Chapter-11

Income from House Property (Section : 24-25)

Chapter Synopsis/Contents:

11.1: Introduction

The owner of house property, legal or beneficial, is liable to pay tax under this section. Mere possession or occupation is not the criteria for charging tax. Here following typical situations deserve attention :

i) **Where the property is held under Trust:** Tax may be paid either by the Trustee or by the beneficiary.

ii) **Where the property is mortgaged:** Tax will be paid by the mortgager.

iii) **Where the property is leased:** If the lease is for long time, the lessee is to pay tax. Where the lease is for short time, the lessor will be assessed, but not under this head rather under the head 'other income'.

iv) **Co-ownership:** Where the house is owned by many persons and share is identifiable, each co-owner will be assessed separately for his own share.

v) **In case of insolvency:** Where the owner of the house property become insolvent, the official receiver will be liable for tax.

11.2: Conditions for Assessment

To be assessable, a house property needs to fulfill the following conditions :

i) Assessee must be legal owner or beneficiary of the house.

ii) Income must come from the house property and its adjacent premises. Vacant land having no house will not be taxed.

iii) For assessment, 'Annual Value' is to be determined.

iv) Loss arising from rented house may be set-off against income from other heads of income.

11.3: Annual Value of the House

Section 24 of the Income Tax Ordinance, 1984 provides that tax on house property will be charged on the basis of Annual Value. Annual value may be defined as the sum for which the property might reasonably be expected to let out from year to year. In this case prevailing circumstances such as locality, demand for house etc., need to be considered. However, under section 2(3) of the I. T. Ordinance, the term Annual Value in relation to house property means the following :

In respect of let out property:

i) The sum of estimated Annual rent

ii) The sum of actual annual rent

The higher one.

That is AV = Municipal Value (M. V.)
(Which is assumed based on
estimated annual rent)

or

Actual Rental Value (R. V.)
Whichever is higher

It may be noted that previously till 1992 house occupied by owner for his residential purpose would also come under taxation. Now, Owner's occupied residential house is exempted from tax and thus its annual value needs not be computed.

In connection with house rent for, let out property, it is to be noted that the expenses generally need to be borne by the owner such as municipal tax/local tax, repair if paid by the tenant will be added with rent to determine actual rent. Conversely, expenditure such as water tax and gas generally need to be paid by the tenant. It will be deducted from rent to determine actual rent if it is paid by the owner.

11.4 Allowable Expenditures (Sec. 25) Exp

Following expenditures will be allowed as deductions U/S 25 to determine the value of house property subject to tax :

i) **Repairs and Collection:** A fixed amount of $\frac{1}{4}$ of the annual value of the house will be allowed as repair charge irrespective of whether any repair has been undertaken or not. This will include collection charge, sewerage bill, salary of guard, liftman, caretaker and such incidental charge. But for commercial houses this rate has been increased to 30% by F. A 2004.

ii) **Land Revenue:** Any sum paid (not merely payable) by the assessee as land - revenue is allowable expenditure.

iii) **Insurance premium:** Insurance premium for the house if paid is allowable expenditure.

iv) **Mortgage interest:** Interest on loan received by giving mortgage of the property for development and renovation of the house will be an allowable expense. Under Finance Act, 2002, the interest on loan taken at times of construction of house will also be allowed as deduction but it will be divided into first three years when the property comes under taxation.

v) **Municipal/Local Authority Tax:** Tax payable to Municipality or any other Local Authority is called annual charge and it is allowed as deduction for tax.

vi) **Ground Rent:** The owner of the building assessable for tax may be the lessee of the land on which it is erected. If he has to pay any ground rent in respect of land, it is called ground rent and it is an allowable expense.

vii) **Interest on Borrowed Money:** Interest on money borrowed for the purpose of acquiring, constructing, repairing, renewing etc., is deductible. However, under the provision of sec. 25 (2) of ITO no deduction shall be allowed in respect of any interest or annual charges payable outside Bangladesh on which tax has not been paid or deducted.

viii) **Un-realised Rent:** Loss on un-realised rent from the tenant is allowable on fulfilment of the following conditions :-

(i) That the house was legally let out.

(ii) That the tenant has vacated the house through proper action.

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

(iv) That proper legal action was taken to realise the outstanding rent.

(ix) **Vacancy Allowance**

It means the house property not hired by a tenant. Part of such rent becomes a loss. So it is allowed as deduction from property income of the owner in proportion to annual value for vacant period.

11.5: Non-allowable Expenses

Following expenses will not be allowed :

i) Salary of Gardener (Mali)

ii) Cost of appeal against assessment of house property income.

iii) Expenses for the house not taxed under the head 'Income from House Property'.

11.6: House Property Exempted from Tax

The following house properties are exempted from income tax :

(1) Property income of approved religious or charitable institutions in Bangladesh and voluntary contribution to such institutions.

(2) Income from house constructed and used by Refugee.

(3) Income of any residential building occupied by owner.

(4) House property used in the business of the owner, if the income of the business is assessable separately under the head "Income from Business or Profession."

(5) Income of the property used for Agricultural purpose by the owner.

(6) Income from newly constructed house as follows for a period of five years :

Construction Period	Plinth area	Extent of Exemption
i) 1-7-85 to 30-6-90	More than 1,000 sq. ft.	Upto A. V. of Tk. 15,000
ii) Do	Less than 1,000 sq. ft.	Full
iii) 1-7-90 to 30-6-95	Any size	Upto A. V. of Tk. 30,000
iv) 1-7-95 to 30-6-2000	Do	Upto A. V. of Tk. 36,000

(7) **Housing Society :**

On fulfilment of following conditions Housing Society or apartments of Housing Society will be exempted from tax for 5 years :

Construction period	Unit Number	Plinth area
i) 1-7-85 to 30-6-90	Not Less than 25	1,000 sq. feet
ii) 1-7-90 to 30-6-95	Do	Do
iii) 1-7-95 to 30-6-2000	Do	Do

11.7: Speciman Proforma for Computing Income from House Property

Name of Assessee : ....

Income year ....

Assessment year ....

Computation of Income from House Property

Income under the Head House Property	Tk.	Tk.
Annual Value of Let-out House :		
Municipal Value		
or		
Rental Value		
– Higher one		XXXX
Less Allowable Deductions :		
i) Repair ($\frac{1}{4}$ of AV)	XXXX	
ii) Land Revenue paid	XXXX	
iii) Insurance Premium	XXXX	
iv) Mortgage interest	XXXX	
v) Municipal tax, etc.	XXXX	XXXX
		XXXX

11.8: Illustrations

Illustration-1:

Mr. Bashir Iqbal Morshed has a house at Nasirabad, Chittagong. The house is let out at Tk. 6,000 per month. He spends the following amounts for the house for the year 2003-2005:

a)	White wash of the house	Tk. 5,000
b)	Mosaic	Tk. 10,000
c)	Rent collection expense	Tk. 4,000
d)	City Corporation tax	Tk. 5,000
e)	Land revenue paid	Tk. 2,000 (Tk. 2,000 still due)
f)	Salary of guard	Tk. 12,000
g)	Loan repayment to HBFC	Tk. 8,000 (In it Tk. 2,000 is interest)
g)	Fire insurance premium	Tk. 2,000

The owner bears the water and gas bill of the tenant which amounted to Tk. 6,000 for the year. Compute taxable income of Mr. Morshed for the house.

Solution:

Assessee : Mr. Bashir Iqbal Morshed
Income year : 2004-2005
Assessment year : 2005-2006
Computation of income from House Property

Income under House Property (Sec. 24-25)		Tk.	Tk.
1. Annual Value :			
Municipal Value = ?			
Rental Value = 6000 x 12 =	72,000		
Less cost of water and gas bill need to be borne by the tenant but paid by the owner	6,000		
Actual Rental Value =	66,000		66,000
Annual Value (M.V or A R V-the higher one)			
Less allowable deductions (Sec. 25) :			
i) Repair = $\frac{1}{4}$ of A. V		16,500	
ii) City Corp. Tax		5,000	
iii) Land Revenue		2,000	
iv) Interest on loan		2,000	
v) Fire insurance premium		2,000	27,500
Income from House property			38,500

Notes :

i) Repair charge includes collection charge, salary of guard etc. White wash is also included in repair charge. It is, on the whole, exempted up to $\frac{1}{4}$ of A. V.

ii) Mosaic expense is a capital expenditure and thus not allowed.

iii) Land revenue is allowed if payment is made.

Illustration-2:

Mr. Ronaldo owns four buildings. From the following particulars compute his income from house property for the year 2004-2005 :

1. First Building:

It has been let out at a monthly rent of Tk. 9,000. According to terms of agreement, owner is to bear cost of gas bill and water charge which for the year amounted to Tk. 3,600 and Tk. 5,000 respectively. $\frac{1}{3}$rd of the building used by the owner for his business. The municipal value of the house is Tk. 1,50,000. He spent Tk. 5,000 for repair and paid Municipal tax Tk. 2,400.

2. Second Building:

It has been let out at Taka 10,000 per month. As per agreement the tenant is to pay half of the municipal tax amounting to Taka 2,000. Municipal value is Tk. 90,000.

3. Third Building:

Half of the building is used as residence for Mr. Ronaldo & the rest half of the building has been let out at Tk. 6,000 per month. It has been erected with a loan taken from HBFC & the annual interest on loan Tk. 5,000 is paid regularly. Insurance premiums of the house is Tk. 4,000 a year.

4. Fourth Building:

It is let out at Tk. 5,000 per month. As per agreement the tenant bears the cost of repair which amounted to Tk. 2,000 for the year. The house was vacant for two months. Cost of collection of rent amounted to Tk. 1,200.

Solution:

Assessee : Mr. Ronaldo
Income year : 2004-2005
Assessment year : 2005-2006

Income from House Property (Sec. 24-25)	Tk.	Tk.	Tk.
1st Building			
Annual Value =			
a) Municipal value $\frac{2}{3}$ =	1,00,000		
or,			
b) Rental value =	1,08,000		
Less Gas bill & water bill	8,600		
Actual Rent =	99400		
A. V = Whichever is higher		1,00,000	
Less allowable expenses :			
a) Repair = $\frac{1}{4}$ of A. V =	25,000		
b) Municipal Tax $\frac{2}{3}$ =	1,600	26,600	73,400
2nd House			
Annual Value:			
a) Municipal Value =	90,000		
b) Rental Value =	1,20,000		
Add Municipal tax	2,000		
Actual rent	1,22,000		
A. V = Higher one of a & b =		1,22,000	
Less allowable expenses:			
a) Repair $\frac{1}{4}$ of A. V =	30,500		
b) Municipal tax	4,000	34,500	87,500

3rd Building			
Annual Value :			
a) Municipal Value = ?			
b) Rental Value =	72,000		
AV = Higher one =		72,000	
Less allowable expenses :			
a) Repair = $\frac{1}{4}$ of AV =	18,000		
b) Int. on loan $\frac{1}{2}$	2,500		
c) Ins. premiums $\frac{1}{2}$ =	2,000	22,500	49,500
4th Building			
Annual value=			
a) Municipal value = ?			
b) Rental value =	60,000		
plus repair	2,000		
Actual Rent =	62,000		
Annual value = Higher one =		62,000	
Less allowable expenses :			
a) Repair = $\frac{1}{4}$ of AV =	15,500		
b) Vacancy allowance = ($\frac{62000x2}{12}$) =	10,334	25,834	36,166
Income from House Property			2,46,566

Notes:

i) $\frac{1}{3}$rd of 1st house is used for business. It will be separately assessed under business head. Allowable cost for the house i. e. municipal cost is computed for $\frac{2}{3}$ part of the house proportionately.

ii) Repair is allowed @ $\frac{1}{4}$ of AV, whether spent or not or spent much than that. It includes cost of collection, salary of guard, liftman etc.

iii) For second house actual municipal tax is 2000x2=Tk. 4,000

iv) At present owner's residential house is exempted from tax. As such for third house income has not computed on it and expenses like interest on loan and insurance premium has been allowed proportianately for $\frac{1}{2}$ of the house.

v) Vacancy allowance is allowed for vacant period proportionately to its annual value.

Illustration-3:

Mrs. Jahanara purchased a house property at Gulshan for Tk. 6,00,000 which was let out at a monthly rent of Tk. 8,000.

She paid municipal tax of Tk. 4,000 and urban property tax which was assessed by the taxation office in July, 2001 for Tk. 3,000. Collection charge of Tk. 4,800 was claimed in the return. Out of the rent received, she paid Tk. 30,000 towards repayment of the loans obtained from a bank at the time of the purchase of the house property. Interest of Tk. 5,000 was paid for the loan taken from the House Building Finance Corporation.

She is an employee of a firm and carries lumpsum salary of Tk. 10,000 per month. She earned interest on debenture of Port Trust amounting to Taka 12,000. She maintains a Post Office Savings bank account.

The Post Office saving bank account shows credit of Tk. 2,500 for the year ending December, 2004. Life Insurance premium of Tk. 10,000 was paid during the year. Defence Certificate of Tk. 8,000 and books worth Tk. 2,000 were purchased in November, 2001 by her. Education allowance of Tk. 1,600 also claimed for one son who is a student of a Cadet College. Determine her total income and tax credit for the assessment year 2005-2006.

[C. A. (Inter), May-1976 (Modified)]

Solution:

Mrs. Jahanara
Total Income & Taxable Income
Assessment Year : 2005-2006
Income Year : 2004-2005

Particulars	Tk.	Tk.	Tk.
1. Income from Salary			1,20,000
2. Income from Securities		$\frac{12000 \times 10}{7.5}$	16,000
3. Income from House Property :			
a) Annual Rental Value	8,000 x 12	96,000	
b) Municipal Value		?	
Annual Value : Higher One =		96,000	
Less : Admissible Expenses :			
i) Repair = $\frac{1}{4}$ of A. V.	24,000		
ii) Municipal Tax :	4,000		
iii) Urban Property Tax :	3,000		
iv) Interest on Loan taken for the purchase of house property from the H. B. F. C :	5,000	36,000	60,000

4. Income from other Source :			
Interest on Post Office Saving Bank Account :	2,500	—	—
(Fully Non-Assessable)			1,96,000
Total Income			
Tax Credit Income :			
A) Investment Allowance :			
i) Life Insurance Premium		10,000	
ii) Defence Certificate :		8,000	
		18,000	
Tax Credit @ 15% of the		18,000	
Lower of the followings:Actual Investment or		39,200	
20% of Total Income or			
Fixed Tk. 2.0 lakh		2,00,000	
∴ Assessee will get tax credit on Tk. 18,000 @15%			2,700

Note :

(1) Education allowance is not allowed at present.

(2) Credit of Post Office Saving Bank Account for the year ending December, 200[illegible] represents Interest. Such interest is exempted in full.

(3) From 1992 there is no non-taxable income. Instead tax rebate from the tax on total income will be allowed on tax credit income @ 15%, subject to maximum of 20% of T. I. or Tk. 2 lakh.

(4) Collection charge exemption has been merged with repair & treated accordingly.

Questions

1. What is the basis of taxation in respect of house property? How is annual value of house property determined? What exemptions are allowed in determining income from house property? [N. U. 1994]

2. What is meant by Annual Value of house property? Discuss the rules of determining annual value. What house properties are exempted from taxation? [C. U. B. Com. 1994]

3. Discuss the conditions relevant to charging tax on house property. What deductions are allowed for determing taxable amount for charging income tax? [C. U. B. Com. 1991]

Exercises

Ex.-1:

Wasim Akram owns a house at Dhanmondi. The municipal value of the house is Tk. 1,20,000. It has been let out at Tk. 12,000 per month. As per conditions the tenant is to bear the cost of repair which amounted to Tk. 5,000 for the year. Following were the expenses for the house for the year 2004-2005 :

a)	City Corporation Tax	Tk. 6,000
b)	Fire Insurance Premium	Tk. 4,000
c)	Salary of guard	Tk. 8,000
d)	Water charge	Tk. 5,000
e)	Int. on loan from HBFC	Tk. 7,000
f)	Land Revenue (Tk. 1,000 was paid as arrear)	Tk. 2,000
g)	Installation of generator	Tk. 25,000

Compute taxable amount of the house.

Ex.-2:

Mr. Mahbub Iqbal Morshed owns two houses one at Khulshi, Chittagong and another at Gulshan, Dhaka. Half of the house at Gulshan has been let out at Tk. 9,000 per month and the rest of the house is used for his residential purpose. The house at Nasirabad, Chittagong has been fully let out at Tk. 8,000 per month. The municipal value of the house is Tk. 75,000. Mr. Morshed claims the following as expenses for the houses :

		1st House (at Chittagong) Tk.	2nd House (at Dhaka) Tk.
i)	Repair and maintenance	8,000	7,000
ii)	Local Govt. tax	3,000	5,000
iii)	Insurance premium	4,000	5,000
iv)	Salary of guard	12,000	18,000
v)	Int. on loan taken for repair of the house	–	4,000
vi)	Ground Rent	3,000	–

The house at Chittagong was vacant for 2 months. Compute income from house property.

Compute taxable income under the head House Property.

Ex.-3:

Mr. Anwarul Azim Arif owns a house, the municipal value of which is Tk. 1,20,000. Half of the house has been let out at Tk. 9,000 per month. The rest of the house is used by his son-in-law who pays nothing for the use. Following were the expenses of the house :

		Tk.
i)	White wash and Repair	6,000
ii)	Municipal tax	5,000
iii)	Insurance premium	4,000
iv)	Water and sewarge charge	7,000
v)	Interest on mortgage	4,000
vi)	Service charges	6,000
vii)	Land revenue	2,000
viii)	Cost of alteration	15,000

Compute income from house property.

[**Hints:** The portion of the house used by his son-in-law will be valued and assessed in the same way as let out portion. Cost of alteration is a capital expenditure and is thus not allowable.]

Chapter-12

Income from Agriculture (Section : 26-27)

Chapter Synopsis/Contents:

12.1: Introduction

Agriculture is the most important sector in the economy of Bangladesh and the combined contribution of all sub-sectors of agriculture to GDP is about 31.5%. But the tax contribution of this sector is negligible. Agricultural income used to be taxed under a separtate Taxing Act called Agriculture Income-tax Act, 1944. But for simplicity of tax administration, collection and augmentation of tax, it was brought under Income tax Act through Finance Act, 1976. Now it is taxed as a source of income under Income Tax Ordinance, 1984.

12.2: Definition of Agricultural Income

As defined U/S 2(1) of I. T. Ordinance, 1984 the term "Agricultural Income" means any income derived by cultivator from any land or building in Bangladesh and used for agricultural purpose on the following prescribed conditions :

(a) In respect of Land the income is derived by :

(i) means of agriculture, or

(ii) the performance of ordinary process to make the produce marketable, or

(iii) The sale of produce in un-processed condition ; or

(iv) granting a right to any person to use the land for any period.

(b) In respect of Building which is:

(i) occupied by the cultivator for processing the produce to make it marketable.

(ii) on or in the immediate vicinity of such land,

(iii) required by the cultivator as the dwelling house or store-house or other out-house due to his connection with such land.

Beside the above, section 26 of I. T. Ordinance also includes the following under the orbit of agricltural income :

(c) Excess of the sale proceeds of Machinery over WDV:

Where any machinery or plant exclusively used by an assessee for agricultural purposes has been disposed of in any income year and the sale proceeds thereof exceeds the written down value, shall be deemed to be the income of the assessee for that income year classifiable under the head Agricultural Income. But the excess amount to be added shall be the exceess amount representing the difference between original value & written down value. [Section 19 (17)]

(d) Discarded value of Machinery over WDV:

Where any insurance, salvage or compensation moneys are received in any income year in respect of any machinery or plant which having been used by the assessee exclusively for agricultural purposes is discarded, demolished or destroyed and the amount of such moneys exceeds the written down value of such machinary or plant, shall be deemed to be the income of the assessee for that income year classifiable under the head Agricultural Income. However, the excess amount to be added shall not exceed the original cost over written down value. [Sec. 19 (19)]

(e) Other Income:

Under sub-section 2 and 3 of the section 26 of I. T. O., a proportionate income of tea garden, rubber garden, sugar and tobacco shall be treated as agricultural income to be computed under prescribed rule.

12.3: Partly Agricultural and Partly Business Income

Section 26 (2) & (3) provides that part of the income from the following heads will be treated as agricultural income and that Rules 31 and 32 of I. T. Rules provides the computation procedure of the proportion of agricultural and business income from those heads. The rules are stated below :

(a) Income from Tea Garden

Income from tea garden shall be partly agricultural and partly business if the producer is also the owner of tea factory. In such a case the sale proceeds of tea constitute partly agricultural and partly business income. Here 60% of the sale proceeds of tea is to be treated as agricultural income and the rest 40% to be treated as business income.

b) Income from Sugar Mill

Like income from tea garden, the income from sugar mill will also be partly agricultural and partly business if the owner of sugar cane field is also the owner of the mill or that the mill itself produces sugar cane for its factory. In this case the market price of sugar cane is deducted from sale value of sugar. Cost of sugar cane is treated as agricultural income and the difference between sale value of sugar and market value of sugar cane is treated as business income.

c) Income from Plantation of Rubber

If the rubber produced in Bangladesh is sold after processing than like tea 60% of the sale proceeds is treated as agricultural income and rest 40% is treated as business income.

d) Income from Tobacco

If a tobacco manufacturer produces tobacco itself and use it in its factory than a part of income from sales proceeds received will be treated as agricultural income and part of it will be treated as business income. As the rules 31 and 32 do not provide guidance for determination of proportionate income as to agricultural and business, it is considered logical to follow the rules applied in case of sugar mill. This cost of raw tobbacco will be treated as agricultural income and the difference between the sale proceed of processed tobacco and raw tobacco will be treated as business income.

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15.4 Characteristics of Agricultural Income

Analysis of definition, nature and case decisions relevant to agricultural income, following may be identified as the characteristics of agricultural income :

i) It must come from the agricultural land situated in Bangladesh.

ii) It must come from fundamental agricultural work.

iii) Marketing of products used by farmers will be the normal procedure.

iv) Such income may arise from adjacent agricultural ~~land.~~ building

v) Income may also arise from sale or discarded value of agricultural machines or plant subject to some ceiling.

vi) Such income may come from such items which may from partly agricultural and partly non-agricultural income.

vii) Agricultural income may also arise in cash i. e. annual rental value, etc.

In this connection two case decisions may be referred as an indication to the nature and characteristics of income.

1) C. I. T. Vs. Raja Binoy Kumar Shaha Roy : In this case it was decided that an income will not be agricultural income merely because it is related with agricultural land rather it needs to be arisen from fundamental agricultural work like cultivation, sowing of seeds etc.

2) Raja Mostafa Ali Khan Vs. C. I. T. : It has been pointed out in this case that the basic difference between agricultural income and non-agricultural income is that the former will be the result of basic agricultural work.

12.5: Allowable Deductions

Following deductions are allowed U/S 27 to compute income from agriculture :

(i) any land development tax or rent paid in respect of the land used for agricultural purposes;

(ii) any tax, local rate or cess paid in respect of the land used for agricultural purpose, if such tax, rate or cess is not levied on the income arising or accruing, or deemed to accrue or arise, from agricultural operations or is not assessed at a proportion or on the basis of such income:

(iii) subject to sub-clauses (ii) and (iii), the cost of production, that is to say the expenditure incurred for the following purposes, namely :-

(a) for cultivating the land or raising livestock thereon ;

(b) for performing any process ordinarily employed by a cultivator to render marketable the produce of the land ;

(c) for transporting the produce of the land or the livestock raised thereon to the market; and

(d) for maintaining agricultural implements and machinery in good repair and for providing upkeep of cattle for the purpose of cultivation, process or transportation as aforesaid ;

It is to be noted here that:

where books of accounts in respect of agricultural income derived from the land are not maintained, the cost of production to be deducted shall, instead of the expenditure mentioned in sub-clause (i), be sixty percent of the market value of the produce of the land;

(iv) no deduction on account of cost of production shall be admissible under this clause if the agricultural income is derived by the owner of the land from the share of the produce raised through any system of sharing of crop generally known as adhi, barga or bhag;

(v) any sum paid as premium in order to effect any insurance against loss of, or damage to the land or any crop to be raised from, or cattle to be reared on the land;

(vi) any sum paid in respect of the maintenance of any irrigation or protective work or other capital asset; and such maintenance includes current repairs and, in the case of protective dykes and embankments, all such work as may be necessary from year to year for repairing any damage or destruction caused by flood or other natural causes;

(vii) a sum calculated at the rate as provided in the Third Schedule on account of depreciation in respect of irrigation or protective work or other capital assets constructed or acquired for the benefit of the land from which agricultural income is derived or for the purpose of deriving agricultural income from the land, if the required particulars are furnished by the assessee;

(viii) where the land is subject to a mortgage or other capital charge for purposes of reclamation or improvement, the amount of any interest paid in respect of such mortgage or charge;

(ix) where the land has been acquired, reclaimed or improved by the use of borrowed capital, the amount of any interest paid in respect of such capital;

(x) where any machinery or plant which has been used by the assessee exclusively for agricultural purposes has been discarded, demolished or destroyed in the income year, the amount actually written off on that account in the books of accounts of the assessee,—

(a) subject to the maximum of the amount by which the written down value of the machinery or plant exceeds the scrap value thereof if no insurance, salvage or compensation money has been received in respect of such machinery or plant; and

(b) subject to the maximum of the amount by which the difference between the written down value and the scrap value exceeds the amount of insurance, salvage or compensation money received in respect of such machinery or plant;

(xi) where any machinery or plant which has been used by the assessee exclusively for agricultural purposes has been sold or transferred by way of exchange in the income year, the amount actually written off on that account in the books of accounts of the assessee, subject to the maximum of the amount by which the written down value of the machinery or plant exceeds the amount for which it has been actually sold or transferred; and

(xii) any other expenditure, not being in the nature of capital expenditure or personal expenditure, laid out wholly and exclusively for the purpose of deriving agricultural income from the land.

12.6: Rate of Depreciation

With reference to depreciation the prevailing allowable rates are as follows :

Assets	Rate
i) Pucca building	10%
ii) Partly pucca and partly kutcha	15%
iii) Kutcha house	20%
iv) Pucca wall	5%
v) Tubewell	15%
vi) Pucca irrigation canel	15%
vii) Kutcha irrigation canel	20%
viii) Iron tools driven by animals	15%
ix) Wooden tools driven by animals	25%
x) Tructor	15%
xi) Weighing machine	10%
xii) Power pump	20%
xiii) Cart	20%
xiv) Power driven engines	10%
xv) Other machines	10%

12.7: Some Typical Agricultural Income

Following are some of the typical agricultural income :

i) Income from cattle rearing land collected from cowboy.
ii) Income from cultivation of flower.
iii) Income from cultivation of tobacco and palm tree.
iv) Income from park.
v) Income from agricultural co-operative related with dairy
vi) Income from land used for processing of agricultural products to make them fit for marketing.
viii) Income from land leased for agriculture.
ix) Income from dairy farm provided:
    a) Farmers are the owners of cattles.
    b) Cattles are reared in cattle rearing field.
    c) Milk is processed by the farmers.
x) Income from poultry farm if they are reared in land.

12.8: Some Typical Non-agricultural Income

Following are the examples of typical non agricultural income:

i) Income from Ferry ghat, fishing, catching and market.
ii) Sale of soil used for brick field.

iii) Income from rent of the house used for collecting crops.
iv) Income from royalty of mine.
v) Income arising from salt production.
vi) Income from house used as godown, factory etc.
vii) Income from sale of tree, grass, crops grown on land without agricultural work.
viii) Income from sale of water used for irrigation.
ix) Income arising from purchase of crops from other farmers.

12.9: Specimen Proforma for Computing Agricultural Income

Name of Assessee : ....
Income year : ....
Assessment year : ....

Computation of Agricultural Income

Income from Agriculture (Sec. 26 and 27)	Tk.	Tk.
1. Income from agricultural land :		
a) Sale of crops.	XX	
b) Lease of agri. land	XX	XX
2. Income derived from any land or building used by the cultivator for agricultural purpose in Bangladesh u/s. 2(1)		XX
3. Excess of sale proceeds, over the written down value, on disposal of agricultural machineries and plants u/s. 19(17)		XX
4. Agricultural machinery or Plant being discarded, demolished or destroyed, if covered by insurance u/s. 19(19):-		
Insurance salvaged or compensation money received	XX	
Less written down value of machineries or plant XX		
Less scrap value	XX	XX
Less Allowable deductions U/S. 27 of ITO :-		XXX
i) Land development tax & land revenue, local rates, taxes, cess. (water tax) etc.	XX	
ii) Production cost, subject to prescribed limit. (Note-1)	XX	
iii) Insurance premium on Land, Crops or Cattle	XX	
iv) Repair and maintainence of capital assets e. g. irrigation, protective work etc.	XX	
v) Depreciation on capital assets at prescribed rate as per depreciation schedule	XX	
vi) Interest on mortgage and capital charges	XX	
vii) Interest on borrowed capital	XX	
viii) Any other non-capital and impersonal expenditure relating to agricultural income, if any	XX	
Total deductions and allowances		XXX
Total agri. income		XXX

Note:

Production cost includes the following:	Tk.
a) Cost of cultivating the land or raising live-stock.	xx
b) Cost of rendering the produce marketable by ordinary process.	xx
c) Cost of transporting the produce or livestock to the market.	xx
d) Cost of repair and maintainance of agricultural implements and machinaries, up-keeping of cattle for cultivation, process or transportation of agricultural produce.	xx
Total production cost (subject to limit)	xx

12.9: Illustrations

Illustration-1:

Following are the agricultural income of Mr. Talukder for the year ended on 30th June, 2005 :

i) Sale of paddy 300 maunds @ Tk. 350.

ii) Sale of Jute 100 maunds @ Tk. 300.

iii) Sale of Rabi crops. Tk. 40,000.

Expenses incurred for cultivation are as follows :

a) Labour charge Tk. 70,000

b) Cost of nursing the crops Tk. 15,000

c) Cost of Tractor hire Tk. 12,000

d) Cost of Pump Machine hire Tk. 8,000

e) Cost of marketing Tk. 6,000

iv) Income from poultry farm Tk. 20,000

v) Income from lease of agri. land Tk. 35,000

vi) Income from Ferry ghat (net) Tk. 48,000

vii) Income from mooring Tk. 30,000

He paid union Parishad tax Tk. 3,000. Land revenue Tk. 2,000 and Life Insurance premium and Crop Insurance premium Tk. 3,000 and 2,000 respectively. He also purchased savings certificate of Tk. 5,000. Compute taxable income, tax credit income and tax to be paid by Mr. Talukder.

Solution:

Assesseee : Mr. Talukder
Income year : 2004-2005
Assessment year : 2005-2006

Computation of Taxable Income and Tax Credit Income

Income under Agriculture (Sec. 26 & 27)		Tk.	Tk.
i) Income from sale of agri. crops :			
a) Sale of paddy	300 x 350	1,05,000	
b) Sale of jute	100 x 300	30,000	
c) Sale of Rabi crops		40,000	
		1,75,000	
Less : Cost of Cultivation and Marketing :			
a) Labour Cost	70,000		
b) Cost of Nursing	15,000		
c) Cost of hiring Tractor	12,000		
d) Cost of hiring Pump	8,000		
e) Cost of marketing	6,000	1,11,000	64,000
ii) Income from poultry :	20,000		
Less exempted in full	20,000	—	
iii) Income from lease of agri. land			35,000
Total Agri. Income			99,000
Non-Agricultural Income			
i) Income from Ferry ghat		48,000	
ii) Income from Mooring		30,000	78,000
Total Income			1,77,000
Less Allowable Expenses			
i) Union Parishad Tax		3,000	
ii) Land Revenue		2,000	
iii) Crop Insurance		2,000	7,000
Taxable Income			1,70,000
Tax-credit Income			
i) Life Insurance Premium		3,000	
ii) Purchase of savings certificate		5,000	
		8,000	
Tax credit : Actual investment or 20% of Total income or Tk. 2,00,000 on the lowest one @ 15% on 8,000		1,200	

Tax = on 1st Tk. 1,00,000	= Nil
on rest Tk. 70,000 @ 10% =	7,000
	7,000
Less tax credit =	1,200
	∴ Tax = Tk. 5,800

Illustration-2:

From the following particulars of Mr. Abed Ali compute taxable income and tax to be paid for the year 2004-2005 :

i)	Sale of rice : 200 maunds @	Tk.	600
ii)	Sale of rabi crops	Tk.	25,000
iii)	Yearly lease of agri. land	Tk.	40,000
iv)	Income from sale of bamboo	Tk.	20,000
v)	Income from Tea garden and tea sale	Tk.	60,000
vi)	Income from sale of palm juice	Tk.	18,000
vii)	Income from cattle rearing	Tk.	40,000

Mr. Ali does not keep proper books of accounts. He, however, claims Tk. 80,000 as cost of cultivation. He had a pump machine which was purchased at Tk. 25,000. It has become obsolete and has been discarded at Tk. 12,000. The written down value after charging depreciation at I. T. O. prescribed rate estimated at Tk. 10,000. He has taken agricultural loan Tk. 50,000 @ 8% interest p. a. and paid Union Parishad tax and Land Revenue Tk. 2,000 and 1,000 respectively.

During the year he paid life insurance premium Tk. 4,000 and purchased share of a company for Tk. 5,000.

Solution :

Assessee : Mr. Abed Ali
Income year : 2004-2005
Assesssment year : 2005-2006
Computation of Taxable Income and Tax to be paid

Particulars	Tk.	Tk.
1) Income from sale of agri. products :		
a) Sale of rice : 200x600	1,20,000	
b) Sale of rabi crops	25,000	1,45,000
2) Lease of agri. land		40,000
3) Sale of bamboo		20,000
4) Income from Tea garden 60%		36,000
5) Sale of palm juice		~~18,000~~

6) Income from cattle rearing			[illegible]
7) Profit from sale of pump machine			
Cost of purchase	= 25,000		
Less Dep.	= 15,000		
Written down value	= 10,000		
Sale value	= 12,000		2,000
Total agri. income			3,01,000
8. Business Income			24,000
(Tea garden = 40% Business Income)			
Total Income			3,25,000
Less allowable deductions :			
i) Cost of Cultivation :		87,000	
60% of sale proceed			
ii) Interest on loan		4,000	
iii) Union Parishad tax		2,000	
iv) Land revenue		1,000	94,000
Taxable income			2,31,000

Tax-credit Income :

			Tk.
i.	Life Insurance premium	=	4,000
	Purchase of shares =		5,000

Tax credit = Actual Investment Tk. 9,000
or 20% of total income = 63,400
or Tk. 2 lakh - which one is the lowest
= Tk. 9.000. on it @ 15% = 1,350

Tax :

On 1st 1,00,000	=	Nil
On next 1,50,000 @ 10%		
(Here on 1,31,000)	=	13,100
Total tax	=	13,100
Less tax-credit	=	1,350
Net tax payable =		11,750

Notes : (i) Where books of accounts are not maintained an expenditure equivalent to 60% of sale is allowed as allowable expenditure.

(ii) Income of tea-garden where factory owner is also owner of garden, 60% income is treated as agricultural and 40% as business income.

Questions

1. Define agricultural income. What are the allowable deductions in case of agricultural income? [C. U. B. Com. 1992, N. U. 1997]
2. What is agricultural income? State the features of agricultural income. How does it differ from non-agricultural income? Explain the nature of partly agricultural and partly non-agricultural income with examples. What allowances are obtainable in the computation of agricultural income? [C. U. B. Com. 1990]
3. What is agricultural income? How is it computed under Income Tax law? [C. U. B. Com. 1995]
4. What is meant by income from agriculture? Distinguish it from non-agricultural income. Examine if the following incomes are agricultural income :
   (a) Income from cattle
   (b) Income from tea cultivation
   (c) Income from paultry farm
   (d) Income from tea industry
   (e) Income from forest resources and fish cultivation. [R. U. B. Com. 1967]
5. How would you compute the income from the following sources?
   (a) Income from Tea-Garden
   (b) Income from Sugar Mill
   (c) Income from Rubber Plantation
   (d) Income from Tobacco industry. [C. U. B. B. A 1997]

Exercises

Ex-1.

Mr. A. B. Pramanik is a farmer. He had the following income for the year ended on 30-6-2005 :

i)	Income from Sale of Paddy	Tk.	60,000
ii)	Income from Dairy farm	Tk.	40,000
iii)	Income from Salt production	Tk.	50,000
iv)	Income from Sugar production	Tk.	80,000
v)	Income from sale of robi crops	Tk.	20,000
vi)	Income from sale of forest wood	Tk.	35,000
vii)	Income from sale of fish from pond	Tk.	25,000
viii)	Interest on loan given	Tk.	10,000
ix)	Income from lease of land	Tk.	20,000
x)	Income from sale of soil	Tk.	15,000

He took agricultural loan from BKB for Tk. 60,000 @ 8% interest p. a.. He claims cost of cultivation Tk. 30,000. He paid land revenue Tk. 3,000 and chawkidari tax Tk. 4,000. He paid Tk. 4,000 to Zakat fund and spent Tk. 80,000 for family expenditure.

Compute taxable income and tax to be paid by Mr. Pramanik.

Ex-2.

Mr. Tarafdar had the following agricultural income. Compute his taxable income :

i) Sale of paddy : 150 maunds @ Tk. 300 and jute : 100 maunds @ Tk. 250.

ii) Income from building adjacent to agricultural land and used as godown rented at Tk. 500 per month.

iii) Income from ferry ghat and mooring Tk. 25,000 and Tk. 15,000 respectively.

iv) Income from sale of trees grown in his outhouse Tk. 35,000 and sale of fish from pond Tk. 30,000.

v) Income from lease of agricultural land Tk. 35,000. He claims the following cost as expenditure :

a)	Cost of labour : 3 labour used for 9 month @ Tk. 3000 per month.		
b)	Cost of nursing	Tk.	30,000
c)	Cost relevant to transportation for sale of products	Tk.	4,000
d)	Purchase of Tractor	Tk.	30,000
e)	Land revenue	Tk.	3,000
f)	Treatment of cattle	Tk.	2,500
g)	Maintanance of cattle	Tk.	8,000
h)	Cost of irrigation	Tk.	3,000
i)	Donation to co-operative society	Tk.	5,000

Ex-3.

Compute agricultural income of Mr. Pankaj Udas from the following particulars relevant to the year ended on 30-6-2005 :

i)	Sale of paddy : 100 maunds at Tk. 450 per md.	Tk.	45,000
ii)	Sale of rabi crops	Tk.	10,000
iii)	Income from salt production	Tk.	15,000
iv)	Income derived from mooring	Tk.	5,000
v)	Sale of forest tree	Tk.	8,000
vi)	Income from lease of agricultural land	Tk.	6,000

As per books of accounts his agricultural expenditure were as follows:

i) Wages to labourers Tk. 10,000. Expenditure of food supplied to the labourers estimated at Tk. 18,000.

ii) Cost of rearing of cattle Tk. 5,000.

iii) Marketing cost Tk. 1,000.

He took agricultural loan from BKB amounting to Tk 10,000 @ 12% interest per annum. He contributed Taka 1,000 to Zakat fund & Taka 3,000 to Relief fund. He has two school going children.

Chapter-13

Income from Business and Profession (Section : 28, 29 & 30)

Chapter Synopsis/Contents:

13.1: Introduction

Income received by an assessee from his business and profession is taxed under section 28 of Income Tax Ordinance, 1984. Section 29 of the Ordinance gives a list of expenses that are allowed and section 30 gives the list of expenses that are not allowed. This chapter deals with these issues along with related other matters.

13.2: Definition of Business and Profession

a) Business

Business in general denotes human activities directed towards producing or acquiring wealth through the process of buying and selling of goods. Income Tax Ordinance, 1984 has not defined business. But through an inclusive definition under section 2(14) it states that business includes any trade, commerce or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

amount of such moneys exceed the written down value of such building, machinery or plant, so much of the excess as does not exceed the difference between the original cost and the written down value less the scrap value shall be deemed to be the income of the assessee for that income year.

(g) the sale proceeds referred to in section 19(20), viz.,

Where an asset representing expenditure of a capital nature on scientific research within the meaning of section 29(1)(xx) is disposed of during any income year, so much of the sale proceeds as does not exceed the amount of the expenditure allowed under the said clause shall be deemed to be the income of the assessee for that income year.

It is to be noted, where speculative transactions carried on by an assessee are of such a nature as to constitute a business, the business (referred to as "speculation business") shall be deemed to be distinct and separate from any other business.

13.4: Conditions of Assessibility

FOR EXAM

For assessment under section 28, the following conditions need to be satisfied :

(i) The assessee shall be engaged in business or profession at any period in the income year.

(ii) The business/profession shall be pursued by the assessee or by his agent.

(iii) The business shall be running in income year.

(iv) The income shall be relevant to income year.

(v) The income shall be a revenue income.

(vi) The income/receipt shall not come from sale of property at the time of dissolution of business or profession.

13.5: Allowable Deductions

For math

As per section 29 the following expenses will be allowed as deductions subjects to conditions mentioned against each :

Items	Conditions / Remarks
1) Rent of Premise	a) If the house is partly used for dwelling and partly for business, proportionate amount related to business b) No deduction will be allowed if the house is owned by the assessee.
2) Repair of hired Premise	a) For the house or portion thereof used for business.

(b) Profession

Profession involves the idea of an occupation requiring either purely intellectual skill or any manual skill where it is controlled by intellectual skill, as distinct from an operation which is substantially the production or sale or arrangements of commodities. In the Income Tax Ordinance, 1984, profession has not been defined. But section 2 (49) states that profession includes vocation. Here vocation can be defined as any type of occupation, as distinct from employment, pursued for the purpose of earning one's livelihood.

13.3: Scope of Income under the Head Business and Profession

Under section 28 of I. T. Ordinance, the following income of an assessee shall be classified and computed under the head income from business and profession :

(a) profits and gains of any business or profession carried on, or deemed to be carried on, by the assessee at any time during the income year;

(b) income derived by any trade or professional association or other association of like nature on account of specific services performed for its members;

(c) value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession;

(d) the amount, the value of the benefit and the trading liability referred in section 19(15), viz.,

  i) receipt in cash or kind any amount in respect of bad debt, loss or expenditure previously written off;

  ii) receipt in cash or through benefit against trading liability not previously shown as income;

  iii) amount shown as expenditure or liability and has not been paid within last 3 years.

  iv) interest shown as expenditure under mercantile system and has not been paid within last 2 years;

(e) the excess amount referred to in section 19(16), viz.,

Where any building, machinery or plant having been used by an assessee for purpose of any business or profession carried on by him is disposed of during any income year and the sale proceeds thereof exceeds the written down value, so much of the excess as does not exceed the difference between the original cost and the written down value shall be deemed to be the income of the assessee for that income year.

(f) the excess amount referred to in section 19(18), viz.,

Where any insurance, salvage or compensation moneys are received in any income year in respect of any building, machinery or plant which having been used by the assessee for the purpose of business or profession is discarded, demolished or destroyed and the

3) Interest on Borrowed Capital or Loan	a) If part of it used for non assessable business, it will not be allowed. b) If interest paid outside Bangladesh, tax must be deducted at source for this.
4) Transfer to Special Reserve account	a) It will be Govt. approved Financial Institution b) Amount not exceeding 10% of total income.
5) Current repair of Machinery, Plant and Furniture	Subject to limit, if any mentioned in I. T. Ordinance.
6) Insurance	a) It will be for Building, Plant and Machinery of the business.
7) Depreciation	a) As per rates of I. T. Ordinance b) For business assets.
8) Investment allowance for Ships	a) It will be inland passenger vehicle b) 10% of original cost
9) Obsolete allowance for Building and Machinery	a) If amount received is less than W. D. V b) If it exceeds W. D. V not exceeding original cost.
10) Loss in respect of dead or useless animal	a) Difference between original cost and realized value.
11) Land development tax or local tax	a) Relevant to business and profession.
12) Non-festival bonus or commission	a) As per general practice in similar business b) For service rendered to business and profession
13) Irrecoverable or written off bad debt	a) To be written off in the books of accounts of the income year. b) In case of Banking, the money/loan was given in the ordinary course of business.
14) Additional bad debt	a) Shown by assessee earlier but not allowed by I. T. Authority b) It is now proved irrecoverable
15) Bad debt relevant to overdue Agri. Loan	a) It will be relevant to Commercial Banks. b) Not exceeding 1% of such over due loan of rural loan including RKB and BKB.
16) Exp. for Scientific Research	a) Relevant to business.
17) Donation to Research Body	a) It must be approved by Govt. b) Research is relevant to business and profession
18) Donation to Hospital and Educational Institution	a) Hospital is to be established for the benefit of employees b) Educational institution be established for training and/or for benefit of children of employees

19) Expenditure for Training	a) Scheme should be approved by NBR for this clause
20) Cost of Trade Deligation Abroad	a) Assessee be a member of delegation. b) It will be sponsored by Govt. c) It will be non-capital and impersonal expenditure.
21) Subscription to Registerred Trade Organization	a) It will be registered organization as per Trade org. Ord. 1961 b) Recognized by NBR.
22) Any non-capital and impersonal expenditure.	a) It will be relevant to business or profession.

Besides the above there are some expenditures which are also allowed under I. T. under certain conditions and up to certain limit. These are as follows :

i) Entertainment Allowance

It will be allowed as follows :

Profit (before charging such allowance)	Allowable rate
a) on 1st Tk. 10,00,000	4%
b) on next of the profit	2%

ii) Free Sample

It will be allowed as follows :

Amount of sale	For General	For Medicine Co.
a) up to 1st Tk. 5 crores	1.5%	2%
b) over Tk. 5 crores but less than 10 crores	.75%	1%
c) over Tk. 10 crores	.375%	.50%

iii) Foreign Travel of Employees

If an organization sends employees abroad for recreation, the expenditure incurred will be exempted as follows :

a) $\frac{3}{4}$ th of Actual expenditure

or

b) Three months salary of employees

whichever is higher

iv) Embezzlement of Fund

If it occurs at office time and done by employee or if it is related to money lending business as deficiency in fund at day end, it will be allowed. Such loss is to be shown in the books of account. However, if such incident occurs through theft, robber or by outsider, such loss will not be allowed.

v) Compensation

If an employee is to leave job for the benefit of business & released, compensation given for this purpose is allowed. But employees given release under golden handshake do not fall under this category as the release is otherwise than for the benefit of the organization.

vi) Legal expenses

Legal expenses incurred for protecting interest of the business is allowed. But expenditure incurred relevant to disobey of certain rule, acts subversive to the state and violation of law is not allowed.

Besides following expenses as per accounting principles and prevailing general rules are also allowed as expenditure :

i) Contribution to Recognized Provident Fund of employees.
ii) Loss of stock due to fire.
iii) Retirement benefit or gratuity paid to employees.
iv) License renewal fees.
v) Sale tax/value added tax, water & road tax, municipal tax, excise duty etc.
vi) Legal expenses against users of trade mark illegally, partnership agreement preparation, violator of agreement.
vii) Compensation to employees for accident in the course of service. Perquisites to any employee can be given up to Tk. 1,50,000. Any amount exceeding this celing will be taxable.
viii) Revenue expenditure for advertisement.
ix) Royalty and patent right fees.
x) Cost of accounting and audit.
xi) Commission and brokerage for sale of product.
xii) Reward to employees for increased efficiency.

3.6: Non Allowable Expenses

For math

Under section 30 of I. T. Ordinance, the following expenses are not allowed :

a) any payment which is an income of the payee classifiable under the head "Salaries" if tax thereon has not been paid in accordance with provisions of Chapter VII;

b) any payment by way of interest, salary, commission or remuneration made by a firm or an association of persons to any partner of the firm or any member of the association, as the case may be;

c) any payment by way of brokerage or commission made to a person who is not a resident in Bangladesh unless tax has been deducted therefrom under section 56;

iv) any payment to a provident fund or other fund established for the benefit of the employees unless the employer has made effective arrangements to secure that tax shall be deducted at source from any payments made from the fund which are taxable being income falling under the head "Salaries";

v) so much of the expenditure by an assessee on the provision of perquisities or other benefits to any employee as exceeds prescribed limit, if any.

Besides the above as specified in sec. 30 of I. T. O. the following expenses are also not allowed for income tax purpose :

i) Past losses, if business is changed.
ii) Salary, commission and remuneration paid to partners.
iii) Interest on capital to partner.
iv) Income-tax and super tax.
v) Legal expenses incurred for income tax and dissolution of enterprise.
vi) Bad debt reserve or reserve for discount.
vii) Contribution to Un-recognized Provident Fund.
viii) Contingent liability.
ix) Preliminery expenses, under-writing commission, writing off share discount.
x) Loss of speculative business.
xi) Loss for investment in securities.
xii) Capital expenditure for advertisement.
xiii) Legal expenses related with compensation for sale knowing it defective by seller
xiv) Brokerage for capital.
xv) Expenses for protecting against competition.
xvi) New years day presentation to employee.
xvii) Fund embezzlement by employees after office hour.

KEEPING OF ACCOUNTS

13.7: Methods of keeping Accounts

a) Legal Requirement :

Section 35 of the Income-Tax Ordinance, 1984 provides that the income under the head Business and Profession shall be computed in accordance with the method of accounting regularly followed by the assessee. Thus the law is found not to prescribe any method of accounting rather keeps it flexible to the choice of the assessee. However, on analysis of the sub-sections of section 35 the following guidelings and features are revealed:

i) Assessee will determine his income through his regularly used accounting system.

ii) If assessee does not use any method regularly, the Deputy Commissioner of Taxes will use a reasonable method to determine the income.

iii) Income-tax authority will not take any adverse view if the assessee does not maintain account.

iv) National Board of Revenue, if desires, can give order to the assessee to keep accounts in a manner specified in the order.

v) Under sub-section 2 of section 35, every company having capital not less than Tk. 5 lakh on the 1st day of income year shall submit with income tax return the profit and loss account and balance sheet certified by Charterred Accountant.

vi) Article II of the Income Tax Rules provides principles of accounts and types of accounts books to be followed and kept by the professionals viz., Doctors, Lawers, Auditors, Engineers etc. However, assessee on requirement can adjust the principles, columns in the book etc.

b) Prevailing Methods of Accounts

There are three systems of accounting :

i) **Cash System :** Under the system only the cash receipts and cash payments are recorded. Accounts are not kept for outstanding and prepaid items.

ii) **Mercantile System :** Under this system all receipts and payments whether received in cash or due are recorded. Accounts maintained under this system reveal real picture of income/loss of an organization.

iii) **Mixed system :** Under this system, for some items accounts are kept on cash basis and for some items on mercantile basis.

Assessee, as stated above, may follow any system. But what is required is that the assessee will regularly follow his choosen method. He cannot change the method at his will.

c) Steps Need to be Taken as Safeguard

For adequacy and transparency, an assessee need to take the following steps :

i) If feasible, mercantile system of accounting need to be adopted.
ii) Keeping proper cash book and bank accounts and this should be reconciled regularly
iii) Maintaining Stock Register to ensure proper records of stock & stores.
iv) Keeping proper records of purchase and sale.
v) Preparing final accounts on due date, and see books of accounts are adequately kept.
vi) If gross profit fluctuates, the reason need to be identified and analysed.
vii) Keeping in mind the provisions of income tax while preparing tax return.

d) Examination of Accounts by Tax Authority

For examining accounts of assessee, tax authority can take different steps. Following are the important steps in this regard :

i) Evaluating valuation of stock

An assessee may follow any prevailing method of stock valuation. But tax authority will see whether he follows the method regularly. If any method is not regularly followed and tax authority thinks that valuation is less than actual value, the difference may be added with profit.

ii) Suspense Account & Reserve

If these items are shown in the account of an assessee, tax authority will examine as to the genuineness of these items. If tax authority is not satisfied, such items may be treated as profit.

iii) Source & Nature

If assessee fails to explain the source and nature of any receipt, such receipts will be deemed as receipts from undisclosed source and be treated as income.

iv) Undisclosed investment

If assessee fails to disclose any investment, this investment will be treated as income and be taxed.

v) Misc. Expenses

This items will be examined properly as to their genuniness and relevance with business and income year.

For other items like salary, purchase and sale, rent, interest etc. Tax authority will apply general test based on accepted principles.

e) Tax Audit

Under sec. 35 (2) any company having capital over 5 lakh shall submit audited accounts. Such steps makes the process easy and simple for tax authority. In such a context auditors need to take into account the following along with his generally accepted techniques of audit :

i) Evaluation of accounting system.
ii) Adequacy of Books of Accounts.
iii) Valuation of stock.
iv) Variation in profit or loss and the reasons.
v) Nature of depreciation and tax provisions.
vi) Bad debt & Reserve.
vii) Items of final accounts, etc.

13.8: Specimen Proforma for Computing Income from Business & Profession

Name of Assessee : ....

Income year : ....

Assessment year : ....

Income from Business & Profession

Particulars	Tk.	Tk.
Income as per P/L Account :		XXXX
Add : Non allowable expenses :		
i) ----------------	XXX	
ii) ----------------	XXX	
iii) ----------------	XXX	XXX
Less non business income, if any shown in P/L Account :		XXXX
i)	XXX	
ii)	XXX	XXX
Taxable Business Income :		XXXX

13.13: Illustrations

Illustration-1:

Following is the Profit and Loss Account of Ahmed Salehuddin for the year ended on 30-6-2005:

Particulars	Tk.	Particulars	Tk.
Salaries	48,000	Gross Profit	1,70,000
Stationeries	9,600	Int. on Less tax Commercial	
Int. on loan	2,000	Securities	2,500
Travelling Exp.	2,500	Income from Sale of	4,000
Fund Embezzlement	4,000	Machine	
Donation	6,500		
Depreciation Reserve	3,700		
Fire Insurance	1,500		
Legal expenses	2,500		
Commission	1,500		
Personal Expenses	1,700		
Net Profit	93,000		
	1,76,500		1,76,500

Investigation revealed the following :

i) Fund embezzlement occured after office hour.

ii) Legal expenses include Tk. 500 for income tax appeal and Tk. 500 for VAT appeal.

iii) Old machine was sold at Tk. 29,000, depreciation charged till now 2,000 & the purchase price was Tk. 27,000. Machine was purchased in November, 2001. Compute taxable income and tax to be paid.

Solution:

Assessee : Mr. Ahmed Salehuddin
Income year : 2004-2005
Assessment year : 2005-2006
Computation of Income from Business

Income from Business (Sec. 28-30)	Tk.	Tk.
Profit as per P/L Account		93,000
Add : Non-allowable Expenses :		
i) Fund Embezzlement	4,000	
ii) Donation (is not aprove fild)	6,500	
iii) Depreciation Reserve	3,700	
iv) Legal Expenses (for income tax)	500	
v) Personal Expenses	1,700	16,400
		1,09,400
Less : Non-business income :		
i) Int. on Less tax commercial securities	2,500	
ii) Capital Profit on Sale of Old machine (Note: 1)	2,000	4,500
Business Income		1,04,900

Total Taxable Income :

i)	Business income =	Tk.	1,04,900
ii)	Int. on commercial security : $\frac{2500 \times 10}{7.5}$	Tk.	3,334
iii)	Income from sale of machines capital profit (See Note-1)	Tk.	2,000
			1,10,234

Tax :

	Tk.
On 1st Tk. 1,00,000	Nil
On next Tk. 1,50,000 @ 10% (Here on Tk. 10,234)	1,023
	1,023

But as minimum tax payable is Tk. 1,500 the assessce will have to pay Tk. 1,500 as tax.

Notes :

1) Calculation of profit on sale of machine :

a) Purchase price =	Tk.	27,000
b) Depreciation charged =	Tk.	2,000
c) Written Down Value =	Tk.	25,000
d) Sale price =	Tk.	29,000
e) Profit =	Tk.	4,000

Here : Capital profit is (29,000–27,000) =	Tk.	2,000
Revenue profit = (4,000–2000) =	Tk.	2,000

If capital profit arises within 5 years of purchase, the profit is added with income & tax is charged as usual. Tax is separately assessed as capital gain if it occurs after 5 years from date of purchase. Here we assume that gains arose within 5 years.

2) Revenue profit on sale of machine requires no separate treatment as it is already included with business income.

3) As fund embezzlement occurred after office hour, it is not allowed.

4) Int. on less tax commercial securities need to be grossed up.

5) Depreciation is allowed as per rates prescribed in I. T. Ordinance. But depreciation reserve is not allowed.

6) Legal expenses relevant to income tax is not an allowable expense.

Illustration-2:

From the following particulars compute business & total income of Mr. Shaha.

Mr. Shaha
Profit and Loss Account
for the year ended on 30-6-2005

Particulars	Amount (Tk.)	Particulars	Amount (Tk.)
Salary & Wages	64,000	Gross Profit	2,40,000
Office expenses	15,000	Profit from sale of investment	10,000
Rent of the office	36,000	Int. on Tax-free Govt. Securities	20,000
Bad debt	8,000	Bank Interest	2,000
Bad bebt provision	6,000	Bad debt recovered	3,000
Depreciation	4,000		
Legal Expenses	10,000		
Loss of Stock	12,000		
Income tax	15,000		
Travelling expenses (Pleasure trip to Cox's bazar)	10,000		
Loss on Sale of Security	5,000		
Entertainment Exp.	2,000		
Accounting Expenses	5,000		
Misc. expenses	3,000		
Net Profit	70,000		
	2,75,000		2,75,000

Investigation disclosed the following :

i) Salary & Wages include Tk. 25,000 paid to the proprietor as his remuneration for service.

ii) Depreciation as per Income tax rule allowable Tk. 2,500

iii) Legal expenses include Tk. 5,000 relevant to violation of traffic rule and Tk. 5,000 for protecting trade mark.

iv) Stock was not insured.

v) Commission received & paid Tk. 3,000 & 2,000 has not been recorded.

Solution:

Assessee : Mr. Shaha
Income year : 2004-2005
Assessment year : 2005-2006
Computation of Business Income and Total Income

Particulars	Tk.	Tk.
Profit as per P/L Account		70,000
Add : Inadmissible Expenses		
i) Salary (paid to proprietor)	25,000	
ii) Bad debt provision	6,000	
iii) Depreciation (to be treated latter on)	4,000	
iv) Legal expenses (for violation of traffic rule)	5,000	
v) Loss of Stock	12,000	
vi) Income tax	15,000	
vii) Travelling Expenses	10,000	
viii) Loss on sale of security	5,000	82,000
		1,52,000
Add : Income not shown:		
i) Commission received		3,000
		1,55,000
Less : Exp. allowed		
i) Depreciation as per tax law	2,500	
ii) Commission paid	2,000	4,500
		1,50,500
Less : Non-Business Income		
i) Profit on sale of investment being capital receipt	10,000	
ii) Int. on Tax-free Govt. Security	20,000	
iii) Bank Interest	2,000	32,000
Business Income		1,18,500

Total Income:

		Tk.
i)	Business Income	1,18,500
ii)	Profit on Sale of Investment	10,000
iii)	Int. on Tax-free Govt. Securities (Non-assessable)	—
iv)	Bank interest	2,000
		1,30,500

Notes :

1) Entertainment allowance is within exemption limit, thus it has been allowed as expenses.
2) Mics. expenses assumed to be genuine and related to business.
3) Salary, remuneration, commission etc, paid to proprietor or partner is not allowable.

Illustration-3:

The following is the Income and Expenditure Account of Doctor Hamida Ali for the year ended 30th June, 2005. Ascertain her income from profession and her total income.

Income and Expenditure Account

	Taka		Taka
Car purchased	92,000	Visiting fees	69,000
House hold expenses	48,000	Consultation fee	92,000
Salaries to chamber staffs	28,000	Gains on Lottary	10,000
Travelling expenses (Expenses for attending conference abroad)	24,000	Sale proceeds of Land property	1,18,900
Charity and Donation (To unrecognised institution)	5,000	Dividend on shares	5,000
Income-tax	10,700	Marriage day Gift	6,000
Gifts to Son-in-law	20,000	Interest from Post Office Savings Bank	1,600
Interest on loan (for buying surgical instruments)	3,100	Gifts from Father in-law	40,000
Surgical instruments	44,200	Interest on Savings Deposit in Bank	2,200
Net Surplus	68,700		
	3,43,700		3,43,700

Solution :

Assessee : Doctor Hamida Ali
Income year : 2004-2005
Assessment year : 2005-2006
Computation of Income from Profession and Total Income

Income from Profession (Sec. 28-30)	Tk.	Tk.
Surplus shown as per Income and Exp. Account		68,700
Add: Non-allowable expenses :		
i) Car Purchase	92,000	
ii) House hold exps.	48,000	
iii) Travelling exps.	24,000	
iv) Charity and Donation	5,000	
v) Income-tax	10,700	
vi) Gifts to Son-in law	20,000	
vii) Surgical instruments	44,200	2,43,900
		3,12,600
Less : Non-professional Income :		
i) Sale of Land	1,18,900	
ii) Gain on Lottery	10,000	
iii) Dividend	5,000	
iv) Marriage day Gift	6,000	
v) Int. on Post office Savings Account	1,600	
vi) Gift from Father-in law	40,000	
vii) Int. on Bank Deposit	2,200	1,83,700
Professional Income		1,28,900

Total Income :

i) Professional Income	1,28,900
ii) Dividend (Assumed to have receive from pvt. company	5,000
iii) Int. on Bank deposit	2,200
iv) Gain from lottery	10,000
	1,46,100

Notes :

i) Lottery income is assessed separately. But it is added with total income and adjusted thereafter.

ii) Dividend assumed to be received from private ltd. company and thus no exemption has been allowed.

iii) Interest on bank deposit is not exempted now. But interest on postal account is exempted in full.

iv) Expense of Govt. sponsored delegaiton abroad is exempted. It is assumed not such case in this regard and thus not exempted.

Depreciation

13.9: Definition of Depreciation

There is no definition of depreciation in Income Tax Ordinance, 1984. However, in accountancy it means the permanent reduction in value of fixed assets due to wear and tear, lapse of time, etc. In income tax, in such a condition given emphasis on this accounting sense and it has prescribed different rates of depreciation for different types of assets. Section 29(1) VIII provides that in respect depreciation of building, machinery, plant or furniture, being the property of the assesse and used for the purpose of business or profession, the allowance is admissible under the Third Schedule.

13.10: Conditions to be Fulfilled

According to the Rule 2 of third schedule of I. T. Ordinance, depreciation will be allowed on building, machinery, plant and furniture of the assessee for his business if the following conditions are satisfied :

i) at the time of filing return, such particulars as may be prescribed and such other information as the D. C. T. requires, are furnished;

ii) such building, machinery, plant and furniture have been used during the income year. In this connection following points, worth remembering :

a) Fixed assets may not contineously be used, they may be used sometimes.

b) Depreciation cannot be claimed in the year in which assets are sold, discarded or ruined.

c) Amount of depreciation shall not exceed original value of asset.

d) Assets having life time less than a year will not be entitled to depreciation allowance.

e) Depreciation will be allowed as per rates prescribed in third schedule of I. T. Ordinance.

13.11: Basis of Charging Depreciation

According to the income tax rule, depreciation is to be charged at prescribed rate on the written down value of the asset except for ocean going ships in which case it is to be charged on the original cost of the asset to the assessee.

Written Down Value

Rule 11(5) of the Third Schedure of I. T. Ordinance defines written down value as:

a) Where the assets were acquired in the income year, the actual cost thereof to the assessee.

b) Where the assets were acquired before the income year, the actual cost as reduced by aggregate depreciation allowance under income tax.

In this connection some explanations relevent to actual cost and written down value are essential to be noted :

Actual Cost

(i) in computing the actual cost of an asset the amount of any grant, subsidy, rebate or commission and the value of any assistance received by an assessee from Government or any other authorities or persons and any deduction or allowance admissible shall be excluded.

(ii) Where, any asset used by any person and aquired by assessee the actual cost shall be deemed not to exceed the fair market value.

(iii) Where any assessee has succeeded another person by inheritance the written down value of an asset shall be treated as actual cost.

(iv) Where the assets have been imported for business on foreign loan or deferred payment basis, the adjustment for currency fluctuation shall be made with the actual cost of the assets installed in Bangladesh.

Written Down Value

(i) Where the assets are acquired before the accounting year the written-down value means the actual cost to the assessee less all depreciation allowed (and not merely allowable) to him in past year.

(ii) Where assets which had once belonged to the assessee and had ceased to be his property by reason of transfer or otherwise, are re-acquired by the assessee, the actual cost of the asset shall be taken to be the actual cost of the first acquisition to the assessee less all depreciation actually allowed to him.

(iii) Where before the date of acquisition by the assessee, the assets were used at any time by any other person for the purposes of his business and the Income-tax Officer is satisfied that the main purpose of transfer is to reduce the tax liability, such an amount as fair should be taken as actual cost.

13.12: Types of Depreciation Allowance allowed under Income-tax

Following five types of depreciation are allowed under Income-tax Ordinance, 1984 :

1. Normal Depreciation
2. Initial Depreciation
3. Special Depreciation for Ships
4. Accelerated Depreciation and
5. Balancing Depreciation

1. Normal Depreciation Allowance (NDA)

It is allowed only in respect of such buildings, machinery, plant and furniture as are used for the purpose of the assessee's business or profession which are being charged. Here following conditions need to be satisfied :

(a) The assessee must be the owner of the property and he would not be entitled to depreciation allowance if he is not the owner but has only the right to use them. If the assessee acquires any property by hire-purchase, he would not be entitled to depreciation for such property.

(b) The business for which assets are used must be running one. If the business has been discontinued earlier, depreciation will not be allowed.

(c) Full depreciation is allowed even if the assets are used only for a part of the year during the relevant accounting year.

Rates of Normal Depreciation:

Class of assets	Rate in %
a) Building (general)	12
b) Factory Building	24
c) Furniture and Fittings	10
d) Machinery and Plant :—	20
e) Ships :— i) Ocean-going ships (new) ii) Ocean-going ships (second hand), age at the time of purchase: less than 10 years 10 years or more iii) Inland ships including steamers, motor vessels, sails, tug-boats, iron or steel flats for cargo, wooden cargo boats, motor launches and speed boats.	10 (To be calculated on the original cost). 12 24 24
f) Batteries, X-ray and electro—therapeutic apparatus accessories thereto.	20
g) Machinery used in the production and exhibition of cinematograpic films.	20
h) Motor vehicle : i) Not for hire ii) For hire	20 24
i) Professional and reference books	30
j) Aircraft, aero-engines and aerial photograpic aparatus.	30
k) Moulds used in the manufacturer of glass or plastic goods or concerete pipe.	30
l) Mineral oil concerns— i) Below ground installations. ii) Above ground installations, that is to say, portable boilers, drilling tools, well head tanks and rigs.	 100 30

2. Intial Depreciation:

Where any building has been newly constructed or any machinery or plant has been installed in Bangladesh after 30th June, 2002 and that such machinery or plant is used by the assee for the first time for business purpose initial depreciation will be allowed. It will be allowed as per following rate in the year when commercial production commences:

(a) For Building = 10% on the cost.

(b) For machinery = 20% of the cost, plant other than ship or motor vehicle.

3. Special Depreciation foı Ships (SDS)

Passenger vehicle plying in inland water of Bangladesh or Fishing Troller registerred in Bangladesh which were brought in Bangladesh for the first time within July, 1982 to June 30th, 1995 will be eligible for special depreciation as follows :

a) First year = 40%
b) Second year = 30%
c) Third year = 30%

Conditions:

i) The Ship or Trawler be according to design specified by GOB for this purpose.

ii) Assessee shall apply to the tax authority with particulars to enjoy this depreciation.

It is important to mention here that the assets enjoying special depreciation will not be eligible for any other depreciation under the Income tax ordinance.

4. Accelerated Depreciation Allowance (ADA)

It is allowed in respect of any machinery or plant (other than office appliances and road transport vehicles) which has been or is first used in an industrial undertaking set up in Bangladesh. It was introduced in 1982 for 5 years thereafter the benefit was extended for further years. Through Finance Act, 2002 the benefit has been extended up to 2005. This is an alternative to tax holiday facilities. However, through Finance Act, 1993, the new unit of industrial undertaking enjoying tax holiday was also permitted to enjoy the benefit.

Rate :

It will be allowed @ 100% in the first year of operation.

Conditions for availing this depreciation

(a) that the industrial undertaking is owned and managed by a Bangladeshi Company, or a body corporate formed in pursuance of an Act of Parliament, having its registered office in Bangladesh.

(b) that it belongs to such class of industries as the NBR may specify.

(c) that the particulars required for the purpose of entitlement to, or claiming ADA have been furnished.

(d) that the application in the prescribed form and verified in the prescribed manner is made to the Board within four months from the end of the month of commencement of its commercial production. It shall be accompanied by a declaration in writing that the undertaking has not been approved for before, and that no application in respect of the undertaking has been made or shall be made to the Board u/s. 45 of ITO for any period.

(e) The machinery or plant for which ADA has been once allowed, shall not be entitled to any other depreciation allowance. If for paucity of profit this depreciation cannot be fully charged, the unabsorbed portion can be carry forwarded.

5. Balancing Depreciation Allowance (BDA)

If building, plant or machinery is sold, discarded or compulsorily being acquired by competent authority, and disposed price is less than written down value of the asset; this difference will be treated as loss and can be allowed as balancing depreciation. This allowance is, however, not allowed for furniture.

Balancing Charge:

On the otherhand if disposed value exceed written down value, this will be treated as profit. Where sale/disposal value exceeds original price the excess will be treated as capital profit and rest of the amount will be revenue profit.

Unabsorbed Depreciation:

Depreciation admissible under income tax is charged against profit provided sufficient profit is available. If the profits of a particular business are insufficient to absorb the depreciation allowance, the allowance can be set-off under this section against the profits of any other-business. If there are no profits chargeable under business head or if the profits chargeable under this section are insufficient to cover the depreciation allowance, such allowance may be set-off under Section 24(1) against profits chargeable under any other head for that year. Even if some amount is left unabsorbed, it may be carried forward to the following year for set-off against the profits. When profits fall short of the amount of depreciation, the entire amount of depreciation should not be charged, as unabsorbed depreciation should not be converted into business loss. Because business loss can be carried forward for six years but unabsorbed depreciation can be carried forward for indefinite period for the purpose of setting off against future profits.

Investment Allowance:

In connection with depreciation it can be mentioned that an investment allowance @ 25% for special Zone & @ 20% for other zones will be allowed on plant & machinery on original cost in the 1st year to encourage industrialization. For ships also investment allowance will be available @ 20% in the first year.

Illustrations:
Illustration-1:

Mr. Azad purchased a machine for his factory in Nov. 2001 for Tk. 4,50,000. In June, 2004 the machine was sold. Compute depreciation and written down value of the plant for the concerned years if the machine was sold at (a) Tk. 3,20,000; (b) Tk. 3,90,000 & (c) 4,75,000. Normal dep. rate is 10%

Solution :

Income year : 2001-2002
Assessment year : 2002-2003

Original Cost of Machine =	Tk.	4,50,000
Less Depreciation @ 10% =		45,000
Written down value =		4,05,000

Income year : 2002-2003
Assessment year : 2003-2004

Written down value =	Tk.	4,05,000
Depreciation @ 10% =		40,500
Written down value =		3,64,500

Income year : 2003-2004
Assessment year : 2004-2005

Written down value =	Tk.	3,64,500
Depreciaton @ 10% =	Tk.	36,450
Written down value =	Tk.	3,28,050

Income year 2004-2005
Assessment year 2005-2006

(Case : a)	Written down value =	Tk.	3,28,050
	Sale price =	Tk.	3,20,050
	Balancing Depreciation =	Tk.	8,000

[Note : No Depreciation will be allowed in the year of sale. Balancing dep. will be treated as loss.]

(Case : b)	Written down value =	Tk.	3.28,050
	Sale Value Tk. =	Tk.	3.90.000
	Balancing charge =		61.950
	This will be treated as income		

(Case : c)	Written down value =	Tk.	3.28,050
	Sale price =	Tk.	4.75.000
		Profit	1.46.950

Here Tk. 25,000 (4,75,000-4,50,000) will be treated as capital profit (excess over original cost is capital gain) & rest of the profit (1,46,950-25,000) = Tk. 1.21.950 will be treated as revenue profit.

Illustration-2:

A factory building was constructed in the year 2003 having a total cost of Tk. 2,00,000. It was insured for Tk. 2,10,000. In the month of January 2003, it was destroyed by fire. The scrap was sold at Tk. 10,000. Till the year 2004-2005 assessment year, depreciation of the building was charged at Tk. 60,000. Under the following conditions find out balancing depreciation:

(i) If 100% insured amount could be recovered from Insurance Co.

(ii) If 75% of insured amount could be recovered from Insurance Co.

(iii) If 50% of insured amount could be recovered from Insurance Co.

Solution:

Income year = 2004 - 2005
Assessment year = 2005 - 2006

		Taka
Cost of the Building		2,00,000
Less Dep. written off		60,000
	W. D. V	1,40,000
Sale of scrap		10,000
		1,30,000

Case-1:

	Taka
Loss due to fire	1,30,000
Amount Received from Insurance Co.	2,10,000
Total profit	80,000
In this figure : capital gain	10,000
Revenue gains	70,000

Case-2:

Loss due to fire	1,30,000
Amount received from Insurance Co. (75% of 2,10,000)	1,57,500
Profit	27,500

No question of balancing depreciation arises rather revenue profit arises at Tk. 27,500

Case-3:

Less due to fire	1,30,000
Amount Received from Insurnace Co. (50% of 2,10,000)	1,05,000
Balancing Dep.	25,000

Here balancing depreciation computed at Tk. 25,000 which can be deducted from profit.

Questions

1. (a) What is meant by 'Business' and 'Profession' under income tax law?
   (b) Determine the scope of income from business head. What are the conditions for taxability of income?
   (c) Give 5 examples of admissible and inadmissible expenses under this head.
2. (a) What is meant by Written Down Value and Actual Cost under income tax rule.
   (b) What is accelerated depreciation? Discuss provision of income tax ordinance relevant to this.
   (c) What is Balancing and Unabsorbed Depreciation? Discuss provisions of income tax rule relevant to these.
3. Discuss in detail whether the following expenses be considered admissible or not in the ascertainment of business income:
   (i) Bad debts and doubtful debts; (ii) Embezzlement by employee; (iii) Legal expenses; (iv) Contribution to Provident Fund; (v) Subscription to Business Association. [C. U. B. Com (H), 1993]
4. (a) Discuss the provisions relating to the assessees' methods of accounting under the Income Tax Ordinance, 1984. Do you think that these provisions are adequate?
   (b) Give a list of allowable expenses under the head business and profession as per Income Tax Law.
5. What is Depreciation? State the various kinds of depreciation allowances approved by the Income Tax Authority. Mention the relevant rates where possible.
   [R. U. B. Com. 68, C. U. 1973]
6. Discuss the admissible depreciation allowances as per Income Tax Law.
7. State the rules relating to depreciation allowances for income tax assessment. What additional previliges are granted to newly established industrial concerns?
   [C. U. B. Com (H), 1976, N. U. 1994]

Exercises

Ex. 1:

Mr. S. Alam is a businessman. Following is the Profit and Loss Account of his business for the year ended on 30-6-2005. Compute his business and total income :

Dr. Cr.

Particulars	Tk.	Particulars	Tk.
Salaries	48,000	Gross Profit	2,50,000
Rent of premises	30,000	Bank interest	5,000
General Expenses	15,000	Commission	10,000
Bad debt	7,000		
Insurance	6,000		
Advertising	18,000		
Income-tax	10,000		
Fund Embezzlement	5,000		
Depriciation of furniture			
Int. on capital	4,000		
General Reserve	10,000		
Net Profit	1,12,000		
	2,65,000		2,65,000

Investigation disclosed the following :

i) Salaries include Tk. 24,000 paid to the owner for his service.
ii) Int. on capital was paid to the owner.
iii) Depreciation allowable as per tax rule is Tk. 2,000
iv) $\frac{2}{3}$rd of the advertisement relates to revenue expenditure.
v) Past loss Tk. 2,000 has been included with bad debt.

Ex.-2:

Following is the profit and loss account of Mr. Dipu Sarker for the year ended on 30-6-2005.

Profit and Loss Account

Particulars	Tk.	Particulars	Tk.
Salary and Wages	50,000	Gross Profit	1,80,000
Office expenses	20,000	Int. on Tax-free Govt. Securities	15,000
Advertisement	10,000	Int. on less tax commercial securities	18,000
Donation to charitable Hospital	15,000	Income from sale of Investment	10,000
Loss on sale of investment	5,000	Bad debt recovered	5,000
Loss of stock due to fire	8,000		

Bad debt	6,000		
Bad debt provision	4,000		
Travelling expenses	12,000		
Net Profit	93,000		
	2,28,000		2,28,000

Additional Information :

i) Salary and wages include Taka 8,000 paid as arrear for last year.

ii) Travelling expenses include Tk. 8,000 incurred for pleasure trip of employees and their family at Cox's bazar.

iii) Advertisement cost included Taka 6,000 spent for permanent signboard.

Ex.-3:

From the following Profit and Loss A/C of Mr. Shabbir Ahmed Chowdhury, find out his taxable income for the year ended on 31 Dec., 2004.

Profit and Loss Account

For the year ended on 31st Dec. 2004.

Dr. Cr.

Particulars	Tk.	Particulars	Tk.
Office salary	16,470	Gross profit	42,202
General charges	6,550	Commission	3,205
Bad debts	2,100	Discount	751
Reserve for B/D	3,000	Sundry receipts	552
Fire insurance premium	1,000	B/D recovered	650
Advertising expenses	2,500	Interest on govt. securities	4,650
Income tax	2,375	Profit on sale of machinery	4,000
Interest on capital	1,000		
Loss on building by fire (uninsured)	2,500		
Depreciation	1,200		
Net profit	70,305		
	75,000		75,000

Other information :

(1) General charges include Tk. 1,000 donation to an institution not approved under Income Tax Act.

(2) Advertising expenses include Tk. 2,000 for fixing permanent signboard on the shop.

(3) Depreciation approved under Income Tax Rule amounts to Tk. 800 only.

(4) Govt. securities should be assumed as less tax securities.

Ex.-4:

Mr. S. Rahman is a Chartered Accountant. Following is his Income and Expenditure Account for the year ended on 30th June, 2005 :

Income and Expenditure Account

Dr. Cr.

Particulars	Tk.	Particulars	Tk.
Honoarium to article clerk	2,00,000	Profession fees :	
Salary to staff	1,20,000	From Audit	3,00,000
Office Expenses	48,000	From Tax account	2,00,000
Rent of Premise	80,000	From Accounts preparation	1,50,000
Entertainment	10,000	Dividend from private ltd. company	50,000
Loan to client	40,000	Int. on tax-free Govt. Securities	40,000
Purchase of books and periodicals	12,000	Rent from sub-let of premise	36,000
Travelling Expenses	25,000		
Fines for breaking custom rule	20,000		
Loss on investment in shares	18,000		
Misc. Expenses	10,000		
Surplus of income over expenditure	1,93,000		
	7,76,000		7,76,000

Compute Professional Income and tax to be paid.

Ex.-5:

Mr. Noor Hossain built his factory building in Dec. 2003 at Tk. 2,10,000. It was insured. In January, 2003 and was destroyed by fire is Dec. 2004. Scrap value could be sold at Tk. 10,000. Till the day of destruction depreciation charged on the building accumulated at Tk. 60,000.

Findout balancing depreciation or balancing charge for the building if :

a) Insurance company pays 100% of the loss.
b) Insurance company pays 75% of the loss.
c) Insurance company pays 50% of the loss.

Ex.-6:

A machine was purchased by Habibullah Enterprise at Tk. 2,00,000 as on 31st March, 2004. The Normal Depreciation is allowed @ 20% p. a. The Co. closes its book on 30th June each year.

In the assessment year 2005-2006 the machine was sold.
What would be the position as to balancing depreciation if the machine is sold at Tk. 1,00,000, Tk. 1,50,000, Tk. 1,80,000 and Tk. 2,25,000?

Chapter-14

Income from Capital Gain (Section : 31-32)

Chapter Synopsis/Contents:

14.1: Introduction

Income Tax Act in general intends to tax revenue income/profit. But like some other countries of the World, income tax law in Bangladesh brings under its orbit some capital gain for charging income tax. Thus section 31 of the I. T. Ordinance, 1984 provides that the tax shall be payable by an assessee under the head "Capital Gains" in respect of any profits and gains arising from the transfer of a capital asset and such profits and gains shall be deemed to be the income of the income year in which the transfer took place.

14.2: Definition of Capital Assets

Section 2 (15) of I. T. Ordinance defines "capital asset" as property of any kind held by an assessee whether or not connected with his business or profession, but does not include—

(a) any stock-in-trade (not being stocks and shares), consumable stores or raw materials held for the purpose of his business or profession;

(b) personal effects, that is to say, movable property (including wearing apparel, jewellery, furniture, fixture, equipment and vehicles), which are held exclusively for personal use by, and are not used for purpose of the business or profession of the assessee or any member of his family dependent on him; and

(c) agricultural land in Bangladesh, not being land situated—

(i) in any area which is comprised within the jurisdiction of a municipality (whether known as a municipality, municipal corporation, town, or by any other name) or a cantonment board and which has a population of not less than ten thousand,

(ii) in any area within such distance, not being more than five miles (8. k. m.) from the local limits of any municipality or cantonment board.

14.3: Conditions to be Taxable

To be assessable under section 31, a capital gain need to fulfil the following conditions :

i) it shall arise from sale or transfer of capital asset,

ii) title of the property must be transferred to the purchaser,

iii) it shall be taxable in the year of transfer unless it has been re-invested in approved fields,

iv) capital loan, if any, be eligible for treatment under sec. 40 as set off and carry forward of losses.

14.4: Tax-Exempted Transfer of Capital Assets

Section 2 (66) of I. T. Ordinance, 1984 provides that transfer in relation to capital asset includes the sale, exchange or relinquishment of assets or the extinguishment of any right therein, but does not include :

i) any transfer of the capital asset under a gift, bequest, will or an irrevocable trust;

ii) any distribution of the assets of a company to its shareholders on its liquidation; and

iii) any distribution of capital assets on the dissolution of a firm or other association of persons or on the partition of a Hindu undivided family.

iv) Further, it has also been provided through amendment that transfer of holding company's assets to subsidiary company will also be exempted from charging capital gains subject to the following :

a) total share capital of subsidiary company shall remain under the control of holding company,

b) the subsidiary company will be situated in taxable territory (i. e. Bangladesh); and

c) the subsidiary company will be registered under Companies Act of Bangladesh.

14.5: Computation of Capital Gains

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

(a) any expenditure incurred solely in connection with the transfer of the capital asset: or

(b) the cost of acquisition of the capital asset and any capital expenditure incurred for any improvements thereto but excluding any expenditure in respect of which any allowance is admissible under any provisions of section 23 (deductions from interest on securities, section 29 (deductions from income arising from business or profession) and section 34 (deduction from income of other sources).

In this connection 'cost of acquisiton, means :

(i) where it was acquired by the assessee by purchase, the actual cost of acquisition; and

(ii) where it became property by succession, inheritance, bequest, gift, irrevocable trust, dissolution of company or firm, the actual cost of acquisition to the previous owner of the capital asset as reduced by the amount of depreciation, if any, allowed to the previous owner; and where the actual cost of acquisition to the previous owner cannot be ascertained, the fair market value at the date on which the capital asset became the property of the previous owner.

Fair Market value in this connection will be taken as the price determined through bargaining of purchaser and seller taking into consideration the demand, supply and environment.

In this connection it is to be noted that, if in the opinion of D. C. T, transfer price has been shown less than market value than he can take following action :

i) If price shown seems to be at least 15% less than market value, he with the permission of Inspecting Joint Commissioner of Taxes compute fair market value.

ii) If price seems to be less atleast 25%, he can arrange purchase of the capital asset by the Govt.

14.6: Tax Rate

A prescribed rate under second schedule of ITO, 1984 is given for Capital Gain. Accordingly, gain tax shall be charged as follows :–

(a) On disposal of capital assets within five years of acquisition, capital gain shall be included with the total income and be taxed accordingly.

(b) On disposal of capital assets after 5 years of acquisition, tax payable shall be as follows :–

(i) In the case of company :	Tk.
Tax applicable to total income excluding capital gains. Add. tax at the rate of 15% on capital gain	xx xx
Total tax =	xx
(ii) In other cases :	Rate of tax
Time of disposal of capital assets after the date of acquisition : After 5 years	Rate applicable to total income including the capital gain or 15% of capital gains which ever is lower.

14.7: Tax Exemption on Re-investment of Capital Gain

section 32 (5) provides some exemption from capital gain if the sum is re-invested. Following are the heads and conditions for such exemptions :

1) For assets used in Business and Profession:

Sale proceeds of capital assets of business or profession will be exempted from capital gain tax if :

i) it is used to pay value of assets purchased on credit one year before such sale;

ii) it is kept for purchase of new assets after one year and in this regard assessee applies to the tax authority for such exemption. In this case following provisions will be applicable :

a) If capital profit exceeds the value of new assets :

i) Excess of capital profit over the value of new asset will be taxable,

ii) No depreciation will be allowed on new asset and at the time of sale of this asset in future value of sale and W. D. V. will be treated as nil for the computation of capital profit.

b) If capital profit becomes equal or less than value of new asset :

i) no tax will be charged on capital profit,

ii) no depreciation will be allowed on new asset & at the time of sale of this asset in future value of sale and W. D. V. will be treated as nil for the purpose of computing capital profit.

2) For House Property:

Sale proceeds of House property and Buildings used for residential purpose at least for two years will be exempted from capital profit tax if :

i) it is used for purchase of house property one year before and after the sale,

ii) it is used for purchase of capital asset of industrial enterprise, construction of new house, purchase of appartment, purchase of share and securities registerred in Stock Exchange, purchase of investment bond issued by the Govt, within 2 years. In such a case application shall have to be made to tax authority for such exemption.

3) For Securities, Stock and Shares:

Where a capital gain arises from the transfer of a capital asset being Government Securities and Stocks and Shares of public companies which fulfil the conditions laid down in paragraph 8 of Part B of the Sixth Schedule, then no tax shall be charged under section 31 if the sale proceeds are reinvested within a period of two years in the acquisition of similar securities, stocks and shares.

4) Capital gain used for Investment in New Industrial Enterprises:

A capital gain arising from the transfer of a capital asset which, within a period of two years immediately following the date on which the transfer took place, is invested in the acquisition of new capital asset or an industrial undertaking, then, instead of the capital gain being charged to tax as income of the income year in which the transfer took place, it shall, if the assessee so elects in writing before the assessment is made, be dealt with in accordance with the provisions of sale of assets of business or profession.

5) Capital gain arising from Bonus shares:

Capital gain arising from sale of bonus shares be exempted from charging capital profit tax applicable under section 31 of the I. T. Ordinance, 1984.

14.8: Capital Loss

If capital loss arises, such loss will be set-off and carry forward as per section 40 of the I. T. Ordinance, 1984. In such a case if losses arise in this head in an income year it can be set off against income of other capital profit head. If there is no other head it can be carry forward for next year/years to set-off. But if losses is not more than Tk. 5,000 it can not be carry forwarded and if it exceeds Tk. 5,000, the excess amount is eligible for carry forward.

Specimen Proforma of Computation of Tax under the Head Capital Gain

Name of Assessee :......................
Income year :.................................
Assessment year :..........................

Computation of Capital Profit

Income	Tk.	Tk.
Profit and gains on transfer of capital assets (being value on transfer received or fair market value which is higher shall be shown here).		XX
Less admissible deductions :-		
Expenses on transfer of capital assets.	XX	
Cost of acquisition of capital assets and any other capital expenditure incurred for inprovement thereof excluding any expenditure admissible u/s. 23, 29, 34.	XX	XX
Total Capital Gains --------		XX

14.9: Illustrations

Illustration-1:

X & Co. purchased a machine at Tk. 1,60,000 on 1st July, 1999. In 2001, an amount of Tk. 25,000 was spent to increase its capacity. On 30th June 2005 its written down value stood at Tk. 80,000. This machine was sold on the same date at Tk. 2,15,000 and the cost incurred for this sale amounted to Taka 5,000.

Compute capital gain and tax to be paid on the same.

Solution:

Assessee : X & Company
Income year : 2004-2005
Assessment year : 2005-2006

Computation of Capital Gain and tax thereon

Particulars	Tk.
Cost of the Machine	1,60,000
Add : Development cost	25,000
	1,85,000
Less : Depreciation to date (B F)	1,05,000
Written Down Value	80,000
Sale value of the Machine	2,15,000
Total profit	1,35,000
Less Cost of sales	5,000
Net Profit	1,30,000

Total gains = 1,30,000

i) Capital gain = (2,15,000–1,60,000)= Tk. 55,000

ii) Revenue profit = 1,30,000–55,000 = Tk. 75,000

Revenue profit will be added with normal income and be taxed accordingly.

Capital profit, as arisen after 5 years of purchase, will be taxed @ 15%

Thus Capital profit Tax = 8,250 taka.

Illustration-2:

Mr. Azam Khan purchased a machine for his workshop on 1st August, 1999 at Tk. 1,80,000. on 31st March, 2005 it was sold. Till that date taka 1,20,000 was charged as depreciation. Find out capital gain and tax if the sale value is (a) Tk. 1,50,000, (b) Tk. 2,10,000, and (c) Tk. 2,60,000. Mr. Khan had income of Tk. 1,50,000 from other heads of income. Findout tax on capital gains if any.

Solution :

Assessee : Mr. Azam Khan
Income year : 2004-2005
Assessment year : 2005-2006

Particulars	Case-(a)	Case-(b)	Case-(c)
1) Written down value :	Tk.	Tk.	Tk.
Purchase price	1,80,000	1,80,000	1,80,000
Less : Depreciation	1,20,000	1,20,000	1,20,000
W. D. V =	60,000	60,000	60,000
2) Sale Value	1,50,000	2,10,000	2,60,000
Total gain from sale	90,000	1,50,000	2,00,000
3) Capital profit = (Exceess of sale value over purchase cost)	Nil	30,000	80,000
4) Revenue profit	90,000	1,20,000	1,20,000
5) Total income :			
i) Income from other head	1,50,000	1,50,000	1,50,000
ii) Revenue income from sale of machines	90,000	1,20,000	1,20,000
iii) Capital profit from sale of machine	Nil	30,000	80,000
	2,40,000	3,00,000	3,50,000

As capital gain has arisen after 5 years, rates on it will be 15% on capital gain or at the average tax rate on the total income of the assessee, whichever is less.

Computation of Tax:

Computation of tax on total income :

	Case-(a)	Case-(b)	Case-(c)
On 1st Tk. 1,00,000	Nil	Nil	Nil
On next Tk. 2,00,000 @ 10% (For (a) on Tk.40,000 and for (b) & (c) Tk. 2,00,000)	14,000	20,000	20,000
On next Tk. 2,50,000 @ 15% [For (c) on Tk. 50,000]			7,500
Tax	14,000	20,000	27,500
Average tax rate	5.83%	6.66%	7.86%
Flat rate	15%	15%	15%
Tax on capital gain will be lower of the two. Thus here capital gain will be taxed at the average tax rate.			
Thus tax on capital gain =	Nil	1,998	6,288

Note: (1) As there is no capital gain for case (a), the assessee will not have to pay capital gain tax.

(2) Income of (b) capital gain tax is Tk. 1999. His tax on Tk. 2,70,000 i.e. (1,20,000+1,50,000) will be charged as per rate applicable. In case of (c) capital gaines tax is Tk. 6,288. Bresides this he will be taxed on Tk. 27,000 as per rate applicable

Questions

1. Explain what is meant by 'Capital gains' and 'Capital assets' in the Income Tax Act. State the mode of computation of tax on capital gains.
2. (a) What is Capital gain?
   (b) How is capital gain determined? Explain the assessment procedure of capital gain tax. [R. U, B. Com (H), 1977]
3. (a) What is meant by 'Capital Gain'?
   (b) What capital assets are tax-exempted under sec. 2(66) at times of transfer?
   (c) Discuss the capital gains that are exempted for investment under section 32.
   (d) State the rate of tax relevent to capital gain. [C. U, B. Com (H), 1980]
4. (a) What is meant by capital gain?
   (b) What are the conditions of taxability of capital gain?
   (c) Give a list of assets that are exempted on transfer from capital gains and that are exempted on re-invest of capital gain. [C. U, B. Com (H), 1991]

5. (a) What is capital gain and capital assets?
   (b) How capital gain is determined?
   (c) State the procedure of treatment of capital loss. [R. U, B. Com (H), 1977]

Exercises

Ex.-1:

Mr. Lalmia purchased a machine on 1st March, 2003 for Tk. 3,50,000. On 31st December; 2004 he sold the machine at Tk. 4,00,000. The normal rate of deprecition is 10%. Lalmia close his books of account on 30th June each year.

Compute Capital and Revenue profit from sale of machine for the year 2004-2005.

Ex.-2:

XYZ Company purchased a machine at Tk. 3 lakh on 1st April, 2001. On 31st December 2004, the machine was sold and till that date depreciation charged on the machine was Tk. 1,20,000. Compute capital gain if it was sold at Tk. 1,80,000, Tk. 2,50,000 & Tk. 3,25,000.

Ex.-3:

Mr. Al-Hilaly is the owner of a residential house, constructed in 1999 at a cost of Tk. 8,00,000. On 3-4-05 he sold his house at Tk. 10,00,000. Then on 3-6-2005 he purchased another house for Taka 5,00,000. This purchased house was again sold at Taka 7,00,000 on 30-6-2005.

Ascertain his capital gain for the assessment year 2004-2005.

Ex.-4:

From the following particulars compute total income, capital gain and tax liability of Mrs. Fairy :

i) She purchased a machine for her business on 1st July 2000 at Tk. 5,00,000 and sold it on 31st March 2005 at Tk. 6,00,000. Depreciation of the machine amounted to Tk. 2,00,000 and she spent Tk. 50,000 in 2001 to increase the capacity of the machine.

ii) She sold her residential house in April, 2005 at Tk. 8,00,000. It was disclosed during investigation that the house was constructed in December, 2003 at Tk. 6,00,000. She claimed tax exemption as she intends to construct a new house with the sale proceed of the house sold.

Her other transactions for the year 2004-05 were as follows:

iii) She sold shares of a public ltd. co. for Tk. 60,000 the purchase price was Tk. 50,000.

iv) She runs a business where income for the year 2004-2005 was Tk. 1,50,000.

Chapter-15

Income from Other Sources (Section : 33-34)

Chapter Synopsis/Contents:

15.1: Introduction

Section 20 of the Income Tax Ordinance, 1984 identifies seven heads under which the income of an assessee will be classified, computed and taxed. Among these heads the last one is "Income from Other Sources". Generally incomes which do not fall in other six categories are grouped under this head for tax purpose.

15.2: Income from Other Sources [Sec. 33]

Exam

The following income of an assessee shall be classified and computed under the head "Income from Other Sources", namely :–

(a) dividend and interest;

(b) royalties and fees for technical services;

(c) income from letting of machinery, plants or furniture belonging to the assessee, and also of buildings belonging to him if the letting of buildings is inseparable from the letting of the machinery, plant or furniture;

(d) any other income of any kind from any source which is not classifiable under any of the other heads specified in section 20;

any income to which section 19(1), (2), (3), (4), (5), (8), (9), (10), (11), (12), or (13) applies.

These are as follows :

Section 19 (1)

A sum credited in the books of an assessee maintained for any income year and the assessee offers no explanation or the explanation offered is not satisfactory, the sum so credited;

Section 19 (2)

Where, in any income year, the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article, and the Deputy Commissioner of Taxes finds that the amount expended exceeds the amount recorded in this behalf in the books of account and the assessee offers no explanation or the explanation offered is not satisfactory, the excess amount;

Section 19(3)

Where the assessee has incurred any expenditure and he offers no explanation about the nature and source of the money or the explanation offered is not satisfactory, the amount of the expenditure;

Section 19(4)

Where the assessee has made investments which are not recorded in the books of account, if any, maintained by him and the assessee offers no explanation about the nature and source of fund or the explanation offered is not satisfactory, the value of the investments.

Section 19(5)

The assessee is found to be the owner of any money, bullion, jewellery or other valuable article which is not recorded in the books of account, and the assessee offers no explanation or the explanation offered is not satisfactory, the money or the value of the bullion, jewellery or other valuable article shall be deemed to be the income of the assessee;

Section 19(8)

Where any assets not being stock-in-trade or shares are purchased by an assessee from any company and the Deputy Commissioner of Taxes has reason to believe that the price paid by the assessee is less than the fair market value thereof, the difference between the price so paid and the fair market value.

Section 19(9)

Where any lump sum amount is received or receivable by an assessee during any income year on account of salami or premia receipts by virtue of any lease, such amount shall be deemed to be income of the assessee;

Section 19(11)

Where any benefit or advantage, whether convertible into money or not is derived by an assessee during any income year on account of cancellation of indebtedness which makes any debtor taxable, the money value of such advantage;

Section 19(12)

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

Sec 19B

Investment made in the purchase of Building or Appartment will not be questioned if tax is paid as follows:

Plivth area	Tax
(i) 200 Sq. metre	Tk. 200 per sq. metre
(ii) Above 200 Sq. metre	Tk. 300 per sq. metre

Sec 19BB

Investment made is purchase of land will not be questioned if tax @ 5% on Deed value is paid.

Sec 19 BBB

Investment made in the purchase of motor car not used for rent or hire will not be questioned if tax is paid as follows:

Particulars of car	Tax rate
(i) upto 1,500 cc	5% on purchase price
over 1,500 cc	7.5% on purchase price

Besides the above, following have been added to be the income under the head other sources through Finance Act, 1993 :

f) If an assessee receives any loan from any financial institution or person except through cross cheque & it remains unpaid for three years then after three years it will be treated as income. However, if such amount is paid latter on, then in that year such amount will be deducted from his income.

g) If an owner of a house receives any amount from his tenant which is not related with monthly rent then such amount will be treated as income. But if the assessee allows it to be apportined within 4 years he can do it. If such amount is refunded latter on, it will be deducted from income of the assessee.

h) If any exporter of garment transfer his alloted quota to others then a portion of such alloted quota will be treated as income of the assessee.

i) Further following incomes, which do not fall in any six other categories of income, in general are treated as income under other income head :

i) Amount received from other enterprises not being his employer, by virtue of his position or service, it will be treated as income from other sources. Such as directors fees.
ii) Income received from vacant land adjacent to his house.
iii) Honorarium from writing articles in news paper, journal etc.
iv) Remuneration as examiner
v) Royalty from mines etc.
vi) Income from Ferry ghat.
vii) Income from black-marketing, if can be identified.
viii) Income from agriculture received from abroad.
ix) Income from underwriting commission for sale of shares, securities, etc.
x) Income received from foreign govt. as salary or pension.
xi) Income from non-resident husband/wife.
xii) Income from patent of licence.
xiii) Income from Television/Radio for Programming.
xiv) Income from non-agriculture i. e. sale of forest wood, sale of fruits like Banana etc.
xv) Income from wharf, shipyard, rent of boat, etc.

15.3: Deductions from Income from Other Sources [Sec. 34]

(1) Any expenditure, not being in the nature of capital expenditure or personal expenses of the assessee, incurred solely for the purpose of making or earning the relevant income.

(2) The amount of interest paid in respect of money borrowed for the purpose of acquisition of shares of a company.

(3) Where the income is derived from letting on hire of machinery, plant or furniture belonging to the assessee and also of building belonging to him if the letting of the building is inseparable from the letting of such machinery, plant or furniture, the same relevent allowances as are admissible under section 29 viz, (a) current repair, (b) insurance premium, (c) depreciation.

But the following expenses will not be allowed :

(a) any interest chargeable under I. T. Ordinance which is payable outside Bangladesh on which tax has not been paid and from which tax has not been deducted at source under section 56; or

(b) any payment which is chargeable under the head "Salaries" if tax has not been paid thereon or deducted therefrom under section 50.

15.4: Tax-Rate for Some Specific Items

Income under this head will be added with total income of the assessee & will be taxed accordingly as per rates applicable. But for certain items, viz., Income from lottery, crossword competition, card playing, gambling & beting will be taxed at a rate specified below :

i) The tax rate applicable to total income including these income, or
ii) 20%, a flat rate,
whichever is less.

Specimen proforma of computing income under the head "Income from Other Sources".

Name of the Assessee : ....

Income year : ....

Assessment year : ....

Income	Tk.	Tk.
Dividend (as share of profit of a company)		xx
Interest (other than on securities)		xx
Royalties and fees for technical service		xx
Combined income from letting of machinery, plant, or furniture with building.		xx
Income not classifiable under any other heads u/s. 20		xx
Other investment or gains u/s. 19 arising out of :–		
(1) Explanation found unsatisfactory by the DCT about the nature and source of (vide sec. 19) such as		
a) Sum credited in the books of assessee.	xx	
b) Under stated value of bullion, Jewellery or other valuable articles owned by the assessee, etc.	xx	
(2) Value of assets purchased from a Co. (other than stock in trade, or stock and shares) understated than fair market value	xx	
(3) Sum of salami or premia received on any lease.	xx	
(4) Goodwill or compensation money or damage for the cancellation or termination of contract and licence.	xx	
(5) Any benifit or advantage on the cancellation of in-debtness.	xx	
(6) Managing agency commission including compensation for the termination, or modification of the terms and conditions thereof.	xx	
(7) Sum received on winning from lotteries, cross word puzzles, card playing, gambling or betting etc. (except prize bond which is exempted.)	xx	xx
Less admissible deduction u/s-34 of ITO, 1984 :		xx
i) Current repair, depreciation and insurance of combined letting of building with plant and machinery.	xx	
ii) Interest on borrowed money for the acquisition of shares of a company.	xx	
iii) Non-capital and impersonal expenditure for earning the relevant income.	xx	xx
Total income from other sources.		xx

15.5: Illustrations

Illustration-1:

Mr. Ashish had the following income for the year 2004-2005 :

		Tk.
1)	Income from salary	2,20,000
2)	Income from house property	40,000
3)	Income from Get A-word competition 20% or average rate	10,000
4)	Income from vacant land	5,000
5)	Prize from lottery	25,000
6)	Prize from prize-bond	20,000
7)	Interest from bank account	10,000
8)	Remuneration as examiner	23,000

Investigation disclosed that he invested in bullion Taka 20,000 the source of this could not be satisfactorily given.

Compute taxable income and tax to be paid by Mr. Ashish.

Solution:

Assessee : Mr. Ashish
Income year : 2004-2005
Assessment year : 2005-2006

Computation of Total Income and Tax thereon

Particulars	Tk.	Tk.
1) Income from Salary		2,20,000
2) Income from House property (Assumed to be net)		40,000
3) Income from Other Sources :		
i) Income from Get-a-Word	10,000	
ii) Income from Vacant Land	5,000	
iii) Income from lottery	25,000	
iv) Income from Prize bond (Exempted in full)	—	
v) Interest from Bank Account	10,000	
vi) Income as examiner	23,000	
vii) Income from unexplained source (Investment in bullion)	20,000	93,000
Total Income		3,53,000
Computation of Tax :		
i) On 1st Tk. 1,00,000 of income =	Nil	
ii) On next Tk. 2,00,000 @ 10% =	20,000	
iii) On next Tk. 2,50,000 @ 15% = (Here on Tk. 53,000)=	7,950	
Total tax		27,950
Average tax rate = 7.92%		

Note : Tax rate on specific items i. e. Get-A-word and lottery is = 20% or Average tax rate, whichever is less. As average tax rate is less it will be applicable and hence no separate calculation is necessary for those items.

Illustration-2:

From the following particulars compute Income from Other Sources of Mr. Surja Sen for the year ended on 30-6-2005 and tax to be paid thereon :

1. (a) Basic salary Tk. 6,000 p. m.
   (b) D. A @ 30% of B. S.
   (c) Cash house rent monthly @ 40% of B. S.
   (d) Employer's contribution to P. F. @ 10% of B. S.

2.	(a)	Interest on bank fixed deposit	Tk. 4,000
	(b)	Interest from savings bank account	2,000
	(c)	Interest from loan given to his friend Mr. Sagar	3,000
	(d)	Honorarium from writing articles in paper	3,000
	(e)	Examination remuneration in connection with examining Board Exam. Scripts	10,000
	(f)	Rent received from letting out one of his licence	3,000
	(g)	Income from playing cards	5,000
	(h)	Undertaking commission	4,000
	(i)	Prize from "Get-A-Word"	4,500
	(j)	Dividend income (From a Co. established in 1984 and registered in Stock Exchange)	20,000
	(k)	Income from sale of old furniture	3,000
	(l)	Income from postal savings account	1,000

Mr. Sen claims the following expenses relevant to the above income :

(a)	Bank charge for collection of dividend income	200
(b)	Expenses for renewal of licence	500
(c)	Levy on interest from fixed deposit	400
(d)	Family expenses	36,000
(e)	Subscription to public library	1,000
(f)	Donation to poor	2,000

Solve the problem as per I. T. prescribed proforma.

Solution:

Assessee : Surja Sen
Income tax year : 2005-2006
Address : .... ?
Residential Status : Resident
T. I. N. No. ....

PART-A

Computation of Total Income for the year ended on 30-6-2005

	Description of Income	Tk.
1.	Income from Salary-Sec. 21 [Details given in Note-1]	1,00,800
2.	Income from Other Sources-Sec. 33 [Details given in Note-21]	58,900
3.	Total Income	1,59,700
4.	Gross Tax (as per Note-3)	5,970
5.	Tax credit (As per Note-4)	2,160
6.	Tax (Note-5)	3,810

PART-B

Tax credit income on which rebate @ 15% will be allowed

		Tk.
1.	Employee & employer's contribution to Recognised Provident Fund	14,400
		14,400

Note-1 : Income from Salary

			Tk.
(a)	Basic Salary 6,000 x 12 =		72,000
(b)	D. A. 30% of 72,000 =		21,600
(c)	House rent subsidy =	28,800	
	Less : exempted up to 50% of B. S. or Tk. 15,000 per month whichever is less =	36,000	----------
(d)	Employer's contribution to P. F		7,200
			1,00,800

Note-2 : Income from Other Sources

(a)	Interest from fixed deposit account	4,000	
	Less : levy imposed	400	3,600
(b)	Interest from savings bank A/c		2,000
(c)	Interest on loan given to friends		4,500
(d)	Income from writing articles		3,000
(e)	Exam. remuneration		10,000
(f)	Income form letting out licence	3,000	
	Less : licence renewal fees	500	2,500
(g)	Income from playing cards		5,000
(h)	Income from Get-A Word competition		4,500
(i)	Dividend income		20,000
(j)	Undertaking commission		4,000
			59,100
	Less: Bank cgarge for collection		200
			58,900

Note-3 : Tax = on 1st Tk. 1,00,000 = Nil

on next Tk. 59,700 @ 10% = 5,970

Gross tax = 5,970

$$\text{Average tax rate} = \frac{5,970}{1,59,700} \times 100 = 3.74\%$$

Note-4 : Computation of tax credit :

i)	Investment tax credit @ 15% = on Investment allowance as per section 44 (3) (Employer & Employers contr. to P. F.)	14,400	
	or,		2,160
ii)	20% of Total Income Tk. 1,32,700 (i. e., Tk. 1,39,900-7,200)	26,540	
	or Tk. 2 lakh :	2,00,000	
	Whichever is lower	14,400	

∴ Total exemption from tax would be : Tk. = 14,400 @ 15% = 2,160

∴ Net tax = 5,970 - 2,160 = 3,810

Notes:

(1) Income from playing card and Get-A-Word will be taxed at different rates as prescribed for them instead of the rates applicable to taxable income of the assessee. But these items will be added with total income; tax to be computed separately at average rate and then be adjusted to find out tax payable. However, here average tax

rate is 3.74% which is lower than fixed flat rate 20%. Thus tax will be paid at average rate. Thus no separate tax calculation is required.

(2) Expenses for household purpose is not allowable.

(3) Income from postal savings account is exempted in full.

(4) Dividend income is now fully taxable in the hand of assessee (F. A. 2005).

Questions

1. What incomes are included in "Income from Other Sources" under the Income Tax law? What are the allowable expenses under this head? Is there any exception to the application of tax rate on income under this head? If so, state that.
2. Prepare, in brief, a schedule of incomes that are included in 'Income from Other Sources' under section 33 of the Income Tax Ordinance, 1984. What are the admissible and inadmissible expenses under this head?
3. (a) Give a list of income, receipts & assets that are taxed under the head income from other sources as per section 19 in the relevant sub-section.

   (b) State the deductions allowable from income under other head & state those which are non-illegible too.

Exercises

Ex.-1:

From the following particulars compute Total Income and Tax Payable by Mohammad Ali for the year-2004-2005 :

		Tk.
1.	Income from salary	1,44,000
2.	Income from tax-free Govt. Security	20,000
3.	Income from less tax commercial security	45,000
4.	Interest on Bank deposit	15,000
5.	Receipts from cross-word	10,000
6.	Income from sale of trees	12,000
7.	Income from wharf	20,000
8.	Director's fees	25,000
9.	Income from sub-let of machinery	22,000
10.	Income from dividend	30,000
11.	Income from sale of fish of his pond	20,000

During the year he invested Tk. 5,000 for purchase of share and Tk. 5,000 was paid for Life Insurance.

Ex.-2:

Mr. Joy is a businessman. He had the following income :

		Tk.
1.	Income from business	1,50,000
2.	Income from house property	60,000
3.	Income from bank interest:	
	on fixed deposit	6,000
	on savings account	4,000
	on postal savings	3,000
4.	Income from vacant land	5,000
5.	Income from lottery	20,000
6.	Prize from Prizebond	10,000
7.	Income from letting patent	12,000
8.	Income from ferry ghat	20,000
9.	Selami from sub-let of premise	25,000

Investigation revealed that he invested Taka 20,000 for purchase of Bond but cannot explain the source. During the year he paid life insurance premium Tk. 10,000 for self and Tk. 5,000 for his wife.

Compute Total Income and tax to be paid by Mr. Joy.

Chapter-16

Assessment of Individul

Chapter Synopsis/Contents:

16.1: Introduction

An individual having total income over minimum taxable limit is required to submit income tax return U/S 75 of ITO. In such a case income under different heads as specified in Section 20 viz. salaries, interest on securities, income from house property, agricultural income, income from business or profession, capital gains and income from other sources are lumped together in accordance with provisions applicable in income year and taxed in accordance with tax rate of assessment year. Thereafter tax rebate @ 15% is allowed on tax-credit income. Advance tax paid. if any, is also deducted to arrive at net tax payable. Thus following 5 steps are found to be involved in the assessment of tax :

i) **Determination of Total Income :** First, incomes under different heads of income are determined and then total of these heads is computed.

ii) **Determination of Tax-Credit Income :** Tax credit income (Investment) as per second part of Schedule Six of ITO grouped together and total of such amount is computed.

iii) **Determination of Tax Credit Allowance :** Tax rebate @ 15% on (a) actual tax-credit income (investment) or (b) 20% total income excluding employers contribution to provident fund, if any and (c) Taka 2 lakh–whichever of these three is less, is determined.

iv) **Determination of Gross Tax :** Rate of tax under slab system is applied on total income and Gross tax is computed.

v) **Determination of Net Tax :** From total tax, tax-credit (investment) allowance and advance tax, if any paid, are deducted to arrive at net tax payable.