusively for the purpose of obtaining a permission from any government authority applicable for two or more years to run a business, the assessee shall be allowed a deduction of an amount proportionate to such years and such deduction shall continue till the last year of the period for which the license was granted. *Here, the amortization of fees shall be allowed from assessment year 2013-2014.*

Example: A Cellular Mobile Phone Company operating in Bangladesh has paid Tk. 344 crore as license fee to BTRC for 15 years covering a period from 20/12/2005 to 20/12/2020. The company can deduct an amount proportionate to such years (1/15 of 344 crore = Tk. 22,26,66,666) as amortization expense of license fees from 2013-14 assessment year to the assessment year in which the license period will expire. This provision will not be applicable for assessment years prior to 2013-14.

10.8 BALANCING ALLOWANCE, BALANCING CHARGE AND CAPITAL GAIN

Balancing Allowance: If the written down value of any asset exceeds sales proceeds or disposed value, the difference will be treated as balancing allowance and will be treated as loss though this is not allowed in case of furniture.

Balancing Charge: This is the difference between sale proceeds and written down value, provided that such difference does not exceed the difference between sale proceeds and actual costs. This is treated as revenue gain and shown as income in the year when the asset is sold.

Capital Gain: This is the difference between sale proceeds and actual cost. This is shown as income under the head of Capital Gain.

Cost Tk. 80,000	WDV Tk. 50,000	Sale Proceeds Tk. 40,000
Balancing Allowance Tk. 10,000		
Cost Tk. 80,000	WDV Tk. 60,000	Sale Proceeds Tk. 70,000
Capital Gain Nil Balancing Charge Tk. 10,000		
Cost Tk. 80,000	WDV Tk. 60,000	Sale Proceeds Tk. 90,000
Capital Gain Balancing Charge Tk. 30,000		
90,000 – 80,000 = 10,000 but maximum is Tk. 20,000		
Total Gain = Tk. 30,000	Capital Gain = Tk. 10,000	Balancing Charge = Tk. 20,000

10.9 INVESTMENT ALLOWANCE

In connection with depreciation it can be mentioned that an investment allowance @ 25% for special zone and @20% for other zones will be allowed on plant and machinery on original cost in the first year to encourage industrialization. For ships, investment allowance will also be available @20% in the first year.

10.10 SET OFF AND CARRY FORWARD OF LOSS UNDER THE HEAD INCOME FROM BUSINESS AND PROFESSION [SECTION – 38 & 39]

10.10.1 For Business and Professions other than Speculative Business: According to Section 38 of the ITO, 1984, where for any assessment year the net result of income under the head "Income from business or profession" is a loss to the assessee (except losses from speculation business) and such loss has not been wholly set off against income from other sources (except income from capital gain and income from house property) shall be carried forward to the next following assessment year, and

- (a) it shall be set off against the income of the same business (if any), provided that the business will continue in the said income year.
- (b) If the loss cannot be wholly so set off, the amount of the loss not so set off shall be carried forward to the next assessment year and so on for not more than six successive assessment years.

10.10.2 For Speculative Business: According to Section 39 of the ITO, 1984, where, for any assessment year, the result of any speculation business carried on by the assessee is a loss, it shall be set off only against the income (if any), from any other speculation business carried on by him and assessable for that assessment year. But when such loss is not wholly so set off, the assessee can carry forward that portion of loss not so set off, to the next following assessment year and

- (a) it shall be set off against the income (if any), from any speculation business carried on by him and assessable for that assessment year; and
- (b) if the loss cannot be wholly so set off, the amount of loss not so set off shall be carried forward to the next assessment year(s) but not more than six successive assessment years.

According to Section 2(61) of the ITO, 1984 "speculation-business" means business in which a contract for the purchase or sale of any commodity, including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scripts, but does not include business in which –

- (a) a contract in respect of raw materials or merchandise is entered into by a person in the course of his manufacturing or mercantile business to guard against loss through future price fluctuations for the purpose of fulfilling his other contracts for the actual delivery of the goods to be manufactured or the merchandise to be sold by him;
- (b) a contract in respect of stocks and shares is entered into by a dealer or investor therein to guard against loss in his holdings of stocks and share through price fluctuations; and
- (c) a contract is entered into by a member of a forward market or a stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against loss which may arise in the ordinary course of his business as such member;

10.11 EXCLUSION FROM INCOME UNDER SIXTH SCHEDULE (PART A)

Incomes from the following heads are excluded from taxable income and thus tax free:

- (a) Dividend income from listed company in Bangladesh is exempted upto Tk. 25,000 (Para 11A)
- (b) Income from gratuity is exempted upto Tk. 2.50 crore (Para 20)
- (c) Any income derived from the business of software development or Nationwide Telecommunication Transmission Network (NTTN) or Information Technology Enabled Services (ITES) for the period from the first day of July, 2008 to the thirtieth day of June, 2024 (Para 33)

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- (d) Any income derived from the export of handicrafts for the period from the first day of July, 2008 to the thirtieth day of June, 2019 (Para 35)
- (e) Income of any private Agricultural College or private Agricultural University derived from agricultural educational activities (Para 37)
- (f) Income derived from any Small and Medium Enterprise (SME) engaged in production of any goods and having an annual turnover of not more than taka 36 lakh (Para 39)
- (g) Cinema Hall or Cineplex has been given exemption facility which starts exhibition between the first day of July, 2012 and thirtieth day of June, 2019 as per the following rules (Para 44):

Area	Total Period Allowed	Percentage of Exemption	
Dhaka and Chittagong	5 Years	First 2 Years	100%
		Next 2 Years	50%
		For Last Year	25%
Outside Dhaka and Chittagong	10 Years	First 3 Years	100%
		Next 3 Years	50%
		Last 4 Years	25%

- (h) Exemption facility for Production of rice bran oil and commenced commercial production has been given up to 2019 as per the following rules (Para 45):

Area	Total Period Allowed	Percentage of Exemption	
Dhaka and Chittagong	5 Years	First 2 Years	100%
		Next 2 Years	50%
		For Last Year	25%
Outside Dhaka and Chittagong	10 Years	First 3 Years	100%
		Next 3 Years	50%
		Last 4 Years	25%

- (i) Income of an assessee donated in an income year by a crossed cheque or bank transfer to any girls' school or girls' college approved by the Ministry of Education of the government (Para 49)
- (j) Income of an assessee donated in an income year by a crossed cheque or bank transfer to any Technical and Vocational Training Institute approved by the Ministry of Education of the government (Para 50)
- (k) Income of an assessee donated in an income year by a crossed cheque or bank transfer to any national level institution engaged in the Research & Development (R&D) of agriculture, science, technology and industrial development (Para 51)
- (l) Any income, not being interest or dividend classifiable under the head —Income from other sources, received by any educational institution, if it -
- i) is enlisted for Monthly Pay Order (MPO) of the Government;
 - ii) follows the curriculum approved by the Government;
 - iii) is governed by a body formed as per Government rules or regulations (Para 52)
- (m) Any income, not being interest or dividend classifiable under the head —Income from other sources, received by any public university or any professional institute established under any law and run by professional body of Chartered Accountants or Cost and Management Accountants or Chartered Secretaries (Para 53)

SPECIMEN FORM OF “INCOME FROM BUSINESS OR PROFESSION”

Name of Assessee:

Assessment Year: 2016 – 2017; Income Year: 2015 – 2016

Computation of Total Income

	Tk.
Net Income as per Profit and Loss Account	XX
Add: Expenses that are not allowed (made debited in p/l acc.)	XX
Add: Income under the head of Business and Profession that are not included earlier	XX
Less: Expenses that are allowed (not debited in p/l acc)	XX
Total Income	XX
Less: Income that are not from business or profession (already credited in p/l acc.)	XX
Taxable Income from business or profession	XX

Illustration 10 – 1:

Which of the following expenses are admissible and up to what extent?

1. Research expense Tk. 50,000 for the period. Tk. 35,000 of this is capital expenditure in nature.
2. Annual subscription of Tk. 50,000 is paid to the Trade Body as a registered member.
3. Loan amounting to Tk. 12,000 is not recoverable and has actually been written off.
4. Bad debt amounting to Tk. 10,000 has been recovered that was written off as irrecoverable in the last year.
5. Provision for doubtful debt has been made @10% on the total amount of outstanding loan.
6. Amount transferred to Special Reserve Fund Tk. 15,000. Total income for the year Tk. 100,000. Previous balance of Special Reserve was Tk. 85,000 and the capital outstanding is Tk. 1,000,000.
7. Depreciation charged on the Building owned by the business @ 10% assuming a 10 years life on straight-line basis.
8. Salary amounting to Tk. 300,000 paid for the year without deducting tax at sources.
9. Payment for perquisites totals Tk. 500,000 for the year.
10. Income for the year is Tk. 1,440,000 after charging entertainment expenditure for Tk. 60,000.

Solution 10 – 1:

1. Research expenditure, whether revenue or capital in nature, is allowable to the full amount. Ref: U/s- 29 (xix)(xx)
2. The expense is admissible to the full extent provided that the trade organization falls within the meaning of the Trade Organizations Ordinance, 1961. Ref: U/s – 29 (xxvi)
3. This is fully admissible as has already been established as irrecoverable. Ref: U/s – 29(xv)
4. The recovered amount will be considered as income for the year as it was charged as expense last year that is not an expense.
5. This is not admissible provided that the company is not a banking company. Ref: U/s – 29 (xviii) (xviiiia)
6. Maximum 10% of total income can be transferred to such special reserve provided that the total amount of special reserve does not exceed the paid up share capital. Thus, allowable transfer to Special Reserve Fund will be Taka 10,000. (10% of Taka 100,000). Such transfer will result Taka 95,000 (Tk. 85,000 + Tk. 10,000) aggregated amount for the reserve fund, which is far lower than the amount of, paid up capital (Taka 1,000,000) Ref: U/s – 29 (v).
7. Accounting depreciation and tax depreciation differs significantly. As per ITO 1984, building will be depreciated as per the rates stated in the Third Schedule of the Ordinance. Thus,

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- accounting depreciation will be added back to compute income before charging depreciation and then tax depreciation as computed by using the rates given in the Third Schedule would be deducted as allowable deduction. Ref: U/s – 29 (viii)
8. Salary is an inadmissible expense, as tax is not deducted at source. Ref: U/s – 30(a).
 9. Maximum expense that can be charged against perquisites is Taka 475,000. So, up to taka 475,000 can be shown as perquisites to be allowed. Ref: U/s – 30(e)
 10. The amount of income before charging entertainment expenditure is Tk. 15,00,000. Now, for the first Taka 1,000,000 the rate for the expense is 4% and for the rest Taka 500,000 the rate is 2%. So the allowable entertainment expense would be up to Taka 50,000 (4% of Taka 1,000,000 + 2% of Taka 500,000). Ref: Under Rule 65

Illustration 10 – 2:

State with reasons whether the following expenses are fully or partly admissible as deduction while computing income from business or profession:

1. Stock-in-trade was lost in fire, amounting to Tk. 12,000 and was debited to P/L Account.
2. Amount spent on a successful suit filed against a person for infringing trade mark of the assessee Tk. 10,000;
3. Interest paid to bank Tk. 15,000 in connection with overdraft obtained for paying dividend;
4. Overseas traveling expense Tk. 50,000; The amount of disclosed turnover and disclosed net profit is Tk. 40,00,000 and Tk. 20,00,000 respectively;
5. Incentive bonus Tk. 3,00,000; The amount of disclosed turnover and disclosed net profit is Tk. 40,00,000 and Tk. 20,00,000 respectively;
6. Salary paid to two employees @ Tk. 20,000 per month; one is paid in cash and another through bank transfer.
7. Salary expense of a firm Tk. 100,000 of which Tk. 40,000 is paid to a partner as salary;
8. Royalty paid Tk. 2,00,000; The amount of disclosed turnover and disclosed net profit is Tk. 40,00,000 and Tk. 20,00,000 respectively;
9. Installation cost of an IPS, Tk.50,000;
10. Penalty paid for violating income tax law Tk. 25,000.
11. Repair expense of the hired premises paid Tk. 50,000. The building is used both for office and residence at an equal proportion.
12. Insurance premium paid Tk. 25,000, of which Tk. 5,000 is owner's life insurance premium.

Solution 10 – 2:

1. Loss of stock-in-trade is an admissible expense and is allowed to the full amount.
2. Litigation / legal expense is an admissible expense and is allowed to the full amount as it is spent for protecting business interest.
3. Interest expense on overdraft taken to meet business expenses is admissible expense and allowed to the full amount.
4. Overseas traveling expense is admissible up to 1.25% of the disclosed turnover, so here of total Tk. 50,000 admissible amount is also Tk. 50,000 (1.25% of Tk. 40,00,000. Ref. Sec 30(k)
5. Incentive bonus expense is admissible up to 10% of the disclosed net profit, so here of total Tk. 300,000 admissible amount is up to Tk. 200,000 (10% of Tk. 20,00,000) and rest of Tk. 100,000 is inadmissible. Ref. Sec 30(j)
6. Of total salary expense Tk.480,000, Tk. 240,000 is admissible as it has been paid through bank transfer and rest of Tk. 240,000 is inadmissible as it has been paid in cash. Ref. Sec 30(i)
7. Of total salary expense Tk.100,000, Tk. 60,000 is admissible as it has been paid to employees and rest of Tk. 40,000 is inadmissible as it has been paid to a partner of the firm. Ref. Sec 30(b)

8. Royalty is admissible up to 8% of the disclosed net profit, so here of total Tk. 200,000 admissible amount is up to Tk. 160,000 (8% of Tk. 2,00,000) and rest of Tk. 40,000 is inadmissible. Ref. Sec 30(h)
9. Not admissible, as it is a capital expenditure.
10. Not admissible as the penalty is imposed for violating laws.
11. Of total repair expense of Tk. 50,000, Tk. 25,000 is admissible which is for the proportion of office use and the rest of Tk. 25,000 is inadmissible as half proportion of the house has been used for business purpose.
12. Of total insurance premium Tk. 20,000 is admissible which is for the protection of business interest and the rest of Tk. 5,000 is inadmissible it is given for personal interest of the owner.

Illustration 10 – 3:

The Profit and Loss Account of Mr. X's sole-trader ship business results net income of Taka 800,000 for the accounting year ended on June 30, 2017 as follows:

X Traders			
Profit and Loss Account			
For the year ended on June 30, 2017			
Debit	Taka	Credit	Taka
Salary	460,000	Gross Profit	2,000,000
Commission	25,000	Interest on Securities	100,000
Rent of Premises	100,000	Interest on bank Deposit	25,000
Fund Embezzlement	25,000		
Donations	200,000		
Bad debt	50,000		
Insurance Premium	47,000		
Depreciation Expense –Furniture	35,000		
Provision for income tax	45,000		
Repair expense	20,000		
License renewal fee	5,000		
Penalty and Fine	73,000		
Bonus	100,000		
Royalty	100,000		
Interest on Bank Loan	30,000		
Household expenses	10,000		
Net Profit	800,000		
	<u>2,125,000</u>		<u>2,125,000</u>

Other Information: (a) Salary includes Taka 125,000 paid to an employee during December 1, 2016 to June 30, 2017 who failed to submit return within tax day nor get extension; (b) Fund embezzlement occurred after office hour; (c) One fourth of the premise is used as residence by X; (d) Donations include Taka 150,000 paid to a charitable hospital that is approved under Paragraph 11A of Part B of the Sixth Schedule of ITO, 1984; (e) Tk. 7,000 of insurance premium is the payment for policy purchased in the owner's name; (f) Tax depreciation amounts to Taka 50,000; (g) Of repair expense Tk. 5,000 is spent for the space used for residential purpose; (h) Commission includes Tk. 10,000 paid to shareholder director.

Required: Compute the income from business or profession for the year ended on June 30, 2017.

Chapter - 10: Income from Business or Profession

Solution 10 - 3:

Assessee: Mr. X

Income Year: 2016 - 17

Assessment Year: 2017 - 18

Income from Business and Profession:	Taka	Taka
Profit as per P/L Account		800,000
Add: Inadmissible Expenses		
(1) Salary	125,000	
(2) Commission	10,000	
(3) Rent (100,000 ÷ 4)	25,000	
(4) Fund Embezzlement	25,000	
(5) Donations	50,000	
(6) Life insurance premium	7,000	
(7) Depreciation Expense (to be treated later on)	35,000	
(8) Provision for Income Tax	45,000	
(9) Repair expense	5,000	
(10) Penalty and fine	73,000	
(11) Bonus	20,000	
(12) Royalty	36,000	
(13) Household expenses	<u>10,000</u>	<u>466,000</u>
		1,266,000
Less: Depreciation Expense (As per ITO)		<u>50,000</u>
Less: Non-Business Income		1,216,000
(1) Interest on Securities	100,000	
(2) Interest on Bank deposit	<u>25,000</u>	<u>125,000</u>
Taxable Income from Business or Profession		<u>1,091,000</u>

Notes: (1) Salary is an inadmissible expense as the person failed to file return within tax day. (2) As fund embezzlement occurred after office hour, this is not allowed. (3) Donations of Tk. 50,000 are not made to the approved organization and such inadmissible. (4) Personal life insurance premium is inadmissible. (5) Rent and repair expense paid for the residential proportion is inadmissible. (6) Royalty is admissible up to an amount equal to 8% of the disclosed net profit i.e. 8% of Tk. 800,000; the rest of the amount is inadmissible. (7) Bonus is admissible up to an amount equal to 10% of the disclosed net profit i.e. 10% of Tk. 800,000; the rest of the amount is inadmissible. (8) Commission paid to shareholder director is not admission deduction.

Illustration 10 - 4:

The Income Statement with selective notes of ABC Ltd for the year ended on 31.12.16 is as under:

ABC Ltd	
Income Statement	
For the year ended on December 31, 2016	
	Taka
Net Sales	1,000,000
Less: Cost of Goods Sold	<u>536,000</u>
Gross Profit	464,000
Add: Gain on Sale of Furniture	<u>45,000</u>
	509,000
Less: Administrative and Selling & Distribution Expenses	<u>209,000</u>
Net Profit	<u>300,000</u>

Compute the income from business or profession of ABC Ltd for the year ended on December 31, 2016 based on the given other information:

- a) The Cost of the Furniture was Tk. 82,000 and the amount of accumulated depreciation up to the date of sale was Tk. 34,000 and sold for Tk. 93,000.
- b) Tax depreciation amounts is Tk. 25,000; Administrative and Selling & Distribution Expenses includes: Salaries and Wages Tk. 40,000; Supplies Expense Tk. 11,000; Rents, Rates & Taxes Tk. 10,000; Provision for Doubtful Debts Tk. 14,000; Legal Charges Tk. 11,000; Underwriting Commission Tk. 13,000; Repair Expenses Tk. 10,000; Incentive Bonuses Tk. 40,000; Advertising expense (free sample distribution Tk. 16,000) Tk. 20,000; Audit Fees Tk. 10,000; Depreciation Expense Tk. 18,000; and Overseas traveling expense Tk. 12,000, which is incurred for giving services to government where overseas travelling is a key requirement for the service.
- c) Legal expenses have been incurred in defending an action of infringement of its trademarks.

Solution 10 - 4:

Assessee: ABC Ltd
Income Year: 2016 - 2017
Assessment Year: 2017 - 2018

Income from Business and Profession:	Taka	Taka
Net Profit as per Income Statement		300,000
Add: Inadmissible Expenses		
(1) Provision for Doubtful Debts	14,000	
(2) Underwriting Commission	13,000	
(3) Incentive Bonuses	10,000	
(4) Free sample distribution	11,000	
(5) Depreciation Expenses (to be treated later on)	<u>18,000</u>	<u>66,000</u>
		366,000
Less: Depreciation Expense (As per ITO)		<u>25,000</u>
Less: Non-Business Income		341,000
(1) Capital Gain		11,000
Taxable Income from Business or Profession		<u>330,000</u>

Notes: (1) Underwriting commission is of capital nature and not admissible. (2) Incentive bonuses up to 10% of disclosed net profit i.e. 10% of Tk. 300,000 is admissible expense. (3) Free sample distribution is admissible up to 0.5% of a turnover up to Tk. 5 crore. So, the admissible amount is 0.5% of Tk. 1,000,000. (4) Overseas traveling expense is admissible as it is incurred to provide services to government where overseas travelling was a key requirement (5) Total gain on sale of furniture amounts to Taka 45,000, which includes both capital gain and balancing charge as sale proceeds, is higher than the initial costs of the furniture. Thus capital gain in this case will be Taka 11,000 (Taka 93,000 - Taka 82,000) that will be shown under Capital Gain Head.

Illustration 10 - 5:

The Trading and Profit & Loss Account of Mr. X & Associates for the year ended 31.12.16 is:

Mr. X and Associates
Trading & Profit and Loss Account
For the year ended on December 31, 2016

Debit	Tk.	Credit	Tk.
Opening Stock	100,000	Sales	1,500,000
Purchase	600,000	Closing stock	200,000
Wages	56,000		

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Depreciation on Machinery	13,000		
Power and Fuel	11,000		
Gross Profit (Carried Down)	920,000		
	<u>1,700,000</u>		<u>1,700,000</u>
Salaries	75,000	Gross Profit (Brought Down)	920,000
Rent, Rates and Taxes	22,000	Bad Debt Recovered	27,000
Annual Membership Fee	50,000	Interest and Discount Received	25,000
Legal Expenses	12,000	Interest on Debenture	80,000
Underwriting Commission	36,000	Dividend on Share	60,000
Purchase of Trademarks	120,000	Commission	28,000
Bad Debts	24,000		
Accounting Fees	42,000		
Depreciation – office building	37,000		
Fines and Penalties	12,000		
Donation to Flood Relief Fund	60,000		
Gratuity to Employees	80,000		
Advance Income Tax	28,000		
Loss on sale of office furniture	12,000		
Dowry paid to the Daughter	50,000		
Miscellaneous Expense	40,000		
Net Profit	440,000		
	<u>1,140,000</u>		<u>1,140,000</u>

Other information: (1) Salaries include Tk. 20,000 as salaries paid to the owner. (2) Recovered amount of bad debt was previously allowed as bad debt expense. (3) Legal expense is incurred for filing and continuing a case against competitor for protecting the interest of the business. (4) Fines and penalties were due to avoidance of tax payment at an earlier period. (5) Payment to purchase the trademark is given in cash. (6) Miscellaneous expense includes Tk. 25,000 paid to a commission agent of the company who doesn't own a 12 digit TIN. (7) Tax depreciation was calculated as: Depreciation on Machinery Tk. 25,000 and Depreciation on Office Building Tk. 30,000.

Required: Compute the income from business or profession and total taxable income of Mr. X and Associates for the year ended on December 31, 2016.

Solution 10 – 5:

Assessee: Mr. X and Associates

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

	Tk.	Tk.
Income from Business and Profession:		
Net Profit as per Profit and Loss Account		440,000
Add: Inadmissible Expenses		
(1) Salaries	20,000	
(2) Underwriting Commission	36,000	
(3) Purchase of Trademarks	120,000	
(4) Fines and Penalties	12,000	
(5) Dowry paid to the Daughter	50,000	
(6) Advance Income Tax	28,000	
(7) Depreciation Expenses (to be treated later on)		

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	13,000	
On Office Building	37,000	
(6) Miscellaneous Expense	25,000	341,000
		781,000
Less: Depreciation Expense (As per ITO)		
On Machinery	25,000	
On Office Building	30,000	55,000
Less: Non-Business Income		726,000
(1) Interest on Debenture	80,000	
(2) Dividend on Share	60,000	140,000
Taxable Income from Business or Profession		586,000
Add: Non-business Income		
Income from Interest on Securities:		
Interest on Debenture		80,000
Income from Other Sources		
Dividend on Share		60,000
Total		726,000

Illustration 10 – 6:

From the following receipts and payments a/c of Mr. Azharuddin, a tax consultant, calculate income from profession:

Receipt and Payment A/c For the year ended on 30th June, 2017

Receipts	Tk.	Payments	Tk.
Balance B/D	350,000	Office and administrative exp.	60,000
Fees from Client	150,000	Salary to staff	70,000
Presents from Client	40,000	Repairs	8,000
Winning from lotteries	28,000	Interest on loan for business	12,000
Rent from let out property	75,000	Income tax	6,000
Share of profit from a firm	12,500	Purchase of car (01.07.14)	150,000
		Balance c/d	3,49,500
	655,500		655,500

Solution 10 – 6:

Assessee: Mr. Azharuddin

Income Year: 2016 – 17; Assessment Year: 2017 – 18

Income from Profession:	Taka	Taka
Professional receipts:		
Fees from client	150,000	
Present from client	40,000	
Less: Professional payments		190,000
Office and admin exp.	60,000	
Staff salary	70,000	
Repairs	8,000	
Interest on loan for business	12,000	
Depreciation of car @20% [as per Para 3, 3 rd schedule]	30,000	180,000
Total		10,000

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Illustration 10 – 7:

Following is the income and expenditure account of Razib & Co., chartered accountants for the year ending 30th June, 2017. Calculate income from profession considering: Tk. 5,000 can be claimed as depreciation for office assets as per income tax provision.

Income and Expenditure A/c For the year ended on 30th June, 2017

Expenditure	Tk.	Incomes	Tk.
Charity and donation	100,000	Audit fee	300,000
Subscription to ICAB journals	2,000	Examiner fee	25,000
Institute fee	4,000	Fee for other accounting work	40,000
Office rent	5,000	Dividend from ICB Unit Fund	35,000
Drawings	50,000		
Electricity bill	9,000		
Salary to trainee	20,000		
Net income	210,000		
	<u>400,000</u>		<u>400,000</u>

Solution 10 – 7:

Assessee: Razib & Co.

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

Income from Profession:	Tk.	Tk.
Professional receipts:		
Audit fees	300,000	
Examiner fees	25,000	
Fees for other accounting work	<u>40,000</u>	365,000
Less: Professional payments		
Subscription to journal	2,000	
Institute fee	4,000	
Office rent	5,000	
Bill for electricity	9,000	
Salary to trainee	20,000	
Depreciation	<u>5,000</u>	45,000
Total		<u>320,000</u>

Illustration 10 – 8:

Dr. Arup Ratan is a renowned medical practitioner (Dentist) who gives the following receipts and payments account for the year ending on 30th June, 2017. Calculate his income from profession:

Receipt and Payment A/c For the year ended on 30th June, 2017

Receipts	Tk.	Payments	Tk.
Balance B/D	75,000	Rent to clinic	15,000
Consulting Fees from Patients	45,000	Purchase of professional books	20,000
Visiting fees	20,000	Purchase of medicine	15,000
Sale of medicines	90,000	Purchase of Motor car	75,000
Gifts and presents from clients	10,000	Income tax	3,000

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Interest from post office savings	12,000	Purchase of surgical equipments	15,000
Winning from lottery	150,000	Gift to wife	5,000
Dividends	10,000	Balance c/d	264,000
	<u>412,000</u>		<u>412,000</u>

Additional information: (1) One-third portion of the car is used for personal purpose; (2) Date of purchase: Professional book & Surgical equipments on 1st July, 2014 and Car on 1st January, 2014. (3) Depreciation is to be charged as (a) books @ 30%, (b) car @ 20%, and (c) surgical equipments @ 20% as per Para 3 of Third Schedule; (4) Closing stock of medicine Tk. 4,000.

Solution 10 – 8:

Assessee: Mr. Arup Ratan Chowdhury

Income Year: 2016 – 2017

Assessment Year: 2017 – 2018

Income from Profession:	Taka	Taka	Taka
Professional receipts: Consulting fees		45,000	
Visiting fees		20,000	
Sale of medicine		90,000	
Gifts and presents from clients		10,000	165,000
Less: Professional payments			
Rent to clinic		15,000	
Depreciation: On books (20,000 × 30%)	6,000		
On car (75,000 × 20%)	15,000		
On equipments (15,000 × 20%)	3,000	24,000	
Purchase of medicine	15,000		
Less: Closing stock	4,000	11,000	50,000
Taxable Income from Profession			<u>115,000</u>

Illustration 10-9:

Mr. Jamilur Rahman is a Cost and Management Accountant. He maintained books of accounts and the following is his Income and Expenditure Account for year ended on 30th June, 2017.

Dr.	Taka	Cr.	Taka
Particulars	Taka	Particulars	Taka
Salary to Staff	3,20,000	<u>Professional fees:</u>	
Office Expenses	48,000	From cost audit	3,00,000
Office Rent (without TDS)	80,000	From Tax practice	2,00,000
Entertainment	10,000	From accounts preparation	1,50,000
Loan to client	40,000	Dividend from private Ltd.	
Purchase of professional books	12,000	Co.	50,000
Traveling Expenses	25,000	Interest on bank deposit	40,000
Purchase of one computer	20,000	Rental income from sub-let of	
Loss on sale of shares of listed co.	18,000	hired premises	36,000
Misc. Expenses	10,000		
Net profit	1,93,000		
	<u>7,76,000</u>		<u>7,76,000</u>

Compute total income and tax to be paid by Mr. Rahman for the assessment year 2017-18.

Chapter - 10: Income from Business or Profession

Solution 10 - 9:

Assessee: Mr. Jamilur Rahman

Income year: 2016 - 2017

Assessment year: 2017 - 2018

Computation of total taxable income

	Tk.	Tk.	Tk.
Income from "Business or Profession Section - 28			
Net profit as per P& L A/c		193,000	
(less) Non business income show in the credit in the credit side			
Dividend from Private Ltd. Company	50,000		
Interest on bank deposit	40,000		
Rental income from sub-let	<u>36,000</u>		
		<u>126,000</u>	
		67,000	
(add) Entertainment for separate consideration as per rule - 65		<u>10,000</u>	
		77,000	
(add) <u>Inadmissible expenses</u>			
(1) <u>Loan to client Tk. 40,000</u>			
Disallowed fully as it is not an business expenditure so not allowable as per section -29	40,000		
(2) <u>Purchase of professional books Tk. 12,000</u>			
Disallowed fully as it is not an expenditure rather asset to business so not allowable as per section-29	12,000		
(3) <u>Purchase of one computer Tk. 20,000</u>			
Disallowed fully as it is not an expenditure rather asset to business (assuming). So not allowable as per section-29	20,000		
(4) <u>Less on sale of shares of listed co. Tk. 18,000</u>			
Disallowed fully as it is not as business expenditure so not allowable as per section-29	<u>18,000</u>		
		<u>90,000</u>	
		167,000	
(Less) Depreciation: As per 3 rd Schedule			
On Professional boles @ 30%(12000x30%)	3,600		
On Computer @30% (20,000x30%)	<u>6,000</u>	9,600	
		157,400	
(Less) Entertainment as per rule - 65 [157,400x4%]		<u>6,296</u>	
			151,104
Income from other sources" Section-33			
Dividend from Private Ltd Com.	50,000		
(Less) Exempted as per 6 th Schedule Part A Part 11A	<u>25,000</u>	25,000	
Interest on Bank deposit		40,000	
Rental income from sub -let		<u>36,000</u>	<u>101,000</u>
			<u>252,104</u>

Computation of tax liability:

	Rate	Tax
On the first Tk. 250,000	0%	Nil
On the balance Tk. 2,104	10%	210
Grass liability		210
Minimum Tax		5,000
Less: TDS		
1. On Bank Interest (Tk. 40,000x 10%)	4,000	
2. On professional fee (650,000 x10%)	65,000	
3. On cash dividend (50,000 x 10%)	5,000	
		<u>74,000</u>
Refund		<u>69,000</u>

KEY POINTS

1. Business includes
 - ⇒ any trade, commerce or manufacture or
 - ⇒ any adventure or concern in the nature of trade, commerce or manufacture and
 - ⇒ Profession includes a vocation.
2. 40% of income from tea garden, rubber garden and such nature will be considered as Income from business or profession and the rest as income from agriculture.
3. The assessee is free to select his own accounting system.
4. Entertainment expenditure is an admissible expense to the extent of
 - ⇒ 4% on the first Tk. 10 lakh of income, profits and gains and
 - ⇒ 2% on the rest.

On the other hand income tax, contribution to unrecognized provident fund, fund embezzlement by employees after office hour etc are inadmissible expenses.
5. Full depreciation is allowed in the purchase year and none is allowed in the year of disposal of assets.
6. Sale value exceeding original cost is capital gain and should be taxed under that the head 'Income from capital gain'.
7. Depreciation base in every case is the written down value (WDV) except in case of accelerated depreciation and on ships or vessel when original cost is the depreciation base.
8. Any government subsidy or any grant received for purchasing assets or any foreign currency fluctuation gain (loss), when the asset is imported, should be adjusted accordingly to calculate the accurate costs.
9. Sale value of motor vehicles costing more than taka ten lakh should be scaled down in proportion to ten lakh and also the proportionate sale value should be considered in case of assets used partially for business and profession and partially for personal purposes
10. Depreciation is allowed on cost but investment allowance is allowed over and above 100 cost of qualifying assets.

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Multiple choice questions:

- As per rule, balancing allowance may exist if WDV is –
 - Higher than sale proceeds
 - Lower than sale proceeds
 - Equal to sale proceeds
 - Equal to original costs
- What percentage of rubber garden income shall be considered as income from business or profession –
 - 25%
 - 30%
 - 40%
 - 60%
- Which of the following is an admissible expense under the head income from business or profession –
 - Rent of premises where the assessee is the owner of the premises
 - Bonus to employee in addition to employment rule
 - Depreciation on scientific assets where capital expenditure on such assets were admissible
 - Accounting and audit fees
- Which of the following is not an admissible expense under the head income from business or profession –
 - Salaries paid to the employees without deducting taxes at source
 - Compensation to an employee for injury or accident met while on duty
 - Production, transportation and marketing expenses of inventories
 - Cost of borrowed funds in terms of interest
- Which of the following statement is false –
 - Renewal fees of license is an admissible expense
 - Loss on foreign exchange translation is an inadmissible expense
 - Royalty paid against patent or copy right is an admissible expense
 - Reserve for bad debt and reserve for discount is an inadmissible expense
- Which of the following statement is true –
 - Personal expenses of assessee is admissible
 - Expenditures incurred for issuing of shares is admissible
 - Income tax is inadmissible
 - leave allowance given to employees is inadmissible
- Depreciation allowance is to be calculated on the original cost of the asset for which type of following assets –
 - Ocean going ship
 - Furniture and fittings
 - Motor vehicle
 - Building
- Rate of depreciation admissible for factory building is –
 - 10%
 - 16%
 - 20%
 - 24%

9. Which of the following statement is true in connection to special depreciation –

- (a) First year depreciation rate is 60%
- (b) Second year depreciation rate is 40%
- (c) The concept is no more in use
- (d) None of the above

10. If WDV is more than sales proceeds, the difference is called –

- (a) Balancing charge
- (b) Balancing allowance
- (c) Capital gain
- (d) Revenue gain

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

- 1. Sales tax, value added tax are not admissible expense.
- 2. Loss on sale of capital asset is an inadmissible expense.
- 3. Total of Depreciation Allowance, in no case, will be higher than the original cost.
- 4. Allowable depreciation on furniture and fittings is 10% on original cost.
- 5. The assessee is free to select his own accounting system.

T	F
T	F
T	F
T	F
T	F

Discussion Questions:

Question 10 – 1: Explain chargeability under the head as per section 28.

Question 10 – 2: What are allowable deductions at the time of computing taxable income under the head 'income from business or profession'?

Question 10 – 3: List down the expenses that are not admissible under the head.

Question 10 – 4: Explain different methods of accounting for calculating income from business or profession.

Question 10 – 5: What are different types of depreciation allowance? Explain each of the depreciation allowances with the rates and assets concerned.

Question 10 – 6: Compare balancing charge, balancing allowance and capital gain.

Question 10 – 7: Explain accelerated depreciation. How it differs from accounting sense of accelerated depreciation method of charging depreciation?

Question 10 – 8: Write short note on:

- (a) Set off of losses
- (b) Carry forward of losses
- (c) Unabsorbed depreciation
- (d) Speculation business

Problem 10 – 1:

Which of the following expenses are admissible and up to what extent?

- a. Research expenses for the year Tk. 20,000. Full of this amount is revenue expense in nature.
- b. Annual subscription amounting to Tk. 45,000 is paid to Bangladesh Medical Association as a registered member thereof.
- c. Loan amounting to Taka 20,000 has actually been written off though it was not established as such in the last year and thus was not allowed then. But in this year, it has been established that the loan is not recoverable.
- d. Bad debt amounting to Tk. 15,000 has been recovered that was written off as irrecoverable in the last year in satisfaction of the DCT.
- e. Provision for doubtful debt has been made @15% on the total amount of outstanding loan.

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- f. Amount transferred to Special Reserve Fund Taka 25,000. Total income for the year amounts to Taka 200,000. Previous balance of Special Reserve Fund amounts to Taka 85,000 and the amount of capital outstanding is Taka 100,000.
- g. Depreciation charged on the machinery owned by the business @ 10% assuming a 5 years life on straight-line basis. The cost of the machinery was Taka 50,000.

Problem 10 - 2:

The Profit and Loss Account of Mr. Y results net income of Taka 1,280,000 for the accounting year ended on June 30, 2017 as follows:

Mr. Y			
Profit and Loss Account			
For the year ended on June 30, 2017			
Debit	Taka	Credit	Taka
Salary	1,000,000	Gross Profit	3,000,000
Rates and Taxes	40,000	Interest on Less Tax	150,000
Rent of Premises	400,000	Govt. Securities	40,000
Fund Embezzlement	50,000	Bad Debt Recovered	
Donations	200,000	(disallowed earlier)	10,000
Bad debt	80,000		
Fire Insurance Premium	50,000		
Depreciation Expense -Machinery	40,000		
Provision for bad & Doubtful Debt	60,000		
Net Profit	1,280,000		
	<u>3,200,000</u>		<u>3,200,000</u>

Other Information:

- (1) Salary includes Taka 300,000 paid as perquisites for the year.
- (2) Fund embezzlement occurred during office hour on account of theft by an employee.
- (3) Donations are made to approved organizations under Paragraph 11B of Part B of the Sixth Schedule of ITO, 1984.
- (4) Tax depreciation amounts to Taka 50,000.

Required: Compute the income from business or profession for the year ended on June 30, 2017.

Problem 10 - 3:

The Income Statement with selective notes thereon of XYZ Ltd for the year ended on December 31, 2016 is as under:

XYZ Ltd	
Income Statement	
For the year ended on December 31, 2016	
	Taka
Net Sales	10,000,000
Less: Cost of Goods Sold	6,800,000
Gross Profit	3,200,000
Add: Gain on Sale of Building (Note 1)	1,200,000
	<u>4,400,000</u>
Less: Administrative and Selling & Distribution Expenses (Note 2)	3,400,000
Net Profit	<u>1,000,000</u>

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Other information:

- (1) The Cost of the Building was Taka 8,000,000 and the amount of accumulated depreciation up to the date of sale was Taka 2,700,000 and sold for Taka 6,500,000.
- (2) Administrative and Selling & Distribution Expenses total Tk. 3,400,000 includes:

Salaries and Wages	Tk. 1,562,000	Provision for Bad and Doubtful Debt	Tk. 60,000
Fines and Penalties	125,000	Underwriting Commission	120,000
Rents, Rates & Taxes	80,000	Overseas Traveling Expense	1,100,000
Legal Charges	37,000	Cost of Issuing Shares	100,000
Incentive Bonuses	40,000	Depreciation Expense	116,000
Audit Fees	60,000		

- (3) Salary and wages includes Taka 180,000 as payment to employees for the year who failed to submit return within tax day and Taka 520,000 as payment classified as perquisites.
- (4) The fines and penalties are charged by a local court for involvement in illegal business transactions.
- (5) Overseas travelling expenses incurred for providing services to government where overseas travelling was a key requirement for the service.
- (6) Legal charges have been incurred for defending a suit for alleged breach of a trading contract.
- (7) Tax depreciation amounts to be Taka 80,000.

Required: Compute the income from business or profession for the year ended December 31, 2016.

Problem 10 - 4:

The Trading and Profit & Loss Account of Mr. Z and Associates for the year ended 31.12.16 is:

Mr. Z and Associates Trading & Profit and Loss Account For the year ended on December 31, 2016

Debit	Taka	Credit	Taka
Opening Stock	200,000	Sales	2,300,000
Purchases	800,000	Closing Stock	200,000
Wages	80,000		
Depreciation on Equipment	20,000		
Transportation In	10,000		
Gross Profit (Carried Down)	1,390,000		
	<u>2,500,000</u>		<u>2,500,000</u>
Salaries	280,000	Gross Profit (Brought Down)	1,390,000
Rent, Rates and Taxes	60,000	Bad Debt Recovered	30,000
Annual Membership Fee	50,000	Interest and Discount Received	25,000
Legal Expenses	26,000	Interest on Debenture	80,000
Brokerage Fees	45,000	Dividend on Share	60,000
Purchase of Copyright	200,000	Commission	28,000
Bad Debts	60,000	Income from House Property	180,000
Audit Fees	50,000		
Depreciation - office furniture	60,000		
Fines and Penalties	20,000		
Donation to Aga Khan Dev. Network	60,000		

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Payment from Pension Fund	280,000	
Tax Paid on Last Year's Assessment	30,000	
Loss on sale of furniture	10,000	
Payment to Daughter	50,000	
Miscellaneous Expense	60,000	
Net Profit	<u>452,000</u>	
	<u>1,793,000</u>	<u>1,793,000</u>

Other information:

- (1) Salaries are paid without deducting tax at sources.
- (2) Recovered amount of bad debt was previously disallowed as bad debt expense.
- (3) Legal expense is incurred for filing and continuing a case against competitor for protecting the interest of the business.
- (4) Fines and penalties were due to the noncompliance of govt. rules and regulations.
- (5) Miscellaneous expense includes Taka 40,000 that was incurred for payment to tax consultant who doesn't own 12 digit TIN.
- (6) Tax depreciation was:

Depreciation on Equipment	Tk. 30,000
Depreciation on Office Furniture	Tk. 50,000.

Required: Compute the income from business or profession and total taxable income of Mr. Z and Associates for the year ended on December 31, 2016.

Problem 10 – 5:

From the following receipts and payments a/c of Mr. Arif Khan, an income tax practitioner, calculate income from profession:

Receipt and Payment A/c For the year ended on 30th June, 2017

Receipts	Tk.	Payments	Tk.
Balance B/D	350,000	Office and administrative exp.	60,000
Fees from Client	150,000	Salary to staff	70,000
Presents from Client	40,000	Repairs	8,000
Interest on Bangladesh savings certificate	22,500	Interest on loan for business	12,000
Rent from let out property	75,000	Income tax	6,000
Share of profit from a firm	12,500	Purchase of car (01.01.14)	150,000
	<u>650,000</u>	Balance c/d	344,000
			<u>650,000</u>

Problem 10 – 6:

Following is the income and expenditure account of Hasan & Co., cost and management accountants for the year ending 30th June, 2017.

Expenditure	Tk.	Incomes	Tk.
Charity and donation	100,000	Audit fee	300,000
Subscription to ICMAB journals	2,000	Examiner fee	25,000
Institute fee	4,000	Fee for other accounting work	40,000

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Rent expense	50,000	Dividend from ICB Unit Fund	45,000
Drawings	5,000		
Electricity bill	9,000		
Salary to trainee	20,000		
Repair expense	10,000		
Net income	<u>210,000</u>		
	<u>400,000</u>		<u>400,000</u>

Additional Information:

1. Tk. 5,000 can be claimed as depreciation for office assets as per income tax provision.
2. Of rent one-half is paid for his residence.

Required:

Calculate income from profession from the given details:

Problem 10 – 7:

Dr. Mahmudul Hasan is a renowned medical practitioner who gives the following receipts and payments account for the year ending on 30th June, 2017.

Receipt and Payment A/c For the year ended on 30th June, 2017

Receipts	Tk.	Payments	Tk.
Balance B/D	75,000	Rent to clinic	15,000
Consulting Fees from Patients	45,000	Purchase of professional books	20,000
Visiting fees	20,000	Purchase of medicine	15,000
Sale of medicines	90,000	Purchase of Motor car	75,000
Gifts and presents from clients	10,000	Income tax	3,000
Interest from post office savings	12,000	Purchase of surgical equipments	15,000
Winning from lottery	150,000	Gift to wife	5,000
Dividends	10,000	Purchase of land	500,000
Salary income from Dhaka		Balance c/d	264,000
Medical college	500,000		
	<u>912,000</u>		<u>912,000</u>

Additional information:

1. One-third portion of the car is used for personal purpose;
2. Date of purchase: Professional book & Surgical equipments on 1st July, 2014 and Car on 1st January, 2014.
3. Depreciation is to be charged as
 - (a) books @ 30%,
 - (b) car @ 20%, and
 - (c) surgical equipments @ 20% as per Para 3 of Third Schedule;
4. Closing stock of medicine Tk. 4,000.

Required:

Calculate Dr. Mahmudul Hasan's income from profession for the year ending on 30th June, 2017.

Chapter - 10: Income from Business or Profession

Answers:

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

Self review 10 - 1:

- (a) Capital gain: taka - 30,000 and balancing charge: taka - 10,000.
 (b) 40%

Self review 10 - 2:

- (a) 5% of the total income
 (b) taka 40,000.
 (c) taka 800,000.

Self review 10 - 3:

- (a) exceeding taka 450,000.
 (b) exceeding 10% of the profit
 (c) exceeding 5% of the profit
 (d) exceeding 10% of disclosed net profit
 (e) exceeding 1% of disclosed turnover

Self review 10 - 4:

1. (a) regular method of accounting
 (b) As per Form A (1) - Cash Registrar of Rule 8 of IT Rules, 1984
2. actual costs
3. There are four different types of depreciation allowance:
 - ⊕ Normal Depreciation Allowance
 - ⊕ Initial Depreciation Allowance
 - ⊕ Accelerated Depreciation Allowance
 - ⊕ Special Depreciation Allowance

CHAPTER - II

CAPITAL GAIN

LEARNING OBJECTIVES

After studying Chapter 11, you shall be able to understand:

- ⊕ the concept of capital gain, capital assets, fair market value and transfer
- ⊕ chargeability under the head capital gain
- ⊕ computation of capital gain
- ⊕ applicable tax rate on capital gain
- ⊕ tax exempted capital gain
- ⊕ carry forward of losses under the head capital gain

Capital gain is the sixth head of income as per section 20 of ITO, 1984. This gain basically arises on transfer of capital asset if transferred at a value more than the original costs. Tax on such income shall be charged at the rates specified in the second schedule in respect of such income in the income year when the transfer took place [Sec 16(3)(ii); 31].

11.1 DEFINITIONS

Some pertinent definitions to this specific head of income are quoted from ITO, 1984.

11.1.1 Capital Assets [Sec 2(15)] 'Capital Asset' means property of any kind held by the assessee, whether or not connected with his business or profession, but does not include –

- (a) Any stock-in-trade (not being stocks or shares), consumable stores or raw materials held for the purposes of his business or profession; and
- (b) Personal effects, that is to say, movable property (including wearing apparel, jewelry, furniture, fixture, equipment and vehicles), which are held exclusively for personal use by, and are not used for purposes of the business or profession of the assessee or any member of his family dependent upon him.

Explanation: Property of any kind: As can be seen, the above definition of capital asset is very sweeping nature and covers *the property of any kind* barring the exceptions mentioned above namely, stock-in-trade, raw materials, movable personal properties, agricultural land within the area as specified. The term "Property of any kind" used in this section are of widest amplitude and include not only tangible assets but also intangible rights. It may be either corporeal or incorporeal. Corporeal means of a material nature i.e. physical things like land, building, shares etc. Not only these assets but non-corporeal assets like route permits for buses, tenancy rights, leasehold rights, copyrights, goodwill, patent, trademarks, franchising, licensing etc. will also be covered under the definition of capital assets. At one end, it includes all types of property-plant-equipment used in business or profession and on the other end, it also includes leasehold rights, goodwill, patent, trademarks, franchising, licensing and all other such assets whether movable or immovable, tangible or intangible, fixed or floating.

11.1.2 Fair Market Value [Sec 2(30)] –

'Fair market value' means, in relation to capital asset –

- (a) The price which such asset would ordinarily fetch on sale in the open market on the relevant day, and, where such price is not ascertainable, the price which the DCT may, with the approval in writing of the Inspecting Joint Commissioner, determine;

- (b) The residual value received from the lessee in case of an asset leased by a financial institution having license from the Bangladesh Bank on termination of lease agreement on maturity or otherwise subject to the condition that such residual value plus amount realized during the currency of the lease agreement towards the cost of the asset is not less than the cost of acquisition to the lessor financial institution.

11.1.3 Transfer [Sec 2(66)] –

'Transfer' in relation to a capital asset, includes the sale, exchange or relinquishment of the asset, or the extinguishments of any right therein, but does not include –

- (a) Any transfer of the capital asset under a gift, bequest, will, or an irrevocable trust;
 (b) Any distribution of the assets of a company to its shareholders on its liquidation; and

Explanation: if the capital gain arises due to transfer of capital asset to the outsiders in the event of liquidation by the official liquidator, such capital gain will be taxed

- (c) Any distribution of capital assets on the dissolution of a firm or other association of persons or on the partition of a Hindu Undivided Family.

Explanation of the Definition:

1. Sale, exchange or relinquishment of the asset:

(a) **Sale:** There is no definition of sale under the ITO, 1984. In order to find out legal implication of sale one must resort to the Transfer of Property Act in the case of immovable property and to the Sale of Goods Act in the case of movable property. As per Section 54 of the Transfer of Property Act, 1882, "Sale" is a transfer of ownership in exchange for a price paid or promised or part-paid and part-promised.

(b) **Exchange:** When two persons mutually transfer the ownership of one thing for the ownership of another, neither thing or both things being money only, the transaction according to Section 118 of the Transfer of Property Act, 1882 is called an exchange. Like sale, exchange requires two persons. There cannot be exchange with one self. Exchange is a bilateral transaction involving two parties each of whom owns an asset which constitutes the subject matter of exchange. While in the case of sale, the consideration for transfer is necessarily money, in the case of exchange, the consideration is another asset.

(c) **Relinquishment of the asset:** Relinquishment means withdrawn from, abandoning or giving up anything. By relinquishment a person ceases to own the asset concerned through some act on his part. In other words, the owner withdraws himself from the property and abandons his rights thereto. The property, however, continues to exist and will become the property of someone else.

2. Extinguishments of rights in an asset: Extinguishments connotes total destruction, annihilation, termination or extinction of a capital asset. However, destruction or extinction of capital assets is not regarded as transfer. In fact, there should be a destruction or extinction of "rights" in the capital asset as it may be noticed that in respect of the expression "exchange or relinquishment", the subject matter of transfer is "assets" and in case of "Extinguishment", it is "Rights" Such as,:

- i) Extinguishment of capital rights.
- ii) Cancellation of licenses. Where an assessee abandons a project and relinquishes the lease agreement of land, and industrial license and on that account suffers loss, it would be allowable as capital loss.
- iii) Reduction of share capital of a company and payment to shareholders.

Note: Transfer is important as capital gain arises only on transfer. The definition makes it clear to decide whether transfer took place or not. But regarding the time, it remains silent. In case of immovable property, the transfer takes effect on the date when the deed of transfer is executed but in case of movable property, the transfer takes place on the date when ownership title over the property passes or when the property is physically handed over to the transferee. [C.I.T vs. Bhurangiya Coal Co Ltd (1958)]

11.2 BASIS OF CHARGE (SEC 31)

Tax shall be payable by an assessee under the head ‘Capital Gains’ in respect of any profits and gains arising from the transfer of a capital asset and such profits and gains shall be deemed to be the income of the income year in which the transfer took place. In other words, tax liability on capital gain arises only when the following conditions are satisfied:

Condition 1: There should be a capital asset;	See para 11.1.1 [Sec 2(15)]
Condition 2: The capital asset is transferred by the assessee;	See para 11.1.3 [Sec 2(66)]
Condition 3: Such transfer takes place during the income year;	
Condition 4: There must be profits or gains on such transfer, which will be known as capital gain;	See para 11.3 [Sec 32]
Condition 5: Such profit or gains is not exempted from tax under sections 31, 32(5), (7), (10), (11), (5).	See para 11.5

11.3 COMPUTATION OF CAPITAL GAINS (SEC 32)

The income under the head “Capital Gains” shall be computed after making the following deduction from the full value of the consideration received or accruing from the transfer of the capital asset or the fair market value thereof, whichever is higher, namely:

- (a) Any expenditure incurred solely in connection with the transfer of the capital asset (e.g. advertisement, brokerage, stamp duty, registration fees, legal expenses etc.); or
- (b) The cost of acquisition of the capital asset and any capital expenditure incurred for any improvements thereto but excluding any expenditure in respect of which any allowance is admissible under any provisions of sections 23 (deductions from interest on securities), 29 (deductions from income from business or profession) and 34 (deductions from income from other sources). [U/s 32 (1)]

For the purpose of this section, “cost of acquisition of the capital asset” means –

- (i) Where it was acquired by the assessee by purchase, the actual cost of acquisition;
- (ii) Where it becomes the property of the assessee under a deed of gift, bequest or will; or under a transfer on a revocable or irrevocable trust; or on any distribution of capital assets on the liquidation of any company or on the dissolution of a firm or other association of persons or the partition of a Hindu Undivided Family; the actual cost of acquisition to the previous owner of the capital asset as reduced by the amount of depreciation, if any, allowed to the previous owner; and where the actual cost of acquisition to the previous owner cannot be ascertained, the fair market value at the date on which the capital asset become the property of the previous owner. [U/s 32 (2)]

Notes:

1. If the assessee has obtained depreciation allowance in any year for any asset, the cost of acquisition in such case shall be the written down value as increased or decreased by any adjustment made under section 19(16) or 19(17) or 27(1)(j) or 29(1)(xi). The adjustment is with reference to balancing allowance actually deducted or balancing charge actually added. [U/s 32 (2)]
2. If the ownership comes through succession/inheritance/devolution, the cost of acquisition shall be the fair market value at such date when the asset becomes the property of the assessee. [U/s 32 (2)]
3. If the DCT opines that the fair market value exceeds the full value of the consideration declared, by an amount of not less than 15% of the value so declared, the fair market value shall be determined again with the permission of Inspecting Joint Commissioner of Taxes IJCT. [U/s 32 (3)]

Example: Say the declared value of a specific asset is BDT 50 thousand whereas the estimated fair value by the DCT amounts to BDT 59 thousands, i.e., more than 15% of declaration. In such a case, DCT may consider the fair value of the asset as BDT 59 thousands for the purpose of calculating capital gains with prior permission from IJCT.

4. If the Deputy Commissioner of Taxes opines that the fair market value exceeds the full value of the consideration declared by more than 25% of such declared value, the Government may offer to buy the said asset in such manner as may be prescribed through Rule 42. [U/s 32 (4)]

Example: Say the declared value of a specific asset is BDT 50 thousand whereas the estimated fair value by the DCT amounts to BDT 65 thousands, i.e., more than 25% of declaration. In such a case Government may offer to buy the asset under Rule 42.

11.4 TAX RATE (PARA 2, SECOND SCHEDULE):

Any income under the head "capital gains" shall be taxed at the rate as specified below:

- (a) In the case of a company –
- (i) Tax payable on the total income excluding capital gains as per applicable rate;
 - (ii) Tax at the rate of 15% on the whole amount of such capital gains.
- (b) In the case of a person other than a company –
- (i) On disposal of capital assets within 5 years of acquisition, the amount of capital gain will be included with total income and taxed accordingly at regular rate;
 - (ii) On disposal of capital assets after 5 years of acquisition, tax payable on the capital gains at the rate applicable to his total income including the said capital gains, or tax at the rate of 15% on the capital gains, whichever is lower.

Illustration:

1. ACI Ltd.'s total income is Tk. 500,000 (inclusive of Tk. 50,000 capital gain) for the income year 2016-17. Compute the tax liability assuming that the Company tax rate is 25%.

	Total income	Tax rate	Tax Liability
Total income less capital gain	450,000	25.00%	112,500
Capital gain	<u>50,000</u>	15.00%	<u>7,500</u>
Total	500,000		120,000

2. Mr. Tanvir's total income is Tk. 700,000 (inclusive of Tk. 50,000 capital gain) for the income year 2016-17. If disposal of capital assets has done within 5 years of acquisition. His tax liability is

	Tax rate	Tax Liability
On first Tk. 250,000	Nil	-
On next Tk. 400,000	10%	Tk. 40,000
On next Tk. 50,000	15%	<u>7,500</u>
Total		<u>Tk. 47,500</u>

3. The details of total income and capital gain of two assessee's ows for the income year 2016-17 are:

	Mr. Javed	Mr. Abrar
Total income excluding capital gain	235,000	4,720,000
Capital gain	<u>100,000</u>	<u>100,000</u>
Total income	<u>335,000</u>	<u>4,820,000</u>

Compute the tax liability for the assessment year 2017-18, assuming that disposal of capital assets has done after 5 years of acquisition.

Mr. Javed: Tax liability on total income (including capital gain): [(Tk. 250,000 × 0%) + (Tk. 85,000 × 10%)] = Tk. 8,500; Average tax rate on total income (including capital gain) = (8,500/335,000) × 100

= 2.54%. Tax rate applicable on capital gain: 2.54% or 15%, whichever is lower i.e. 2.54%. So, Tax liability on capital gain = Tk. 100,000 × 2.54% = Tk. 2,540.

Mr. Abrar: Tax liability on total income (including capital gain):

	<u>Tax rate</u>	<u>Tax Liability</u>
On first Tk. 2,50,000	Nil	-
On next Tk. 4,00,000	10%	40,000
On next Tk. 5,00,000	15%	75,000
On next Tk. 6,00,000	20%	120,000
On next Tk. 30,00,000	25%	750,000
On next Tk. 70,000	30%	21,000
Total		<u>10,06,000</u>

Average tax rate on total income (including capital gain) = $(10,06,000 \div 4,820,000) \times 100 = 20.87\%$

Tax rate applicable on capital gain: 20.87% or 15%, whichever is lower i.e. 15%

So, Tax liability on capital gain = Tk. 100,000 × 15% = Tk. 15,000

SELF REVIEW 11 - 1

- (a) What are the allowable deductions for computing taxable income under "Capital Gain"?
- (b) What are the rates for calculation of tax under the head for
 - (i) assessee being a company
 - (ii) assessee being a person other than a company?

11.5 TAX EXEMPTED CAPITAL GAINS

Capital gains are exempted from taxes in following cases:

- (1) **Capital gain arising from the transfer of capital asset used for the purpose of business [Sec 32(5)]:** If the capital gains, arising out of transfer of capital assets used in the business or profession, is used fully or in part to purchase a new capital asset within a period of one year before or after the date of transfer and if the assessee elects in writing before the assessment for rolling over the gain on new asset;
- (2) **Capital gain arising from the transfer of Government Securities [Sec 32(7)]:** If capital gain arises from the transfer of capital assets being government securities in Bangladesh; [Sec 32(7)]
- (3) **Capital gain arising from transfer of capital being buildings or lands to a new company [Sec 32(10)]:** If capital gain arises from the transfer of capital assets being buildings or lands to a new company for setting up of an industry, and if the whole amount of capital gain is invested in the equity of the said company;
- (4) **Capital gain of a firm arising from transfer of its capital asset to a new company [Sec 32(11)]:** If capital gain arises from the transfer of capital assets of a firm to a new company and if the whole amount of capital gain is invested in the equity of the said company by the partners of the said firm.
- (5) **Capital gain arising from the transfer of Securities approved by SEC and traded in Stock Exchanges in some specific cases [SRO 196/L/IT/2015 dated 30/06/2015]:** If capital gain arises from the transfer of securities approved by SEC and traded in Stock Exchanges (e.g. shares, stocks, mutual fund units, bond, debenture or any other types of securities but not government securities in Bangladesh) by any party other than the parties on whom tax is imposed as per this SRO (See 3.13 of Chapter 3).

11.6 CARRY FORWARD OF LOSS UNDER THE HEAD CAPITAL GAINS (SEC 40)

In exceptional situation it may results capital loss. If the asset is transferred at a value less than the cost of acquisitions, there may be capital losses. It is customary if the capital asset is sold in the year of purchase where no depreciation allowance is allowed and the second-hand value in the market becomes less than the cost in maximum types of assets.

Capital loss is also common in case of motor vehicles not plying for hire if purchased at more than ten lakh taka as the actual cost shall be deemed not to exceed ten lakh taka for the purpose of depreciation allowance under third schedule, ITO 1984. Section 37 and 40 provides the provisions regarding the set-off and carry forward of losses under the head "Capital gains". The combined effect of sections 37 and 40 is:

- (1) If capital loss arises in any income year-
 - a) it can be set off in the same year against capital gains relating to any other capital asset.
 - b) If there is no other heads of such capital gain or if the gain in such other head is not sufficient, such loss can be carried forwarded for a period of no more than six (6) successive years.
- (2) The right of carry forward is subject to one exception. In the case of any assessee, capital loss cannot be carried forwarded if total loss amounts to taka 5000 or less. When the loss amount exceeds taka 5000, only the excess amount is eligible for carry forward to the next year(s).

SELF REVIEW 11 - 2

- (a) In what situations, you may have loss under the head capital gain?
- (b) What is the condition of carry forward of losses under the head?

SPECIMEN FORM OF COMPUTING INCOME UNDER "CAPITAL GAIN"

Assessee:

Assessment Year: 2017 - 2018

Income Year: 2016 - 2017

Income under "Capital Gains" (Sec 31):	Tk.	Tk.	Tk.
Sale Proceeds of Capital Assets, or	XX		
Fair Market Value at the Time of Transfer, <i>whichever is higher</i>	<u>XX</u>	XX	
Less - Allowable Deductions			
(a) Expenditure incurred to transfer the capital asset(s)	XX		
(b) Cost of Acquisition	XX		
(c) Capital expenditure for improvements of the asset(s)	<u>XX</u>	<u>XX</u>	
Capital Gain			XX
Less: Tax-Exempted capital gains U/s 31 & 32			<u>XX</u>
Capital Gain Assessed			<u>XX</u>

Illustration 11 - 1:

Mr. Dixon has incurred the following transactions relating to capital gain in the year ended on June 30, 2017. You are asked to calculate the amount of capital gain for the purpose of charging income tax thereon in each of the independent situation:

- (a) He has sold a motorcar at Taka 550000 that he purchased in 2014 at a cost of Taka 400000 and used solely for personal purposes.

- (b) Sale of a 3-storied building for taka 3,000,000 in December 2016, which was purchased on March 2006 for taka 1,800,000. In January 2012, the building was extended at a total cost of taka 500,000. The fair value of the building in December 2016 was taka 3,200,000.
- (c) Sold an agricultural land situated in Comilla at a total price of taka 2,500,000 which was purchased 5 years back at a total price of taka 1,100,000.
- (d) Sold 100 shares of Prime Bank @ Tk. 600 in DSE (Brokerage commission 1% of the proceeds). The acquisition price was @ Tk. 200 (Brokerage commission 1%).
- (e) Sold a machine, purchased at a price of taka 80,000 for the purpose of his business, at a price of taka 150,000 at fair market value. Another taka 30,000 was spent to improve the machine. At the time of sale, the machine had accumulated depreciation amounting to taka 60,000.

Solution 11 – 1:

- (a) As the motorcar is a movable property and used exclusively for personal purposes, it does not fall under the category of capital asset as per section 2(15). So, there is no need to calculate the chargeable capital gain.
- (b) Calculation of capital gain from the sale of building: Sale proceeds or fair market value whichever is higher Tk. 3,200,000 less Cost of acquisition Tk. 1,800,000 less Cost of extension Tk. 500,000. Therefore, Capital Gain Tk. 900,000.
- (c) Capital gain will be (Tk. 25,00,000 – Tk. 11,00,000) = Tk. 14,00,000.
- (d) The capital gain from the sale of shares is: Sale proceeds or the shares (100 shares @ Tk. 600) Tk. 60,000 less Brokerage commission on sale 1% Tk. 600 less Cost of acquisition (100 shares @ Tk. 200) Tk. 20,000 less Brokerage commission on purchase 1% Tk. 200. So, Capital Gain is Tk. 39,200 and the total amount of this capital gain is exempted from tax.
- (e) Calculation of capital gain from the sale of building: Sale proceeds or fair market value whichever is higher Tk. 150,000 less Cost of Acquisition Tk. 80,000 less Cost of improvement Tk. 30,000. Therefore, Capital Gain is Tk. 40,000.

Illustration 11 – 2:

Mr. Zaman purchased an old house in Dhaka in November 2013 for Tk. 1,500,000. He has paid 1% as brokerage and subsequently spent Tk. 500,000 for the renovation of the house. On 1st July, 2016 he entered into an agreement to sell the property to Mr. Kamran for a consideration of Tk. 5,000,000 and received earnest money (advance money) of Tk. 100,000. As per the terms of the agreement, the balance payment should be made within 90 days of the agreement and if not the earnest money will be forfeited. As Mr. Kamran could not make the payment within the stipulated time the amount of Tk. 100,000 was forfeited by Mr. Zaman. Subsequently on 10th June, 2017, Mr. Zaman sold the house to Mr. Tareq for Tk. 5,500,000. He paid 2% brokerage on sale of the house. The fair market value of the house on the date of sale was Tk. 5,200,000. Calculate taxable capital gains for the income year 2016-17.

Solution 11 – 2:

Calculation of Taxable capital gains:

Income under "Capital Gains" (Sec 31):	Tk.	Tk.
Full value of consideration received against Capital Asset: (including the forfeited amount of Tk. 100,000)	5,600,000	
Fair Market Value at the Time of Transfer,	5,200,000	
<i>Disposal value of the capital asset (whichever is higher)</i>		5,600,000
Less – Allowable Deductions		
Brokerage fee for sale (5,500,000 × 2%)	110,000	

Chapter - 11: Capital Gain

Cost of Acquisition $[1,500,000 + (1,500,000 \times 1\%)]$	1,515,000	
Cost of improvements of the asset	500,000	2,125,000
Capital Gain		3,475,000

Illustration 11 – 3:

Mr. Jonathon is a member of Dhaka Stock Exchanged who purchased such membership at a price of taka 2,000,000 in 2003. On 1st July 2016 he has converted his membership into a Company registered under the Company Act, 1994. The conversion value of such membership was taka 8,000,000 having 80,000 shares of taka 100 par value per share. In December 2016, he sold 10,000 shares of the company at a total value of taka 1,100,000. Discuss tax implications.

Solution 11 – 3:

Stage 1: Capital gain at the time of transfer of membership is taka 6,000,000 (8,000,000 – 2,000,000). But this capital gain would not be taxed as the whole amount has been invested into the equity of a company registered under the Company Act, 1994.

Stage 2: Computation of capital gain from the sale of shares: Sale proceeds of shares Tk. 1,100,000 less Cost of acquisition $[(2,000,000 \div 80,000) \times 10,000]$ Tk. 250,000; therefore, Taxable capital gain is Tk. 850,000 on which applicable tax rate is 5%, as he is a sponsor director.

Illustration 11 – 4:

Mr. Andaleeb has purchased a machine at a total cost of Taka 500,000 on 23rd April 2013 for the purpose of his profession. In addition, he has paid Taka 10,000 as legal fees. He has spent an additional sum of Taka 50,000 for improvement of the machine. On 30th December 2016, he had sold the machine at a total price of Taka 600,000 when the balance of allowable accumulated depreciation was 126,000 in his books of accounts. But the fair market value on that date amounts to Taka 650,000 in the opinion of DCT. He incurred advertisement cost of Taka 20,000 and 1.5% as brokerage commission on the sale value. He has taxable income of Taka 230,000 from other sources. Compute capital gain, total taxable income, and specify tax rate thereon.

Solution 11 – 4:

Assessee: Mr. Andaleeb

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

	Tk.	Tk.	Tk.
Income under “Capital Gains” (Sec 31):			
Sale Proceeds of Capital Assets, or	600,000		
Fair Market Value at the Time of Transfer, <i>whichever is higher</i>	650,000	650,000	
Less – Allowable Deductions			
(a) Expenditure incurred to transfer the machine (Note 1)	29,000		
(b) Cost of Acquisition (Note 2)	510,000		
(c) Capital expenditure incurred for improvement of the machine	50,000	589,000	
Capital Gain			61,000
<i>Less: Reinvested Gain to claim rollover relief [Sec 32(5)]</i>			-
Capital Gain Assessed			61,000
Income from Business or Profession (Sec 28):			
Balancing charge (revenue gain) on sale of machineries (Note 3)			126,000
Income from Other Sources (given)			230,000
Total Taxable Income			417,000

Notes: (1) expenditure incurred to transfer the capital asset, Taka 29,000 (adv. 20,000 + commission 1.5% of 600,000) (2) cost of acquisition, Taka 510,000 (cost 500,000 + legal fees 10,000) (3) Balancing charge or revenue

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gain on sale of machinery, Taka 126,000 [Net Sale Proceeds (650,000 – 29,000) Tk. 621,000 less Written Down Value (500,000 + 10,000 + 50,000 – 126,000) Tk. 434,000; Net gain on sale of machine Tk. 187,000 out of which Capital Gain is Tk. 61,000. Therefore, Balancing Charge is Tk. 126,000. (4) In this case, tax will be applied at regular rate, as Mr. Radian is a person other than a company disposed the asset within five year.

Illustration 11 – 5:

Mr. Hasan runs a business of his own. He has purchased a piece of land at a cost of Taka 10,000,000 on 1st January 2011 within the jurisdiction of Chittagong Municipality having a total population of around 50,000 according to the last census. He has paid Taka 50,000 as finders' fee and another Taka 120,000 as registration fee for the land. He has sold the land on July 15, 2016 at a price of Taka 22,000,000. For the sale, He has to pay brokerage fee @ 2% on the gross sales amount receipt. In DCT's opinion, the fair market value of the land at the time of sale is Taka 20,000,000. On June 30, 2017 He has purchased another land at a cost of (a) Taka 10,000,000 (b) Taka 12,000,000 and expressed his intention of getting roll over relief of capital gain on new land in writing to DCT. He also had Taka 200,000 as taxable income from interest on securities and another Taka 100,000 taxable income from, 'income from other sources'. Compute the amount of capital gain and tax liability.

Solution 11 – 5:

Assessee: Mr. Hasan
Assessment Year: 2017 – 2018
Income Year: 2016 – 2017

(all the figures in this table is in thousand)

Income under "Capital Gains" (Sec 31):	Tk.	Tk.	(a) Tk.	(b) Tk.
Sale Proceeds of Capital Assets, or FMV at the Time of Transfer, <i>higher one</i>	22,000	20,000		
Less – Allowable Deductions				
Expenditure to transfer the asset (Note 2)	440			
Cost of Acquisition (Note 3)	10,170			
Capital expenditure for asset improvement	-	10,610		
Capital Gain			11,390	11,390
Less: Reinvested Gain to claim rollover relief [Sec 32(5)]			10,000	11,390
Capital Gain Assessed (Note 4)			<u>1,390</u>	=
Tax value of new asset			<u>nil</u>	<u>610</u>
Taxable Income: Income from Interest on Securities (given)			200	200
Capital Gains (as calculated above)			1,390	
Income from Other Sources (given)			100	100
Total Taxable Income			<u>1,690</u>	<u>300</u>

Computation of Tax Liability:

Income tier	Taxable Income		Rate	Amount of Tax	
	Case (a)	Case (b)		Case (a)	Case (b)
On First Taka	250,000	250,000	Nil	-	-
On Next Taka	400,000	50,000	10%	40,000	5,000
On Next Taka	500,000		15%	75,000	
On Next Taka	540,000		20%	108,000	
Total	<u>1,690,000</u>	<u>300,000</u>		<u>223,000</u>	<u>5,000</u>

Chapter - 11: Capital Gain

Average Tax Rate [2,23,000/16,90,000]; [5,000/300,000]	13.20%	1.67%
Flat Rate	15.00%	15.00%
Tax Rate on Capital Gain (note 6)	13.20%	nil
Tax on Capital Gain (13.20% on 13,90,000)	1,83,480	
Tax on remaining Tk 300,000 will be @ regular rate	5,000	5,000
Net Tax Liability	<u>188,480</u>	<u>5,000</u>

Notes: (1) The land qualified as capital asset as, it is not an agricultural land and is situated within the jurisdiction area as specified and total number of people living is more than 10,000. (2) expenditure incurred to transfer the capital asset, Tk. 440,000 (brokerage fees 2% of 22,000,000) (3) cost of acquisition, Tk. 10,170,000 (cost 10,000,000 + finders' fees 50,000 + reg. Fees 120,000) (4) In case of (a) as the investment was less than the capital gain, there will be capital gains equivalent to differential amount and tax have to pay on such amount though the tax value of the new asset will be nil. But in case of (b) investment is more than the capital gain and so there will be no capital gain left to charge under the head and the tax value of the new asset will be the difference between the cost of new assets and capital gains rolled over (Tk. 12,000,000 – Tk. 11,390,000). (5) There is no revenue gain as the cost and WDV of the asset is same. (6) Here, the assessee is a person other than a company and the asset is sold after 5 years of purchase. So, tax rate will be the lower of average tax rate computed on tax on total income including capital gain and 15% flat rate. So in case (a), applicable tax rate on capital gain will be 13.20% as this is the lower one and at regular rate on remaining income. But in case on case (b), tax will be applied at regular rate as there is no income under 'capital gain'.

Illustration 11 – 6:

Mr. Rex purchased a land in January 2003 at a total cost of Taka 1,000,000 and constructed a building over the land at a total cost of Taka 1,500,000 that was solely used for his business. The current fair market value of the land is Taka 9,800,000. In July 2016, he entered into an agreement with Fortune Properties Ltd and as per the agreement he would get 4 out of 20 flats that the developer would construct. Total value of those four flats is Tk. 6,880,000. Compute taxable capital gain for Mr. Rex.

Solution 11 – 6:

Calculation of taxable Capital Gain

Income under "Capital Gains" (Sec 31):	Tk.	Tk.	Tk.
Sale Proceeds of Capital Assets, or	-		
FMV at the Time of Transfer, <i>whichever is higher</i>	<u>9,800,000</u>	9,800,000	
Less – Allowable Deduction: Cost of Acquisition (Note 1)		<u>2,500,000</u>	
Capital Gain			7,300,000
Less: Reinvested Gain to claim rollover relief [Sec 32(5)]			<u>6,880,000</u>
Capital Gain Assessed			<u>420,000</u>
Tax value of new asset (flats) (Note 2)			-

Notes: (1) cost of acquisition, Taka 2,500,000 (land 1,000,000 + building 1,500,000) and (2) As Mr. Rex receives no cash rather gets flats, the gain is reinvested and that is why he is eligible to get rollover relief provided that he elects such in writing to DCT before the assessment. Thus, tax value of the flats will be nil and his capital gains will be assessed to the extent of taka 420,000 for tax purposes.

Illustration 11 – 7:

Mr. Boucher is a regular investor of Dhaka Stock Exchange (DSE) Limited. In July 2010, he has purchased 5,000 shares of Tk. 1,000 par value of IBBL @ Tk. 1,575. Brokerage charge on that time was 1.5% on the gross value of the shares traded. In March 2014, Islami Bank declared a cash dividend of Tk. 10 per share and a 1 for 5 stock dividends when the market value of such shares

was Tk. 1,800 each. In December 2016, Mr. Boucher sold 2000 shares including all of the shares that he received as bonus share in 2014 @ Taka 2000. On the date of sale, the brokerage charge was 1% on the gross value of shares traded. Compute the amount of Capital Gain from the sale of shares.

Solution 11 – 7:

Assessee: Mr. Boucher
Assessment Year: 2017 – 2018
Income Year: 2016 – 2017

Income under “Capital Gains” (Sec 31):	Tk.	Tk.	Tk.
Sale Proceeds of Capital Assets (Taka 2000*2000 shares), or FMV at the Time of Transfer, <i>whichever is higher</i>	4,000,000		
	<u>4,000,000</u>	4,000,000	
Less – Allowable Deduction			
(a) Expenditure incurred to transfer shares (Note 1)	40,000		
(b) Cost of Acquisition (Note 2)	<u>1,598,625</u>	<u>1,638,625</u>	
Capital Gain			2,361,375
Less: Exempted [Sec 32(7)] (Note 3)			<u>2,361,375</u>
Capital Gain Assessed			=

Notes: (1) cost of selling shares, Taka 40,000 (brokerage charge, 1% of 4,000,000) (2) total number of shares sold is 2000. Number of bonus shares received in March 2014 is 1000 (5000/5). So, number of shares sold from original purchase is 1,000 (2,000 – 1,000). Cost of 5,000 shares purchased in July 2010 was 7,993,125 as Market value of shares (Tk. 1,575 × 5000 shares) Tk. 7,875,000 plus Brokerage Commission (1.5% on 7,875,000) Tk. 118,125. As, cost of 1,000 bonus was nil, proportionate cost of 1,000 shares is TK. 1,598,625. (2) Capital gain on transfer of shares (whether purchased or bonus) is full exempted for an individual investor.

KEY POINTS

1. Capital gain basically arises on transfer of capital asset if transferred at a value more than the original costs.
2. Capital gain arising from transfer of government securities is exempted from income tax.
3. If the ownership comes through succession, inheritance, or devolution, the cost of acquisition shall be the fair market value at such date when the asset becomes the property of the assessee.
4. Any transfer of capital asset as a gift, bequest, will, or an irrevocable trust is not taxable.
5. In case of a person other than a company on disposal of capital assets within 5 years of acquisition, the amount of capital gain will be included with the total income and taxed accordingly at regular rate. Otherwise the rate will be lower of average rate or 15%.
6. In case of a company tax rate on capital gain is 15%.
7. No tax will be charged if capital gain arises from the transfer of capital assets being government securities and stocks and shares of public companies listed with a stock exchange in Bangladesh.
8. No tax will be charged if capital gain arises from the transfer of capital assets of a firm to a new company and if the whole amount of capital gain is invested in the equity of the said company by the partners of the said firm.
9. Losses from the head capital gain cannot be set off with income from other head(s).
10. Losses from capital gain can be carry forwarded by the amount exceeding Tk. 5,000.

Multiple choice questions:

1. Capital assets exclude –
 - (a) Agricultural land
 - (b) Machinery
 - (c) Residential building
 - (d) Stock-in-trade
2. Which one is not a transfer for the purpose of capital gain calculation? –
 - (a) Transfer on liquidation
 - (b) Compulsory acquire of the govt.
 - (c) Sale in open market
 - (d) Auction sale
3. What are the allowable deductions for computing capital gain? –
 - (a) Cost of acquisition
 - (b) Cost of improvement
 - (c) Cost incurred to make it saleable
 - (d) All of the above
4. The applicable tax rate on capital gain for a company is –
 - (a) 15%
 - (b) 25%
 - (c) 30%
 - (d) 40%
5. Which of the following capital gain is tax exempted for an individual? –
 - (a) Gain arising from the sale of land
 - (b) Gain arising from the sale of plant and machinery used for business
 - (c) Gain arising from the sale of shares of publicly traded companies
 - (d) Gain arising from the sale of building
6. Which of the following statement is true –
 - (a) No tax is applicable on capital gain for an individual assessee
 - (b) 15% tax will be charged on capital gain for a company
 - (c) Tax will be charged at an average rate on capital gain for an individual assessee
 - (d) Capital gain is the difference between sales proceeds and WDV
7. What is the rate of tax on capital gain for an individual if the gain arises within 5 years of acquisition –
 - (a) 15%
 - (b) Average rate
 - (c) Lower of a and b
 - (d) None of the above
8. when the loss under the head capital gain is Tk. 7,000, how much of it can be carried forward –
 - (a) Tk. 5,000
 - (b) Tk. 3,000
 - (c) Tk. 2,000
 - (d) Tk. 1,000
9. How long the losses under the head capital gain can be carried forward –
 - (a) 6 years
 - (b) 4 years
 - (c) 2 years
 - (d) Next year only

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10. Losses under the head capital gain can be set off against –
- Income from any other head(s)
 - Income from any other head(s) except speculation business
 - Income from speculation business only
 - No other head(s)

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

- Capital gain arises from transfer of capital assets if transferred at more than written down value.
- Government may acquire the asset if the fair market value exceeds the full value of the consideration declared by more than 15% of such declared value.
- In case of an individual, capital gain will be taxed at regular rate if the asset is disposed within 5 years of acquisition.
- Capital loss can only be carried forward if the total loss exceeds by taka 5,000.
- If the ownership comes through succession, inheritance, or devolution, the cost of acquisition shall be the fair market value of the asset.

T	F
T	F
T	F
T	F
T	F

Discussion Questions:

- Question 11 – 1:** Define capital gain and explain computation procedure of capital gain.
- Question 11 – 2:** ‘Capital Asset’ means property of any kind held by the assessee, whether or not connected with his business or profession, but does not include all assets” - explain.
- Question 11 – 3:** Explain the allowable deductions under the head capital gain.
- Question 11 – 4:** “In computing capital gain determination of fair market value is important” – do you agree? Explain.
- Question 11 – 5:** Under what circumstances do you think capital gains are exempted from taxes?
- Question 11 – 6:** “Tax rate on capital gain varied with different types of assessee” – explain.
- Question 11 – 7:** Specify the provisions of setting off and carry forwarding of losses under the head “Capital Gain”.
- Question 11 – 8:** Write short note on:
- Capital assets
 - Transfer
 - Fair market value
 - Carry forward of losses under the head capital gain

Fill in the blanks with appropriate word:

- If the fair market value exceeds the full value of the consideration declared in respect of capital asset transferred, by an amount of not less than _____ of the value so declared, the fair market value shall be determined again with the permission of IJCT.
- In case of an individual, capital gain will be taxed at average rates applicable to him or 15% on the capital gain separately; whichever is _____ if the asset is disposed after 5 years of acquisition.
- If any asset is transferred at a value less than the cost of acquisitions, there may be the possibility of having capital _____.
- Capital loss can be carried forward for not more than _____ successive years.

Chapter - 11: Capital Gain

Problem 11 - 1:

Mr. Ahsan is a member of Dhaka Stock Exchange who purchased such membership at a price of taka 300,000 in 2007. On 1st July 2014 he has converted his membership into a Company registered under the Company Act, 1994. The conversion value of such membership was taka 8,000,000 having 80,000 shares of taka 100 par value per share. In July 2016, he sold 1,000 shares of the company at a total value of taka 150,000.

Required: Discuss the tax implications.

Problem 11 - 2:

Mr. Rahman has purchased a machine at a total cost of Taka 800,000 on 23rd April 2013 for the purpose of his profession. In addition, he has to pay Taka 50,000 as legal fees. He has spent an additional sum of Taka 50,000 for improvement of the machine. On 30th December 2016, he had sold the machine at a total price of Taka 1,000,000 when the balance of allowable accumulated depreciation was 400,000 in his books of accounts.

But the fair market value on that date amounts to Taka 950,000 in the opinion of DCT. He incurred advertisement cost of Taka 70,000 and 1.5% as brokerage commission on the sale value in relation to the sale. He has taxable income of Taka 330,000 from other sources.

Required: Compute capital gain, total taxable income, and specify tax rate thereon.

Problem 11 - 3:

Mrs. Joarder runs a business of her own. She has purchased a piece of land at a cost of Taka 9,000,000 on 1st January 2009 within the jurisdiction of Khulna Municipality having a total population of around 30,000 according to the last census. She has to pay Taka 30,000 as finders' fee and another Taka 100,000 as registration fee for the land. She has sold the land on July 15, 2016 at a price of Taka 20,000,000. For the sale, she has to pay brokerage fee @ 2% on the gross sales amount receipt.

In DCT's opinion, the fair market value of the land at the time of sale is Taka 18,000,000. On July 30, 2016 she has purchased another land at a cost of (a) Taka 10,000,000 (b) Taka 11,000,000 and expressed her intention of getting roll over relief of capital gain on new land in writing to DCT. She also had Taka 400,000 as taxable income from interest on securities and another Taka 100,000 taxable income under the head, 'income from other sources'.

Required: Compute the amount of capital gain and tax liability.

Problem 11 - 4:

Mr. White is a regular investor of Chittagong Stock Exchange (CSE) Limited. In July 2008, he has purchased 50000 shares of Taka 100 par value of EXIM Bank Ltd @ Taka 475. Brokerage charge on that time was 1.5% on the gross value of the shares traded. In March 2010, EXIM Bank declared a cash dividend of Taka 10 per share and a 1 for 4 stock dividends when the market values of such shares were Taka 600 each.

In December 2016, Mr. Boucher sold 15000 shares including all of the shares that he received as bonus share in 2010 @ Taka 800. On the date of sale, the brokerage charge was 1% on the gross value of shares traded.

Required: Compute the amount of Capital Gain from the sale of shares.

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Answers:

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

Self review 11 – 1:

- (a) The following expenses are allowable deductions under the head:
- (i) Any expenses incurred for the transfer of capital asset;
 - (ii) The cost of acquisition of capital assets and other capital expenditure incurred for improvements thereto.
- (b) Capital gain is charged at different rate as given in the second schedule of IT Ordinance, 1984. The rates as per the schedule are given below:
- (i) For assessee being a company – at the rate of 15%
 - (ii) For assessee being a person other than a company –
 - ⊕ if disposed within 5 years of acquisition, will be taxed at regular rate
 - ⊕ if taxed after 5 years, the rate will be the lower of regular or 15%

Self review 11 – 2:

- (a) Loss under the head ‘capital gain’ is somewhat exceptional. If capital assets are transferred at a value less than the cost of acquisition, it results capital loss. It is customary to have capital loss under the following two situations:
- (i) If the capital asset is sold as second hand in the year of purchase when no depreciation allowance is allowed; and
 - (ii) If motor vehicles not plying for hire is purchased at more than ten lakh taka as the actual cost shall be deemed not to exceed ten lakh taka for the purpose of depreciation allowance.
- (b) Such loss can be carried forward for 6 successive years for set off only against the income from such head. The limit is as follows:
- (i) If the loss is less than taka 5,000; no carry forward is allowed
 - (ii) If the loss is more than taka 5,000; the additional amount can be carried to the next years for set off.

CHAPTER - 12

INCOME FROM OTHER SOURCES

LEARNING OBJECTIVES

After studying Chapter 12, you shall be able to understand:

- ⊕ scope of income under other sources
- ⊕ unexplained investments deemed to be income
- ⊕ income not classified under other heads
- ⊕ allowable deductions under the head
- ⊕ inadmissible deductions
- ⊕ concept of deemed income, grossing up and tax exemption under the head

We have already seen that according to Section 20 of the ITO, 1984, there are seven heads of income. Of them, income from other sources is the last one. The incomes other than from salary, interest on securities, house property, agricultural income, business or profession and capital gains will be included under this head. In case of incomes which do not fit in anywhere under the first six heads, it will be considered under the head "Income from Other Sources".

12.1 SCOPE OF INCOME FROM OTHER SOURCES

According to Section 33 of the ITO, 1984, the following incomes of an assessee shall be classified and computed under the head "Income from Other Sources", namely:-

- (a) dividend and interest;
- (b) royalties and fees for technical services;
- (c) income from letting of machinery, plants or furniture belonging to the assessee, and also of buildings belonging to him if the letting of buildings is inseparable from the letting of the machinery, plant or furniture;
- (d) any income to which section 19 (1), (2), (3), (4), (5), (8), (9), (10), (11), (12), (13), (21), (21A), (21B), (24), (26), (27), (28), (29) or (31) applies;
- (e) any other income of any kind or from any source which is not classifiable under any of the other heads specified in Section 20.

12.2 DIVIDEND INCOME [SECTION 33(A)]

Dividend, in its ordinary connotation, means the sum paid to or received by a shareholder proportionate to his shareholdings in a company out of the total sum distributed. According to Section 2(26) of the ITO, 1984, the term "Dividend" includes the following items:

- (a) **Distribution out of profits and release of assets or reserves:** Any distribution by a company of accumulated profits, whether capitalized or not, if such distribution entails the release by the company to its shareholders of all or any part of its assets or reserves;
- (b) **Distribution of debentures to shareholders:** any distribution by a company, to the extent to which the company possesses accumulated profits, whether capitalized or not, to its shareholders of debentures, debenture-stock or deposit certificates in any form, whether with or without interest;

- (c) **Distribution on liquidation of the company:** any distribution made to the shareholders of a company on its liquidation to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalized or not;
- (d) **Distribution to shareholders on the reduction of capital:** any distribution by a company to its shareholders on the reduction of its capital, to the extent to which the company possesses accumulated profits, whether such accumulated profits have been capitalized or not;
- (dd) **Profit remitted outside Bangladesh:** any profit remitted outside Bangladesh by a company not incorporated in Bangladesh under The Company Act 1994.
- (e) **Loans to shareholders of a private limited company:** any payment by a private company of any sum (whether as representing a part of the assets of the company or otherwise) by way of advance or loan to a shareholder or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company, in either case, possesses accumulated profit;

The term "Dividend" does not include the following items:

- (i) a distribution made in accordance with sub-clause (c) or sub-clause (d) in respect of any share including preference share for full cash consideration, or redemption of debentures or debenture-stock, where the holder of the share or debenture is not entitled in the event of liquidation to participate in the surplus assets;
- (ii) any advance or loan made to a shareholder in the ordinary course of its business, where the lending of money is a substantial part of the business of the company;
- (iii) any dividend paid by a company which is set off by the company against the whole or any part of any sum previously paid by it and treated as dividend with the meaning of sub-clause (e) to the extent to which it is to set off.
- (iiia) any bonus share issued by a company;

12.2.1 Dividend incomes deemed to accrue or arise in Bangladesh: The following two types of dividend income are considered as deemed dividend income and will be also included under the term "Dividend":

- (i) Any dividend paid outside Bangladesh by a Bangladeshi Company. [u/s 18(3)]
- (ii) Any dividend declared or distributed by a company shall be deemed to be the income of the income year in which it is received and shall be included in the total income of the assessee of that year. [Section 19(7)]

12.2.2 Tax exemption on Dividend: The following amount of dividend is excluded from computation of total income under the head "Income from Other Sources":

1. Income from dividend received from a company listed in stock exchange in Bangladesh up to Tk. 25,000. [Sixth schedule, Part A, Para 11A];
2. Any income from dividend of a mutual fund or a unit fund up to Tk. 25,000 [Sixth schedule, Part A, Para 22A].

Other than the above amount, dividend income received from all other sources like public and private limited companies is fully taxable.

12.2.3 Tax deducted at source from Dividend: According to Section 54 of the ITO, 1984, tax is deducted at source from the dividend in the following way: The principal officer of a company registered in Bangladesh, or of any other company, shall, at the time of paying any dividend to a shareholder, deduct tax on the amount of such dividend, in the case of—

- (a) a non-resident other than non-resident Bangladeshi (i.e. non-resident foreigner),-
- (i) if the shareholder is a company, at the rate applicable to a company; i.e. 20%.
 - (ii) if the shareholder is a person other than a company @ 30% [Maximum rate]
- (b) a resident or a non-resident Bangladeshi, -
- (i) if the shareholder is a company, at the rate applicable to a company; i.e. 20%.
 - (ii) if the shareholder is a person other than a company, @ 10% for furnishing twelve digit TIN to the payer or 15% for who fails to furnish such TIN.

12.2.4 Grossing up of Dividend Income:

According to Section 54 of the ITO, 1984, dividend is paid to a shareholder after making necessary deduction of tax at source at prescribed rate. So the amount received by the shareholder is the net amount of dividend. For the purpose of taxation, the net dividend should be grossed up like interest on securities in the following way:

$$\text{Gross dividend} = \text{Net dividend} \times [100 \div (100 - \text{Rate of tax deducted at source})]$$

Note: For a person, being a resident or non-resident Bangladeshi, now the rate of tax deduction on source is 10% or 15%; for a non-resident foreigner 30% and for a company at the rate applicable to the company.

Explanation - 1: Mr. X is a Bangladeshi resident who has received Tk 18,000 as dividend from a Public Limited Company. So, the amount of gross dividend will be: Tk $[18,000 \times 100 \div 90] =$ Tk. 20,000. Here the applicable TDS rate is 10%.

Explanation - 2: Mr. Y is a non-resident Bangladeshi who has received Tk 18,000 as dividend from a Public Limited Company. So, the amount of gross dividend will be: Tk $[18,000 \times 100 \div 90] =$ Tk. 20,000. Here the applicable TDS rate is 10%

Explanation - 3: Mr. Z, an Indian citizen, is a non-resident who has received Tk 14,000 as dividend from a Public Limited Company. So, the amount of gross dividend will be: Tk $[14,000 \times 100 \div 70] =$ Tk. 20,000. Applicable TDS rate is 30%, as Mr. Z is a non-resident foreigner.

Explanation - 4: AB Bank Ltd., a Bangladeshi Company, which has received Tk 8,000 as dividend against its investment in the shares of a Public Limited Company. So, the amount of gross dividend will be: Tk $[8,000 \times 100 \div 80] =$ Tk. 10,000. Here applicable TDS rate is 20% i.e. the rate applicable to listed banking co.

Explanation - 5: Mr. X has received dividends: Tk. 27,000 from a listed Public Limited company; Preference dividend of Tk. 9,000 from a listed Public Limited company; Tk. 18,000 from an unlisted Company; Tk. 36,000 from a Private Limited Company; and Tk. 22,500 from ICB Unit Fund. His total dividend income should be Tk. 100,000. [Dividend from Public Ltd. Company $(27,000 \times 100 \div 90)$ Tk. 30,000 plus Preference dividend $(9,000 \times 100 \div 90)$ Tk. 10,000 plus Dividend from unlisted Company $(18,000 \times 100 \div 90)$ Tk. 20,000 plus Dividend from Pvt. Ltd Company $(36,000 \times 100 \div 90)$ Tk. 40,000] Though his dividend income from mutual trust fund is Tk. 25,000 $(22,500 \times 100 \div 90)$, nothing will be taxable as it is exempted up to Tk. 25,000. Besides, dividend income of Tk. 25,000 is also exempted from tax.

Explanation - 6: Mr. X has received dividends: Tk. 27,000 from ordinary shares of a listed Public Limited company; Tk. 18,000 from an unlisted Company; Tk. 36,000 from a Private Limited Company and Tk. 33,930 from ICB Mutual Fund. His dividend income should be Tk. 90,000. [Dividend from Public Ltd. Company $(27,000 \times 100 \div 90)$ Tk. 30,000 plus Dividend from unlisted Company $(18,000 \times 100 \div 90)$ Tk. 20,000 plus Dividend from Pvt. Ltd Company $(36,000 \times 100 \div 90)$ Tk. 40,000 plus Dividend from ICB Mutual Fund $\{(33,930 \times 100 \div 90)$ less: exempted up to Tk. 25,000} Tk. 12,700] Besides, dividend income of Tk. 25,000 is exempted from tax.

12.2.5 Chargeability of tax on dividend: summary at a glance:

Dividend from:	TDS rate	Exemption
Public limited company's ordinary/preference shares and dividend from private limited company	⇒ For resident/NRB – 10% or 15% ⇒ For any company @ applicable to the company i.e. 20% ⇒ For a NRF – 30%	Tk. 25,000
Mutual/Unit Fund	Same as above	Up to Tk. 25,000

Note: As TDS is deducted from any kind of dividend, grossing up is required in all cases considering the relevant TDS rate. [Here, NRB and NRF is non – resident Bangladeshi and non – resident foreigner]

12.3 INTEREST INCOME OTHER THAN INTEREST ON SECURITIES

'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 [u/s 2(38)]. Any interest which is not included under the head "Interest on Securities" will be included under the head "Income from Other Sources" [u/s 33(a)]. Such as, interest on savings instruments, interest on bank deposits, interest/profit from banks run on Islamic principles, leasing company, housing finance company or post office etc.

12.3.1 Interest income deemed to accrue or arise in Bangladesh: According to Section 18(4) of the ITO, 1984, the following interest incomes shall be deemed to accrue or arise in Bangladesh: any income by way of interest payable—

- (a) by the Government; or
- (b) by a person who is a resident, except where the interest is payable in respect of any debt incurred or moneys borrowed and used, for the purposes of a business or profession carried on by such person outside Bangladesh or for the purpose of making or earning any income from any source outside Bangladesh; or
- (c) by a person who is a non-resident where the interest is in respect of any debt incurred, or moneys borrowed and used for the purposes of a business or profession carried on by such person in Bangladesh or for the purposes of making or earning any income from any source in Bangladesh;

12.3.2 Tax exemption on Interest Income: Following amount of interest income is excluded from computation of total income under the head "Income from Other Sources":

- i) Interest accrued on Non-Resident Foreign Currency Deposit Account [SRO 415-L/82 dated 13.12.1982]
- ii) Interest or share of profit arising out of any Deposit Pension Scheme sponsored by the government or by a Scheduled Bank and approved by the Government (SRO 89-L-IT/2003 dated 02.04.2003 effective from 26.01.2003 with reference to Section 53F(3))
- iii) Interest amount up to Tk. 25,000 on Bangladesh Industrial Development Bond. But if the interest amount exceeds Tk. 25,000, 10% TDS is allowed on the whole interest amount and to be considered as minimum tax as per Section 82(c) [SRO 154-L/99 dated 10.06.1999]

12.3.3 Tax deducted at source from Interest Income:

- 1) **Deduction at source from interest on savings deposits and fixed deposits etc.** [Section – 53F]: Any person responsible for paying to a resident any sum by way of

Chapter - 12: Income from Other Sources

interest on any saving deposits or fixed deposits or any term deposit maintained with any scheduled bank including a co-operative bank, or bank run on Islamic principles or non-banking financial institution or any leasing company or housing finance company, as the case may be, shall deduct, at the time of credit of such interest or share of profit to the account of the payee or at the time of payment thereof, whichever is earlier, income tax on such sum at the following rate:

- (a) 10% where the accountholder furnishes his twelve digit TIN to the payer;
- (b) 15% where the accountholder fails to furnish his twelve digits TIN to the payer;
- (c) 10% where the person receiving such interest or share of profit is a public university, or an educational institution whose teachers are enlisted for Monthly Pay Order (MPO), following the curriculum approved by the Government and whose governing body is also formed as per Government rules or regulations, or any professional institute established under any law and run by professional body of Chartered Accountants, Cost and Management Accountants or Chartered Secretaries.

Provided that the tax rate will be 10% in case of savings deposit of which balance does not exceed Tk. 100,000 at any time in the year.

But if such deposit is maintained in the name of a fund, the rate of TDS will be 5% [Sec – 53F(2)]

As per Section 53F(3), it is provided that

- (a) no such tax is deducted on the amount of interest / profit on any kind of DPS sponsored by the government or by a scheduled bank with prior approval of the government.
- (b) to such payee or class of payees as the Board may, by a general or special order, specify.

2) Deduction at source from interest on deposit of post office savings bank account [Section – 53I]: According to Section 53I, 10% tax is deducted at source on any amount on account of interest of Post Office savings Bank Account at the time of credit to the account of the payee or at the time of payment thereof.

12.3.4 Grossing up of Interest Income: Interests which are paid after making necessary deduction for tax at source need to be grossed up. Interest on Bank deposits (Savings and Fixed deposits even from profit from Islami Bank), Post Office Savings Bank are paid after deducting 10% tax. [53F, 53I] So the amount received is the net amount of interest which needs to be grossed up as follows.

$$\text{Gross interest} = \text{Net interest} \times [100 \div (100 - \text{Rate of tax deducted at source})]$$

12.3.5 Chargeability of tax on interest: Summary at a glance:

Sources of Interest income	TDS rate	Exemption
1. Interest or profit on Savings/Fixed deposits from a Bank, co-operative bank, bank run on Islamic principles, non-banking financial institution, leasing company, housing finance company	10% but in case of no TIN 15%	No exemption is allowed.
2. Interest on Post Office Savings Bank	10%	No exemption is allowed.
3. Interest on Non-Resident Foreign Currency Deposit Account	Nil	Fully exempted

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4. Interest on DPS sponsored by the government of by a scheduled bank with prior approval of the government.	Nil	Fully exempted
5. Interest on Bangladesh Industrial Development Bond	10%	Up to Tk. 25,000 exempted. if the interest amount exceeds Tk. 25,000, 10% TDS is allowed on the whole interest amount and to be considered as the minimum tax as per Section 82(c).

Note: As TDS is deducted from some kind of interest income, grossing up is required in all those cases considering the relevant TDS rate.

Explanation 1: Mr. X has received interest from fixed deposit Tk. 9,000, savings account Tk. 4,500, mortgage loan Tk. 2,500, DPS Tk. 2,000, Postal Savings Bank Tk. 3,600 and Profit from Islami Bank Tk. 4,500. His taxable interest income should be 26,500 combining Tk. 10,000 interest on fixed deposit ($9,000 \times 100 \div 90$), Tk. 5,000 on savings account ($4,500 \times 100 \div 90$), Tk. 2,500 on loan, Tk. 4,000 from Postal Savings Bank ($3,600 \times 100 \div 90$), Tk. 5,000 Profit from Islami Bank ($4,500 \times 100 \div 90$). Interest on DPS is fully exempted).

Explanation 2: Mr. Y has received interest from fixed deposit in DBH Tk. 9,000, Interest on deposit maintained in a leasing company Tk. 4,500, and Interest on Postal Savings Bank Tk. 45,000. His taxable interest income is Tk. 65,000 combining Tk. 10,000 interest on DBH fixed deposit ($9,000 \times 100 \div 90$), Tk. 5,000 on leasing co deposit ($4,500 \times 100 \div 90$), and Tk. 50,000 interest on Postal Savings Bank ($45,000 \times 100 \div 90$).

SELF REVIEW 12 – 1

Mr. Akmal has received Tk. 28,500 as interest on savings deposit kept in a commercial bank. Calculate the gross interest.

12.4 ROYALTY [SECTION 33(B)]

According to Section 2(56) of the ITO, 1984, "royalty" means consideration (including any lump sum consideration but excluding any consideration which is classifiable as income of the recipient under the head "Capital gains") for –

- (a) transfer of all or any rights, including the granting of a license in respect of a patent, invention, model, design, secret process or formula/trade mark or similar property;
- (b) the imparting of any information concerning the working of, or the use of, a patent, invention, model, design, secret process or formula/trade mark or similar property;
- (c) the use of any patent, invention, model, design, secret process or formula, or trade mark or similar property;
- (d) the imparting of any information concerning technical, industrial, commercial, or scientific knowledge, experience or skill;
- (e) the transfer of all or any rights, including granting of a license, in respect of any copyright, literary, artistic or scientific work, including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting, but not including consideration for sale, distribution/exhibition of cinematograph films;
- (f) the rendering of any services in connection with any of the aforesaid activities.

Chapter - 12: Income from Other Sources

12.4.1 Royalty income deemed to accrue or arise in Bangladesh:

According to Section 18(6) of the ITO, 1984, following royalty income shall be deemed to accrue or arise in Bangladesh: Any income by way of royalty payable –

- (a) by the Government; or
- (b) by a person who is a resident, except where the royalty is payable in respect of any right, property or information used or services utilized for the purposes of a business or profession carried on by such person outside Bangladesh or for the purposes of making/earning any income from any source outside Bangladesh; or
- (c) by a person who is a non-resident where the royalty is payable in respect of any right, property or information used or services utilized for the purposes of a business or profession carried on by such person in Bangladesh or for the purposes of making or earning any income from any source in Bangladesh.

12.4.2 Chargeability of tax on royalty income:

According to the Section 36 of the ITO, 1984, royalty is a taxable income. If the author takes less than twelve months of time to complete the literary or artistic work the full amount of royalty will be considered as income of that income year when it is received. But, if the author of a literary or artistic work in the making thereof takes more than twelve months, the amount received or receivable by him during any income year in lump sum as royalties or copyright fees will be allocated in the following way –

Time taken to complete the literary work	Allocation on an equal basis among the income years
Less than 12 months	the income year in which it is received
More than 12 but less than 24 months	the income year in which it is received and the immediately preceding income year
More than 24 months	the income year in which it is received and the two immediately preceding income years

Note: (1) For the purposes of this section, the expression "author" includes a joint author and the expression "lump sum" in regard to royalties or copyright fees includes an advance payment on account of such royalties or copyright fees which is not returnable. **(2)** If 10% or 12% tax is deducted at source from such royalty income as per the Section 52A of the ITO, 1984, it is considered as minimum tax as per Section 82C.

Explanation 1: Mr. X has received a lump sum amount of Tk. 6,000 as royalty income in the income year 2016 - 2017. He has taken 11 months to complete the literary work. The allocation of the royalty income will be: Income year 2016 – 2017: Tk. 6,000 full.

Explanation 2: Mr. X has received a lump sum amount of Tk. 6,000 as royalty income in the income year 2016 - 2017. He has taken one and a half year to complete the literary work. The allocation of the royalty income will be: Income year 2015 – 2016: Tk. 3,000 and Income year 2016 – 2017 Tk. 3,000.

Explanation 3: Mr. X has received a lump sum amount of Tk. 6,000 as royalty income in the income year 2016 - 2017. He has taken two and a half years to complete the literary work. The allocation of the royalty income will be: Income year 2014 – 2015: Tk. 2,000, Income year 2015 – 2016: Tk. 2,000 and Income year 2016 – 2017: Tk. 2,000.

Note: If no clear instruction is given about the time taken to complete the literary work the full amount should be charged in current income year assuming that it has been completed in less than 12 months.

SELF REVIEW 12 – 2

Mr. Samad has received a lump sum amount of Tk. 9,000 as royalty income in the income year 2016 – 2017. The allocation of the royalty income will be, when – (a) he has taken 11 months to complete the literary work. (b) he has taken 18 months to complete the literary work. (c) he has taken 30 months to complete the literary work.

12.4.3 Tax deducted at source from Royalty Income: According to Section 52A (1), Where any payment is to be made by a specified person to a resident on account of royalties, franchise, or the fee for using license, brand name, patent, invention, formula, process, method, design, pattern, knowhow, copyright, trademark, trade name, literary or musical or artistic composition, survey, study, forecast, estimate, customer list or any other intangibles, the person responsible for making the payment shall, at the time of making payment, deduct income tax at the rate specified below:

Description of Payment	Rate of deduction of tax
Where base amount	
(a) does not exceed taka 25 lakh	10%
(b) exceeds taka 25 lakh	12%

Provided that the rate of tax shall be fifty percent (50%) higher if the payee does not have a twelve-digit Taxpayer's Identification Number at the time of making the payment.

Note: TDS from Royalty income etc. is the minimum tax from such amount u/s 82C.

12.4.4 Chargeability of tax on Royalty Income: Points to be remembered

1. If the royalty is received on a regular yearly basis, it is to be shown as the income in the year when it is received.
2. If the royalty is received in advance on a lump sum basis, it can be allocated up to maximum three years on the basis of the time to completion (See 12.4.2).
3. If the royalty is received from any specific person u/s 52(2), 10% to 12% TDS is applicable.
4. Royalty income is fully taxable as no exemption is allowed.

12.5 FEES FOR PROFESSIONAL AND TECHNICAL SERVICE [SECTION 33(B)]

"Fees for technical services" means any consideration (including any lump sum consideration) for the rendering of any managerial, technical or consultancy services (including the provision of services of technical or other personnel) but does not include consideration for any construction, assembly, mining or like project undertaken by the recipient, or consideration which would be income of the recipient classifiable under the head "Salaries" [u/s 2(31)].

12.5.1 Fees for Technical Services deemed to accrue or arise in Bangladesh:

According to Section 18(5) of the ITO, 1984, following fees for technical services shall be deemed to accrue or arise in Bangladesh. Any fees income for technical services payable—

- (a) by the Government; or
- (b) by a person who is a resident, except where such fees are payable in respect of services utilized in a business or profession carried on by any such person outside Bangladesh or for the purposes of making or earning any income from any source outside Bangladesh; or

- (c) by a person who is non-resident where such fees are payable in respect of services utilized in a business or profession carried on by such person in Bangladesh or for the purposes of making or earning any income from any source in Bangladesh.

12.5.2 Tax deducted at source from Fees for Professional and Technical Services:

The same provision which was applicable for royalty income above u/s 52A is applicable in this regard.

12.5.3 Chargeability of tax on Fees for Technical Services: Points to be remembered

- (a) Fees for Technical Services are taxable in the year when it is received or in the year when it is deemed to accrue or arise in Bangladesh.
- (b) It is considered minimum of tax liability as per Section 82(c).

Example: Mr. Y has received Fees for technical services from Hasan Traders Tk. 18,000. The base amount was Tk. 1 lac. His taxable income should be Tk. 20,000 [$18,000 \times 100 \div 90$] Tk. 20,000, which should also be considered as minimum tax liability as per sec 82(c).

12.6 INCOME FROM LETTING OF ASSETS [SECTION 33(C)]

Income from letting of machinery, plant or furniture belonging to the assessee and also building inseparable from the mentioned assets is taxable as income from other sources if the same is not chargeable to tax under the head "Income from Business or Profession under section 28" or under the head "Income from House Property under section 24". In this case the letting does not constitute a business activity. According to Section 34(3), profit on sale of the above assets i.e. if selling price is more than the written down value will be included under "Income from Other Sources". But the maximum limit is the difference between cost and WDV i.e. the revenue gain.

Example 1: Mr. X has received income from letting out personal car Tk. 5,000 and from letting out multimedia projector Tk. 10,000. Both of these two incomes are fully taxable and to be considered as income under the head "Income from Other Sources".

12.7 UNEXPLAINED INVESTMENTS DEEMED TO BE INCOME AS PER SECTION 19 [SECTION 33(D)]

Any income to which Section 19 (1), (2), (3), (4), (5), (8), (9), (10), (11), (12), (13), (21), (21A), (21B), (24), (26), (27), (28), (29) or (31) applies, will also be considered as deemed income and hence will be recorded under the head "Income from other sources". In the following paragraphs the explanations regarding income from other sources as per Section 19 of the ITO, 1984 are given:

Section 19(1):

Unexplained credits: Any sum credited in the books of an assessee maintained for any income year and the assessee offers no explanation about the nature and source thereof, or the explanation offered is not satisfactory, the sum so credited shall be deemed to be his income for that income year classifiable under the head "Income from other sources".

Explanation: Mr. X has shown cash credit of Tk. 5,000 in his books of account in the income year 2015-16 for which no satisfactory explanation is not given. The whole Tk. 5,000 will be considered as an income under the head "Income from other Sources".

Section 19(2):

Unexplained investments: Where, in any income year, the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the Deputy Commissioner of Taxes finds that the amount expended on making such

investments or in acquiring such bullion, jewellery or other valuable article exceeds the amount recorded in this behalf in the books of account maintained by the assessee for any source of income and the assessee offers no explanation about the excess amount or the explanation offered is not satisfactory, the excess amount shall be deemed to be the income of the assessee for such income year classifiable under "Income from other sources".

Explanation: Mr. X has shown an investment of Tk. 15,000 against purchase of jewellery. But the DCT in his investigation has found that the actual value of jewellery purchased is Tk. 20,000. Here, the excess amount Tk. 5,000 will be considered as "Income from other Sources".

Section 19(3):

Unexplained expenditure: Where, in any income year, the assessee has incurred any expenditure and he offers no explanation about the nature and source of the money for such expenditure, or the explanation offered is not satisfactory, the amount of the expenditure shall be deemed to be the income of the assessee for such income year.

Explanation: In an investigation it has been found that Mr. X has visited India as a tourist where he spent Tk. 65,000 and in addition to it also purchased ornaments of Tk. 40,000 for his wife. He was not able to provide satisfactory explanation about the sources of this expenditure. The total unexplained expenditure of Tk. $(65,000 + 40,000) = \text{Tk. } 105,000$ will be considered as an income.

Section 19(4):

Unrecorded investments: Where, in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of fund for the investments, or the explanation offered is not satisfactory, the value of the investments shall be deemed to be the income of the assessee for such financial year classifiable under "Income from other sources".

Explanation : Mr. X has made investments of Tk. 50,000 in the financial year preceding the assessment year and neither he has shown it in his books nor offers any satisfactory explanation regarding the source of fund. The invested amount Tk. 50,000 will be considered as an income.

Section 19(5):

Unrecorded money, jewellery etc.: Where, in the financial year immediately preceding the assessment year, the assessee is found to be the owner of any money, bullion, jewellery or other valuable article which is not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of fund for the acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered is not, in the opinion of the DCT, satisfactory, the money or the value of the bullion, jewellery or other valuable article, shall be deemed to be the income of the assessee for such financial year classifiable as income from other sources.

Explanation: In an investigation in the financial year immediately preceding the assessment year, it has found that Mr. X owns cash of Tk. 200,000; jewellery of Tk. 45,000, land of Tk. 200,000. Neither he has shown those in his books nor offers any satisfactory explanation regarding the source of fund. So, the unexplained asset of Tk. $(200,000 + 45,000 + 200,000) = \text{Tk. } 445,000$ will also be considered as an income under the head "Income from other Sources".

Section 19(8):

Purchase of assets at a price lower than the fair market value: Where any assets, not being stock-in-trade or stocks, and shares, are purchased by an assessee from any company and the DCT has reason to believe that the price paid by the assessee is less than the fair market

value thereof, the difference between the price so paid and the fair market value shall be deemed to be income of the assessee under the head "Income from other sources".

Explanation: In an investigation, it has been seen that Mr. X claims that he has paid Tk. 1,000,000 to acquire a car from Navana Motors Ltd. But the fair market value of that car is Tk. 1,200,000 and the DCT has no reason to believe the explanation of the assessee. So the difference between the prices (reported and the fair value) i.e. Tk. 200,000 will also be considered as an income.

Section 19(9):

Salami or premium for granting leases: Where any lump sum amount is received or receivable by an assessee during any income year on account of salami or premia receipts by virtue of any lease, such amount shall be deemed to be income of the assessee of the income year in which it is received and classifiable under "Income from other sources".

Explanation: In an investigation, it has been seen that Mr. X has received Tk. 12,000 on account of salary in the income year 2008 - 09 by virtue of a lease. So Tk. 12,000 will be recorded as an income under the head "Income from other Sources".

Section 19(10):

Goodwill money or compensation: Where any amount is received by an assessee during any income year by way of goodwill money or receipt in the nature of compensation or damages for cancellation or termination of contracts and licenses by the Government or any person, such amount shall be deemed to be the income of such assessee for that income year classifiable under the head "Income from other sources".

Explanation: In an investigation, it has been seen that Mr. X has received Tk. 35,000 as compensation from a party for cancellation of contracts. This Tk. 35,000 will also be considered as an income under the head "Income from other Sources".

Section 19(11):

Benefit or advantage on account of cancellation of indebtedness: Where any benefit or advantage, whether convertible into money or not, is derived by an assessee during any income year on account of cancellation of indebtedness the money value of such benefit shall be deemed to be his income for that income year as "Income from other sources":

Explanation: In an investigation, it has been seen that Mr. X has got a benefit of Tk. 15,000 from his bank on account of cancellation of indebtedness. Hence, Tk. 15,000 will also be considered as an income under the head "Income from other Sources".

Section 19(12):

Managing agency commission: Any managing agency commission including compensation received during any income year by an assessee for termination of agencies or any modification of the terms and conditions relating thereto shall be deemed to be his income for that income year classifiable under the head "Income from other sources".

Explanation: In an investigation, it has been seen that Mr. X has received Tk. 10,000 as commission for termination of agency. Here, Tk. 10,000 will be considered as "Income from other Sources".

Section 19(13):

Winning from lotteries, crossword prizes etc.: Any amount received by an assessee during any income year by way of winnings from lotteries, crossword puzzles, card games and other games of any sort or from gambling or betting in any form or of any nature whatsoever shall be deemed to be his income for that income year classifiable under the head "Income from other sources".

Explanation: Mr. X has received Tk. 100,000 from lottery, Tk. 10,000 as a reward from prize bond, Tk. 10,000 from betting and Tk. 40,000 for being man of the match in a game. Tk. (100,000 + 10,000 + 10,000 + 40,000) = 160,000 will also be considered as an income under the head "Income from other Sources". But from all those items full amount can be deducted assuming as minimum tax under section 82(c).

Section 19(21):

Unpaid loan: Where any sum, or aggregate of sums not exceeding Tk. 5,00,000 is claimed or shown to have been received as loan by an assessee, not being a company during any income year from any person, not being a banking company or a financial institution, otherwise than by a crossed cheque drawn on a bank, and has not been paid back in full within three years from the end of the income year in which it is claimed or shown to have been received, the said sum or part thereof which has not been paid back, shall be deemed to be the income of the assessee for the income year immediately following the expiry of the said [three years] and be classifiable under the head "Income from other sources".

Explanation: Mr. X has received loan of Tk. 150,000 from one of his friend on 1st July 2012 and has not yet been paid back. In this case Tk. 150,000 will be shown under the head "Income from other Sources" as three years have expired.

Section 19(21A):

Loan or gift received under some circumstances: Where any sum is claimed to have been received by an assessee as loan or gift during any income year from a person who has transferred the sum within the period of limitation stipulated in the rule made under this Ordinance, from the initial capital of his business or profession shown in his return filed under section 83A, the amount of such loan or gift so received by the assessee shall be deemed to be his income of the year in which such loan or gift was received and shall be classifiable under the head "income from other sources".

Explanation: Mr. X has received a gift of Tk. 50,000 from Mr. Y who has transferred the fund through a crossed check from his office three years ago and has not yet been paid back. In this case Tk. 55,000 will be shown under the head "Income from other Sources".

Section 19(21B):

Transfer of initial capital: Where any sum, shown as initial capital of business or profession in return of income filed under section 82BB, is transferred by a person partly or fully from that business or profession within the period of limitation stipulated in the said section, the sum so transferred shall be deemed to be his income of the year in which such sum was transferred and shall be classifiable under the head "Income from other sources".

Explanation: X has shown Tk. 200,000 as initial capital which was restricted to be withdrawn within 3 years. But after one year he has transferred Tk. 100,000 to one of his other ventures. In this case Tk. 100,000 will be shown under income from other sources as the amount has been transferred partly by X within the period of limitation stipulated.

Section 19(24):

Disclosing investment in equity of an unlisted company: Where a company, not listed with any stock exchange, receives paid up capital from any shareholder during any income year in any other mode excepting by crossed check or bank transfer, the amount so received as paid up capital shall be deemed to be the income of such company for that income year and be classifiable under the head "Income from other sources".

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Explanation: X Ltd., a Private Limited Company, has issued additional 10,000 shares @ Tk. 10 each to increase the paid up capital and the proceed has been received in form of cash. In this case Tk. 100,000 will be shown under the head "Income from other Sources" as the amount has not been received by cross check or bank transfer.

Section 19(26):

Loan taken by a company otherwise than by a crossed check or bank transfer: Where an assessee, being a company, receives any amount as loan from any other person otherwise than by a crossed cheque or by bank transfer, the amount so received shall be deemed to be the income of such assessee for that income year in which such loan was taken and shall be classifiable under the head "Income from other sources"

Explanation: X Ltd., a Private Limited Company, has borrowed Tk. 1,000,000 from Y Ltd. in cash. In this case Tk. 1,000,000 will be shown under the head "Income from other Sources" as the amount has not been received by cross check or bank transfer.

Section 19(27):

Purchase or hire of car at a price exceeding 10% of paid up capital: Where an assessee, being a company, purchases directly or on hire one or more motor car or jeep and value of any motor car or jeep exceeds ten percent of its paid up capital, then fifty percent of the amount that exceeds such ten percent of the paid up capital shall be deemed to be the income of such assessee for that income year classifiable as "Income from other sources"

Explanation: X Ltd., a Private Limited Company, has a paid up capital of Tk. 10,000,000. The company has purchased a car at a price of Tk. 1,500,000. In this case, 50% of the amount that exceeds such ten percent of the paid up capital i.e. 50% of (1,500,000 - 1,000,000) = 50% of Tk. 500,000 = Tk. 250,000 will be shown as income from other sources.

Section 19(28):

Loan or gift taken by an assessee otherwise than by a crossed check or by bank transfer [Section 19(28)]: Where an assessee, being an individual, receives any sum or aggregate of sums exceeding Tk. Five lakh as loan or gift from any other person otherwise than by a crossed check or by bank transfer, the amount so received shall be deemed to be the income of such assessee for that income year in which such loan or gift was taken and shall be classified under the head "Income from other sources".

Provided that nothing in this sub-section shall be applicable to a loan or gift from spouse or parents if any banking or formal channel is involved in the process of such loan or gift.

Explanation: Mr. X has borrowed Tk. 1,000,000 from Mr. Y in cash. In this case Tk. 1,000,000 will be shown under the head "Income from other Sources" as the amount has not been received by cross check or bank transfer.

Section 19(29):

Defaulter in due payment for purchase by real estate business [Section 19(29)]: Where an assessee, not being an assessee engaged in real estate business during any income year, purchases on credit any material for the purpose of construction of building or house property or its unit and fails to pay the sum or any part thereof representing the liability in respect of such purchase, the sum or any part thereof, which has not been paid which has not been paid within two years from the end of the income year in which the purchase was made, shall be deemed to be the income of the assessee for the income year immediately following the expiry of the said two years and be classifiable under the head "Income from other sources".

Explanation: ABC Builders Limited has purchased material of Tk. 100,000 on account for the purpose of construction of building during income year 2013-14 and failed to pay the amount due within the following two income years 2014-15 and 2015-16. In this case Tk. 100,000 will be shown under the head "Income from other Sources".

Section 19(31):

Difference in the amount of the exempted incomes shown in revised return and the original return [Section 19(31)]: Where an assessee files a revised return or an amended return under sections 78, 82BB or 93 and shows in such revised return or amended return any income that is subject to tax exemption or a reduced tax rate, so much of such income as exceeds the amount shown in the original return shall be deemed to be income of the assessee for that income year classifiable under the head "Income from other sources".

Explanation: Mr. X has shown Tk. 50,000 as his Pension income in the original return. But later he has shown Tk. 80,000 as pension income in the revised return under sections 78 or 93. In this case Tk. 30,000 will be shown under the head "Income from other Sources".

12.8 INCOME NOT CLASSIFIED UNDER ANY HEAD [SECTION 33(E)]

According to Section 20 of the ITO, 1984, for the purpose of charge of income tax and computation of total income, seven heads of income are used, namely salaries, interest on securities, income from house property, agricultural income, income from business or profession, capital gains and income from other sources. As per Section 33(e) of the ITO, 1984, incomes which don't fall under any of the first six categories, will be included under the head "income from other sources". But according to Income Tax Rule - 24 it has been seen that in the "Specimen Form of Income under the ITO, 1984 - Part II" total 10 heads has been given. Among those the additional heads are Share of profit in a firm, Income of the spouse or minor child as applicable u/s 43(4) and foreign income. So, incomes which don't fall under any category of the above nine items will fall under the head "Income from Other Sources". Examples of such income are as follows:

1. Sum received by virtue of position/service (not from employer) like Director's fee.
2. Insurance commission
3. Honorarium from writing articles in newspapers, magazines or journals.
4. Remuneration as examiner and invigilator.
5. Income received from vacant land adjacent to assessee's house.
6. Royalty from mines.
7. Income from Ferry Ghat.
8. Income from Tuition.
9. Income from undeclared money, bribe or black money, if identified.
10. Income from agriculture received from abroad.
11. Income from underwriting commission for sale of shares and securities.
12. Income received from foreign government as salary or pension.
13. Income from non-resident husband / wife.
14. Income from patent / license.
15. Income from Television or Radio for participating in a program.
16. Non-agricultural income like sale of forest timber/fruits/honey/fish (other than firm)
17. Income from rent of boat.
18. Income from letting out household appliances like furniture, machineries;
19. Income from sub-letting of a house property by a tenant;
20. Casual income;

21. Income from undisclosed sources;
22. Interest on securities of foreign governments;
23. Interest received on delayed refund;
24. Any other income not classified under any head.

12.9 ALLOWABLE DEDUCTIONS [SECTION 34]

Following expenses are allowed to deduct from "Income from Other Sources" (Section 34):

- (a) The amount of interest paid in respect of money borrowed for the purpose of acquisition of shares of a company.
- (b) Any expenditure, not capital expenditure in nature or personal expenses of the assessee, incurred solely for the purpose of making or earning the relevant income.
- (c) Where the income is derived from letting on hire of machinery, plant or furniture belonging to the assessee and also of building belonging to him if the letting of the building is inseparable from the letting of such machinery, plant or furniture, the same allowances as are admissible under section 29(1) (vi), (vii) and (xi) to an assessee. Such as, rent, repair expense, insurance expense, loss on sale of assets etc.

12.10 INADMISSIBLE DEDUCTIONS [SECTION 34(4)]

Notwithstanding anything contained in this section, no allowance shall be made on account of -

- (a) any interest chargeable under this Ordinance which is payable outside Bangladesh on which tax has not been paid and not been deducted at source under section 56; or
- (b) any payment which is chargeable under the head "Salaries" if tax has not been paid thereon or deducted there from under section 50.

12.11 RATE OF INCOME TAX REGARDING INCOME FROM LOTTERY, WINNING PRIZES ETC. [SECTION - 55]

According to Section 55 of the ITO, 1984, the person responsible for paying any amount of winning from lotteries, crossword puzzles, card games and other games of any sort or from gambling or betting in any form or of any nature whatsoever shall, at the time of making such payment, deduct tax payable on the amount at the rate of **twenty (20%)** percent. This is considered as minimum of tax under section 82(c).

12.12 EXAMPLES OF SOME INCOMES WHERE MINIMUM TAX IS APPLIED ON THE BASIS OF THE SECTION 82C:

1. Tax deducted on certain income is considered as minimum tax as per section 82C of IT Ordinance 1984. The provisions in this regard are as follows with section reference:

Sources of income on which TDS is considered as minimum tax:

Sources of Income	Reference
1. Payments on account of execution of contract	52
2. Payment on account of royalties, franchise, or the fee for using license, brand name, patent, invention, formula, process, method, design, pattern, knowhow, copyright, trademark, trade name, literary or musical or artistic composition, survey, study, forecast, estimate, customer list or any other intangibles.	52A
3. Commission of Clearing & Forwarding (C&F) Agents	52AAA
4. Banderole price to Cigarette Manufacturers	52B
5. Compensation against Acquisition of Property	52C

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6. Interest on Savings Instruments	52D
7. Travel agent's commission	52JJ
8. Payment to any rental power company on account of purchase of rental power from that company	52N
9. Salaries of foreign technician serving in a diamond cutting industry	52O
10. Payment on account of International Gateway (IGW) Services in respect of international phone call receipt	52R
11. Value of imported goods	53
12. Total freight received or receivable by a ship owned or chartered by a resident assessee	53AA
13. Income Derived from Export of Manpower	53B
14. Export of Certain Items (knit wear and woven garments, terry towel, carton and accessories of garments industry, jute goods, frozen food, vegetables, leather goods, packed food)	53BB
15. Total value of the shares, debentures, mutual funds, or securities transacted (buy and sell) by a member of stock exchange.	53BBB
16. Export of any goods except knit wear and woven garments, terry towel, carton and accessories of garments industry, jute goods, frozen food, vegetables, leather goods, packed food)	53BBBB
17. Public Auction	53C
18. Courier business of a non-resident	53CCC
19. Export Cash Subsidy	53DDD
20. Deduction or collection at source from commission, discount or fees.	53E
21. Commission or Remuneration paid to Agent of Foreign Buyer	53EE
22. Interest on Savings or Fixed Deposits	53F
23. Registration Cost through Real Estate or Land Development Business	53FF
24. Insurance Commission	53G
25. Remuneration or fees for conducting any survey regarding settlement of claim of insurance	53GG
26. Transfer of Property	53H
27. Transfer of securities or mutual fund units by sponsor shareholders of a company etc.	53M
28. Transfer of share of Stock Exchange	53N
29. Income from winning / lottery	55

Provided that the tax deducted or collected from the following sources shall not be the minimum tax:

- i. Tax collected under section 52 from the following persons-
 - a. a contractor of an oil company or a subcontractor to the contractor of an oil company as may be prescribed;
 - b. an oil marketing company and its dealer/agent excluding petrol pump station;
 - c. any company engaged in oil refinery;
 - d. any company engaged in gas transmission or gas distribution;
- ii. tax deducted under section 53 from import of goods by an industrial undertaking as raw materials for its own consumption;

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- iii. tax deducted under section 53F from a source other than the sources mentioned in clause (c) of sub-section (1) and sub-section (2) of that section;
2. for the sources of income for which minimum tax is applicable, books of accounts shall be maintained in the regular manner in accordance with the provisions of section 35;
 3. income from any source, for which minimum tax is applicable under this sub-section, shall be determined in regular manner and tax shall be calculated by using applicable rate on such income. If the tax so calculated is higher than the minimum tax under clause (a), the higher amount shall be payable on such income:

Provided that income shall be determined and tax shall be calculated for certain sources in the manner as specified in the following -

Amount that will be taken as income	Rate or amount of tax
amount of compensation as mentioned in section 52C	as mentioned in section 52C (2% or 1% as the case may be)
amount of interest as mentioned in section 52D	as mentioned in section 52D (5% as the case may be)
amount of export cash subsidy as mentioned in section 53DDD	as mentioned in section 53DDD (3% as the case may be)
amount of interest as mentioned in section 53F [53F(1)(c) and (2)]	As mentioned in section 53F (10%, 15% or 5% as the case may be)
Deed value as mentioned in section 53H	As mentioned in section 53H and the rule made thereunder.

4. Income or loss computed in accordance with clause (d) or the proviso of clause (d) shall not be set off with loss or income, respectively, computed for any regular source.

SPECIMEN FORM FOR COMPUTING "INCOME FROM OTHER SOURCES"

Income from Other Sources:	Tk.	Tk.
1) Dividend from ICB Mutual fund / other unit fund [Dividend \times 100 \div 90] Less: Exempted (up to Tk. 25,000)	XX XX	XX
2) Dividend from public or private ltd. Co. [Dividend \times 100 \div 90] Less: Exempted (up to Tk. 25,000)	XX XX	XX
3) Interest from Bank deposit / profit from Islami Bank [Interest \times 100 \div 90]	XX	XX
4) Interest on Post Office Savings Bank & Postal Savings Certificate [Interest received \times 100 \div 90]		XX
5) Any commission/fee received from parties other than employer		XX
6) Income from prize bond / lottery / quiz competition / crossword		XX
7) Royalty income from books/mine/Ferri		XX
8) Income / commission / fee as remuneration of Director		XX
9) Non-agricultural income like sale of forest trees, sale of fruits, sale of honey, sale of fish of pond (other than firm) etc		XX
10) Income from invigilation & exam script evaluation		XX
11) Income from writing articles / columns in newspapers		XX
12) Income from participating in radio / TV/ cultural programs		XX
13) Income from lease of non-agricultural land		XX
14) Income from Tuition		XX
15) Income from underwriting commission for sale of shares and securities.		XX

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16) Income from non-resident husband/wife (If not brought through banking channel)		XX
17) Income from patent / license		XX
18) Income from rent of boat / mooring terminal		XX
19) Income from letting out household appliances like furniture etc		XX
20) Unexplained Investments deemed to be Income u/s 19		XX
21) Any other income not classified under any head		XX
Less- Allowable deductions:		XX
Interest on loan taken to purchase share and securities	XX	
Any revenue expenditure incurred for making earnings	XX	XX
Total		<u>XX</u>

Illustration 12 – 1:

Compute taxable income for Mr. Zaman considering his income for the year includes following different sources.

Dividend from a Private Limited Company Tk. 4,500; Interest on Fixed Deposits Tk. 2,700; Interest on Post Office Savings Bank Tk. 1,800; Remuneration for exam script evaluation and invigilation Tk. 1,000; Prize of winning Prizebonds lottery Tk. 24,000; Sale of Fish of Pond Tk. 1,000; Sale of Tree and bamboo Tk. 1,500; Income from copyright and royalty Tk. 4,000; Remuneration as Director Tk. 15,000; Income from marriage anniversary Tk. 5,000; and Income from license Tk. 2,000. During the year he has purchased jewellery of Tk. 125,000 the source of which has not been explained to the DCT. During the year he has paid Tk. 200 as license renewal fee and Tk. 800 as interest on loan taken to purchase the shares of private limited company.

Solution 12 – 1:

Assessee: Mr. Zaman

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

Income from Other Sources (Section – 33):	Tk.	Tk.
(a) Dividend from Pvt. Ltd. Co. $[4,500 \div 90 \times 100]$	5,000	
Less: Exempted	25,000	-
(b) Int. on Fixed Deposits $(2,700 \div 90 \times 100)$		3,000
(c) Int. on Post Office Savings Bank $(1,800 \div 90 \times 100)$		2,000
(d) Remuneration for exam script evaluation		1,000
(e) Prize of Prize bond lottery $(24,000 \div 80 \times 100)$		30,000
(f) Sale of Fish of Pond		1,000
(g) Sale of tree and bamboo		1,500
(h) Income from copyright and royalty		4,000
(i) Remuneration as Director		15,000
(j) Income from marriage anniversary	5,000	-
Less: Exempted (full)	5,000	
(k) Income from license		2,000
(l) Unexplained investment to purchase jewellery		125,000
Less: Allowable deductions:		184,500
License renewal fee	200	
Interest on loan	800	1,000
Total		<u>183,500</u>

Chapter - 12: Income from Other Sources

Notes: (1) Assuming copyright and royalty has been received from a person, hence no TDS is allowed. (2) Income from marriage anniversary is a gift hence exempted from income tax.

Illustration 12 – 2:

Mr. Mustaq has earned the given incomes for the year 2016 – 17. Compute taxable income of Mr. Mustaq considering his Dividend from ICB Mutual Fund (gross amount) Tk. 30,000; Profit on Islami Bank Mudaraba Savings Scheme Tk. 2,700; Income from royalty of a book Tk. 2,000; Income received from a part-time job Tk. 10,000; Prize of winning Crosswords Tk. 1,600; Income from letting out household machineries Tk. 1,000; Sale of forest timber Tk. 1,500; Income from rent of a shop owned by him Tk. 4,000; Gain from loan amortization Tk. 10,000; Income from a newspaper for column writing Tk. 5,000; and Income from unused leased land Tk. 2,000. During the year he spent Tk. 200,000 on a party in Hotel Radisson, the source of expenditure remained unexplained to the DCT. He has also visited Singapore incurring a total cost of Tk. 100,000 and purchased a Diamond set of Tk. 175,000 for his wife for which the source of the money was unexplained. He has paid Tk. 200 commission for collecting the dividend and Tk. 800 as interest on loan taken to purchase the shares of public limited company.

Solution 12 – 2:

Assessee: Mr. Mustaq
Assessment year: 2017 – 2018
Income year: 2016 – 2017

	Tk.	Tk.
Income from Other Sources (Section – 33):		
(a) Dividend from ICB Mutual Fund	30,000	
Less: Exempted – Up to Tk. 25,000	25,000	5,000
(b) Profit on Islami Bank Scheme (2,700 ÷ 90 × 100)		3,000
(c) Income from royalty of a book		2,000
(d) Income received from a part-time job		10,000
(e) Prize of winning crosswords (1,600 ÷ 80 × 100)		2,000
(f) Income from letting out household machineries		1,000
(g) Sale of forest timber		1,500
(h) Income from rent of a shop		4,000
(i) Gain from loan amortization		10,000
(j) Income from newspaper column writing		5,000
(k) Income from unused leased land		2,000
(l) Unexplained investments:		
Party in hotel	200,000	
Travel to Singapore	100,000	
Purchase of Diamond jewellery	175,000	
		475,000
		520,500
Less: Allowable deductions:		
Commission for collecting dividend	200	
Interest on loan	800	1,000
Total		519,500

Notes: (1) Dividend from ICB Mutual Fund is exempted up to Tk. 25,000.

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Illustration 12 – 3:

Compute taxable income of Mr. Jaber for the income year 2016 -17 considering:

- (a) Dividend from a listed company Tk. 36,000;
- (b) Profit on Islami Bank Mudaraba Savings Scheme Tk. 2,700;
- (c) Honorarium from a Symposium Tk. 35,000;
- (d) Honorarium received as a resource person for providing training Tk. 5,000;
- (e) Royalty income from government Tk. 1,800;
- (f) Commission received as insurance agent Tk. 9,500;
- (g) Prize of winning Crosswords Tk. 2,400;
- (h) Commission from clearing and forwarding agency business Tk. 6,300;
- (i) Amount received as Director's fee Tk. 1,500;
- (j) Income from private tuition in a Coaching Center Tk. 10,000;
- (k) Income from a newspaper for column writing Tk. 5,000; and
- (l) Income from delivering a speech in a seminar Tk. 3,500.

During the year he spent Tk. 200,000 on the marriage ceremony of his only daughter, the source of expenditure remained unexplained to the DCT. He has also visited India along with his family where he spent Tk. 100,000 and purchased a jewellery set of Tk. 50,000 for his wife for which the source of the money was unexplained. During the year he has paid Tk. 200 as commission for collecting the dividend and Tk. 800 as interest on loan taken to purchase the shares of public limited co.

Solution 12 – 3:

Assessee: Mr. Jaber
Assessment year: 2017 – 2018
Income year: 2016 – 2017

Income from Other Sources (Section – 33):	Tk.	Tk.
(a) Dividend of a listed company $(36,000 \div 90 \times 100)$	40,000	
Less: Exempted	25,000	15,000
(b) Profit. on Islami Bank $(2,700 \div 90 \times 100)$		3,000
(c) Honorarium for attending a Symposium		35,000
(d) Honorarium from a training program		5,000
(e) Royalty income from government $(1,800 \div 90 \times 100)$		2,000
(f) Commiss. received as ins. Agent $(9,500 \div 95 \times 100)$		10,000
(g) Prize of winning Crosswords $(2,400 \div 80 \times 100)$		3,000
(h) Commission from clearing and forwarding agency business $(5,950 \div 85 \times 100)$		7,000
(i) Director's fee		1,500
(j) Income from private tuition		10,000
(k) Income from newspaper column writing		5,000
(l) Income from speech		3,500
(m) Unexplained investments: Expenditure in daughter's marriage	200,000	
Travel to India	100,000	
Purchase of jewellery set	50,000	350,000
Less: Allowable deductions:		450,000
Commission for collecting dividend	200	
Interest on loan	800	1,000
Total		<u>449,000</u>

Chapter - 12: Income from Other Sources

Illustration 12 – 4:

Compute taxable income for Mrs. Zaman considering income for the income year 2016 – 2017 as:

- (a) Dividend from ICB Unit Fund Tk. 31,500;
- (b) Interest on Post Office Savings Bank Tk. 36,000;
- (c) Fees for Technical services from Government Tk. 18,000;
- (d) Prize of winning Prize bonds lottery Tk. 20,000;
- (e) Receipt of salami for granting leases Tk. 10,000;
- (f) Compensation money received for contract termination Tk. 15,000;
- (g) Income from copyright and royalty Tk. 4,000;
- (h) Interest on fixed deposit maintained in a leasing company Tk. 9,000; and
- (i) Income from participating in a Television Talk Show Tk. 2,000.

During the year she has purchased a Flat at Tk. 1,000,000. After an investigation by the DCT it has been found that the Fair Market value of the Flat is Tk. 1,175,000.

Solution 12 – 4:

Assessee: Mrs. Zaman

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

Income from Other Sources (Section – 33):	Tk.	Tk.
(a) Dividend from ICB Unit Fund [31,500 ÷ 90 × 100]	35,000	
Less: Exempted – Upto 25,000	25,000	10,000
(b) Interest on Post Office Savings Bank [36,000 ÷ 90 × 100]		40,000
(c) Fees for Govt. Technical service [18,000 ÷ 90 × 100]		20,000
(d) Prizebonds's Lottery [20,000 ÷ 80 × 100]		25,000
(e) Salami for leases		10,000
(f) Compensation		15,000
(g) Income from Copyright and Royalty		4,000
(h) Int. on Fixed Deposits on a leasing Co. [9,000 ÷ 90 × 100]		10,000
(i) Income from Talk Show		2,000
(j) Unexplained investments [1,175,000 – 1,000,000]		175,000
Total		311,000

Notes: (1) Assuming copyright and royalty has been received from a person, hence no TDS is allowed. (2)

Illustration 12 – 5:

Mr. Salam has earned following incomes for the year 2016 – 2017:

- (a) Salary Tk. 600,000;
- (b) Dividend from preference shares of a Public Limited Company Tk. 4,500;
- (c) Dividend from ICB Mutual Fund Tk. 18,000;
- (d) Income from underwriting shares of a Company Tk. 3,000;
- (e) Income from mooring terminal Tk. 15,000;
- (f) Interest on Savings Bank Deposit Tk. 2,700;
- (g) Honorarium received as a director to be a member of the Board Tk. 1,000;
- (h) Interest on loan given to a friend Tk. 1,500;
- (i) Income from consultancy work not related to his profession Tk. 4,000;
- (j) Income from participating in a training program Tk. 10,000;
- (k) Income from Birthday Party Tk. 5,000; and
- (l) Income from lump sum royalty of a book Tk. 80,000. It took him two years to write the book.

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During the year he spent Tk. 200,000 to purchase a piece of land, Tk. 90,000 to purchase a motorcycle and the source of expenditure remained unexplained to the DCT. Through investigation, the DCT has also identified an FDR of Tk. 500,000 in a local bank which has also not been explained. He has also visited India incurring a total cost of Tk. 100,000 and purchased a Diamond set of Tk. 100,000 for his wife for which the source of the money was also unexplained. During the year he has paid Tk. 500 as commission for collecting the interest.

His other expenditures during the year were:

- (i) Purchase of Books and Magazine Tk. 5,000;
- (ii) Donation to President's Relief Fund Tk. 200,000;
- (iii) Contribution to a deposit pension scheme Tk. 12,000;
- (iv) Purchase of a cow for "Qurbani" Tk. 15,000;
- (v) Purchase of a Laptop Tk. 130,000 and
- (vi) Purchase of Primary Shares Tk. 30,000.

Compute taxable income and tax liability of Mr. Salam for the assessment year 2017-18 considering TDS from his salary during the year was Tk. 40,000.

Solution 12 - 5:

Assessee: Mr. Salam
Assessment year: 2017 - 2018
Income year: 2016 - 2017
Computation of taxable Income

	Tk.	Tk.	Tk.
Income from Salary (Sec - 21)			600,000
Income from Other Sources (Sec - 33):			
(a) Dividend from Pref. share [$4,500 \div 90 \times 100$]	5,000		
Less: Exempted - Up to Tk. 25,000	5,000		
(b) Dividend from ICB Mutual Fund [$18,000 \div 9 \times 10$]	20,000		
Less: Exempted - Up to Tk. 25,000	20,000		
(c) Income from underwriting shares		3,000	
(d) Income from mooring terminal		15,000	
(e) Interest on Savings bank deposit [$2,700 \div 9 \times 10$]		3,000	
(f) Honorarium received		1,000	
(g) Interest on loan given to a friend		1,500	
(h) Income from consultancy work		4,000	
(i) Income from training program		10,000	
(j) Income from royalty of a book (50%)		40,000	
(k) Unexplained investments (note - 2)		990,000	
		1,067,500	
Less: Allowable deductions:			
Commission for collecting interest		500	
			1,067,000
Total			1,667,000

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	500,000	15%	75,000
On the next	<u>517,000</u>	20%	<u>103,400</u>
Total	1,667,000		218,400
Less: investment tax credit (342,000 × 15%) [note - 3]			48,540
Less: TDS (40,000+500+2,000+300)			<u>42,800</u>
Net tax liability			<u>127,060</u>

Note:

(1) Dividend from ICB Mutual Fund is exempted up to Tk. 25,000.

(2) Unexplained investment includes:

- Tk. 200,000 for Purchase of land,
- Tk. 90,000 for Purchase of motorcycle,
- Tk. 500,000 for FDR in Bank,
- Tk. 100,000 for travel to India, and
- Tk. 100,000 for purchase of diamond set.

(3) Actual Allowable Investment is Tk. 342,000 [combining donation to relief fund, DPS, laptop (max. 100,000) and share purchase]. Maximum limit of allowable investment for tax rebate is lower of 25% of total income (1,667,000 × 25%) = Tk. 416,750 or Tk. 15,000,000.

Here, actual amount of investment allowance is within the maximum limit.

So, investment allowance for tax rebate in the assessment year 2016 – 2017 will be Tk. 342,000.

So, eligible rebate will be [(250,000×15%)+(92,000×12%)]=48,540

KEY POINTS

1. The incomes other than from salary, Interest on securities, house property, Agricultural income, business or profession and capital gains will be included under the head "Income from Other Sources".
2. Examples of income from other sources are dividend and interest; royalties and fees for technical services; income from letting of machinery/plants/furniture/belongings etc.
3. The term dividend does not include any bonus share issued by a company.
4. Any income from dividend of a mutual fund or a unit fund is exempted up to Tk. 25,000.
5. The rate of TDS from dividend for a person other than a company is 10% if he/she is a resident assessee or non –resident Bangladeshi having TIN.
6. Dividend is paid after making necessary deduction for tax at source. So the amount received by the shareholder is the net amount of dividend which need to be grossed up for the purpose of taxation.
7. TDS applicable on interest on Savings Instruments is subject to final payment of tax liability.
8. Any unexplained expenditure or investment will be treated as "Income from other sources".
9. Any income not classified under any head will be considered as income under this head.
10. Income from this head can use to set off losses under other head except capital gain and speculation business.

Multiple choice questions:

1. Income from other sources excludes –
 - (a) Dividend income
 - (b) Interest income
 - (c) Foreign income
 - (d) Royalties
2. Under which section provisions regarding unexplained investments have been given? –
 - (a) 19
 - (b) 20
 - (c) 21
 - (d) 22
3. Dividend income does not include –
 - (a) Any distribution by a company of accumulated profits
 - (b) Distribution of profit against preference shareholders
 - (c) Profit against ICB Mutual Fund
 - (d) Bonus share
4. The applicable tax rate of TDS on dividend income for a non-resident Bangladeshi is –
 - (a) 5%
 - (b) 10%
 - (c) 15%
 - (d) 20%
5. From which income no tax is deducted at source?–
 - (a) Profit from Islami Bank Mudaraba Savings Scheme
 - (b) Dividend income against preference shares.
 - (c) Interest on fixed deposits
 - (d) Interest on Pensioner Sanchayapatra
6. In case of Interest on 5 year Bangladesh Savings Certificate; applicable rate for tax deduction at source will be –
 - (a) 5%
 - (b) 10%
 - (c) 15%
 - (d) 20%
7. Which income will be included under the head “Income from Other Sources” –
 - (a) Interest on deposit pension scheme
 - (b) Interest on savings certificates
 - (c) Interest on security
 - (d) Income of minor child.
8. Minimum tax is considered as per section–
 - (a) 80(c)
 - (b) 81(c)
 - (c) 82(c)
 - (d) 83(c)
9. Tk. 27,000 received as dividend from ICB Mutual Fund; will be added in the total income by –
 - (a) 27,000
 - (b) 3,000
 - (c) 30,000
 - (d) 5,000

Chapter - 12: Income from Other Sources

10. What is the rate of income tax regarding income from Lottery, winning prizes etc. –

- (a) 5%
- (b) 10%
- (c) 15%
- (d) 20%

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

1. Dividend income will include bonus share issued by a company.
2. Incomes which do not fall in any other categories are grouped under "Income from Other Sources".
3. Interest paid in respect of money borrowed for the purpose of acquisition of shares of a company will be deducted from Income from Other sources
4. 10% tax is deducted from income from Lottery, winning prizes etc.
5. From interest on Bank Deposit, 20% tax will be deducted at source.

T	F
T	F
T	F
T	F
T	F

Discussion Questions:

- Question 12 – 1:** What do you mean by the term "Income from Other Sources"?
- Question 12 – 2:** Which incomes are considered under the head "Income from Other Sources"?
- Question 12 – 3:** What incomes are included under the term "dividend"?
- Question 12 – 4:** Explain the exemptions regarding interest income.
- Question 12 – 5:** Explain the provisions regarding chargeability of tax on royalty income.
- Question 12 – 6:** Explain the provisions regarding "Unexplained Investments deemed to be Income as per Section 19".
- Question 12 – 7:** What are the allowable deductions from "Income from Other Sources"?
- Question 12 – 8:** Write short note on:
- (a) Income from Other sources
 - (b) Grossing Up
 - (c) Unexplained investment
 - (d) Inadmissible deductions

Problem 12 – 1:

Mr. Zahir has earned the given incomes for the year 2016-17. Compute taxable income of Mr. Zahir considering: Dividend from a Public Limited Company Tk. 18,000; Interest on Fixed Deposits Tk. 2,700; Interest on Post Office Savings Bank Tk. 2,700; Remuneration for exam script evaluation and invigilation Tk. 1,000; Prize of winning crossword prize Tk. 16,000; Sale of forest timber and honey Tk. 1,000; Income from letting out household furniture Tk. 1,500; Income from participating in a singing competition Tk. 3,000; Remuneration as Director Tk. 10,000; Gift from father Tk. 5,000 and Income from part time job Tk. 9,000. During the year he has purchased jewellery of Tk. 25,000 the source of which has not been explained to the DCT. During the year he has paid Tk. 200 as commission for collecting dividend and Tk. 800 as interest on loan taken to purchase the shares of private ltd co.

Problem 12 – 2:

Compute taxable income of Mr. Sohel for the year 2016-17 considering: Dividend from Grameen Mutual Fund Tk. 27,000; Profit on Islami Bank Mudaraba Savings Scheme Tk. 1,800; Income from

royalty of a book Tk. 2,000; Income received from sublet of premises Tk. 10,000; Prize of winning lottery Tk. 1,600; Income from vacant land adjacent to his house Tk. 2,000; Income from letting patent Tk. 2,500; Income from rent of a shop owned by him Tk. 4,000; Gain from loan amortization Tk. 10,000; Income from a newspaper for column writing Tk. 5,000 and Income from unused leased land Tk. 2,000. During the year he spent Tk. 100,000 on a party in Hotel Sheraton, the source of expenditure remained unexplained to the DCT. He has also purchased a land of Tk. 500,000 for which the source of the money was unexplained. During the year he has paid Tk. 200 as commission for collecting the dividend and Tk. 800 as interest on loan taken to purchase the shares.

Problem 12 – 3:

Mr. Tauhid has earned the following incomes for the year 2016-17.

Income from salary : Tk. 300,000;

Income from Other Sources :

- (a) Dividend from a private ltd. company Tk. 4,500;
- (b) Dividend of public limited company Tk. 9,000;
- (c) Dividend from ICB Mutual Fund Tk. 36,000;
- (d) Interest on savings account Tk. 900;
- (e) Prize of lottery Tk. 32,000;
- (f) Interest on fixed deposit Tk. 3,800;
- (g) Interest on postal savings account Tk. 1,600;
- (h) Income from writing book Tk. 8,000;
- (i) Income from examining scripts and invigilation Tk. 4,200;
- (j) Income from word competition Tk. 4,800;
- (k) Prize of Prizebond Tk. 24,000;
- (l) Income from a private university as a part-time lecturer Tk. 22,000;
- (m) Income from remuneration of director Tk. 14,000;
- (n) Income from rent of a shop owned by him Tk. 15,000;
- (o) Income from a newspaper for column writing Tk. 2,000;
- (p) Income from sale of forest timber Tk. 32,000;
- (q) Income from unused leased land Tk. 17,000;
- (r) Income from rental of household machineries Tk. 9,000;
- (s) Gain from loan amortization Tk. 11,000;
- (t) Income from Boats and mooring Tk. 10,000; and
- (u) Income from royalty and patent Tk. 26,000.

During the year he spent Tk. 1,000,000 to purchase a flat in Mirpur and the source of expenditure remained unexplained to the DCT. Through investigation, the DCT has also identified an FDR of Tk. 300,000 in a local bank which has also not been explained. He has also visited India incurring a total cost of Tk. 100,000 and purchased a Jewellery set of Tk. 50,000 for his wife for which the source of the money was also unexplained. During the year he has paid Tk. 500 as commission for collecting the dividend and Tk. 800 as interest on loan taken to purchase the shares.

His other expenditures during the year were: Purchase of dress and cloths Tk. 10,000; Donation to Ahsania Mission Cancer Hospital Tk. 30,000; Contribution to a deposit pension scheme Tk. 70,000; Purchase of primary shares of a listed company Tk. 10,000 and Contribution to Government Zakat Fund Tk. 50,000.

Compute taxable income and tax liability of Mr. Tauhid for the assessment year 2017 – 2018.

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

Self review 12 - 1:

$[(27,000/90) \times 100] = \text{Tk. } 30,000$; as 10% tax is deducted at source on any amount of interest from savings deposit.

Self review 12 -2:

- (a) Tk. 9,000 in the income year 2016-17.
- (b) Tk. 4,500 in each of the income year 2015-16 and 2016-17.
- (c) Tk. 3,000 in each of the income year 2014-15, 2015-16 and 2016-17.