Chapter-1

(Introduction)

Tax : Definition, Feature and Role

Chapter Synopsis/Contents:

1.1: Prelude

Since ancient times the taxes have been the real strength of the kings and emperors. At present, too, taxation is the mainstay of public expenditure. Moreover, in a developing economy with almost insatiable demand for investible fund, ever expanding development activities of Government have placed the emphasis on taxation as the main source of fund.

The sources of Govt. revenue in Bangladesh are: tax receipts, loan, printing of money, income from public industrial and service enterprises, fees and other receipts. Among these, the principal source is tax which accounts for about 80% of the revenue receipts and the remaining 20% comes from rest other sources. But what is important to note is that our tax system yields low revenue compared to developed and developing countries to support her development activities. Following table will reveal the picture :

Table–1 : GDP, Ratio of GDP to Revenue and Tax

	1996-97	1997-98	1998-99	1999-2000	2000-2001	02-03
GDP at Current Price (CroreTk.)	1,80,701	2,00,177	2,19,697	2,37,086	2,58,068	3,00,580
Rev. as percentage to GDP	9.49	9.38	8.97	9.00	9.38	11.77
Tax as % to GDP	7.79	7.49	7.22	7.21	7.47	9.67

(Source : Bangladesh Economic Review, 2001, p. 133)

Thus it is utmost important to push up revenue-GDP ratio and tax- GDP ratio through higher effective investment and enlarging tax net and closing loopholes in tax collection.

1.2: Definition of Tax

The term "taxation" comes from Latin word "Taxatio". It means to determine the payable quantum on estimate. Taxing authority determines tax to be payable by the assessee. So tax is the revenue collected by the Government from persons and organizations under different taxing Acts. In other words, it is a liability imposed upon the assessee who may be individuals, groups of individuals and other legal entities. According to *Justice Holmes*, the price paid to the Govt. for living in a civilized society is the tax. According to *Taylor*, taxes are the compulsory payments to Government without expectation of direct benefit to the tax payer. That is, it is not a price paid by the tax-payer for any definite service rendered or a commodity supplied by the Government. The tax-payers do get many benefits from the Government but no tax-payer has a right to any benefit from public expenditure on the ground that he is paying a tax. The benefits of public expenditure may go to anyone irrespective of the taxes paid. Hence, a tax is said to be a generalized exaction (E H. Plank). Here, it may be noted that a public receipt containing an element of compulsion does not automatically become a tax. In order to be a tax, the absence of a *quid pro quo* is necessary. As we shall see, the element of compulsion exists in case of some other public receipts also. Thus to be tax both compulsion and no direct benefit elements are to be present.

1.3: Characteristics of Tax

Against the backdrop of the definition of tax, following characterstics of tax may be identified:

i) It is a compulsory levy under taxing Act;

ii) Tax payers cannot claim direct and *quid qua pro* (proportionate or equivalent) service for payment of tax:

iii) It is a price paid to the Government for living in a civilized society.

1.4: Objectives of Tax

Government needs revenue for defence, administration and development activities. The main source of this revenue is tax. In such a context, the objectives of tax can be identified as follows:

i) Collection of Revenue :

No Govt. can run its administration and perform development works without collecting tax as a source of revenue. Thus the main objective of tax is the collection of revenue. In the context of Bangladesh, the main source of revenue is also found to be tax. For example, in 1972-73, it was 77.61% of the revenue. It is slowly but gradually increasing and thus in 1985-86, it was 79%, in 1995-96 it was 80% & in 2001-2002 it is estimated at 92%.

ii) Redistribution of Income :

Concentration of money and income in few hands can create socio-economic and political problem. Through taxation and various techniques under it, Govt. endeavours to do redistribution of income. This has yielded positive result.

iii) Economic Control :

To guide the economy in desired direction, Govt. needs to control inflation, push money to the economy, develop certain sectors of the economy and control some activites. Taxation can be an important tool to achieve this macro economic objective.

iv) Protection of Industry :

For the greater interest of the country Govt. may provide incentive to infant and certain basic industries. For this tax incentive for setting up and protecting such industry, export of products and import activities can be directed in favour of such industries through tax policy.

v) Economic Development :

For development of a country Govt. needs to create infrastructure and invest in certain sectors. For this activities Govt. needs funds and tax revenue can provide fund for the purpose.

vi) Full Employment :

Every state creates employment opportunities to its citizen. According to *F. E. Taylor*, besides collecting revenue and economic control, one of the important objectives of tax [illegible] the economy to full employment stage. He emphasizes that through efficient tax system and expenditure policy, Govt. can achieve this objective.

vii) Raising National Income in Desired Level :

For economic development of a country, national income needs to be increased. According to *A. P. Nearner*, taxation can be used as a tool for the purpose. He opined that the impact of taxes are two: it decreases income of tax payer and increases the income of the Govt. The second effect is more important than first one. For increasing national income in adequate level, tax system should be taken as the important tool and it can be effectively used if the policy is framed taking such objective as the important objective of taxation too.

Thus it is seen that the objectives of tax is not only the collection of revenue, its other objectives relevant to economic control and economic development are not less important.

1.5: Canons of Taxation

A tax system, in order to achieve its various objectives, needs to adhere certain principles. But in view of the fact that the objectives of taxes are many and some of them are conflicting, the writers of public finance have generally chosen and prescribed certain principles which a good tax system may adhere. In this connection, *Adam Smith* gave four principles of taxation which he called the canons of taxation. Some other writers have also prescribed some other principles/canons. A brief description of the same are now in order.

Adam Simth's canon of taxation :

(1) Canon of Equality : "The subjects of every state ought to contribute towards the support of the Government, as nearly as possible, in proportion to their respective abilities: that is, in proportion to the revenue which they respectively enjoy under the protection of the State." This canon tries to observe the objective of economic justice.

(2) Canon of Certainty : This canon describes that "The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, all ought to be clear and plain to the contributor and to every other person." The tax-payers should not be subject to arbitrariness and discretion of the tax officials, in which case there will be a scope for a corrupt tax administration.

(3) Canon of Convenience : This canon takes into consideration the interest of the taxpayer from the view of payment of tax. It emphasizes that the mode and timings of tax payment should be, so far as possible, convenient to the tax-payer. This canon recommends that unnecessary trouble to the tax-payer should be avoided, otherwise various ill-effects may result.

(4) Canon of Economy : Every tax has a cost of collection. It is important that the cost of collection should be as minimum as possible. It will be useless to impose taxes which are too widespread and difficult to administer. Productivity of taxes has been given importance in this canon.

An analysis of these canons indicates that *Adam Smith* was basically concerned with the ways in which an economy could increase its productive capacity, and thereby achieve a higher rate of economic growth and at the same time he considered the convenience of the tax payers and economy in tax collection.

However, in view of the wide spread recognition of many other objectives of the economic philosophy of the Govt. and modern State, some additional principles have also been suggested by some other authors. Now a brief description about them follows:

(5) Canon of Productivity : It is also called the canon of fiscal adequacy. According to this principle, the tax system should be able to yield enough revenue for the treasury and the Government should not be forced to resort to deficit finacing. The canon is thus also called canon of adequacy.

(6) Canon of Diversity : In line with canon of productivity, canon of diversity also gives importance to adequate collection of tax through diversification. Thus it stresses to the fact that it will not be a happy situation if the state depends upon few revenue sources. Such a system breeds a lot of uncertainty for the treasury. It is also likely to be inequitable as between different sections of the society. On the other hand, if the tax revenue comes from diversified sources, then any reduction in tax revenue on account of any one is likely to be very small on total tax revenue. However, too much multiplicity of taxes is also to be avoided. That leads to unnecessary cost of collection and violates the canon of economy.

(7) Canon of Simplicity : The tax system should not be too complicated. That makes it difficult to administer and understand and breeds problems of difference in interpretation and legal disputes.

(8) Canon of Flexibility : It should be flexible so that it becomes possible for the authorities, without undue delay, to revise the tax structure, both with respect to its coverage and rates, to suit the changing requirements of the economy and of the treasury.

(9) Canon of Social Objectives : In this canon control and achieving social goal is emphasized. According to this canon, charging and collecting taxes always need to be in line with social and economic policy of the Government.

(10) Canon of Functional Efficiencey : Tax policy needs to be efficient, operative and objective. According to *Prof. Dew*, the taxing laws and regulations must be such as easily understandable to the assessee, easily administraitable and administration needs to be objective in implementation and it should adhere to economy.

In the above context, it needs to be kept in mind that the tax structure is a part of the economic organization of a society and should, therefore, fit in its overall economic philosophy. Tax system that satisfies this basic canon can be termed a good one.

1.6: Classification of Tax

Tax can be classified into different types based on different angles, which are described below :

(A) On the basis of incidence

On the basis of incidence tax can be classified into two:

i) Direct tax: Direct tax is one whose incidence rests upon the person who bears its impact also, such as Income tax. (Emp)

ii) Indirect tax: Indirect tax is one which is imposed on a person or goods but its burden is shifted to others, such as Value Added Tax, Excise duty etc. In these case incidence is shifted to others.

Merits and Demerits of Direct and Indirect taxes :

There are many advantages and disadvantages of both Direct and Indirect taxes. These are now discussed below in short :

Advantages of Direct Tax :

i) It is related to ability to pay principle

Direct taxes can be so charged as to relate to the ability to pay principle. It can be so chosen and rate-schedules determined in such a way as to secure the maximum posssible closeness to the ability to pay and the least aggregate sacrifice. In these taxes, we can determine the degree of progression that we want and thus bring about adequate social and economic justice.

ii) Reducing inequality

Direct taxes can be used for reducing income and wealth inequalities and thereby various social evils can be mitigated. We must, however, remember that this argument seems quite sound provided in practice a proper degree of progression of tax schedules can be chosen and types of tax that can be so used produce significant revenue.

iii) Economy

In direct taxes both cost of collection and cost of payment is minimized. For, the tax authorities know the source, time and so also the tax payers.

iv) Flexibility

Direct tax is flexible. The amount can be increased or reduced through change in rate of tax.

v) Difficult to evade tax

Tax authorities know the base, assessees, tax rules and thus it is difficult to evade such tax.

vi) Revenue elasticity

Revenue elasticity is put forth in favour of direct taxes. In other words, as income of the community goes up, so does the tax yield from direct taxes. When the general level of activity and income goes up in the economy, there is likely to be a corresponding increase in sales/purchases, income and other activities. Its ultimate effect is revenue elasticity.

vii) Enhance social responsibility

Tax payers know the amount of tax they pay to the Govt. Thus, the advocates of direct taxes assert that these taxes incalculate a spirit of civic responsibility amongst the tax-payers. They then try to be more vigilant about how much tax revenue is being raised and to what uses it is being put.

Disadvantages of Direct Tax :

(i) Inconvenient

Amongst the demerits of direct taxes it is asserted that they generally violate the canon of convenience. The taxes are generally payable in lumpsum or even in advance and become quite inconvenient.

(ii) Adverse effect on Work

Another demerit of direct taxes is their supposed effect on the will to work and save. It is asserted that work (giving income) and leisure are two alternatives before any tax-payer. If, therefore, a tax is imposed, say on income, the tax-payer will find that the return from work has decreased as compared with return from leisure. He, therefore, tries to substitute leisure for work.

(iii) Tax evasion

No one likes to pay money to the Govt. from his income. It is human nature, so it is likely that many persons will try to evade tax.

(iv) Adverse impact on savings

Direct taxes are imposed on income, property, inheritance, etc. It than causes a reduction in the will to save. Capital accumulation in the economy will suffer and there will be a retardation of economic growth. This happens because the tax-payer then starts comparing the utility from current consumption with the utility from future income. Since the taxation reduces the utility going to the beneficiaries, the tax-payer tends to consume more for himself and save less for heirs.

Advantages of Indirect Tax :

i) Lesser inconvenient

An important merit of indirect taxes is that they are less inconvenient and from that point of view less burdensome (their being less burdensome from other points of view is not agreed in general). The tax-payers pay these taxes in bits and generally when they enter into some transactions of sales and purchases.

ii) Payment is not considered burdensome

Indirect taxes are paid through via media and not directly by the taxpayer. In fact, these taxes are usually hidden in the prices of goods and services being transacted and, therefore, their presence is not felt so much.

iii) Lesser chance of evasion

Another merit of indirect taxes is that with proper administration the chances of tax evasion in their case are less. Excise duties, for example, are quite difficult to evade if the Government machinery is vigilant and there is a proper check at the points of production.

iv) Ease of administration

There are many indirect taxes which are not that difficult to collect. For example, taxes on railway and bus fares. Here the points of collection are manageable in number and accounts of the transations are usually well maintained.

v) Favourable resource allocation

Another merit of indirect taxes is that they are a powerful tool in moulding the production and investment activities of the economy, i.e., they can guide the economy in its resource allocation.

vi) More flexible

Another advantage of indirect taxes, which makes them a versatile and selective policy tool is their flexibility. Direct taxes cannot be very selective and therefore are not so flexible, while indirect taxes are. The rates of indirect taxes and their coverage can be quite selective and can be modified more readily to suit the occasion. This is often practised also in the case of customs duties.

vii) Control of consumption

Govt. can control undesirable production and consumption such as liquor, luxurious goods through imposing tax on them. This may be good for the economy and the society as a whole.

Disadvantages of Indirect Tax :

i) Unjust

The main argument against indirect tax is that it is against justice and equality. Firstly, it is claimed and very rightly so that these taxes negate the principle of ability-to-pay and are therefore unjust to the poor. By their very nature (since one of the objectives is to collect enough of revenue), they are spread over to cover the items which are purchased generally by the poor. This makes them regressive in effect.

ii) Add to Inflation

Indirect taxes feed inflationary forces. For it is seen that direct taxes take away a part of the purchasing power of the tax-payer and that has the effect of reducing demand and prices. On the contrary, indirect taxes begin with adding to the sale prices of the taxed goods without touching the purchasing power in the first place. The result is that in their case inflationary forces are fed through higher prices, higher cost and wages and again higher prices.

iii) Uncertainity

The amount of tax that can be collected from indirect tax always remains uncertain. Because it depends on many factors such as state of economy, volume of business transactions, export-import, etc. This uncertainity can adversely affect Govt. budget.

(B) On the Basis of Progression

Tax can also be classified on the basis of the degree of progression as follows:

1) Progressive Tax

A tax is said to be progressive when, with the increasing income, the liability not only increases in absolute form but also in a progressive way. Here the tax rate progressively increases. For example, tax on total income of taka 1,00,000 is 10% but on Tk. 5,00,000 is 15%. Here tax will increase more than proportionately.

2) Proportionate Tax

A tax is said to be proportionate when tax liability increases in same proportion as income increases. For example, tax on Tk 1,00,000 is 10% and on Tk. 5,00,000 is also 10%. In the former case tax becomes Tk 10,000 and in the latter Tk. 50,000. Here in absolute form tax has increased in proportion to rate of increase of income. But the rate has not progressively increased as was seen in case of progressive tax.

3) Regressive Tax

A regressive tax is one where rate of tax decreases as the income, property, expenditure increases.

C) On the Basis of Base

Tax can be classified into two on the basis of base as follows :

1) Single Tax

When in a country the tax system comprises only one tax, then it is called single tax. For example, Poll tax or head tax, which in ancient time would be imposed on a person because he lived in that society and not because his trade, wealth, etc.

2) Multiple Tax

When in a country different types of taxes are imposed considering different bases, then it is called multiple tax. At present this system is prevalent world wide and single tax system is found absent.

1.7: Role of Tax in the Economic Development of a Country

For economic development of a country, tax can be used as an important tool in the following manner:

i) Productive use of available resources:

There are four factors of production viz., land, labour, captal and organizatrion. Among them tax system can be so designed as to cause remarkable effect on labour and capital to a significant way. Tax system may provide incentive for better work condition and intensive use of capital. Further, as per macro objective, Govt. can prefer development of certain sectors and discourage others. Through tax incentives of various nature the preferred sectors can be encouraged and vice-versa. Through tax system, saving and investment can also be encouraged. All these can contribute towards desired rate of economic growth and economic development of a country.

ii) Conribution towards budget fund

The most important source of national revenue budget is taxation. In fact, economic growth everywhere is co-related with budget. It is natural that higher income can support large budget and the larger the budget the wider is the fiscal scope of restricting consumption, influencing demand-supply and allocating factors of production. In this way through financing and chain reaction taxation can play a significant role in the economic development of a country.

iii) Direct investment

In capitalist and mixed economy private sector is supposed to play vital role in investment and development. But there may be case when such investment may not be forthcoming. In such a situation direct investment by the Govt. in the desired sectors may become necessary. But investment will require fund. In such a case Govt. can collect fund through taxation, along with other modes available to it. Thus tax system may be used by the Govt. as a source of fund for its investment activity.

iv) Control on the economy

There was a time when under the influence of *laissez faire* philosophy, it was advocated that Govt. should be neutral and not control affairs beyond its traditional role of defence and administration. But with passage of time market forces found to be ineffective as desired and Govt. role in savings, investment etc. found necessary. In fact to lead a country towards desired goal of industry, business etc., there is a need of positive direction and Govt, through tax system can play important role in this case. To ensure re-distribution of income, wealth and directing some re-distributed income to production sectors; tax system is the important tool in the hands of the Government.

1.8: Tax System of Bangladesh

Tax system of Bangladesh is based on multiple tax system. A good number of taxes are in existence. Among these taxes, contribution of indirect taxes to the exchequer is quite significant. Following table shows the share of contribution of tax to the total revenue on one hand and the share of direct and indirect taxes there of on the other :

Table-2: Total Revenue, Total Tax, Direct and Indirect Tax

(Tk. in Crore)

	1996-97	1997-98	1998-99	1999-2000	2000-2001	2003-2004
Total Revenue	17145	18777	19700	21345	24198	35,400
Tax Revenue	14074	15001	15855	17096	19278	29,071
% of Tax to Rev.	82%	80%	80%	80%	80%	82.12%
Direct tax	1940	2327	2585	3155	4250	5,218
% of Direct Tax to Total Tax	13.78	15.51	16.30	14.78	17.56	17.95%
Indirect tax	12134	12674	13270	13941	15028	23,853
% of Indirect Tax to Total Tax	86.22	84.49	83.70	85.22	82.44	82.05%

Direct taxes consist mainly of income tax and land tax, etc. Whereas indirect taxes consist of import-export duty, value added tax, motor vehicle tax, excise duty, etc. Following table shows the contribution of different taxes to total tax revenue :

Table–3: Quantum of different Taxes vis-a-vis Total Tax Revenue

(In Crore Tk.)

	1996-97	1997-98	1998-99	1999-2000	2000-2001	2003-2004
1. Income tax	1,735	2,100	2,335	2,980	3,800	5,270
2. Import and Export duty	4,252	4,460	4,755	4,536	4,790	7,300
3. Excise duty	207	214	205	240	275	170
4. Value Added Tax	4,440	4,692	4,800	5,405	5,940	8,575
5. Supplimentary duty	2,173	2,384	2,540	2,664	3,035	5,430
6. Motor Vehicle Tax	130	115	125	111	120	241
7. Land Revenue	185	197	215	266	301	259
8. Non Judicial Stamp	527	561	625	692	817	710
9. Others	425	278	255	208	200	1,116
Total	14,074	15,001	15,855	17,096	19,278	29,071

From this table it is evident that Value added tax and Export-Import duty contribute lion's share to the total tax revenue followed by Income tax and Supplementary tax.

It has earlier been pointed out that the tax system of Bangladesh is based on multiple taxes. In such a context a brief description of the important taxes that are in existence in Bangladesh now follows :

(i) Income-Tax

It is a tax on the income of a person based on Income Tax Ordinance, 1984. It is a direct tax and the tax rate is progressive based on slab system for individual, H. U. F. and Firm and rate is static on company which, however, vary with the classification of company as has been made under I. T. Ordinance, 1984. At present minimum taxable limit is Tk. 1,00,000 for individual. From assessment year 2006-2007, it will be Tk. 1 20,000. For company there is no minimum taxable limit.

(ii) Wealth Tax

It is a direct tax based on the wealth of an assessee and charged under Wealth [illegible] 1963. Person whose wealth exceeds Tk. 25 lakh was subject to tax under this Act [illegible] revenue from this Act was negligible, it has been suspended from the year 1990.

(iii) Gift Tax

A person making gift to another over Tk. 20,000 is considered assessee under Gift tax Act, 1963 & chargeable for gift tax. It is also a direct tax. This tax was suspended in 1985 but again revived in 1990 and has been renamed as Gift tax Act, 1990.

(iv) Estate Duty

If a deceased at the time of his death leaves property on Tk. 2 lakh, his inheritants are subject to pay this estate duty, in some countries also called Death tax. It was introduced in the then Pakistan in 1951 and continued till 1982 in Bangladesh. Thereafter Govt. has suspended this Act which, however, is now considering to reintroduce it again.

v) Import-Export Duty

It is a commercial duty charged on the import and export of commodities. It is [illegible] indirect tax the ultimate burden of which is shifted to consumer. Govt. of Bangladesh [illegible] a significant portion of its tax revenue from this.

vi) Value Added Tax (VAT)

It is a tax imposed on the added value of product at different stages in the market [illegible] chain. Added value is the difference between production/purchase cost over sale [illegible] point. Value added tax is charged on the added value at a static rate. This is also an indirect tax and the Govt. of Bangladesh currently earns huge amount of tax revenue from it.

vii) Land Revenue

This is a direct tax imposed on the land property of the assessee. Though the earning from it is not significant yet it is considered an important source of tax revenue.

viii) Motor Vehicle Tax

This tax is imposed on the capacity of motor vehicle and permission for ply on the country road. Though the revenue from this source is small yet it is considered a potential source and earning from this head is increasing.

Questions

1. What is meant by Tax? Discuss its characteristics and objectives.
2. Identify canons of taxation and briefly discuss each of them.
3. Classify tax. Distinguish between direct and indirect tax and state advantages and disadvantages of direct and indirect tax.
4. Define tax and state its role in the economic development of a country.
5. Give a short description about the tax system in Bangladesh.

Chapter-2

Income Tax : Bangladesh Context

Chapter Synopsis/Contents:

2.1: Introduction

Income Tax is a tax on the income of a person. It is a direct tax and important for various reasons such a good source of revenue, a tool for minimising inequality and the like. In fact, among different types of taxes that a state levies on its inhabitants for smooth sailing, income tax holds a potent position. It is an important source of revenue for the Government and being used as an effective tool to reduce the inequalities of income. But the relative role of this tax is found varying in developed and developing countries. Some years ago a U. N. Study of 41 countries showed that the relative importance of tax on income and wealth as a portion of central Government revenue markedly less in developing countries. For 33 of such developing countries the average ratio was about 21% whereas for 8 developed countries the corresponding figure was 34%. Against this background the ratio of Income Tax to total revenue of the Government of Bangladesh may be seen from the following table:

Income Tax, Revenue Receipts and Percentage of Income Tax to Revenue Receipts

(Amount in Crore Tk.)

Particulars	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2003-2004
i) Income Tax	1735	2100	2335	2980	3800	5,270
ii) Tax Revenue	14074	15001	15855	17096	19278	29,071
iii) Revenue Receipts	17145	18777	19700	21345	24198	35,400
iv) % of Income Tax to Total Tax	12.32	14.00	14.72	17.43	19.71	18.12
v) % of Income Tax to Revenue	10.12	11.18	11.85	13.96	15.70	14.88

The table reveals that the contribution of income tax towards total tax revenue and total revenue of the country is increasing. The share of income tax to tax revenue increased from 12.32% to 19.71% in 2000-2001 over 1996-97 but reduced to 18.12 in 2003-2004 and that the share of income tax to total revenue shows the similar trend. It has increased from 10.12% to 15.70% in 2000-2001 over 1996-1997, but it also reduced to 14.88% in 2003-2004.

Tax evasion and tax avoidance are quite high in Bangladesh. There are only about 5 lakh assessees and among them salaried Govt., semi-Govt. and autonomous bodies employees are in a significant share. However, whatever is the case the share of income is showing upward trend and Govt. is quite serious to improve the situation further. Hence the potent of this source as revenue earning cannot be over emphasized.

2.2 Definition of Income Tax

Income tax is a typical example of a direct tax. The tax imposed on a person or entity under the orbit of Income Tax Law is called income tax. It is imposed on a person in relation to his income. It is calculated and assessed with reference to the income of an assessee for a given year.

Income Tax Ordinance, 1984, that is currently in operation in Bangladesh does not directly define Income-tax. However, analysis of section 16 of the Ordinance provides some indication to this end. It provides that income tax is one which is imposed, charged payable and collected in relation to the income of a person for income year/years, on the basis of tax rate of the assessment year.

Definitions Revealed from Case Decision

Income tax has been defined by the honourable judges with reference to some cases. Some such definitions now follows :

i) Peter Merchant Ltd. Vs. Steady Ford

In this case it has been said that income tax in reality is a tax on the income.

ii) Patiwala State Bank (1941)

In this case the judge stated that income tax is a tax charged on a person. It is not an expense against the income on which this tax is charged. Here person has widely been used to include relevant entities too.

iii) C. I. T. Vs. Namburial Chati & Sons (1903)

In the decision of this case it has been said that income tax is a single tax. It is computed aggregately, not single tax charged on different heads of income separately.

Thus it is revealed from the above definitions that income tax is a tax charged on the total income of a person for relevant income year and is a direct and single tax.

2.3: Characteristics of Income Tax

From the analysis of the definition and nature of income tax, the following characteristics can be identified :

i) It is a direct tax.

ii) It is charged on the total income of a person.

iii) It is charged on the income of the income year at the rate applicable in assessment year.

iv) It is payable in the year following the income year.

v) It is generally charged on revenue income of a person.

vi) It is a tax charged on a person for income that comes within the perview of relevant Income Tax Law.

2.4: Historical Background of Income Tax Law in Bangladesh

The history of income-tax in this country dates back to 1860 when it was introduced in this country by the British ruler under the title Income Tax Act, 1860. Thereafter till today various types of changes and developments have taken place. These changes and developments are pointed out below period wise :

(a) 1860-1916 :

Under British rule, the General Income Tax in line with the English Act was first introduced in the year 1860. It continued up to 1867 when it was withdrawn and suspended. In that year, however, it was reintroduced as the Licence Tax Act, 1867. In

1868 its name was changed as the Certificate Act, 1868. On 1st April, 1873 the Income tax was withdrawn but reimposed in 1877 under the title Licence Tax Act, 1877. Latter on the Income Tax Act 1886 came into force with some amendment in the former Act.

(b) 1916-1922 :

In 1916 the Income Tax Act, 1886 was amended further by the Income Tax (Amendment) Act, 1916 and a graduated scale of income tax was introduced for the first time. In 1918 the said Act was superseded by Income Tax Act of 1918 and a distinction was made between Total and Taxable income.

(c) 1922-1947 :

In 1921 an All India Committee was formed and on the basis of its recommendation Income Tax Act 1922 was enacted. In 1935 the British Government appointed an Expert Committee and on the recommendation of the committee some amendments were made. In 1944 the provisions were made for 'Pay As you Earn' Scheme and in 1945 distinction was made between 'earned' and 'unearned income'.

(d) 1947-1971 :

In 1947 the then Pakistan (of which Bangladesh was its eastern wing) after its independence adopted the Income Tax Act 1922. In June, 1958 Taxation Inquiry Committee was set-up which submitted its report recommending simplification of the Act.

(e) 1971-1984 :

In 1971 Bangladesh came into existence after a liberation war of nine months. She inherited the Income Tax Act, 1922 and adopted it with changes made from time to time. But due to long time gap from its framing, the Act needed a change to cope with prevailing conditions. In fact, for long, different quarters were demanding the repeal of the Act and to frame a new Act to cope with the demand of time. And at last, in 1984, new Act was promulgated under the title Income Tax Ordinance, 1984. Income Tax Ordinance (XXXVI), 1984 was then inforced from 1. 7. 84. By the enforcement of this new law, the old income tax law of 1922 stands repealed.

This Income Tax Ordinance has been promulgated with a view to revising and replacing the Income Tax Act, 1922. In so doing, however, no major conceptual change in the content of the previous Act has been made. The object was to bring into focus the constituent elements of each provision imposing liabilities and granting rights, so as to minimise the scope of disputes.

2.5: Scope and Constituents of Income Tax Ordinance

The Income Tax Ordinance, 1984 came into existence on 1st July 1984 and extends to the whole of Bangladesh. However as to imposition and collection of income tax in Bangladesh, it includes the following as constituent elements :

(i) **Income Tax Ordinance (XXXVI), 1984,** that is Income Tax, Manual part-I containing the main law and basic principles.

(ii) **Income Tax Rules,** that is Income Tax Manual part-II containing forms and procedures for the operation of main law.

(iii) **Finance Act (F. A.)** issued by the Government along with the national budget. It describes any amendment made in the Income Tax Ordinance (ITO) and specifies the rate of income tax applicable for income of the income year.

(iv) **Rules framed by the National Board of Revenue, Bangladesh** relating to income tax.

(v) **Orders, notes, instructions, circulars** issued by the Income Tax Authorities of Bangladesh from time to time.

(vi) **Income Tax Case Laws.** Such case laws and decisions also act as guide line for tax assessment in relevant case.

2.6: Arguments For and Against Income Tax

Income tax is a direct tax. It creates a scense of civil consciousness among the tax payers. It is also an important source of Govt. revenue. Thus it has many favourable impacts. But on the other hand it has some adverse effect too. It may discourage savings, will to work and give rise to the practice of tax evasion. In such a case arguments for and against income-tax are pointed out below :

Arguments in favour of income-tax :

i) It can be imposed on the basis of ability to pay. Thus justice can be maintained.

ii) It is generally charged on progressive rate basis. Thus higher income holders pay more tax compared to low income holders. As a result, redistribution of income for social justice can be ensured.

iii) As it is a direct tax it can be easily administered and cost of adminiistion becomes low.

iv) It ensures the canon of certainity, thus budget estimates in this regard becomes a reality.

v) With the change of rate quantum of revenue can be increased or decreased.

vi) It can be used as an instrument of fiscal policy to control & direct economy in desired direction.

vii) It increases political consciousness.

Arguments against income-tax :

i) It is a tax on income. But it is difficult to define income and some confusions always remain there.

ii) In most of the cases, tax provisions are ambiguous and not simplified one. As a result tax payers face difficulties.

iii) There are allegations about harassment of tax payers by tax administration.

iv) Tax payer in some cases remain hostile to the Govt. as payment is direct form his income and pocket.

v) It gives rise to tax evasion and avoidence which are not compatiable to discharge of civil responsibility.

vi) Maintenance of Account and following rules becomes difficult which can give rise to arbitrary decision of the tax officials.

vii) If the tax rate becomes high, it can discourage saving, investment and production.

2.7: Adverse Impact of Income tax

Income tax is an important and potent source of revenue for the Govt. It can be used as an important tool for fiscal policy. But it has some adverse impact too which are listed below :

i) As it is a tax on the person in relation to his income, it can discourage savings. People may prefer leisure than to extra work for income and savings. It can thus adversely affect investment.

ii) High tax rate can indirectly lessen production and encourage shifting of tax on production cost thereby giving rise to higher cost of product.

iii) Progressive tax rate adversely affect capital formation.

2.8: Role of Income Tax in the Economic Development of Bangladesh

Income tax can play a vital role in socio-economic development of a country. In one hand, revenue collected through income tax can be used to defray the cost of running administration of the country and perform social & development activities. On the otherhand, policy measures, techniques and provisions of Income Tax Act can be used as a means of industrial & economic development of the country. Against this backdrop before analysing the role of income tax in the industrial & economic development of Bangladesh a look into the provisions of Income Tax Acts of different countries to this end may be useful:

Countries	Steps in the I/T Act in the Industrial Development
i) Australia	i) Granting expenditure for scientific expenses as allowable expenses. ii) Tax advantages for petrolium and mining. iii) Allowing investment allowance.
ii) Malaysia and Philipines	i) Tax concessions for expert. ii) Tax concession for small business and tourism. iii) Tax advantage for agri. income.
iii) Japan	i) Allowing initial and accelerated depreciation. ii) Tax rebate for imported machineries. iii) Allowing reserve for defects in export item.
iv) Thailand	i) Tax incentives for foreign investment. ii) Tax incentive for export processing zone. iii) Allowing investment allowance.
v) Franch	i) Allowing expenditure for research. ii) Allowing expenditure for protecting environment. iii) Tax advantage for regional economic activities.
vi) Pakistan	i) Allowing exp. for scientific research. ii) Allowing initial and special depreciation. iii) Provision for investment allowance. iv) Tax holiday for new industries. v) Tax commissions for imported machinery.
vii India	i) Allowing exp. for scientific research. ii) Provision for additional depreciation. iii) Incentive for new industries. iv) Tax concession for rural industry. v) Allowing exp. for family planning. vi) Tax advantage for small scale industrial enterprises.

In the context of Bangladesh tax laws provide a number of advantages aimed at industrial and economic development of the country. These are now described below in brief:

(1) Tax Holiday Scheme

An industrial enterprises setup within prescribed time limit in the prescribed area shall be exempted from tax for period i. e., 4 to 12 years as specified by law. For the purpose of tax exemption the country has been divided into few areas based on which tax holiday period will be different.

Classified area	Tax holiday period
i) Special Economic zone prescribed by NBR	12 years
ii) Under developed area prescribed by NBR	9 years
iii) Areas in Rajshahi, Khulna, Sylhet, Barisal, Rangamati, Khagrachari and Bandarban	6 years
iv) Dhaka and Chittagong (Excluding Chittagong Hill Tracts)	4 years

(2) Tax Holiday for Tourist Industry

To encourage tourism tax holiday alike new industrial enterprises is allowed varying from 4-12 years fulfilling certain conditions.

(3) Alternative to Tax Holiday

If entreprenuers are not willing to avail tax holiday because of some limiting factors, they are entitled to the following allowances :

i) **Accelerated Depreciation**

Industrial enterprises using new machineries within defined time that were not used in Bangladesh previously, can claim accelerated depreciation as follows :

a) Industries working in the specified areas as prescribed by NBR – 100%,

b) In other areas – 80% in the 1st year & 20% in the next year.

ii) **Investment Allowance**

Enterprises taking advantages of accelerated depreciation are also allowed invesment allowance relevant to new machines in the year of starting production as follows:

a) For industrial Enterprise set up in the NBR specified areas @ 25%,

b) For other areas @ 20%.

(4) Tax Concession for Small and Cottage Industry

Under Section 47(B) ii, tax exemption is allowed for cottage industry. Further, small-scale industry increasing production over last year are also allowed tax rebate if production increases by 15%, tax rebate is 5% & if production increase by or over 25%, tax rebate is 10%.

(5) Investment Allowance/Tax Credit in Income

For encouraging savings and investment, Income Tax Ordinance provides incentive in the form of investment allowance, now called tax credit income for certain types of investment/expenditure. This includes purchase of share and debenture, savings certificate & unit certificate, insurance premium, contribution to provident fund, etc.

(6) Exemption for Cost of Scientific Research

For developing new products, improve quality, etc., continuous scientific research is necessary. To encourage such research, the cost relevant to this is allowed under income tax law as allowable expense.

(7) Exemption of Research and Development Activities

Besides private sector enterprises. Govt. sector enterprises vs. Sector Corporation and enterprises under them are now encouraged for research and development. For this 1.1% of their revenue budget is allowed for research and devlopment expenditure.

(8) Tax Advantage for Productive Industries

Tax rate advantage is provided for productive companies engaged in production activities. For tax rate is 35% for such enterprises compared to 40% for Trading Companies, Banks and Insurance.

(9) Tax Incentives for Foreign Investment

For attracting foreign investment Income Tax Ordinance in Bangladesh provides various types of concession in the form of tax holiday, tax exemption for interest, royalty, technical assistance and fees, profit on transfer of shares, etc. Besides remittance of income/profit by foreigners to their own country is also permitted to encourage foreign investors.

(10) Donation for Social Activities

Along with provision for encouraging industrial and economic development, tax law in Bangladesh also provides incentive for granting donations to different activities related to social activities. Thus contribution to President/Prime Minister's Relief Fund, National Sports Association, Zakat fund, etc., are allowed in the Income Tax Ordinance, 1984.

The above analysis clearly reveal that income tax can play a vital role in the economic and industrial development of a country and that in Bangladesh Income Tax Ordinance plays such role significantly.

2.9: Structure of Income Tax Ordinance, 1984

The Income-tax Ordinance, 1984 is divided in 23 Chapters containing 187 Sections. There are also Seven Schedules attached to this Ordinance. A brief description of the chapters with Sections is shown in the following chart :

Chapter	Sections	Title
1	1-2	Preliminary
2	3-10	Administration
3	11-15	Taxes Appellate Tribunal
4	16-19	Charge of Income Tax
5	20-43	Computation of Income
6	44-47	Exemption and Allowances
7	48-74	Payment of Tax Before Assessment
8	75-80	Return and Statement
9	81-94	Assessment
10	95-103	Liability in Special cases
11	104-107	Special Provisions relating to avoidance of tax
12	108-110	Requirement of furnishing certain information
13	111	Registration of firms
14	112-122	Powers of Income Tax Authorities
15	123-133	Imposition of Penalty
16	134-143	Recovery of Tax
17	144-145	Double taxation relief
18	146-152	Refunds
19	153-162	Appeal and Reference
20	163	Protection and Information
21	164-171	Offences and Prosecution
22	172-184	Miscellaneous
23	185-187	Rules and Repeal

Schedule

First Schedule :Part - A	Approved Superannuation Fund
Part - B	Recognised Provident Fund
Second Schedule :	Rates of Income Tax in certain special cases
Third Schedule :	Computation of Depreciation Allowance
Fourth Schedule :	Computation of the Profits and gains if Insurance Business
Fifth Schedule :	
Part — A	Computation of Profits and gains from the exploration and production of petroleum and the determination of tax there on
Part — B	Computation of Profits and gains from the exploration and extraction of Mineral deposits in Bangladesh (except oil and gas).
Sixth Schedule :	
Part — A	Exclusions from total Income-Non assessable income
Part — B	Exemptions and allowances-Tax credit income
Seventh Schedule :	Double Taxation Relief

Questions

1. Discuss in brief the history of growth and development of Income Tax in Bangladesh.
2. What is meant by Income Tax? State its characteristics. Discuss the importance of charging income tax from socio-economic point of view.
3. Define Income Tax. State the provision of Income Tax Ordinance, 1984 relevant to economic developement of Bangladesh.
4. What is Income Tax? Show arguments for and against income tax. Do you find any adverse impact of income tax? If so, what are these?
5. a) State the role of Income Tax in the industrial development of Bangladesh.
   b) State the advantages and disadvantages of income-tax.
6. What is Income Tax? State the position of income tax in the revenue earning of Bangladesh. Do you find any problem in charging income-tax? If so, analyse those problems.

Chapter-3

Definition and Characteristics of Income and Capital and Revenue Receipts

Chapter Synopsis/Contents:

3.1: Introduction

The term income connotes different meaning to different persons. In such a case different professional groups have tried to describe and characterize the term from their own points of view. Accountants have defined it as the excess of revenues over expenses in a certain period of time. On the other hand. Economists have defined it as the excess of closing capital of a concern over the opening capital. But income-tax authority in general does not follow either of the above concepts fully. Rather the taxing Acts of different countries give a list of receipts that are deemed to be income for income tax purpose, which is called inclusive definition. Such list is found to change time to time based on Govt. directions, case decisions and the like. In such a context certain receipt may be income in one income year but may not be the same in some other years. So one thing is clear that income for income-tax purpose is a matter of discretion rather than a matter of logic. With this few words following paras deal with the definition of income according to Income-tax law with special reference to Bangladesh.

3.2 Definition of Income

Simply, income means what comes in. But such a definition is not precise or exhaustive. In a broader sense it connotes a periodical monetary return 'coming in' with some sort of regularity or expected regularity from definite sources. The sources need not necessarily be one which is expected to be continuously productive, but it must be one whose nature is the production of a definite return excluding anything in the nature of windfall.

(A) Definition of Income as per I. T. Ordinance, 1984 :

As defined u/s. 2 (34) of Income Tax Ordinance, 1984 the term "income" means and includes the following:–

a) Any income, profits or gains from whatever source is derived which are chargeable to tax under the heads specified in section 20. (These are : Salaries, Interest on Securities, Income from House Property, Agricultural Income, Income from Business or Profession, Capital Gains, Income From Other Sources.)

b) Any loss of such income, profits or gains.

c) The Profits and gains of any business of insurance carried on by a Mutual Insurance Association.

d) Any sum deemed to be income accruing or arising or received or deemed to accrue or arise or received in Bangladesh.

But it does not include any bonus declared on shares by Bangladeshi Company to increase its paid up share capital.

"Income deemed to accrue or arise in Bangladesh" means and include the following (U/S. 18) : –

i) (a) It is earned in Bangladesh, or (b) paid by the Government or Local Authorities in Bangladesh to a citizen of Bangladesh for his services.

ii) Direct or indirect income from any (a) business in Bangladesh (b) property, asset, right or other source of income in Bangladesh, or (c) transfer of capital assets in Bangladesh.

iii) Any dividend paid outside Bangladesh by Bangladeshi Company

iv) Any interest or fees for technical service or royalty payable by (a) the Government or (b) a resident person in Bangladesh, or (c) a non-resident person in Bangladesh.

(B) Definition of Income as per Case Decisions :

It is seen that IT Ordinance has not defined income rather gives a list of receipts that are treated as income for income tax purpose. In such a situation to have an idea about the definition of income under income tax, we can resort to case decisions. A few of such decisions are cited below :

C. I. T. Vs. Shaw Wallace and Co.

(a) Income in this Act denotes a periodical monetary return 'coming in' with some sort of regularity or expected regularity, from definite sources. The sources need not be continously productive, but it must be one whose objective is the production of a definite return, excluding anything of a mere windfall. Income is essentially the product of something, which is often loosely spoken of as 'capital'.

Kedar Narayan Singh vs. C. I. T.

(b) 'Income' does not only include 'Income, profits and gains'. Anything which can properly be described as income is taxable under the Act unless expressly exempted.

Raja Bahadur Kamakshya Narayan Singh vs. C. I. T.

(c) 'Income' is a word which cannot be defined precisely. It is not necessarily the recurrent return from a definite source, though it is generally of that character. The multiplicity of form that income may assume is beyond emuneration.

Rani Amrita Kunwar vs. C. I. T.

(d) Income needs not arise from any business activity or investment. It may not be the result of some outlay on the part of the assessee.

Minister of Finance vs. Smith

(e) Legality is not a factor to consider an item as income. Income earned legally or illegally may be taxable under the Income Tax Act.

Scotish and Canadian General Investment Co. Ltd. vs. Easson

(f) Income needs not always be in the form of money. It may be received in cash or in kind.

In the light of the above case decisions the term 'income' can be summed up as follows :–

"Income" means what comes in the hand of a person in terms of money or money's worth as a result of mental, physical and financial efforts during a period, which has usual characteristics of income and is within the perview of relevant income tax law.

6.3. Characteristics of Income

From the description of different sources of income as given in the Income-Tax Ordinance and from different case decisions regarding income, it is clear that 'Income' is an expression of elastic ambit. However, analysis of definition and different case decisions lead to identify the following characteristics of income :

a) **Revenue Receipt:**
Income means any revenue receipt. Such receipt is essentially the produce of capital. The income has been likened pictorially to the fruit of a tree, or the crop of a field.

b) **Recurrent in nature in general:**
Income should necessarily be the recurrent return from a definite source though it may not always be of that nature.

c) **Money or Money's worth:**
Income must be in the form of money or money's worth. It may be received in the form of cash or kind.

d) **External source:**
The source of income must not be the recipient, as nobody can trade with himself or make a profit by dealing with himself. Thus the source must be external.

e) **Definite Source:**
The source of income needs to be definite. So the windfall income is not a income. However, in Income Tax Act, there is exception to that rule.

f) **Irrelevance of Pending Dispute:**
Income is taxable notwithstanding the pendency of another's claim to it. The mere existence of a dispute as to title, even when a suit has been filed, cannot of itself hold up an assessment.

g) **Actual Receipt:**
Mere relief from expense is not income. A person is chargeable to tax not on what saves his pocket but what goes into his pocket.

h) **No Bar to Illegality:**
The taint of illegality or wrong doing associated with income, profits or gains is immaterial for the purpose of taxation.

i) **Nature of Source:**
Income received from a definite source is taxable but when it is received in exchange of that source, like compensation for termination of a job or termination of an agency, does not come within the ambit of taxable income. However, this rule is not strictly followed in income tax.

3.4: Capital and Revenue Receipts : Tests for Distinctions

For the purpose of income tax, distinction between capital and revenue receipt is highly essential. But there is no clearcut guideline in tax law about such distinction. Hence, a guideline needs to be developed because of the following reasons :

a) Income tax is levied on revenue income and not on capital receipts or income.

b) In ascertaining the taxable income from business, profession or vocation, it is generally the revenue expenditures that is deductible from the trading receipts.

Because of such necessity and the absence of legal guidelines, we have to depend on the standard accounting principles, economic consideration and judical pronouncement. Against this backdrop, following tests are generally applied to distinguish capital and revenue receipts :

i) **Source of Receipts:** A receipt on account of fixed capital is a capital receipt, whereas a receipt on account of circulating capital is a revenue receipt.

ii) **Isolated Transaction:** In an isolated transaction, the nature of transaction is essential to determine whether the receipt is a capital or revenue. If an amount is received from the sale of an asset held as an investment, the receipt from the sale is a capital receipt. On the otherhand, if an amount is received from the sale of an asset held for the purpose of selling it at a profit, its sale proceeds are a revenue receipt.

iii) **Nature of Receipts:** The nature of receipt will decide whether a particular receipt is a capital or revenue. Here the source from which the payment is made is immaterial. The nature of receipt is determined from its character in the hands of the recipient For example, if the owner of a newly started business pays the salaries to his employees out of his capital, the salary in the hands of an employee is a revenue receipt, because he receives it as income.

iv) **Substitution of Source of Income:** If the receipt is in substitution of a source of income, it is a capital receipt. But where it is in substitution of income alone, it is a revenue receipt. However, sometimes exceptions to this rule is observed.

v) **Surrender of Rights:** An amount received by way of a compensation for the surrender of certain rights under an agreement is a capital receipt. But if the amount is received as compensation for loss of future profits under an agreement, it is a revenue receipt.

vi) **Lumpsum Receipt or a Periodical Receipt:** Lumpsum receipt or a periodical receipt recurring over a considerable period itself is not the criterion to decide the receipt as capital or revenue. In such a situation, facts will have to be considered to determine whether a receipt when received in a lumpsum is a capital or a revenue one. A single receipt, i. e. a year's salary received in a lumpsum, is an item of income. But an annual receipt recurring over a number of years i. e. sale proceeds of a capital asset received in instalments, is a capital receipt.

vii) **Motive or Intention of Transaction:** Motive or intention of a transaction is an important guide to decide whether the transaction is captial or revenue. If anything is procured to resale, the sale proceed from it is revenue. But if any amount is realised from sale of an asset which was purchased originally with the intention to hold it, the sale proceed is a capital receipt.

Distinguishing Tests of Capital and Revenue Expenditure

Like receipts, expenditures are also needed to be classified into capital and revenue applying some tests. The tests are:

i) **Fixed and Circulating Capital:** Expenditure incurred to acquire or install a fixed asset which produces or aids in production is a capital expenditure. On the other hand, if the expenditure incurred is for the purchase of goods meant for resale, is a revenue expenditure.

ii) **Purpose of Expenditure:** Expenses incurred for the purpose of raising capital is a capital expenditure while expenses incurred for reward for using capital is a revenue expenditure. For example, underwriting commission on the issue of shares and debentures is capital expenditure. But dividend or interest paid for such capital or loan is revenue expenditure

iii) **Nature of Liability Discharged:** A payment made by an assessee to free himself from a capital liability is a capital expenditure. On the otherhand, a payment made by an assessee to free himself from the liability to make an annual revenue payment is revenue expenditure.

iv) **Nature of Acquisition:** Expenditure incurred for improvement or addition to the fixed asset is a capital expenditure, while expenditure incurred for replacement of the asset or for repairing the same is a revenue expenditure.

v) **Development or Replacement Expenditure:** Expenditure incurred for improvement or addition to the fixed asset is a capital expenditure, while expenditure incurred for replacement of the asset or for repairing the same is a revenue expenditure.

3.6: Some Typical Examples of Capital and Revenue Receipts and Expenditures

	Receipts and Payments	Nature	Reason
(a)	A machinery dealer paid freight for bringing a machinery purchased for resale.	Revenue Expenditure	Because the amount spent for making the machinery salable.
(b)	Mr. Rahim received a compensation for the termination of his service from his employer.	Capital Receipts	It is in substitution of his source of income.
(c)	Rahman Shoe Traders received a selling agency from Bata Shoe Co. for 10 years. Subsequently, the Co. intended direct sales in the area and terminated the agency and got a compensation of Tk. 10,000.	Capital Receipt for Rahman Shoe Traders	It is a compensation received in substitution of a source of income.
(d)	Royalty received for transfer of capital rights.	Capital Receipt	Because the amount received for transfer of rights.
(e)	Royalty received from user of rights.	Revenue Receipt	It is a recurring source of receipt.
(f)	Mr. Chowdhury paid a sum of Tk. 10,000 as legal expenditure to defend his title on his plot of land.	Revenue Expenditure	It is incurred for defending his right or title.
(g)	A Partnership Firm paid a sum of Tk. 1,00,000 to a retiring Partner so that he does not engage in similar nature of business in the next 10 years.	Capital Expenditure	It is a compensation for source of income.
(h)	Legal expenses incurred for avoiding a business liability.	Revenue Expenditure	Because it is paid for running the business.
(i)	Legal expenses incurred for acquistion of a plot of land.	Capital Expenditure	Because it is paid for acquisition of land.
(j)	Meghna Steel Corporation retrenched a few skilled worker and paid a good amount of money to each of them as compensation.	Revenue Expenditure for the Meghna Corporation Ltd.	Because it is in substitution of future revenue payment.

(k)	Payments to Managing Agents for termination of contract before maturity.	Capital Expenditure	It is paid as compensation for premature termination.
(l)	Mr. Y purchased 100 shares of Beximco Pharmaceuticals with the intention of reselling for making profit. He sold the shares and got a handsome amount from sale.	Revenue Receipt	Because the shares were procured for resale.

3.7: Total Income and Total World Income

(a) **Total Income:** According to Income Tax Ordinance 1984, an assessee is required to pay tax on his total income computed on the basis of his residential status. It is stated under sec. 17(1) that all income received or deemed to be received or accrued or deem to accrue to a resident or any person on behalf of him are to be included in his total income. But for non-resident, only the income accrued or deem to accrue and arise or deem to arise in Bangladesh is to be included in the total income of non-resident as per sec. 17(2).

Under sec. 20, these income are classified on the basis of sources which are classified as follows :

(i) Salary Income (sec. 21)
(ii) Interest on Securities (sec. 22-23)
(iii) Income from House Property (sec. 24-25)
(iv) Agricultural Income (sec. 26-27)
(v) Income from Business or Profession (sec. 28-30)
(vi) Capital Gains (sec. 31-32)
(vii) Income from Other Sources (sec. 33-34)

Besides income under Sec 19 and 43 are also added to compute total income.

While computing the income under different heads, the tax exempted incomes are excluded. Allowable deductions from different sources are also to be deducted source wise for computing income under different heads.

It is also to be mentioned here that total income of the assessee is determined by adding income and setting of losses from different sources. In the case of an individual total income for charge of income tax would be computed after clubbing of certain income as per section 43.

(b) **Total World Income:** The term 'Total World Income' is applicable for non-resident assessee. For calculating the total income of a non-resident assessee, income received or deemed to be received and income accrued or arisen or deemed to accrue or arise in Bangladesh are to be considered. But to get the total world income of a non-resident, the said categories of income derived outside Bangladesh are added with total income. To determine the rate at which a non-resident is chargeable on his income earned in the taxable territory, the world income is calculated. In other words, the non-resident assessee will pay tax on income earned in Bangladesh at the rate applicable to his total world income.

Questions

1. (a) Define Income as per Income Tax Ordinance.
   (b) Describe the features of Income. [N. U. B. Com, 2000]
2. (a) Define income for the purpose of charging income tax. Discuss the tests of differentiation between capital and revenue receipts.
   (b) Mention the various heads of income. [C. U. B. Com. (H) 1994]
3. Define income from the view point of Income Tax Law. State the characteristics of income according to above law. [N. U. B. Com. (H), Part-3, 1996, 1998]
4. (a) Define income under Income Tax Ordinance. Cite some case decisions in this regard.
   (b) Point out five characteristics of income.
   (c) Why is distinction between capital and revenue receipts essential?
5. **Write short notes on:**
   (i) Income tax,
   (ii) Total Income,
   (iii) World Income.

Chapter-4

Classification of Income for tax Purpose

Chapter Synopsis/Contents:

4.1: Introduction

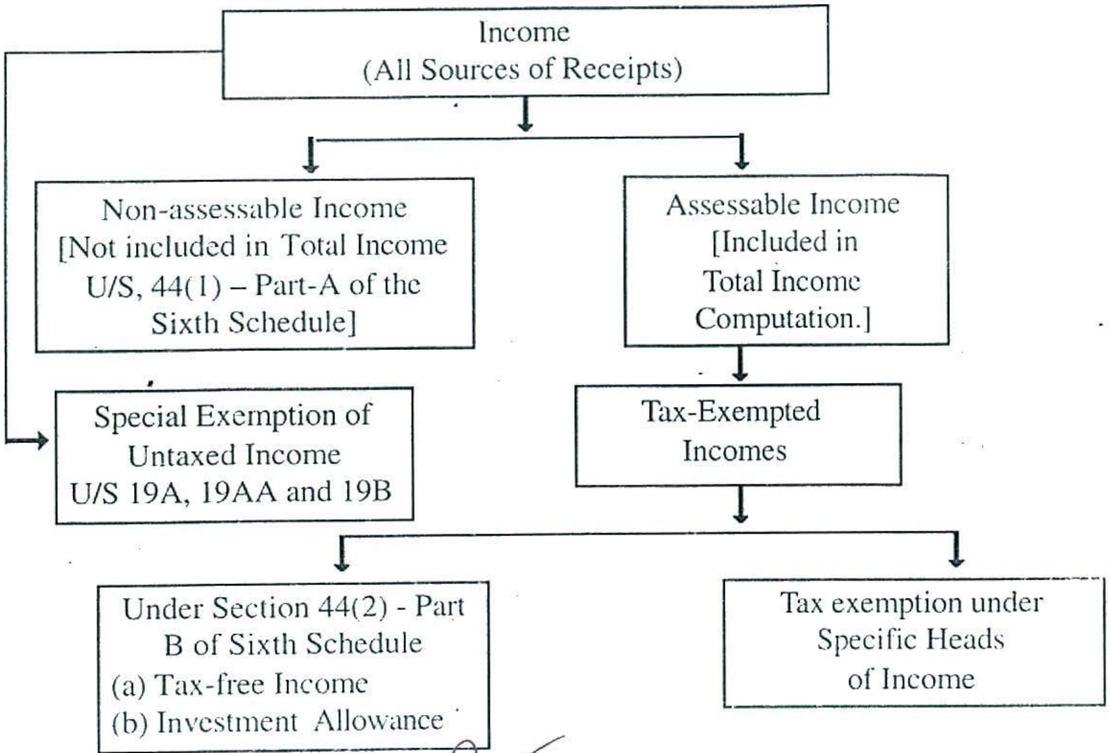
Income has a special meaning for income-tax purpose. Only the receipts mentioned in the Ordinance are to be included in the total income of the assessee and gross tax liability of an assessee is determined on that total income. To determine the total income correctly, clear idea of those sources of income are required to find out items which are excluded from the calculation of total income. These items are also known as non-assessable income. Exemption of income from charge in Ordinance is of two types. The first category is said as exempt from charge and excluded from total income. The other categories of income are tax free i. e., exempted from taxation but they are included in total income to determine the minimum taxable limit.

The tax liability of an individual is determined on the total income at the specified rate. The amount so determined is called gross tax liability. The net or actual tax liability is computed after deducting the allowances at specified rate on some items under the provisions of the Ordinance. Such exemptions are subject to the limits, conditions and qualifications as laid down in the Ordinance.

So it is clear that concept of the classification of income as made in the Ordinance is essential to calculate total income and net tax liability of the assessee.

4.2: Classification of Income

From the above discussion, it is clear that a deep understanding of the different classes of income as per Ordinance is a pre-requisite for accurate estimation of tax liability. Now, a chart is shown below depicting the different classes of income :



A) Non-assessable Income :

Those sources of income which are not included in the calculation of total income are non-assessable income. A list of such income is given u/s 44(1) Part-A of Sixth Schedule of Income Tax Ordinance, 1984. Now these items of income are highlighted briefly:

1. **Income from House property or operation of Religious and Charitable Trust :** Income of a religious or charitable institution from house property or from the operation of micro credit used wholly for religious or charitable purpose is tax exempted. Where any such income is not applied for religious or charitable purposes during the income year, the following conditions are to be satisfied to get the tax exemption :

   a) A notice in writing is to be given to the DCT specifying the purposes for which the income is being accumulated or set aside. But the period of such accumulation should not be more than 10 years; and

   b) The money so accumulated or set aside is to be invested either in Government Securities or deposited in any account with the post office savings bank.

It is to be mentioned here that in the FA-2002, the income of NGOs from micro-credit operation is exempted but their house property income is assessable.

2. **Voluntary Contributions received by The Religious or Charitable Institutions :** Any voluntary contribution received by such organisation and used solely for religious and charitable purposes is exempted from tax.

3. **Income of Local Authorities :** Income of local authorities is wholly exempted from tax. But any income from trade or business of such authorities will not be tax exemption if such business is carried on outside its own jurisdictional area.

4. **Income of Specific Funds :** Any income accruing to or derived by the following funds is exempted from tax :

   a) Income of a provident fund to which Provident Fund Act, 1925 applies and

   b) Income of Workers Participation Fund under the Companies Profits (Workers Participation) Act, 1968 subject to any such conditions and limits as may be prescribed.

5. **Special Allowances :** Any special allowance, benefits or perquisites is tax exempted,

   a) if it is granted to meet expenses wholly for office duty, or,

   b) if it is incurred necessarily in the performance of the duty or duties of an office or employment of profit.

6. **Income received by The Trustees of Recognised Provident Fund :** Any income received by the trustees on behalf of a recognised provident fund an approved superannuation fund and an approved gratuity fund is exempted from tax.

7. **Income of Employees of Foreign Missions :** Any income received by the following persons is exempted from tax if there is reciprocal arrangement of exemption for corresponding officials and staff of Bangladesh in those countries :

   a) Ambassadors, High Commissioners, Secretaries, Advisors, Attaches etc. of foreign states.

   b) Trade Commissioners or other official representatives of foreign states.

   c) Staff members or other officials employed in the offices aforesaid provided they are not engaged in any business or profession or other employment.

8. **Pension :** Any amount received as pension or due to an assessee, in respect of any year in which he was in Bangladesh for a period not less than 182 days.

9. **Dividend :** Income from dividend received from public Ltd. company is exempted from tax.

10. **Interest on Government Securities:** Income of an individual from less tax Government securities is exempted from tax upto Tk. 5,000 & Interest on Tax-free securities is fully non-assessable.

11. **Interest of Commercial Securities:** Income from commercial securities approved by Controller of Capital issues is exempted from tax upto Tk. 20,000 for all assessees except the company. But such exemption with interest on less tax free Govt. securities together shall not exced Tk. 20,000.

12. Income from interest on savings certificate is exempted upto Tk. 25,000 (F. A. 2004)

13. **Interest on Recognized Provident Fund:** Interest received by a person on such provident fund is exempted from tax. But the exemption limit is given below :
$\frac{1}{3}$rd of annual salary of assessee or the percentage fixed by the Govt. (This percentage is changed by the Govt. from time to time. Now it is 11.5%)

14. **Income of Newly Constructed House Property :** The annual value of any residential house property is exempted from tax, if it is constructed at a time between the 1st July, 1995 and the 30th June, 2000. Such exemption limit is upto Tk. 36,000 and for five years from the date of complection. Where an assessee claims exemption in respect of more than one such building, the exemption will be restricted to such portion of the aggregate annual value of such building as does not exceed thirty six thousand. It is to be mentioned here that in the FA-1999, this exemption facility has been withdrawn but it will remain valid for full term for those assesses who have already enjoyed it.

15. **Salary Income of Foreign Technicians, Experts and Advisor:** Salary income of a foreign technician is tax exempted for three years from the date of his arrival in Bangladesh subject to the following conditions :

a) He was not a resident in Bangladesh in any of the four years immediately preceding the year in which he arrived in Bangladesh.

b) The NBR should approve his contract of service as a technician before the commencement of his service or within one year of such commencement.

c) The number of employees of the organization should be more than 10. But it should exceed 20 if the orgainzation does not use electricity.

d) This provision is applicable for oil and gas companies only after obtaining licence or commencing production whichever is earlier. Moreover, any tax payable by an employer in respect of remuneration payable to a technician for a period not exceeding five years from the expiration of the aforesaid three years from the date of his arrival in Bangladesh will be tax exempted.

The above provision is also applicable to technician employed by a Bangladeshi firm carrying on the business of consultants and engineers in Bangladesh, whether by it self or in association with any foreign firm carrying on such business in Bangladesh.

16. **Share of Capital Gains of a Partner from a Firm :** Any share of capital gain by a partner from firm is tax exempted, if the firm pays tax on that gain early. However, it will be subject to tax rebate on average rate.

17. **Income of a Member of HUF :** Any sum received by a member of Hindu Undivided Family from the family income is tax exempted in the hands of the members.

18. **Gratuity :** Any income received by an assessee representing payment received as gratuity would be exempted from tax.

19. **Amount Received from Provident Fund and any other Funds :** Any amount received from the following sources would be tax exempted subject to following terms and conditions :

(a)	Provident Fund to which PF Act, 1925 applies	Fully exempted
(b)	Recognised Provident Fund	Subject to such terms and conditions as may be prescribed.
(c)	An approved Super annuation Fund	Do
(d)	A Workers Participation Fund established under Companies profit (workers participation) Act 1968	Do

20. **Dividend from Newly Established Public Limited Co. :** Dividend received from Public limited Company established after 1984 is tax exempted fully in the hand of an assessee except a Company.

21. **Amount Received on Voluntary Retirement Under Golden Handshake:** Any amount received by an employee of a Government organization or enterprises controlled by it, at the time of his voluntary retirement in accordance with the scheme approved by it (Specially known as golden handshake) would be tax emempted.

22. **Income of Indigenous Hill Man :** Any income of an individual, being a hill man of Rangamati, Khagrachari and Bandarban districts, which has been derived solely from economic activities undertaken within the said hill districts would be exempt from tax.

23. **Income from Export :** Any amount received by an assessee from export business, other than a company not registered in Bangladesh, is tax exempted upto 50% of that income. For the purpose of this exemption, following would be included in the definition of "business of export".

a) Sale of locally manufactured machinery, equipment and other finished products within the country to any agency against its procurement program in foreign exchange quota; and

b) Supply of locally manufactured raw materials and other inputs to export-oriented industry under internal back-to-back letter of credit.

24. **Income from Shipping Business :** Income of a resident assessee from shipping business in international water is tax exempted for 50% of such income, if the port of registration of the ship is in Bangladesh.

25. **Income from Poultry, Dairy, Fruit Garden, Pelleted Poultry Feed, Seed Production and Working of Locally Produced Seeds :** Income from these business is tax exempt upto 30th June, 2008. If the income from these business exceeds Tk. 1,00,000, 10% of the exceess amount is to be invested in the Government bonds within six months.

26. Income of Unit fund of the Investment Corporation of Bangladesh.

27. Income of Stock Exchanges in Bangladesh.

28. Income of private sector power generation company for 15 years is tax exempt. Income of expatriate personnel working in such company is also tax exempt for three years.

29. Income of financial institution engaged in providing loan for house building for a period of five years from 1st July, 2000.

30. Income of Agricultural Processing Industry is exempted from tax upto 30-6-2005.

31. Income from software business is exempted from tax upto 30th June, 2005 for all classes of assessees.

32. Bonus shares in the hands of assessee is exempted from tax.

33. Income from post office savings certificate and interest on post office savings account is fully tax exempted.

Exemptions allowed through Different S. R. O's Issued in 2004:

34. **SRO-216 dated 13-07-2004:** Any foreign income legally earned and brought in Bangladsh by any Bangladeshi resident or non-resident

35. **SRO-217 dated 13-07-2004:** Any foreign income legally earned and brought in Bangladesh by any foreigner.

36. **SRO 216 of 2005 (Software business):** Income of Bangladeshi Resident from computer software will be exampted. This facilities can be allowed to company too (F. A. 2005).

37. **Black money:** SRO 200 of 2005 provides that any person paying 7.5% tax on unreported income with out showing it in tax returns. No question will be asked on this income.

B) Tax-exempted Incomes U/S 44(2)–Part B of the Sixth Schedule and Sec. 2(63) (Tax free Income) :

The following tax exempted incomes are included in the total income for rate purpose. The assessee will be entitled to tax rebate at the average rate of tax for such income. They are:

i) **Income from Association of Persons :** Any amount received by an assessee (except HUF, Company or Firm) out of the incomes of an association of persons on which tax has already been paid by the association is tax-exempted.

ii) **Income from a Firm :** Any income of the assessee from a firm as his share is tax-exempted if the firm has already paid tax on its income.

If the income of a firm is derived by the exercise of a profession and if such income depends wholly or mainly on personal qualification of its partners and if the partners are prevented by law to form a company, the income would not be taxable in the hands of the firm. The partners of the firm would be assessed considering the share of income of the firm.

C) Investment Allowance : N

Some items of expenses or investment by the assessee under Sixth Schedule, Part-B, are called investment allowances. They are accumulated for calculating tax rebate allowance allowable to the assessee to determine net tax liability. Such tax rebate is different from that on tax-free income both in terms of items and rate. A residential individual will get rebate on investment allowance as per following rule :

		Tk.	
(i)	Total of the items of Investment allowance	xx	15% of the lowest amount will be the tax rebate.
(ii)	20% of Total Income excluding employer's contribution to R. P. F.	xx 2,50,000	Recognised Provident Fund
(iii)	Maximum amount	300000/- ~~2,00,000~~	

However, the maximum ceiling of Tk. 2,00,000 will be extended to Tk. 2,25,000 if of new shares are included in the investment to that extend or more.

N

Now the items of Investment allowance are explained as follows :

1. **Payment of Life Insurance Premium :** Premium paid by an individual assessee to effect an insurance or a contract for deferred annuity is admissible for tax rebate subject to the following conditions :
   a) Actual amount of premium paid or 10% of sum assured, whichever is less.
   b) The policy should be on the life of the assessee, or on the life of the spouse or minor child of the assessee.
   c) The amount of premium should be paid in Bangladesh.

2. **Life Insurance Premium paid by Hindu Undivided Family :** Life insurance premium paid by HUF to affect insurance on the life of any male member of the family or the wife of any such member and on their minor children is admissible for tax rebate if such premium is paid within Bangladesh.

3. **Deduction from the salary of Government employee for deferred annuity :** If it is for the benefit of the wife or minor child of the employee as per terms and conditions of employment then it is admissible for tax rebate. The maximum limit for such deduction is $\frac{1}{5}$th of salary income.

4. **Contribution to Government P F :** Contribution of the assessee to the PF to which Provident Fund Act, 1925 applies is admissible for tax rebate.

5. **Contribution to Recognized Provident Fund :** Employer's and employee's contribution to this PF is admissible for tax rebate if–

a) employer's and employee's contribution are equal; and

b) the limit of admisibility is not more than $\frac{1}{3}$rd of the salary income of the assessee

6. **Contribution to Old Age Pension Fund :** Such contribution is admissible for tax rebate if the assessee is a member of that fund.

7. **Investment in the shares of listed company :** Amount invested in the listed companies of Bangladesh by an assessee except a company is admissible for tax rebate subject to fellowings conditions and upto the limit mentioned :

a) The company is incorporated under the Companies Act of 1913 or 1994 and enlisted in the Stock Exchange of Bangladesh. The other statutory organizations are to be established by special Act of that legislation

b) The company should be engaged in the manufacturing, insurance and transport service businesses.

c) These should be share of financial institutions established by the special statute of parliament. The maximum limit of tax rebate for such investment is Tk. 25,000. or tax @ 15% on 20% of total income whichever is less.

This benefit is in addition to the normal leval of Tk. 2,00,000 but within the 20% level of total income It is entitled for investment both in IPO and in Secondary shares.

The above complexities of tax rebate is illustrated by the following examples :

	Particulars	Tax rebate Calculation
(i)	Total income Tk. 13,00,000 Other Investment Tk. 2,00,000 Investment in shares Tk. 45,000 What is the amount of tax rebate for investment in shares ?	Maximum allowance = 20% of 13,00,000 or Tk. 2,60,000 Actual Investment (2,00,000+45,000) = 2,45,000 ∴ Rebate = 36,750
(ii)	Total Income Tk. 11,00,000 Other investment Tk. 2,00,000 Investment in Shares Tk. 50,000	Maximum allowance Tk. 2,20,000 Actual Investment = 2,50,000 ∴ Rebate on Tk. 2,20,000 @ 15% = 33,000

8. **Investment in Debentures :** Amount invested in the debentures of a company approved by Securites and Exchange Commission is admissible for tax rebate :–
   a) If the assessee is not a company; and
   b) If it is not purchased from a previous holder. The amount of such investment is subject to the following limit :–
   a) Net investment in the income year.
   b) Net investment in the income year and immediately preceeding two years.

   The lower of (a) and (b) is admissible for tax rebate.

9. **Investment in Savings Certificate :** Amount invested by an assessee, other than a company, in the following, is admissible for tax rebate if the investments are held for 5 years :

a) Defence Savings Certificates (8 years terms) and Bangladesh Savings Certificate;
b) Unit Certificates and Mutual Fund Certificates issued by the Investment Corporation of Bangladesh (ICB) & Subsidiary Companies of ICB.
c) Development Loans or Bonds or such Government Securities as the NBR may notify; and
d) Shares of such investment companies as the NBR may notify.

The maximum limit of such investment is determined as follows :

a) Net investment in the income year;
b) Net investment in the income year and immediately preceeding two years.

The amount of admissible investment is the lower amount of the amount (a) and (b).

It is to be mentioned here that if the investments are disposed off before the period of five years in any income year, tax credit allowed in respect of such investments in early income years will be disallowed and recovered as tax for the income year.

10. **Contribution in Deposit Pension Scheme:** Amount contributed by an individual in any Deposit Pension Scheme sponsored by the Government or by a scheduled bank with the prior approval of the Government is admissible for tax rebate.

11. **Donation to Zakat Fund:** Payment to Zakat Fund or donation or contribution to a charitable fund established by or under the Zakat Fund Ordinance, 1982 is admissible for tax rebate.

12. **Contribution to Benevolent Fund and Group Insurance Scheme:** Any amount contributed by an individual for making provision for the spouse, children or dependent persons to approved group insurance scheme or benevolent fund is admissible for tax rebate.

13. **Donation to Private Charitable Hospital:** Donation to a private charitable hospital approved by the NBR for this purpose is admissible for tax rebate provided the donation is made after three years of establishment of the hospital.

14. **Donation to Welfare Fund of Disabled/Retarded People :** Donation to a welfare fund established for the retarded people is admissible for tax rebate. Provided–

    a) the donation is made after three years of establishment of the fund; and

    b) the fund is approved by the Social Welfare Department and the NBR.

15. **Donation to an Institution of Aga Khan Development Network :** Any amount paid by an assessee as donation to any socio-economic or cultural development institution established in Bangladesh by the Aga Khan Development Network is admissible for tax rebate.

16. Contribution to **President's Relief Fund** is admissible for tax rebate.

17. Contribution to **Prime Minister's Relief Fund** is admissible for tax rebate.

18. **Contribution to philanthropic organization and Educational Institutions:** Finance Act 2005 incorporated a new provisions in the part B of sixth schedule of I. T. ordinance by item 22. Under this provision contribution to social welfare organizations and educational institutions approved by the Govt. and NBR will be subject to tax exempted/investment allowance.

19. **Contribution to Ahsania Mission:** SRO 202 of 2005 provides that such contribution will be tax exempted/investment allowance (F. A. 2005)

D) Tax Exempted Income Under Specific Heads of Income :

There are some items under different sources of income like salary income, business income, agricultual income etc. are exempted from tax liability. These items are either fully or upto certain limit is tax-exempted. These items will be elaborated separately when tax liability under separate source will be discussed.

E) Special Exemption of Untaxed Income :

If any amount of investment by an assessee was not taxed properly before the investment, the amount is subject to exemption under certain specific sections mentioned below :

i) **Investment in New Industry (Sec. 19A) :** Any amount invested in a new industry between 1st January, 1997 to 31st December, 1999, is exempted from tax and no question will be raised as to the source of the sum so invested in such new industry. The income of such new industry shall be eligible for tax exemption subject to the fulfilment of conditions as laid down in Sec. 46A if the investors pay tax at 7.5% on the invested sum.

ii) **Investment in Expansion or Balancing of existing Industry (Sec. 19AA) :** Any untaxed amount invested during the period, from 1st January, 1997 to 31st December, 1999, for the following purpose is tax-exempt subject to some conditions and no question will be raised as to the source of such income.

Purpose of Investment :

a) Expansion, balancing, modernisation, renovation and extension of an existing industry.

b) Purchase of stock and shares of a public limited company listed with any Stock Exchange in Bangladesh.

c) Repayment of industrial loan.

Conditions :

a) Tax should have been paid @ 7.5% on the invested amount before the filing of the return for the relevant year.

b) Stocks and shares purchased for this purpose from secondary market must be held by the assessee for at least one year from the date of purchase.

iii) **Investment in House Property (Sec. 19B) :** Any amount invested in the construction and purchase of building or apartment will not be questioned if the assessee pays tax before the assessment is complete for the relevant year at specified rates for different size of plinth area of the building.

4.3: Effect of Different Classes of Income on Assessment

Classification of income for income tax purpose has important bearing on the determination of total taxable incomes, tax rate and tax liability. Here the impact of each classification is discussed below :

a) **Non-taxable Income :** All sources of income are not taxable. So some items of income are not included in the total income either fully or partially. These are known as non-taxable income. Non-taxable income minimizes the volume of total income and the rate of tax.

b) **Total (Taxable) Income :** All sources of income except non-taxable incomes constitute the total amount of taxable income. It is generally called 'Total income'. If this income exceeds minimum taxable limit (Presently Tk. 1,00,000), the assessee is liable to pay tax as per tax rates specified in the relevant Finance Act.

c) **Tax-exempt income :** Tax exempt incomes are of different categories. The items of tax-exempt incomes which are not included in total income at all are called non-assessable income. But there are some items of tax exempted incomes which are included in total income but which have different tax rebate facilities. These can be categoriezed as follows :

i) **Tax free income :** There are some items of income included in total income but tax rebate is granted on these items at an average rate of tax. These sources of income are called tax-free income. These items increase total income and determine tax rate. But they reduce the net tax liability.

ii) **Investment allowance :** Payment of any amount for investment or for specific purposes by the assessee is termed as investment allowance. These items has effect on the determination of total income and tax rate. Tax rebate is allowed on this allowance at specified rate upto certain limit to reduce tax liability.

c) **Tax-exempted income under specific head:** These are similar to non-assessable income in terms of their impact on total income and tax rate. They reduced the taxable income from individual source and consequently they reduce total income and tax rate and net tax liability.

4.4: Distinctions Among Non-assessable, Tax-credit and Tax-free income

The distinctions among non-assessable, tax-credit and tax-free income are given in the following chart.

\ Non-assessable income	Tax-credit income	Tax-free income
1. It is not included in the total income.	1. It remains in the total income.	1. It remains / included in the total income.
2. It has no impact on the determination of total taxable income and tax rate.	2. It is considered to determine the net tax liability. Tax rebate is calculated on this income to deduct from gross tax liability.	2. It increases the total taxable income and tax rate of the assessee.
3. This type of income does not increase the total taxable income and tax liabliity.	3. This type if income influences the minimum taxable limit and increase total income.	3. This type of income increases the total taxable income and tax rate.
4. The question of tax rebate on this category of income does not arise as it is not included with total income.	4. Tax rebate is allowed on this category of income upto certain limit at a certain rate.	4. Tax rebate is granted at an average rate on the total tax free income.
5. This type of income has positive impact on the total taxable income and tax rate.	5. This type of income has positive impact on the tax liability of an assessee.	5. This type of income increases tax rate. But tax rebate is granted at an average rate which is lower than the tax rate. So it has adverse impact to some extent.

4.5: Casual and Non-recurring Income

Casual and non-recurring incomes are not regular source of income. So these items of income are not generally taxed. However, there is exception to this general concept. In the tax law of Bangladesh, some casual and non-recurring incomes are considered taxable income. The definition of casual and non-recurring income with their assessable and non-assessable distinction are given below :

a) **Casual income :** The income about which the assessee remains uncertain before its receipt, is called casual income. For example : income from lottery, horse-race and cross-word competition, etc.

b) **Non-recurring income :** The income which does not arise at regular interval is non-recurring income. To be casual and non-recurring income, it should fulfill the following conditions :

i) It is a sudden receipt and uncertain.
ii) It is not a capital type of income under Sec. 31.
iii) It is not earned from business income as per Sec. 28.
iv) It is not perquisite in addition to salary.

Now a chart of assessable and non-assessable casual and non-recurring income is given below :

Assessable casual and non-recurring income	Non-assessable causal and non-recurring income
1. Any reward to the employee by the employer for extra-ordinary performance	1. Birth day gift.
2. Gift to the lawyer for winning the case.	2. Gift received in post marriage ceremony.
3. Remuneration of professional players, dancers, actors etc.	3. Self-less gift.
4. Profit from sale of goods procured	4. Honorarium of Jurry.
5. Amount received for success in examination as per contract or payment made by the employer to the employee in new year as part of salary.	5. Prize-bond reward.
6. Income from lottery, cross-word and horse-race. However, lottery income is taxed at a different rate.	

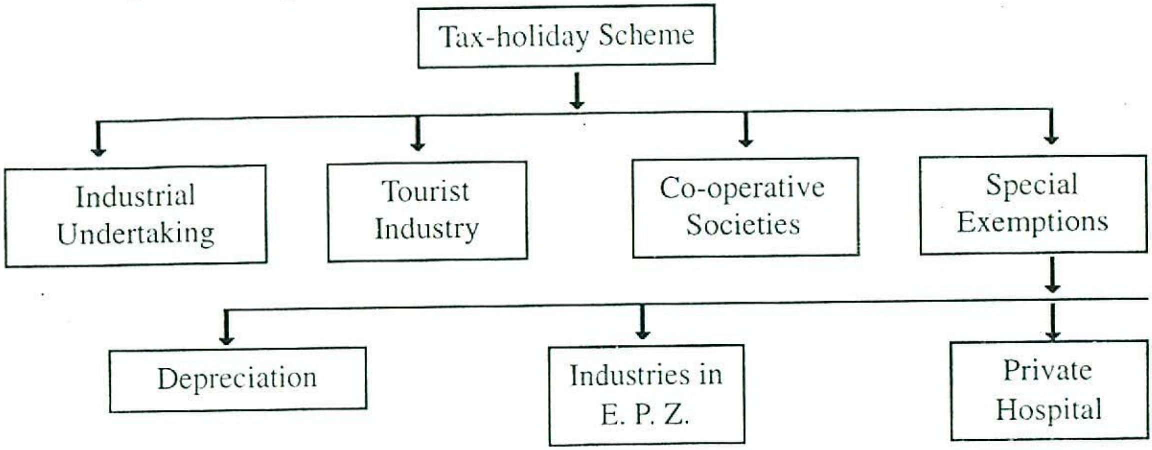
4.6: Tax-holiday Scheme

History : It is a system of exemption from payment of tax. The scheme was first introduced in Pakistan in 1959. After liberation, the system was revoked in 1972 by the Government of Bangladesh. However, the system was re-introduced in 1974 under the Income Tax Act of 1922 by inserting Sec. 14A in the Act. Considering the importance of the scheme in the industrialisation of the country, the Government retained the scheme in the Income Tax Ordinance, 1984 by inserting Sections 45, 46 and 47.

Objectives : The objectives of this scheme are as follows :

i) To encourage formation of domestic capital needed for rapid industrialization of the country.
ii) To attract direct foreign investment in the desired industrial sectors of the economy.
iii) To maintain sectoral balance in industry.
iv) To have a balanced and equitable development of all the areas of the country.

Scope: The scope of tax-holiday scheme is explained by sections 45, 46 and 47 of the Ordinance. In addition to these sections the scope of tax-exemptions has been extended by SRO's issued from the Minsitry of Finance. Now a chart showing the areas covered by tax-holiday scheme is given below.



Here each type of Tax-holiday scheme is explained in detail :

A) Tax-holiday for Industrial Undertakings (Sec. 45) :

Such tax-holiday scheme is applicable for those industrial undertakings as specified in the industrial investment schedule issued by the Government from time to time. It was initially allowed for industrial undertakings set-up in Bangaldesh between the 1st day of July, 1974 and 30th day of June, 1985. The period of tax-holiday extended later-on time to time. Now the time of extension and the areas with period of extension is shown below :

1) Period of Establishment of Industry :

- i) 1st July 1985 to 30th June, 1995
- ii) 1st July 1995 to 30th June, 2000
- iii) 1st July 2000 to 30th June, 2008

2) Areas of establishment of industry and period of exemption :

Specified areas as notified by NBR for tax exemption	Period of exemption
Special Economic Zone	12 years
Least Developed Areas	9 years
Less Developed Areas (Rajshahi, Khulna, Sylhet, Barisal Division and Rangamati, Bandarbon and Khagrachari Hill districts)	6 years
City of Dhaka, Chittagong or Khulna or Municipality of Narayangonj or within 10 miles from the outer limits thereof.	4 years

3) **Conditions for getting the exemption :** To get this exemption the following conditions are to be satisfied :

a) The undertaking is owned and managed by a company formed and registered under the Companies Act, 1913 or the Companies Act, 1994 or by a body corporate formed under an Act of Parliament. The registered office of the company should be in Bangladesh and its subscribed and paid-up capital should be not less than Tk. 1,00,000 on the date of commencement of commercial production.

b) The undertaking should belong to the class of industry as notified by the NBR.

c) The industrial undertaking must get the approval of the NBR on application in prescribed form. Such application should be made within 180 days of the date on which the commercial production starts.

d) A part of the exempted income, not being less than 30% of the same, should be invested during the exemption period or within one year from the end of the exemption period. The investment is to be made either in the same undertaking or in the new industrial undertaking or in Government bonds or securities.

Finance Act 2005 also provided that industries that will enjoy tax holiday from 01-07-2005 to 30-06-2008 will need to invest further 10% of its income in the paurchase of shares and debenture from stock Exchange.

4) **Income not exempted :** It may be noted that following items of income will not be exempted from the taxation for this purpose :

a) Any dividend paid, credited or distributed or deemed to have been paid or credited by a company to its shareholders out of the profits and gains exempted from tax; and

b) Any income of the said undertaking classifiable as 'capital gains' chargeable under Section 31.

5) **Cancellation of Exemption :** This facility of tax exemption may be cancelled by the DCT if he finds that the stipulated conditions for enjoying the exemption have not been complied with by the undertaking. The NBR may also cancel or suspend partly or fully any exemption allowed to any undertaking for the public interest.

B) Tax-holiday for Tourist Industry (Sec. 46) :

The Income, profits or gains of a trourist ind\ustry set up in Bangladesh between 1st July 1976 to 30th June, 2005 will be exempted from tax for the period specified below :

Specified Areas	Period of Exemption
Special Economic Zone	12 years
Least Developed Areas	9 years
Less Developed Areas	6 years
Dhaka and Chittagong Division (Except Khagrachari, Bandarban and Rangamati)	4 years

Such industry includes hotels, motels, hunting lodges, picnic spots, amusement and theme park, holiday home, tourist resort, energy park etc. Some conditions are to be fulfilled to get this exemption. They are –

i) The industry is owned and managed by a Bangladeshi Company having a subscribed and paid-up capital of not less than Tk. 1,00,000 on the date of commencement of commercial service.

ii) The industry shall have such service facilities as may be specified by the NBR. Specifically :

a) the number of guest rooms should not be less than 30 if the industry is set up in Dhaka, Chittagong and Khulna and not less than 10 if it is in other places. Such industry should have adequate public facilities;

b) each guest-room should have an attached bath room;

c) at least 50% of the guest room should be air-conditioned; and

d) each guest room should be fitted with a telephone or there should be at least one telephone for each floor.

However, NBR has the right to relax one or more of the above condition for the undertaking set-up outside Dhaka and Chittagong.

iii) Application for exemption should be made in prescribed form by approved undertakings to NBR within 180 days from the date of commencement of commercial service.

The decision for exemption is to be given within 30 days of application and cancellation of exemption can be made only after giving the opportunity of hearing to the undertaking.

Cancellation of Exemption :

i) National Board of Revenue may cancel tax holiday if an application for such request is made within 3 months of the approval.

ii) The DCT may cancel the exemptions granted if he finds that any of the necessary conditions has not been fulfilled.

C) Tax-holiday for Co-operative Societies (Sec. 47) :

A Co-operative Society including a Co-operative society carrying on the business of banking is exempted from tax payment if the income is derived from the following sources:

i) Income derived as a result of its dealings with its members in sale of goods, lending of money, lease of buildings or lands for the personal use of the members including firms and association of persons where they are members.

ii) The entire income from business carried on by it, if it is engaged in the following business :

a) agricultural or rural credit,

b) cottage industry,

c) marketing of agricultural produce of its members.

iii) Any income from interest and dividends derived from its investment with any other co-operative society, and

iv) Any income from letting of godowns or warehouse used for storage and processing or facilitating the marketing of commodities belonging or meant for sale of its members.

D) Special Tax-exemption Facilities :

Over and above the tax-exemption facilities granted to the assessee under Sections 45, 46 and 47, some special tax-exemption facilities were granted under different SROs. Now some important tax-exemption facilities are discussed below :

i) **Special Depreciation Facility :** Industries established between 1st July 1995 and 30th June, 2005, are entitled to charge depreciation @ 20% for the first five years of their establishment. Such facility reduces tax burden for the initial periods. It is allowed subject to the fulfilment of the following conditions:

a) Only the companies registered in Bangladesh is entitled to get this facility.

b) The extended unit of an existing industry will not get this facility.

c) Companies enjoying tax-holiday facilities will not be allowed this facility.

d) Companies enjoying accelerated depreciation facilities are not considered for this facility.

e) Depreciation is to be calculated by 'Straight line' method instead of 'Reducing Balance' method.

f) The undertakings are allowed both general and initial depreciation allowance.

ii) **Tax-holiday for Industries Set up in any EPZ :** Income of any industry set up in any Export Processing Zone (EPZ) is exempted from tax for 10 years from the date of commencement of commercial production of the said industry. This facility is extended to these industries under Sec. 10 of the Export Processing Zone Authority Act, 1980. These units are also exempted from filing tax return during exemption period.

iii) **Tax-holiday in the case of Hospital :** Income of a newly established private hospital established between the period from 1st July, 1999 to 30th June, 2005, will be eligible for tax exemption for 5 years subject to the fulfilment of the following conditions :

a) The undertaking is owned by a company registered under the Companies Act of 1913 or 1994.

b) The hospital is housed in a building constructed on the Company's own land.

c) The hospital should have 200 beds in case of general hospital and 50 beds in case of specialised hospital for heart, kidney and cancer patients.

d) Ten of the beds must be kept reserved for treatment of poor patients free of charge.

Questions

1. Classify income for income tax purpose. Explain how does such classification affect tax assessment. [N. U. B. Com (P), 1995]
2. Point out the distinctions between non-assessable and tax-credit income. Mention tax-credit income. [D. U. B. Com (H), 1997]
3. Point out differences among non-assessable, tax-credit and tax-free income. Give four examples of each.
4. What is meant by Tax-holiday? Discuss the Provisions of Tax-Holiday with reference to the relevant provisions of Income Tax Ordinance.
5. a) What is meant by casual and non-recurring income? Explain their characteristics with example.

   b) What are the special facilities given to the industries established in the Export Processing Zone?
6. a) What is "Tax-Holiday" Scheme?

   b) What conditions are to be fulfilled by an assessee to enjoy tax holiday benefits under Income Tax Ordinance? [D. U. B. Com (H), Traditional, 86]
7. a) What type of industrial and tourist enterprises are exempted from tax under Section 45 and 46?

   b) What conditions are to be satisfied to become eligible for such exemption?

   c) What are the areas and time limit applicable for such exempted industries? [D. U. B. Com (H), 1998]

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8. a) Explain the rules regarding the exemption of income of an industrial undertaking.
   b) What conditions a co-operative society must satisfy to receive exemption of tax on its income? [D. U. B. Com (H), 1990, 94, 95]

9. a) What do you mean by total income?
   b) List down the exemptions and allowances available as per Part-B of Sixth Schedule. [D. U. B. Com (H), 1991]

10. a) Define income from the view point of Income Tax Law.
    b) What are the different classes of income for income tax purpose? How classification of income affects assessment? [D. U. B. Com (H), 1996]

11. a) Mention the advantages of Tax-Holiday Scheme.
    b) What are the special facilities given to the industries established in EPZ? [D. U. B. Com (H), 98]

Chapter-5

Assessee and Residential Status

Chapter Synopsis/Contents :

5.0: Introduction

Assessee and Residential Status of an assessee are two very important concepts of income tax. These two concepts embrace wider aspects. Thus knowledge about the concepts and explanation relevant to them is essential and this chapter is devoted to deal with the same.

5.1: Definition of Assessee

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Generally assessee means a tax payer, that is, a person who is to pay tax. In the context of income tax in Bangladesh, section 2(7) of the Income Tax Ordinance, 1984 defines assessee as a person by whom any tax or other sum of money is payable under the Ordinance and includes:

- (a) Person against whom income tax case/proceedings is going on,
- (b) Person who is required to file income tax return,
- (c) Person who desires to be assessed and submits his income tax return.
- (d) Person who is deemed to be an assessee or an assessee in default under any provision of Income Tax Ordinance.

The following persons are included in this category:

- (i) The executor, administrator or other legal representative of a non-residential person,
- (ii) The local representative of a non-resident assessee,
- (iii) The person who is required to deduct tax at source; and
- (iv) The person who fails to pay the tax to the tax authority after deducting it at source.

In this connection explanation of the following two terms needs to be kept in mind:

a) Person who is required to file return. :

According to the Income Tax Ordinance, the following persons are required to file return :

(i) Any person whose income has exceeded minimum taxable limit (at present Tk. 1,00,000.

(ii) Any person who has paid tax in any of the three years immediately preceeding the income year ;

(iii) Any person who is leaving the country forever or permanently;

(iv) Any person who has closed the business or profession in income year preceeding assessment year.

b) Person/Physical Status of Assessee :

Under income tax person has wider meaning & includes the followings:

(i) an individual (Ind.)

(ii) a Firm (partnership) (F)

(iii) an Association of Persons (AOP)

(iv) a Hindu undivided family (HUF)

(v) a Local Authority (LA)

(vi) a company (Co.)

(vii) Other Artificial Person as defined in ITO.

5.2: Classification of Assessee

Under section 2(46) of the Income Tax ordinance, 1984, assessee is classified into seven categories as stated above (i. e. explanation relevant to person).

5.3: Residential Status : The Meaning and Implications

(A) Meaning:

In general residential status means the standing of an individual as to his residence in the taxable territory and for HUF, Firm and Company the standing of the location of their management and control during relevant income year. Under the income tax law in Bangladesh and many other countries of the world, income tax is levied on the basis of residential status of a tax payer. In otherwords, the tax liability of an assessee depends upon his residential status.

In Bangladesh the Income Tax Ordinance, 1984 provides that an assessee may be resident or a non resident. Such residential status is determined by the specific provisions of this Ordinance but not by any provision of other laws of the country. It is not comparable with the citizenship of a person. A person may be the citizen of a country but he may not be the resident for income tax purpose if the conditions of the provisions of the ordinance are not satisfied. As to the implication of residential status two case dicisions are cited here :

(i) The tax liability of an assessee will be determined by his residential status. Here the residential status of income year is considered but not that of assessment year. (Wales Brothers and Co. vs. CIT)

(ii) It is the responsibility of the assessee to prove that he is a resident or not. (Bahadur Sheikh vs. CIT, 1963). In other words, an assessee is to submit all the relevant documents in support to his residential status to the authority.

(B) Importance:

Determination of residential status is important for the following reasons:

(i) The system of determination of total tax liability of resident and non-resident is different. In case of resident, income received or deemed to be received in Bangladesh; income accrued or arose or deemed to accrue or arose outside Bangladesh will be included in total income. On the other hand, only the income within Bangladesh will be included in the total income of the non-resident.

(ii) A resident assessee is required to pay tax if his taxable income exceeds the minimum taxable limit. But a non-resident assessee is required to pay tax on any amount of income.

(iii) A resident assessee is to pay tax which is determined by deducting the tax rebate on tax exempted income from gross tax liability. But for non-resident assessee no tax rebate is applicable. In other words, he is to pay tax on all taxable income in Bangladesh.

(iv) The tax rate applicable to a resident and to a non-resident in some cases and in some countries is found to vary.

Thus total income, taxable income and tax rate are found to vary with residential status which indicate the importance of determining the residential status of an assessee.

(C) Classification of assessee on the Basis of Residential Status:

From the point of view of residence, assessee is classified into two:

i) Resident

ii) Non resident

An individual whether resident or non-resident depends mainly on the duration of his stay in Bangladesh. On the otherhand for a firm and a company, whether resident or non resident depends on the location of its management or control during the relevant income year. Against this back drop, now the methods of determining residential status of different kinds of assessee is being described below.

(D) Methods of determining Residential Status :

(1) An Individual :

The tests of residence for individual assessee are given in sec. 2 (55) of Income Tax Ordinance. To be a resident assessee, an individual must fulfil one of the following conditions :

(a) If he stays in the country for a period of at least 182 days during the income year, or

(b) If he stays in the country for at least 90 days during the income year and also had been in the country for a period of at least 365 days during four years preceding the income year.

It is to be mentioned here that residential status of an assessee is to be determined separately for each income year. It is not related to assessment year. It is also to be remembered here that the required duration of stay of an assessee in the country for either 182 days or 90 days or 365 days is not essentially be continuous. The assessee is not also required to maintain a permanent residence in Bangladesh. He may put up at a hotel, may not be in the same hotel, or he may stay in a yacht moored in the territorial waters of the taxable territories.

Under sec. 2 (44), if an assessee fails to fulfil any one of the above two conditions becomes non-resident for that particular year.

(2) Residential Status of HUF, Firm and AOP:

These assessees will be treated as residents in Bangladesh if any part of the control and management of their affairs is situated in the country. Here control and management' means defacto control and not dejure control.

On the otherhand, if the control and management of these assessees are from outside Bangladesh, they will be treated as non-resident.

(3) Residential Status of Company:

To be a resident, a company should fulfil one of the following conditions:

(a) It should be a company registered in Bangladesh under Companies Act of 1913 or 1994 or a body corporate established or constituted by or under any law for the time being in force in Bangladesh having in either case its registered office in Bangladesh. So a Bangladeshi company will always be treated as resident.

(b) In the case of other companies, they will be treated as residents if the control and management of their affairs are situated wholly in Bangladesh. Here also control means defacto control and not dejure control and the place of control lies there where the directing powers situate (i. e. where the meetings of the directors are held usually).

5.4: Incidence of Taxation or Effect of Residential Status

Residential status of an assessee has an important role in the determination of total taxable income of an assessee. This is because of the fact that all types of income do not form part of total income of an assessee. According to sec. 17 of the Ordinance, the incidence of taxation depends on the residential status and nature of the income. The following chart will show which types of income will form part of total taxable income of a resident and a non-resident assessee :

Nature of Income	Residential Status	
	Resident	Non-resident
Income received or deemed to be received in Bangladesh.	Taxable	Taxable
Income accrued or arose or deemed to accrue or arise in Bangladesh.	Taxable	Taxable
Income accrued or arose outside Bangladesh.	Taxable	Non-Taxable

5.5: Locales of Income

According to See. 17 of the Ordiance, the different sources of income for determining the total income of an assessee are classified into the following categories :

(a) Income received or deemed to be received in Bangladesh;

(b) Income accruing or arising or deemed to accrue or arise in Bangladesh; and

(c) Income accrued or arise or deemed to accrue or arise in Bangladesh.

In sec. 18 of the Ordinance only the term income deemed to accrue or arise in Bangladesh was explained. So other sources of income are being explained on the basis of common concepts. Now the explanation follows :

(1) Income Received in Bangladesh:

Income received in Bangladesh in the income year is chargeable to tax both in the hands of resident and non-resident. The receipt needs not be in cash only; it may be in money's worth too. For example, receipt of cheque is equivalent to receipt of money. In case of receipts some typical case may arise for which the following guiding principles need to be followed:

i) In the case of receipt by an agent on behalf of his principal, the profit embaded thereon is chargeable in the hand of agent on behalf of principal on the basis of receipt.

ii) When goods are sold on V.P.P. the post office becames an agent for seller to collect value. Same principal applied to bank when collecting bills.

It may be noted that receipt by itself is not sufficient to attract tax ; it is only receipt as income, which can attract tax. If an income is assigned by a person to another, in respect of that income it is the assignor who is liable to pay tax and not the assignee. The assignee receives the money not as his income but by virtue of the assignment. His title to the income arises not because of the fact that he has earned but due to an assignment in his favour [C.I.T. Vs. Agarwal and Co. (1952) 21 ITR 293].

(ii) Income Deemed to be Received in Bangladesh :

As per part B of the First Schedule to the Ordinance, following two specific cases could be identified as to income deemed to be received in Bangladesh :

(a) annual accretion in the income year to the balance at the credit of an employee participating in a recognised provident fund; and

(b) transferred balance from unrecognised provident fund to a newly recognised provident fund.

In respect of the item (a), an employee will be entitled to a credit from the amount of tax payable on his total income of an amount equal to 15% of the contributions to his individual account in so far as the aggregate of such contributions (both employee's and employer's) in any year does not exceed one-third of his salary for that year. In respect of interest credited on the accumulated balance of the fund, the same will be exempted from payment of tax if it does not exceed one-third of the salary of the employee and is allowed at a rate not exceeding the rate as notified by the NBR. As to the item (b), the DCT will make a calculation of the aggregate of all sums comprised in the transferred balance which would have been liable to tax had the fund been recognised from the date of the institution of the fund. However, in cases of serious accounting difficulty the Commissioner may allow a summary calculation of such aggregate.

(iii) Income Accruing or Arising in Bangladesh:

Income earned in Bangladesh is considered as income accuring or arising in Bangladesh. In this case following guiding principles need to be followed :

(a) In the case of a salaried employee serving in Bangladesh, his income accrues or arises in Bangladesh.

(b) In the case of house property or agricultural land, the income accrues or arises in Bangladesh as the properties being situated in the country.

(c) In the case of interest on securities issued by Government or on Debentures issued in Bangladesh by a company or local authority, the income accrues or arises in Bangladesh.

(d) In case of capital gains, the income accrues or arises in Bangladesh if the capital assets are situated in the country.

(e) In the case of a business or profession, if the entire activities take place in the country, the entire income of such business will be considered as accruing or arising in Bangladesh. Thus, if as per some agreement goods are manufactured outside Bangladesh and brought in to the country and then sold, the entire profit on such sale can not be considered as accruing or arising in Bangladesh. The total profit in such case should be split up and only the merchandising profit or profit attributable to the activities carried out in Bangladesh accrues or arises in the country [C.I.T. Vs. Ahmedbhai Umarbhai & Co. (1950) 18 ITR 472 (SC)].

(iv) Income Deemed to Accrue or Arise in Bangladesh :

Income deemed to accrue or arise in Bangladesh means the income not actually accruing or arising in the country but is supposed to have accrued notionally. Section 18 of the Ordinance enumerates such type of income under the following heads :

- Salaries;
- Business or profession;
- Dividend;
- Interest;
- Fees for technical service; and
- Royalty

The relevance of determination of such type of income is important in the case of non-residents in whose cases the income accruing or arising outside the country is not chargeable to income tax. In the case of residents also, although the income accruing or arising outside Bangladesh is taxable, they get exemption from tax if such income is brought in to the country through official channel and invested in any new industry set up in Bangladesh or in the purchase of industrial units sold in auction by Government-owned Financial Institutions or in stocks, shares or Government Bonds and Securities. Salary income will be deemed to accrue or arise in Bangladesh if it is earned in the country or is paid by the Government or Local Authority to the citizen of the country serving outside Bangladesh. The place of payment is immaterial i.e. it may even be paid outside the country.

5.6: Illustration

Illustration-1:

Calculate the total income of M. A. Jinnah from the following if he is (i) a resident. and (ii) non-resident.

Bangladeshi Income: Salary income Tk. 80,000; Interest on 10% less-tax commercial securities of Tk. 1,20,000; Income from Partnership Firm Tk. 20,000; Agricultural Income Tk. 50,000.

Foreign Income: Income from Business in Singapore Tk. 50,000; Income from a Partnership Firm in Pakistan Tk. 60,000;

Solution:

M. A. Jinnah

Income year : ....?

Assessment year : ....?

Determination of Total Taxable Income

Description of Income		Resident	Non-resident
(A) Bangladeshi Income :		Tk.	Tk.
(i) Salary		80,000	80,000
(ii) Interest on Less-tax Commercial Securities		12,000	12,000
(iii) Income from Firm		20,000	20,000
(Rebate will be given at average rate)			
(iv) Agricultural Income–	50,000		
Less– Allowable expense 60%	30,000	20,000	20,000
		1,32,000	1,32,000
(B) Foreign Income :			
(i) Business income		50,000	—
(ii) Income from partnership		60,000	—
		2,42,000	2,42,000

Questions

1. Who is an assessee? What is meant by residential status of an assessee? How would you find out residential status of an assessee with reference to the following :
(a) Individual, (b) Firm, (c) Company?
[C. U. B. Com. (H), 1995, 1996, 1980, N. U. 2000]
2. What is meant by residential status of an assessee? How does residential status of a person affect his tax liability? [C. U. B. Com. 1988]
3. 'Tax liability of a person is determined with reference to his residential status'- Explain. [N. U. B. Com. 1996]
4. According to you, what are the purposes of determining residential status of an assessee? Show in a chart whether incomes in Bangladesh and outside will be taken into consideration for charging income tax on the assessee having different types of residential status.
5. (a) How can income be classified according to locales under Income Tax Ordinance, 1984?
(b) Explain in detail the tax eligibility of income classified according to locales.
[D. B. B. B. A. 1996; B. Com. (H.) 1985]

Chapter-6

Income Tax Authorities

Chapter Synopsis/Contents:

6.1: Introduction

To execute the Income Tax Ordinance and to administer the activities of different departments of income tax, different authorities of income tax have been created. In the I. T. Ordinance, the powers, responsibilities and functions of each authority have been elaborated. These aspects are being dealt with in the Sections 4 to 12 of the I. T. Ordinance, 1984.

6.2: Types of Income Tax Authorities

The Income-tax authorities may be classified into two groups. They are--

(i) Administrative, and

(ii) Judicial.

The administrative authorities look after the administration and the Judicial branch looks after Judicial matters. A chart showing the income tax authorities under each category is given below :