

Income Tax-200

In this connection it is further to be noted that some unexplained expenses and assets are also treated as income under Section 19 and that some third party income is also treated as income of the assessee under Section 43 of I. T. Ordinance, 1984. These are to be added with total income for assessment purpose. A list of such income, in brief, is as follows :

Income under Section 19

Receipts, investment, gains under different sub-section of Section 19 as stated below will be treated as income of the assessee and these are to be added with total income :

- 1) Explanation found unsatisfactory by the DCT about the nature and source of :
 - a) Sum credited in the books of assessee. (1)
 - b) Under stated value of Bullion, Jewellery or other valuable articles owned by the assessee. (2)
 - c) Expenditure incurred by the assessee. (3)
 - d) Investment made by the assessee. (4)
 - e) Asset purchased but not recorded in the books. (5)
- 2) Value of assets purchased from a Co. (other than stock in trade, or stock & shares) understated than fair market value. (8)
- 3) Sum of salami or premia received on any lease. (9)
- 4) Goodwill or compensation money or damage for the cancellation or termination of contract and licence. (10)
- 5) Any benefit or advantage on the cancellation of in-debtness. (11)
- 6) Managing agency commission including compensation for the termination, or modification of the terms and conditions thereof. (12)
- 7) Sum received on winning from lotteries, cross word puzzles, card games, gambling or betting etc. (13)

Income under Section 43

Section 43(4) states that following income of any individual be added with total income of the assessee for tax purpose :

- 1) So much of the income of the spouse or minor child of such individual as arises, directly or indirectly –
 - a) from the membership of the spouse in a firm of which such individual is a partner;
 - b) from the admission of the minor child to the benefits of partnership in a firm of which such individual is a partner;

Assessment of Individual-201

- c) from assets transferred directly or indirectly to the minor child, not being a married daughter, by such individual otherwise than by way of gift or for adequate consideration.
- 2) So much of the income of any person or association of persons as arises from assets transferred, otherwise than by way of gift or for adequate consideration, to such person or association of persons by such individual for the benefit of the spouse or minor child or both.
- 3) All income arising to any person by virtue of a settlement or disposition whether revocable or not from assets remaining the property of the settler or disponent shall be deemed to be income of the settler or disponent; and all income arising to any person by virtue of a revocable transfer of assets shall be deemed to be income of the transferor and shall be included in the total income of such person. If the assessee is disponent or settler, such income will be added with his total income.

16.2: Recapitulation

In this section we recall the list of non-assessable and tax credit income in brief so that students can easily and correctly assess tax.

A) List of Non-assessable Income (As per Sixth Schedule-Part-A)

- 1) Income of Religious and Charitable Trust.
- 2) Donation received by Religious and Charitable Trust.
- 3) Income of Local Authorities.
- 4) Income of Govt. Provident Fund.
- 5) Receipts fully meant to perform office duties.
- 6) Income received by Recognized Provident Fund or Super Annuation Fund.
- 7) Income received by ambassador, high commission and envoy.
- 8) Pension (if he stays in Bangladesh for 182 days or more)
- 9) Income from Tax-free Govt. Securities.
- 10) Income from Less-tax Govt. securities upto taka 5,000.
- 11) Income from Commercial Securities upto Tk. 20,000 if such Securities are approved by Security & Exchange Commission.
(xi and xii will combinidly be exempted upto Tk. 20,000)
- 12) Income from interest on savings certificate is non-assessable upto Tk. 25,000.
- 13) Interest on Recognized Provident Fund upto the rate of 11.5% and not exceeding $\frac{1}{3}$ rd of Basic Salary.
- 14) Income from owner's residential house.

Income Tax-202

- 15) Income from newly constructed house for specified plinth area and for specified time.
- 16) Income of foreign technicians, expert and advisor upto certain period.
- 17) Receipts from Life Insurance Policy on maturity.
- 18) Receipts under Golden handshake.
- 19) Receipts by Hill-tracts people.
- 20) Interest on postal savings certificate and postal deposit account.
- 21) Salary and allowances of Supreme Court and High Court Judges
- 22) Salary and allowance of President, Prime Minister, Ministers and Members of Parliament.
- 23) Casual and non-recurring income.

B) List of Tax-credit Income (As per Sixth Scheduled-Part-B)

Tax credit @ 15% on the following (Actual investment) or on 20% of total income (excluding employer's contribution to R.P.F) or on Tk. 2 lakh-whichever is less is allowed:

- i) Sum paid by the assessee for insurance or deferred annuity.
- ii) Sum paid by HUF for insurance of its member.
- iii) Sum deducted from salary in accordance with service condition or future benefit of the children (not exceeding $\frac{1}{3}$ rd of B. S.)
- iv) Contribution of employee towards Govt. P. F.
- v) Contribution of both employer and employee to R. P. F.
- vi) Contribution to super annuation fund.
- vii) Purchase of shares of recognized companies.
- viii) Purchase of Debentures of recognized companies.
- ix) Purchase of securities of Govt. (the approved ones), ICB and mutual fund certificates.
- x) Contribution to Deposit pension scheme.
- xi) Contribution to Private Hospital and Disabled Welfare Association.
- xii) Contribution to National level Sports Association.
- xiii) Contribution to zakat fund.
- xiv) Contribution to Group Insurance and Benevolent Fund.
- xv) Contribution to President and Prime Minister's Relief Fund.
- xvi) Contribution to Ahsania mission
- xvii) Contribution to philanthropic organization and educational institutions approved by Govt. and NBR.

Assessment of Individul-203

16.3: Form of Statement of Income Tax Assessment

Name of the Assessee :

Income year :

Assessment year :

For the year ended on

Part-A : Total Income

Heads of Income	Amount in Tk.	Amount in Tk.
1. Income from Salaries (u/s 21)		XXX
2. Income from Securities (u/s 22-23)		XXX
3. Income from House Property (u/s 24-25)		XXX
4. Income from Agriculture (u/s 26-27)		XXX
5. Income from Business or Profession (u/s 28-30)		XXX
6. Income from Capital Gains (u/s 31-32)		XXX
7. Income from Other Sources (u/s 33-34)		XXX
8. Income under Section 19		XXX
9. Income under Section 43		XXX
Total		XXX
10. Foreign Income (if any)		XXX
Total Income		XXX
Part-B		
Tax Credit Income		XXX
Part-C		
Gross tax as per slab	XXXX	
Less 15% tax credit	XXXX	
	XXXX	
Less advance tax paid	XXX	
Net Tax	XXX	XXX

Note: Details under each head be shown separately as per Tax Return Form. However, for practical purpose student can show them in detail under each head. For detail, student can see each head as shown earlier. However we recall them in brief as below :

Salary Income-Sec. 21			Amount in Tk.
1.	Basic Salary :-		
	Basic Pay	XX	
	Technical pay/special pay	XX	
	Cost of living allowance (D. A)	XX	
	Bonus	XX	
	Total basic salary	XX	XX

Income Tax-204

2.	Wages, fees, commission		XX	
3.	Perquisites :-			
	House rent allowance at prescribed limit	XX		
	Conveyance allowance at prescribed limit	XX		
	Travelling allowance (sum exceeding actual expenses)	XX		
	Medical allowance (sum exceeding actual expenses)	XX		
	Entertainment allowance	XX		
	Pension, if the assessee stays in Bangladesh for less than 182 days	XX		
	Total perquisites		XX	
4.	Employer's contribution to Recognised Provident Fund (RPF)		XX	
5.	Interest on Recognised Provident Fund (exceeding the limit)		XX	
	Total income from salaries			XXX
	Interest on Securities--Sec. 22-23			
	Interest on less tax Government securities, bond etc. Exceeding Tk. 5,000.	XX		
	Interest on Debenture or other securities of Companies or local Authorities	XX	XX	
	Less allowable deductions :-			
	Bank Commission and bank charges to realise the interest	XX		
	Interest on loan for investment in Securities	XX	XX	
	Income from interest on securities			XXX
	Income from House Property U/S-24-25			
	Annual Value (AV) of Rented House :			
	Annual value (AV) of house letted :-			
	Municipal value	XX		
	Actual rent of house	XX		
	Add annual charge paid by tenant	XX	XX	
	Higher sum between the above two is AV		XX	
	Less allowable deductions :-			
(a)	Repairs, etc. - $\frac{1}{4}$ of AV	XX		
(b)	Land revenue, ground rent, land tax, property insurance.	XX		
(c)	Interest on mortgage and other capital charges.	XX		

Assessment of Individul-205

(d) Annual charge of revenue nature, if not paid by the tenant e. g. municipal, water, property taxes, etc.	XX		
(e) Interest on borrowed capital for the acquisition, construction, repairs and renewal of the house property.	XX		
(f) Vacancy allowance- portion of AV relating to the vacant period of the house	XX		
Total allowance and deductions		XX	
Total income from House Property			XXX
Income from Agriculture U/S-26-27			
Income derived from any land or building used by the cultivator from sale proceeds of crop	XX		
Excess of sale proceeds, over the written down value, on disposal of agricultural machineries and plants.	XX		
Cash received from yearly lease	XX	XX	
Less Allowable deduction U/S. 27 of ITO :			
a) Cost of cultivation (if books not maintained up to 60% of sale proceeds)	XX		
b) Land development tax and land revenue, local rates, taxes, cess. (water tax) etc.	XX		
c) Insurance premium on land, crops or Cattle,	XX		
d) Repair and maintainence of capital assets e. g. irrigation, protective work etc.	XX		
e) Depreciation on capital assets at prescribed rate as per depreciation schedule	XX		
f) Interest on mortgage and capital charges	XX		
g) Interest on borrowed capital	XX		
Total deductions		XX	
Total Agricultural Income			XXX
Income from Business or Profession : Section 28-30			
a) Profits and gains of business or profession during the year.		XX	
b) Income from specific services rendered		XX	
c) Value of any benefit or perquisites arising from business or profession.		XX	
d) Loss, expenses etc. once deducted from income in the past years but realised in the current year.		XX	

Income Tax-206

c) Value of any trading benefit not previously been treated as income.		XX	
f) Sale of business machineries plant or salvage value less written down value		XX	
g) Income from partnership		XX	
Gross income			
Less deductions as admissible under ITO.		XX	
Total Business Income			XXX
Income from Capital Gain : Section 31-32			
Profits 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		
Income from capital gain			XXX
Income from Other Sources : Section 33-34			
Dividend		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 unexplained or unsatisfactory explanation.		XX	
Less admissible deduction U/S. 34 of ITO :-		XX	
Current repair, depreciation and insurance of combined letting of building with assets.	XX		
Interest on borrowed money for the acquisition of shares of a company	XX		
Non-capital and impersonal expenditure for earning the relevant income.	XX	XX	
Total income from other sources			XXX
Income under Section 43			
Income of minor child, wife, etc. (as pointed out 16.1 early)			XXX
Total Income			XXXX
Calculation of Tax :			
Tax at prescribed rate on total income		XXX	
Less tax rebate @ 15% on investment i. e. tax credit income		XXX	
		XXX	
Less advance paid tax		XXX	
Tax payable		XXX	XXX

Assessment of Individual-207

Tax Rates

i)	On Ist	Tk. 1,00,000	-	Nil
ii)	On next	Tk. 2,00,000	-	10%
iii)	On next	Tk. 2,50,000	-	15%
iv)	On next	Tk. 3,50,000	-	20%
v)	On the rest amount		-	25%

Minimum tax payable is Tk. 1,500

Illustrations :

Illustration-1: ✓

Mr. Osmani is an Accountant of a Company. His monthly basic salary is Tk. 8,000. He gets Dearness allowance @ 10% of his basic salary and Tk. 300 as Medical allowance per month. Company has provided him a rent-free-furnished quarter. He contributes 10% of his basic salary to a recognised provident fund.

He has a house at Khulshi whose Municipal Corporation value is Tk. 50,000. The house has been let out at Tk. 4,500 per month. He has spent Tk. 3,000 for repairs, Tk. 1,000 for rent collection, Tk. 2,500 as legal expenses and Tk. 1,700 as municipal tax for the house.

He has received Tk. 20,000 as dividend and Tk. 50,000 as agricultural income in the income year. In the relevant year he purchased ICB certificate worth Tk. 5,000 and paid insurance premium Tk. 4,500.

Compute total income and tax to be paid by Mr. Osmani for the income year 2004-2005.

[C. U. B. Com (Sub.) 1994]

Income Tax-208

Solution :

Assessee : Mr. Osmani

Income year : 2004-2005

Assessment year : 2005-2006

Computation of Total Income and Tax:

	Tk.	Tk.
1. Income from Salary : Sec 21		
a. Basic Salary 8000 x 12	96,000	
b. Dearness allowance @ 10% on B. S.	9,600	
c. Medical allowance 300 x 12 = 3,600	—	
Less actual exp. (assumed to be spent in full) (Note-1)		
d. House Rent allowance : 25% of B. S. (Note 2)	24,000	
e. Employer's Contribution to R. P. F. @ 10% of B. S.	9,600	
Income from Salary		1,39,200
2. Income from House Property : Section 24-25		
Annual Value :		
a. Municipal value = 50,000		
b. <u>Rental value = 54,000</u> (45,000 x 12)		
whichever is higher	54,000	
Less allowable deductions :		
a. Repairs $\frac{1}{4}$ th of A. V. (Note-3) = 13,500		
b. Municipal tax = 1,700	15,200	
Income from House Property		38,800
3. Income from Agriculture (Sec. 26-27)		
Income from agriculture = 50,000		
Less cost of cultivation = 60% = 30,000 (Note-4)	20,000	
Income from Agriculture		20,000
4. Income from other Sources : (Sec. 33-34)		
a. Dividend income		20,000
b. <u>Interest on Bank deposit</u>		15,000
Total Income		<u>2,33,000</u>

Tax-credit Income (Investment Allowance)

Tk.

1. Employer and Employee's contribution to Recognized Provident Fund	19,200
2. Purchase of ICB certificate	5,000
3. Insurance Premium	4,500
	<u>28,700</u>

Assessment of Individual-209

Tax credit @ 15% on (i) actual investment = Tk. 28,700 or (ii) 20% of Total Income excluding Employees contribution to P. F = 20% of (2,33,000 - 9,600) Tk. 2,23,400 = Tk. 44,680 or (iii) Tk. 2 lakh which one is less. Hence, 15% on Tk. 28,700 = Tk. 4,305.

Computation of Tax	Tk.
On 1st Tk. 1,00,000	= Nil
on Next Tk. 2,00,000 @ 10%	= 13,300
(Here on Tk. 1,33,000)	<hr/>
Gross tax	13,300
Less tax credit	<u>4,305</u>
Net Tax Payable	= Tk. <u>8,995</u>

Notes :

- 1) Medical allowance is exempted upto actual expenses.
- 2) When rent free house is provided by the employer, then 25% of Basic salary- is added with income.
- 3) Repair is allowed one-fourth of annual value of the house irrespective of expenditure. It includes collection charge and Legal expenses.
- 4) When an assessee does not maintain books of accounts for cost relevant to agricultural products, 60% of sale value of product is allowed as allowable deductions. Here agriculture income is assumed to have arisen from sale of product and its cost of cultivation has been allowed @ 60%.
- 5) Dividend received from a Company registered in Stock-Exchange is now fully Taxable under Finance Act, 2005.

Illustration-2:

Rahul Raha is an employee. His monthly salary is Tk. 12,000. He received one bonus equivalent to one month's basic salary; Tk. 48,000 as house allowance, Tk. 500 per month as conveyance allowance and Tk. 600 per month as entertainment allowance. He has also received medical allowance Tk. 4,800 in that year, but actually spent Tk. 3,800 for this purpose. He contributes 10% of his basic salary to a Recognised Provident Fund to which his employer also contributes equal sum. Interest at $14\frac{1}{2}\%$ amounting to Tk. 2,800 has been credited to his Provident Fund Account.

Income Tax-210

He owns a house the annual value of which is Tk. 38,000. He receives Tk. 4,200 per month as rent from that house. He spent Tk. 3,200 for repairs, Tk. 2,000 for Insurance Premium, Tk. 700 as municipal tax and land revenue. His other incomes during the year are as follows :

Dividend from a public limited company Tk. 10,000; Interest on Fixed Deposit Tk. 10,000; Share of profit from Islami Bank Tk. 17,400 and share of profit from Firm Tk. 14,500 and from lease of agriland Tk. 31,000.

Mr. Rahul invested during the year Tk. 8,000 in purchasing shares from an approved company. He pays life Insurance Premium Tk. 6,000 for his own life. He donated Tk. 5,000 to Prime Minister's Relief Fund.

Ascertain Rahul's Total Income and Income Tax payable taking 2005-2006 as assessment year.

[N. I. B. Com. 2000, Modified]

Assessment of Individual-211

Solution :

Assessee : Mr. Rahul Raha

Income year : 2004-2005

Assessment year : 2005-2006

Part = A : Computation of Total Income

Particulars		Tk.	Tk.
1	Income from Salary : Sec. 21		
a)	Basic salary $12,000 \times 12$	144,000	
b)	Bonus $12,000 \times 1$	12,000	
c)	House allowance :		
	i) Amount received = 48,000		
	ii) Less exempted upto Tk. 15,000 per month = 1,80,000 or 50% of Basic salary = 72,000 whichever is less	—	
d)	Conveyance allowance :		
	i) Amount received = $500 \times 12 = 6,000$		
	ii) Less exempted upto = <u>12,000</u>	—	
e)	Entertainment allowance 600×12	7,200	
f)	Medical allowance :		
	i) Amount received = 4,800		
	ii) Less exempted : Actual Exp. = <u>3,800</u>	1,000	
g)	Employer's contribution to R. P. F. 10% of B.S.	14,400	
h)	Int. on Provident Fund 2,800		
	Less exempted upto 14.5% of interest rate <u>2,800</u>	—	
	Total Salary Income		1,78,600
2.	Income from House Property : Sec. 24-25		
	Annual Value :		
	i) Municipal value = 38,000		
	ii) Rental value = <u>50,400</u> , $(4,200 \times 12)$		
	— whichever is higher	50,400	
	Less allowable deductions :		
	i) Repairs $\frac{1}{4}$ th of A. V. = 12,600		
	ii) Insurance = 2,000		
	iii) Municipal tax = <u>700</u>	15,300	
			35,100
3	<u>Income from Agriculture</u> Income from lease of agriland		31,000
4.	Income from Business : Sec. 28-30		
	Share of profit of a firm		14,500

Income Tax-212

5.	Income from Other Sources : Sec. 33-34		
a)	Dividend		10,000
b)	Int. from Bank Deposit	10,000	
c)	Profit from Islami Bank	17,400	27,400
	Total Income =		<u>2,96,600</u>

Part - B : Tax-Credit Income		
1.	Employer & Employee's Contribution to R. P. F	28,800
2.	Purchase of Share	8,000
3.	Life Insurance Premium	6,000
4.	Contribution to Prime Minister's Relief Fund	5,000
	Total Tk.	<u>47,800</u>

Tax credit on investment = 15% on (i) Actual investment = Tk. 47,800 or (ii) 20% of total income excluding employers contribution to P F = 20% on Tk. 2,72,000 = Tk. 54,400 or (iii) Tk. 2 lakh - whichever is less. Hence on Tk. 47,800 = Tk. 7,170

Part - C : Computation of Tax

	Tk.
On 1st Tk. 1,00,000 =	Nil
On Next Tk. 2,00,000 @ 10% = (Here on Tk. 1,96,600)	<u>19,660</u>
Gross Tax =	Tk. 19,660
Less Tax credit on investment =	<u>7,170</u>
Net tax payable =	<u><u>Tk. 12,490</u></u>

Notes :

- 1) No exemption is allowed on entertainment allowance received by an employee.
- 2) House rent allowance, if received in cash, is exempted upto Tk. 15,000 per month or 50% of B. S. whichever is less.
- 3) Int. on Recognized provident fund balance is exempted upto 14.5% interest rate subject to $\frac{1}{3}$ rd of basic salary.
- 4) Dividend received from public Ltd Company is now fully taxable under Finance Act, 2005.
- 5) No deduction on agricultural income is allowed if it is received in cash through lease of land.
- 6) Rebate on average rate is allowed on firm's profit added with total income of the assessee, if profit of firm is taxed. Here it is assumed that firm's profit was not taxed.

Illustration-3:

The following are the particulars of Income of Mr. Abul Fazal for the year ended 30th June, 2005.

- i) Salary Taka 8,500 per month (basic).
- ii) Dearness Allowance-40% of basic pay but maximum of Taka 2,000 per month.
- iii) Entertainment Allowance Tk. 400 per month.
- iv) Bonus-equivalent to basic salary of two months.
- v) Income from Commercial Securities Tk. 5,000 (Tax deducted at source @ 18%).
- vi) Income from dividend of a Public Ltd. Company Taka 20,000.
- vii) Income from Partnership Business Tk. 15,000 (not taxed).
- viii) Income from Agricultural Land (sale of produce) Taka 10,000.
- ix) Royalty from books Tk. 7,000.
- x) Received birth day presentation Tk. 5,000.
- xi) Interest on savings certificate Tk. 10,000.

Mr. Fazal was provided with a free-furnished quarter. He also owns a house which is let out at Tk. 3,000 per month. The Municipal Value of the house is Taka 30,000. He spent Taka 1,500 for repair and Tk. 10,000 for alteration. He also paid Tk. 1,000 for Municipal Tax, Tk. 2,000 for fire insurance premium. Tk. 500 for collection charges. Other Particulars of Mr. Fazal are as follows:

- a) He contributed 10% of his basic salary to a recognized provident fund to which his employer contributed equal sums.
- b) He insured his own life for Tk. 75,000 and for the life of his wife for Tk. 50,000. He paid insurance premiums on the above policies Tk. 6,000 and Tk. 4,000 respectively.
- c) Purchased Pratirakhya Sanchay Patra for Tk. 20,000.
- d) He spent Tk. 8,000 on education for two college going children.

Required :

- i) The Total Income.
- ii) Investment Tax Credit income of Mr. A. Fazal for the year ended 30th June, 2005.

[ICMA-Part iv, March, 1985 (Modified)]

Income Tax-214

Solution :

Computation of Total Income of Mr. Abul Fazal
 Assessment Year : 2005-2006
 Income Year : 2004-2005

Particulars	Tk.	Tk	Tk.	Tk
1. Income from Salary : Sec 21				
a) Basic Salary : Tk. 8,500 Monthly	$8,500 \times 12$		1,02,000	
b) Perquisites :				
i) Dearness Allowance : 40% of Basic Pay	40,800			
Max. Allowance Claimable: $2,000 \times 12$	24,000	24,000		
ii) Entertainment Allowance: 400×12 (Assessable; Rule 33h; F.A. 97.)		4,800		
iii) Bonus (2 month's Salary)	$8,500 \times 2$	17,000		
iv) Free Furnished Quarter : 25% of Basic pay		25,500		
v) Employer's contribution to Recognised Provident Fund : 10% of B. S.		10,200	81,500	1,83,500
2. Interest on Securities : Sec. 22-23				
Income from Commercial Securities : 18% (Assumed to be Net Amount)	$5,000 \times \frac{50}{100}$ $5,000 \times \frac{100}{82}$			6,098
3. Income from House Property : Sec. 24-25				
Wholly let out house :			A. V.	
Annual Rental Value: $3,000 \times 12$	36,000			
Or Municipal Value (Higher One)	30,000	36,000		
Less admissible Expenses :				
i) Repair $\frac{1}{4}$ of A. V. (Including Collection Charge)	9,000			

Assessment of Individul-215

ii) Municipal tax	1,000		
iii) Insurance Premium	2,000	12,000	24,000
4. Income from Agriculture : Sec. 26-27			
Sale of Produce	10,000		
Less Allowable Expenditure 60%	6,000		4,000
5. Income from Business : Sec. 28-30			15,000
Income from Partnership Business (taxed)			
6. Income from Other Source : Sec. 33-34			
a) Dividend Income of a Public Ltd. Co.		20,000	
b) Royalty from books		7,000	27,000
c) Birth Day Presentation Non-assessable (Assumed to be personal & voluntary gift out of affection)	5,000	—	
Total Income			2,59,598

Investment Tax Credit : Sec. 44(2) (b); 44(3)

Particulars	Tk.	Total Investment Tk.	Admissible Investment Tk.	Tax Credit Tk.
a) Actual Investment :				
i) Contribution to P. Fund :		20,400		
10,200 x 2 (Employer and Employee)				
ii) Pratikhya Sanchay Patra		20,000		
iii) Life Insurance Premium :				
Self :	6,000			
or, 10% of Policy amount	7,500	6,000		
(i. e. 10% of Tk. 50,000)	(Lower)			
Wife :	4,000			
or, 10% of Policy amount	5,000	4,000		
(i. e. 10% of Tk. 50,000)	(Lower)	50,400		

Income Tax-216

b) Max. Limit of Investment : 20% of T. I. excluding contribution to P. F. $= (2,39,598 - 10,200) \times 20\% = 2,29,398 \times 20\% =$ or Tk. 2 lac, or Actual investment. (Whichever is lower) \therefore Tax Credit : 15% on admissible investment.	45,880	45,880	45,880	6,882
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Notes :

- 1) Income from Commercial Securities has been grossed up by $\frac{100}{82}$ as tax deducted at source @ 18%.
- 2) Rebate would be calculated at the average rate of tax out of the "Income from Partnership Business" (taxed) to arrive at the Net tax payable by the assessee.
- 3) Income from Agricultural (sale of produce) is assessed to be "gross" out of which 60% admissible expenses has been deducted.
- 4) Royalty income from books is taxable under Sec. 36 of Income Tax Ordinance, 1984 if it is not exempted by NBR.
- 5) Birth Day Presentation is deemed to be personal and voluntary gift out of affection, honour, etc.
- 6) Education Allowance for Children is Non-allowable.
- 7) Repairs and Maintenance cost (in this sum repair and collection charge) will be allowable @ $\frac{1}{4}$ th of A. V. [Sec. 15 (1) (h), F. A. 2000].
- 8) Dividend derived from the Public Ltd. Co. is now fully taxable under F. A. 2005.
- 9) Interest on savings certificate is exempted upto Tk. 25,000.

Illustration-4:

Mr. Deb Das is a service holder. His sources of income for the year ended 30th June, 2005 were as follows :

A) Income from Salary :	Tk. Per Month
Basic Salary	8,000
Dearness Allowance	800
House Rent Allowance	6,000
Conveyance Allowance	600
Medical Allowance	300
Bonus-2 month's Basic Salary	

Assessment of Individual-217

Deb Das has a car registered in his name. He contributed 10% of B. S. to Recognised Provident Fund and his employer also contributed the same amount. He received Tk. 3,000 as interest on the accumulated balance of Recognised Provident Fund @ 9% P. A.

- B) Deb Das has 5% Tax-free Commercial Securities worth Tk. 25,000. He also received Tk. 4,500 as interest on Less-tax Govt. Securities and Tk. 6,000 from Commercial less tax Securities.
- C) He is the owner of a house. Half of the house is used by Mr. Deb Das for his residential purpose and the other half is let out at a monthly rent of Tk. 5,000. The Municipal Value of the house is Tk. 1,50,000. Expenses of the house for the year were as follows :

Fire insurance Tk. 1,400; Repairing Tk. 8,000; Collection Charge Tk. 700; Interest on H. B. F. C. Loan Tk. 6,000; Legal Expenses Tk. 3,700; Electricity for Water rate etc. Tk. 2,000 and Municipal Taxes Tk. 1,600.

The house was remained vacant for 2 months during the year.

D) Other Income :

	Tk.
(i) Get-a-Word Prize	3,000
(ii) Interest on Bank Deposits	4,000
(iii) Dividend Income	6,000
(iv) Interest on Post Office Saving Account	14,000
(v) Prize of Prize Bond	10,000
(vi) He received Gift worth Tk. 10,000 as birth day presentation.	

During the year he incurred the following expenses :

	Tk.
Insurance Premium Paid (Policy value Tk. 30,000)	4,000
Purchased Share from a Ltd. Co.	14,000
Donated to President's Relief Fund	7,000
Deposited to Pension Scheme per month	500
Paid to Zakat Fund	1,000
Purchase of Books	5,000

Find out the Total Income and the Tax Liability of Mr. Deb Das.

Income Tax-218

Solution :

Assessee : Mr. Deb Das
 Assessment year : 2005-2006
 Income year : 2004-2005
 Determination of Total Income

Heads of Income	Tk.	Tk.	Tk.
A. Income from Salary (Section. 21) :			
1. Basic Salary (8,000 x 12)		96,000	
2. Dearness Allowance (800 x 12)		9,600	
3. House Rent Allowance (6,000 x 12)	72,000		
Less : Exempted at Tk. 15,000 P. M. for the year Tk. 1,80,000 or 50% of basic salary = Tk. 48,000 whichever is less.	48,000	24,000	
4. Conveyance Allowance 600 x 12	7,200		
Less exempted (Note-1)	12,000		
5. Medical Allowance (300 x 12)	3,600		
Less : Exempted - Actual exp. (Note-2)	3,600	—	
6. Bonus (8,000 x 2)		16,000	
7. Employer's contribution to R. P. F. (10% of B. S.)		9,600	
8. Interest on R. P. F.	3,000		
Less : Exempted (Note-3)	3,000		
			1,55,200
B. Income From Int. on Securities (Sec. 22-23):			
1. Tax-free Govt. Securities	1,250		
Less exempted in full	1,250	—	
2. Less – Tax Govt. Securities (4,500 x $\frac{10}{7.5}$)	6,000		
Less : Exempted - maximum	5,000	1,000	
3. Less – Tax Commercial Securities (6,000 x $\frac{10}{7.5}$)	8,000	8,000	
			9,000
C. Income from House Property (Sec. 24-25)			
Let-out portion :			
Annual Value :			
Rental Value (5,000 x 12)	60,000		
Municipal Value (1/2)	75,000		
Higher one =		75,000	
Less : Admissible Expenses :			
Repairs and maintenance (Note-4) $\frac{1}{4}$ th of A. V.	18,750		

Assessment of Individual-219

Fire Insurance (1/2) (Note-5)	700		
Interest on H. B. F. C. Loan (1/2)	3,000		
Municipal Tax (1/2)	800		
Vacancy Allowance (75,000 ÷ 12 × 2)	12500	35,750	39,250
D. Income from Other Sources (Section 33-34)			
1. Get-a-word Prize (Note-6)	3,000	3,000	
2. Interest on Bank Deposits	4,000	4,000	
3. Dividend Income (Note-7)		6,000	
4. Int. on Postal Saving Account	14,000		
Less : Exempted in full	14,000	—	13,000
Total Income			2,16,450

Tax-credit income (Investment Allowance)

Particulars	Tk	Tk.	Tk.
1. Insurance Premium	4,000		
Maximum limit— 10% of policy value Tk. 30,000	3,000	3,000	
2. Purchase of share		14,000	
3. Donation to president's Relief Fund		7,000	
4. Employer's & Employee's contribution to R. P. F (9,600 × 2)		19,200	
5. Deposited to Deposit Pension Scheme (500 × 12)		6,000	
6. Donation to Zakat Fund		1,000	
Allowance = 15% of Investment		50,200	
Maximum limit 20% of Total Income excluding employer's contribution to RPF = (2,16,450 - 9,600) × 20% = Tk. 40370 or Tk. 2,00,000 - lower one		41,370	41370
So tax rebate is 15% of 41,370			6,206

Computation of Tax Liability

Particulars	Rate	Amount
On the first Tk. 1,00,000 of total income	Nil	
On the next Tk. 2,00,000 of total income	10%	
Here on : Tk. 1,16,450 @ 10%		11,645
Gross tax =		11,645
Less tax rebate =		6,206
Net tax payable		5,439

Notes :

- 1) Conveyance allowance received in cash is exempted up to Tk. 12,000. No allowance is allowed for car owned by the assessee.
- 2) Medical Allowance : Assumed that the amount received against such allowance has been fully spent.
- 3) Interest on RPF : As the amount of interest received Tk. 3,000 is less than $\frac{1}{3}$ rd of Basic Salary and the rate of interest 9% is less than 14.5%, so the full amount of interest is exempted.
- 4) Repairs and Maintenance : Irrespective of the amount of actual expenditure, an amount equal to one fourth of the annual value is admissible for repairs and maintenance including collection charge and legal expenses.
- 5) Proportion of House Property Expenses : Such expenses have been allocated equally between Rental and Self occupied portion.
- 6) Income from lottery, Get-a-word etc. are taxed at average rate applicable to the total income of the assessee or 20% whichever is less. Here average rate is less and then no separate calculation is necessary.
- 7) Dividend income is now taxable.
- 8) Purchase of book is not allowed as investment.

Illustration-5:

The sources of income of Mr. Tinkari for the year ended on 31st December, 2004 were as follows:

A) Income from Salary :

- 1) Monthly salary Tk. 6,200. in the scale of Tk. 6,000-200-10,000.
- 2) Dearness allowance @ 10%
- 3) Yearly Bonus 2 Months Basic Salary
- 4) Employer provided a free furnished house to Tinkari, the annual value of which is Tk. 38,000.

B) Income from Interest on Securities :

- 1) 8% Tax free Commercial Securities Tk. 20,000
- 2) 6% tax free Govt. Securities Tk. 30,000
- 3) Interest on Less tax Commercial Securities Tk. 9,000 and Interest on Less-tax Govt. Securities Tk. 7,500.

C) Income from House Property :

- 1) Rental value of 1st building Tk. 35,000 & its Municipal value is Tk. 48,000
- 2) Value of his residential house in which he resides is Tk. 60,000

Assessment of Individual-221

D) Income from Other Heads of income :

- 1) Income from Tea Garden Tk. 20,000
- 2) Income from dividend of a Private Ltd. Company Tk. 22,000
- 3) Income from postal Savings Account Tk. 1,200 and interest on Fixed Account with Janata Bank Tk. 2,500
- 4) Honorarium from examination Tk. 15,000
- 5) Birth day gift Tk. 9,000.

During the year Mr. Tinkari claims investment allowance for the following :

- a) Purchase of Defence Savings Certificate and Postal Savings Certificate Tk. 12,000 and 5,000 respectively.
- b) Life Insurance premium Tk. 6,000.
- c) Contribution to Benevolent Fund and Group Insurance Tk. 3,600 and Tk. 1,200 respectively.
- d) Donation to Govt. Zakat Fund Tk. 2,500
- e) Gift to Wife Tk. 10,000

Find out total income and tax liability of Mr. Tinkari.

(C. U. B. Com (Hons.) 1983, Modified).

Solution :

Assessment of Mr. Tinkari

Income year : 2004-2005

Assessment year : 2005-2006

Part : A : Computation of Total Income

Particulars	Tk.	Tk.	Tk.
1. Income from Salary (Sec. 21)			
a) Basic salary	$6,200 \times 12$	74,400	
b) Dearness Allowance	10% of B. S.	7,440	
c) Bonus	2 month's B. S.	12,400	
d) House Allowance :			
i) Annual value	38,000		
ii) 25% of B. S. whichever is less	18,600	18,600	
Income from Salary			1,12,840
2. Income from Securities (Sec. 22-23)			
a) 8% Tax free com. Securities	1,600		
Grossed up $1600 \times \frac{10}{7.5}$	2,133	2,133	
b) 6% Tax free Govt. Security	1,800		
Less exempted in full	1,800	—	
c) Less tax Com. securities	9,000		
Grossed up $\frac{9000 \times 10}{7.5}$	12,000	12,000	

Income Tax-222

d) Less tax Govt. Securities	7,500		
Grossed up $\frac{7500 \times 10}{7.5}$	10,000		
	10,000		
Less exempted upto	5,000	5,000	
Income from securities			19,133
3. Income from House Property (Sec. 24-25)			
Annual Value :			
i) Rental Value	35,000		
ii) Municipal Value	48,000		
Highest one		48,000	
Less allowable deductions :			
a) Repairs ($\frac{1}{4}$ th of AV)		12,000	
Income from House Property			36,000
4. Agricultural Income (Sec. 26-27)			
Income from Tea-garden (assumed net)	60%	12,000	
Income from Agriculture			12,000
5. Income from Business (Sec. 28-30)			
Income from Tea garden	40%	8,000	
Income from Business			8,000
6. Income from Other Sources (Sec. 33-34)			
a) Dividend from Pvt. Ltd. Co.		22,000	
b) Examination Remuneration		15,000	
c) Int. from Janata Bank		2,500	
Income from Other Sources			39,500
Total Income			<u>2,27,473</u>

Assessment of Individual-223

Part - B : Tax-Rebate Income

Particulars	Tk.
1. Purchase of Defence Savings Certificate	12,000
2. Purchase of Postal Savings Certificate	5,000
3. Life Insurance Premium	6,000
4. Donation to Zakat Fund	2,500
5. Contribution to Benevolent and Group Insurance Fund	4,800
Actual Investment	30,300
Rebate @ 15% on :	
i) Actual Investment = Tk. 30,300 or	
ii) 20% of T. I. = Tk. 45,495, or	
iii) Tk. 2 lakh - whichever is less.	
Thus on Tk. 30,300	4,545

Part-C : Computation of Tax

Income Slab	Rate	Amount
i) On 1st Tk. 1,00,000	Nil	Nil
ii) On next Tk. 2,00,000	10%	12,747
Here on Tk. 1,27,473		
Gross Tax		12,747
Less tax rebate		4,545
Net tax payable		8,202

Income Tax-224

Notes :

- 1) Int. on Tax Free Govt. Securities is exempted in full and that of Less-Tax Govt. Securities is exempted upto Tk. 5,000.
- 2) Income from Tea Garden is 60% agriculture and 40% business.
- 3) Income from Postal Savings Account is exempted in full.
- 4) Birth day presentation is personal, non-recurring, casual and hence non-assessable.
- 5) Income from Residential House is not taxable.
- 6) Gift to wife is not allowable.

Illustration-6:

Tareque Ibne Jabel is an accountant of Moon and Sun Ltd., drawing a monthly salary of taka 8,000 in the scale of 5,500-100-8,500. His date of yearly salary increment falls on March 1. He contributes 10% of his basic salary to a recognised provident fund. He has been provided with a rent free quarter and a car for personal use. The employer also allowed him as car allowance of Tk. 300 per month. Tax deducted at source from salary Tk. 3,000.

On 1st June his service was terminated and he received taka 25,000 as compensation. He also received taka 50,000 from provident fund.

Mr. Tareque Ibne Jabel owns a house at Nasirabad, Chittagong; half of which is let out at taka 3,000 p. m., other half of the house is used by his family members. He pays taka 3,000 per month to House Building Finance Corporation as his instalments for the loan taken from the Corporation for the construction of the house of which taka 750 is interest on loan.

His other income for the year concerned were as follows :

- | | |
|---|--------------------|
| (a) Birth day gift | Tk. 10,000; |
| (b) Interest on taxable Government Securities | Tk. 6,000 (Gross); |
| (c) Income from Unregistered Firm | Tk. 12,000; |
| (d) Income from Sale of Agricultural Crops | Tk. 8,000; |
| (e) Prize from Lottery | Tk. 15,000. |

During the year ended on 30-6-2005 he paid life insurance premium of taka 6,000. He purchased books worth taka 4,000 and made donation to National Sports Association Taka 5,000, President Relief Fund Taka 10,000 and a club Taka 3,000. On investigation it was further found that he purchased a land at Haliashahar, Chittagong for Taka 50,000 which the D. C. T. considers undervalued to the extent of 15%.

Compute total income of Mr. Tareque Ibne Jabel.

[C. U. B. Com. (Hons.) 1985. (Year changed)]

Assessment of Individul-225

Solution :

(The problem has been solved following the proferma as prescribed under Income Tax Ord. 1984).

Assessee : Tareq Ibne Jabel

Income Tax Year : 2005-2006

Father's Name :

Address :

Status : Individual

Residential Status : Resident

T. I. No.

PART-A

Statement of Income for the year ended on 30-6-2005

Description of Income	Tk.
1. Income from Salary : Sec. 21 (See computation-1)	1,52,560
2. Income from Securities : Sec. 22-23 (6,000-5,000)	1,000
3. Income from House Property : Sec. 24-25 (See computation-3)	22,500
4. Income from Agriculture : Sec. 26-27 (Computation-4)	3,200
5. a) Income from Business : Sec. 28-30	—
b) Income from Firm	12,000
6. Income from Capital Gain : Sec. 31-32	—
7. Income from other Sources : Sec : 33-34	
(1) Dividend	—
(2) Interest	—
(3) Others (Pl. Specify) : (i) Lottery	15,000
(ii) Purchased land undervalued ($\frac{50000 \times 15}{85}$)	8,824
(4) Unexplained Investment Sec. : 19	
8. Total (1-7)	2,15,084
9. Foreign Income	—
10. Total Income	2,15,084
Tax on total income	11,508
Tax credit	4,356
Tax payable	7,152
Tax paid through deduction of tax at source	3,000
Net tax to be paid	4,152

Assessment of Individual-227

Computation -3 : Income from House Property

A) Rental portion :	
(i) Municipal value	?
(ii) Rental value = 3,000 x 12 =	36,000
∴ Annual value	36,000
Less : (i) Repairs ($\frac{1}{4}$ th of A. V.) =	9,000
(ii) Int. on loan = $750 \times 12 \times \frac{1}{2} =$	4,500
	13,500
	22,500

Computation - 4 : Income from Agriculture

Sale of Crops =	Taka	8,000	(Assumed gross)
Less allowable exp. upto 60% =		4,800	
		3,200	

Computation of Tax :

Tax on first Tk. 1,00,000	Nil
on Next Tk. 2,00,000 @ 10%	11,508
(In this case on 1,15,084)	11,508
Less 15% Rebate on 29,040 =	4,356
	7,152

Notes :

- (1) Amount received from balance of Recognised Provident Fund at service end is not treated as income for tax purpose i.e exempted in full.
- (2) Birth day gift is non assessable casual & non-recurring income and is fully exempted.
- (3) Income from lottery will be taxed at separate rate applicable to it or at the average rate of tax applicable on the total income of the assessee whichever is less and then tax to be adjusted accordingly. Her seperate rate is 20%. But as average rate is then 20% no reparate calculation is necessary.
- (4) Donation to National Sports Association, Purchase of books are non-allowable as per Finance Act, 1992.
- (5) As per Finance Act, 2,000 repair is allowable equivalent to $\frac{1}{4}$ th of A. V. Honruer if it would have been commercial building 30% could have been allowed as per Finance Act. 2004:
- (6) As per Finance Act, 2,000 an amount of 7.5% of B. S. will be added if the employee gets car for personal use. Further, if any additional allowance is received, that amount will also be added.

Illustration-7:

Mr. A. K. Khan had the following income for the year ended on 30-6-2005. Compute his Total and Tax Credit Income.

Salary Income :

- i) Basic salary @ Tk. 5,000 per month.
- ii) Bonus equivalent to two month's B. S.
- iii) He was provided with a car for both personal and office use. His employer spent Taka 300 per month for running and maintenance of the car.
- iv) He contributed 10% of his basic salary to a Contributory P. F. His account was credited with Taka 800 as interest.
- v) His employer provided him with a free-furnished quarter.
- vi) On 30th June 2005 he retired on golden handshake program and received Tk. 1,50,000.

Income from Investment :

- i) Interest from Debenture Taka 20,000. (Gross)
- ii) Dividend from a Company enjoying tax holiday Taka 6,000.
- iii) He holds 1,000, 10% preference shares of Taka 100 each from a Company not registered in Stock Exchange.
- iv) Interest on Postal Deposit Account Taka 6,000.

Other income :

He holds an agricultural land from which he earned Taka 10,000 as agricultural income. He claimed Taka 7,000 as expenses for the purpose. He earned capital gain of Tk. 8,000 on transfer of a building. Its incidental expenses for the same was Taka 2,000.

Investment :

During the year his investments were as follows :

- i) Purchase of Defence Certificate Taka 8,000.
- ii) Life Insurance Premium Taka 2,000.
- iii) He deposited Tk. 200 per month to the Deposit Pension Scheme maintained by him.

He donated Tk. 2,000 to an Orphanage and Taka 3,000 to Relief Fund.

Solution :

Assessee : Mr. A. K. Khan

Income year : 2004-2005

Assessment year : 2005-2006

Computation of Total Income :

	Tk.	Tk.
1. Income from Salary : (Sec. 21)		
i) Basic salary 5,000 x 12	60,000	
ii) Bonus 5,000 x 2	10,000	
iii) Car allowance : 7.5% of B. S.	4500 / 3,000	
iv) Employer's contribution to P. F. @ 10%	6,000	
v) House allowance : Annual Value ? or, 25% of Basic Salary 15,000 = lower one	15,000	94,000
2. Income from Securities : (Sec. 22 & 23)		
i) Interest on Debenture 20,000		
Less : exempted up to 20,000	—	—
3. Agricultural Income : (Sec. 26 & 27)		
i) Agricultural income	10,000	
Less : allowable exp. @ 60% maximum	6,000	4,000
4. Capital Gain : (Sec. 31 & 32)		
i) Gross capital gain	8,000	
Less : expenses	2,000	6,000
5. Income from Other Sources : (Sec. 33 & 34)		
a) Dividend from tax holiday enjoying Co. Exempted in full	6,000	—
b) Dividend from Company (Pref. share dividend)		10,000
c) Interest on Postal Deposit Account- (Exempted in full)	6,000	
Total Income :		1,14,000
Tax-Credit Income :		
i) Purchase of Defence Certificate	8,000	
ii) L. I. P.	2,000	
iii) Deposit Pension Scheme	2,400	
iv) Donation : Relief fund	3,000	
v) Contribution to Contributory P. F. (6,000 x 2)	12,000	27,400

Notes :

- 1) Interest on Recognised P. F. is exempted up to $\frac{1}{3}$ rd of salary or interest computed @ 14.5% whichever is less. It is assumed here that interest rate is less than $14\frac{1}{2}\%$.

Income Tax-230

- 2) Assumed that interest on Debenture received from such a Co., which is approved by the Comptroller of Capital Issue.
- 3) Investment tax credit @ 15% is allowable on investment made subject to maximum of 20% total income (after deducting employer's contribution to recognized P. F. and int. on recognized P. F. if any, included in total income) or Tk. 2 lakh whichever is less.
- 4) Assumed that Books of accounts were not maintained in respect of agricultural income and thus 60% of the income is allowed for expenses.
- 5) Dividend received from company enjoying tax holiday is not taxable.
- 6) Amount received on golden handshave is non-assessable.

Illustration-8:

Mr. Lal Mia is the chief accountant of a Public Limited Company. His sources of income for the year ended 30th June, 2005 were as follows :

(A) Income from Salary :	Tk.
Basic Salary per month	20,000
Arrear increment	10,000
Medical Allowance per month	500

Bonus-2 month's basic salary as festival and one month's basic as incentive allowance.

Mr. Lal Mia has been provided with a rent free furnished house of annual rental value of Tk. 72,000 and a full time car for his personal use. He contributed 10% of B. S. to an Un recognized Provident Fund (URPF) and his employer also contributed the same amount. He received interest @ 15% Tk. 18,000 on the accumulated balance of Provident Fund.

(B) Income from House Property :

He has a house. Half of the house is let out at Tk. 12,500 per month and the other half is used for his residence. The Municipal Value of the house is Tk. 2,50,000. Expenses of the house for the year were as follows :

Land development tax Tk. 2,000; Repairing Tk. 6,000; Instalment on H. B. F. C. loan Tk. 45,000 of which interest is Tk. 15,000, Cost of installing water & electric line Tk. 40,000 and Municipal Taxes Tk. 5,000.

The house was remained vacant for two months during the year.

(C) Agricultural Income :

Sale of Agri-products Tk. 2,00,000; Cash rental of agricultural land Tk. 1,00,000 and sale of honey Tk. 10,000.

Expenses relating to agriculture were-local rates and taxes Tk. 3,000; insurance premium Tk. 6,000; interest on loan Tk. 15,000 and land development Tk. 25,000.

(D) Business Income :

Share of profit from Partnership firm 1,50,000; Income from Sole Tradership Business Tk. 50,000; last year's loss carried forward Tk. 40,000.

Assessment of Individul-231

- (E) **Other Income :** Tk.
- i) Interest on bank deposits 13,000
 - ii) Prize of Lottery 40,000
 - iii) Dividend received from private co. 50,000
- (F) **During the year he incurred the following expenses :** Tk.
- Family expenses 2,40,000
 - Insurance Premium-own (Policy value Tk. 6,00,000) 50,000
 - Insurance Premium-spouse (Policy value Tk. 3,00,000) 40,000
 - Purchase of Share of Partnership 65,000
 - Purchase of Debenture 30,000
 - Purchased share from Stock Exchange 50,000
 - Purchased Books 4,000
 - Donated to Prime Minister's Relief Fund. 10,000
 - Deposited to Pension Scheme (per month Tk. 500) 6,000
 - Paid to Zakat Fund 3,000
- Find out the Total Income and the Tax Liability of Mr. Lal Mia.

Solution :

Assessee : Mr. Lal Mia
 Assessment year : 2005-2006
 Income year : 2004-2005

Part-A = Determination of Total Income

Heads of Income	Tk.	Tk.	Tk.
A. Income from Salary (Section 21) :			
1. Basic Salary (B. S.) (20,000 x 12)		2,40,000	
2. Arrear increment		10,000	
3. Medical Allowance (500 x 12)	6,000		
Less : Exempted - Actual exp. (Note-1)	6,000	—	
4 (a) Bonus (Festival) (Tk. 20,000 x 2)		40,000	
(b) Bonus (Incentive) (Tk. 20,000 x 1)		20,000	
5. Rent-free accommodation (25% of B. S. i. e., Tk. 60,000 or annual rental value Tk. 72,000 - lower one)		60,000	
6. Conveyance Facility (7.5% of B. S.)		18,000	3,88,000
B. Income from House Property (Sec.-24)			
Let-out portion :			
Annual Value :			
Rental Value (12,500 x 12)	1,50,000		
Municipal Value (2,50,00 x $\frac{1}{2}$)	1,25,000		
Higher one		1,50,000	
Less : Admissible Expenses (Section-25)			
Repairs and maintenance (Note-2)	37,500		
Land development tax $\frac{1}{2}$	1,000		

Income Tax-232

Interest on H.B.F.C. loan ¹	7,500		
Municipal Tax ¹	7,500		
Vacancy Allowance (Tk. 1,50,000 x 12%) (Note-3)	18,000	73,500	76,500
C. Agricultural Income (Sec. 26)			
i) Sale of Agri. products	2,00,000		
ii) Cash rentals of agricultural land	1,00,000		
iii) Sale of Honey : (Note-4)	10,000	3,10,000	
Less : Admissible Expenses (Section-27):			
Local rates and taxes	3,000		
Insurance premium	6,000		
Interest on loan	5,000		
Cost of Production (60% of sales of product Tk. 2,00,000) (Note-4)	1,20,000	1,44,000	1,66,000
D. Income from Business (Section-28) :			
1. Share of profit from partnership firm		1,50,000	
2. Profit from sole-tradership business	50,000		
Less : Set off under section 38	40,000	10,000	1,60,000
E. Income from Other Sources (Sec.			
1. Interest on Bank Deposits		13,000	
2. Prize of Lottery		40,000	
3. Dividend Income (Note 5)		50,000	1,03,000
Total Income			8,93,500

Part-B : Determination of Tax-credit Income

Particulars	Tk.	Tk.
1. Insurance Premium - own Maximum - 10% of policy value Tk. 6,00,000	50,000 60,000	50,000
2. Insurance Premium - spouse Maximum - 10% of policy value Tk. 3,00,000	40,000 30,000	30,000
3. Purchase of Debenture		30,000
4. Purchase of share form Stock Exchange		50,000
5. Donated to Prime Minister's Relief Fund		10,000
6. Deposited to Deposit Pension Scheme (Tk. 500 x 12)		6,000
7. Donation to Zakat Fund		3,000
		1,79,000
Rebate @ 15% on investment, but maximum limit = 20% of Total Income excluding employer's contribution to RPF = Tk. 8,93,500 - 0 = Tk. 8,93,500 = Tk. 1,78,700 or Tk. 2,00,000 whichever is less. Hence he will get rebate on Tk. 1,78,700 @ 15% = Tk. 26,805		

Assessment of Individual-233

Determination of Tax Liability : Taxable Income = Tk. 8,93,500

Income level	Rate	Amount
i) On 1st Tk. 1,00,000	—	Nil
ii) On next Tk. 2,00,000	10%	20,000
iii) On next Tk. 2,50,000	15%	37,500
iv) On next Tk. 3,50,000 (Here on Tk. 3,43,500)	20%	68,700
Gross Tax		1,26,200
Less :		
(1) Tax Rebate : Tax Credit Income	26,805	
(2) Tax Rebate on income of Partnership at average rate = Average Tax rate = $\frac{1,26,200}{8,93,500} = 14.12$		
∴ Rebate on 1,50,000	21,186	47,991
Net Tax		78,209

Notes :

- 1) Medical Allowance : Assumed that amount received has been fully spent.
- 2) Repair : Repair is allowed $\frac{1}{4}$ th of AV irrespective of cost incurred.
- 3) Vacancy Allowance : It is allowed in proportion to vacant period of the annual value.
- 4) Cost of Cultivation : No allowance is allowed for cash rentals but 60% allowance against sale proceeds of agricultural products is allowed as cost of cultivation.
- 5) Dividend from Company registered in Stock Exchange is exempted in full. But if it is received from Pvt. Ltd. company no exemption is allowed.
- 6) Lottery income is taxed at average rate or 20% whichever is less. Here average tax rate is lower. It has been taxed as per normal rate applicable.
- 7) Employer's contribution to unrecognized provident fund is not added with income. So no investment allowance is allowed for employee and employer's contribution to Provident Fund.

Illustration-9:

Mr. Noruttam Thappa is a Government employee. He draws monthly salary of Tk. 12,000 at the scale of Tk. 9000-200-15,000. His yearly increment of salary falls on 1st February. He received Tk. 300 as medical allowance and Tk. 600 as entertainment allowance. The employer has provided him a rent-free quarter and a car for office and private use. He has also been provided with telephone facilities at office and residence. The bill for these telephone amounted to Tk. 24,000 and Tk. 30,000 for the year. He contributes 10% of his basic salary to Statutory Provident Fund.

Income Tax-234

He has a house at Gulshan, Dhaka which has been let out at Tk. 9,000 per month. The expenses for the house were as follows :

	Tk.
i) White wash and repair	8,000
ii) Salary of guard	12,000
iii) City Corporation tax	10,000
iv) Gas bill	4,200
v) Water tax Tk. 8,000 (50% borne by the tenant)	

His income from different other sources are as follows :

- i) Interest on Bank Deposit Tk. 20,000
- ii) Income from gift Tk. 40,000
- iii) Sale of fish from pond Tk. 30,000 and lease of agriland Tk. 40,000
- iv) Income from Partnership Business Tk. 50,000
- v) Receipt from Deposit Pension Scheme on maturity Tk. 1,00,000
- vi) Interest from 8% less tax Govt. Security Tk. 8,000
- vii) Sale of car Tk. 2,50,000. Cost of the car was Tk. 4,00,000 and depreciation so far charged Tk. 2,00,000.

He made the following investments for the year :

- i) Purchase of Shares Tk. 50,000
- ii) Purchase of ICB Certificate Tk. 20,000
- iii) Purchase of Gold Tk. 20,000
- iv) Life Insurance Premium Tk. 20,000
- v) Contribution to National Sports Federation Tk. 20,000
- vi) Donation to a local club Tk. 10,000
- vii) Donation to a Blind School Tk. 15,000

Tax deducted at source an amount of Tk. 18,000 of which Tk. 16,000 was from salary and Tk. 2,000 from interest on bank deposit.

Compute total income and tax liability of Mr. N. Thappa for the year ended on 30-6-2005.

Assessment of Individul-235

Solution :

Income-Tax Return of Mr. Noruttam Thappa

Income year : 2004-2005

Assessment year : 2005-2006

Part - A : Total Income for the year ended on 30-6-2004

Particulars	Tk.	Tk.
1. Income from Salary (Sec. 21)		
a) Basic Salary : 8,800 × 7 = 61,600	1,06,600	
: 9,000 × 5 = 45,000		
b) Medical allowance : Tk. 3,600	—	
Less exempted Tk. 3,600 (assumed to be spent in full)		
(c) Entertainment allowance	7,200	
(d) House Rent allowance : 25% of B. S.	26,650	
(e) Conveyance : 7.5% of B. S	7,995	1,48,445
2. Income from Securities (Sec. 22-23)		
Int. from Less tax Govt. Security Tk. 8,000	10,667	10,667
Grossed up = $\frac{8000 \times 10}{7.5}$		
3. Income from House property (Sec. 24-25)		
Annual Value :		
i) Municipal Value = ?		
ii) Rental Value :		
Rent	1,08,000	
Less : Water Tax $\frac{1}{2}$	4,000	
Actual Rental Value = Tk. 1,04,000—Higher one	1,04,000	
Less allowable deductions :		
i) Repair $\frac{1}{4}$ th of AV)	26,000	
ii) City Crop. tax	<u>10,000</u>	
	36,000	68,000
4. Income from Agriculture (Sec. 26-27)	—	40,000
5. Income from Business (Sec. 28-30)		
Income from Partnership Business		50,000
6. Capital Gain (Sec. 31-32)	—	—
7. Income from Other Sources (Sec. 33-34)		
i) Interest on Bank Deposit	20,000	
ii) Income from gift (Note-2)	40,000	
Less exempted in full	<u>40,000</u>	
iii) Sale of fish from pond	30,000	
iv) Sale of Car (Note-3)	50,000	1,00,000
Total Income		4,17,112

Income Tax-236

Part-B : Tax-Credit Income (Investment Allowance)

Particulars	Amount in Tk.
1. Employee's Contribution to SPF	10,660
2. Purchase of Shares	50,000
3. Purchase of ICB Certificate	20,000
4. Life Insurance Premium	20,000
5. Contribution to National Sports Federation	20,000
6. Donation to Blind School	15,000
Total	1,35,660
Tax Rebate @ 15% on :	
i) Actual Investment = Tk. 1,35,660 , or	
ii) 20% of T. I. = Tk. 83,422, or	
iii) Tk. 2 lakh - whichever is less	
∴ on Tk. 83,422	12,513

Computation of Tax Liability

Income level	Rate	Amount
On 1st Tk. 1,00,000	—	Nil
On next Tk. 2,00,000	10%	20,000
On next Tk. 2,50,000 (Here on Tk. 1,17,112)	15%	17,567
Gross Tax		37,567
Less Tax rebate on Tax Credit Income		12,513
		25,054
Less tax rebate on partnership business income (assumed to be taxed one) at average rate		4,503
Average tax rate = $\frac{37,567 \times 50,000}{4,17,112}$		20,551
Tax payable		20,551
Less tax deducted at sources		18,000
Net Tax now payable		2,551

Notes :

- 1) Water tax is supposed to be paid by the tenant. As it has been paid by the land lord, the actual rent has reduced by the portion that has been paid by the tenant.
- 2) Income from gift Bond is exempted in full as tax will be paid by the person making gift.

Assessment of Individual-237

3) Profit on Sale of Car :	Tk.
Cost of the Car =	4,00,000
less depreciation =	<u>2,00,000</u>
W. D. V.	2,00,000
Sale Price	<u>2,50,000</u>
Profit (Revenue)	<u>50,000</u>

There is no capital profit as sale value does not exceed original cost.

- 4) For Statutory (Govt.) Provident fund, investment allowance is allowed for employee's contribution. In this fund Govt. does not contribute anything.
- 5) Repair including salary of guard, collection charge is allowed for $\frac{1}{4}$ th of AV irrespective of expenditure incurred.
- 6) Gas bill expenses is not an allowable expense.
- 7) Receipt from Deposit Pension is not treated as income for tax purpose.
- 8) Purchase of gold is not an allowable investment.
- 9) Donation to club is not allowed.
- 10) Donation to Institution/Association for welfare of disabled person is allowed for tax exemption/rebate.

Illustration-10:

Mr. Bhupen Hazarika presents the following particulars of income for the year 2004-2005. Show Total Income and Tax Liability in the self-assessment income tax form :

A) Income from Salary :

Basic salary Tk. 10,200 in the scale of 9320-440 x 10-13720. His date of yearly salary increment is on 1st April. He received Dearness Allowance @ 10% of B. S. and Medical Allowance Tk. 300 per month. He received two bonus equivalent to one month's basic salary-one received before date of increment and another after increment. He contributes 10% of his basic salary to Statutory Provident Fund. He has been provided with a rent free quarter for which $7\frac{1}{2}$ % of B. S. is deducted. He received interest on Provident Fund Tk. 6,000 at an interest rate of 13%. He has been provided with a car for office and private use for which Tk. 200 per month is charged.

B) Income from Securities :

- i) 8% tax free Commercial Securities and Govt. Securities the value of which are Tk. 20,000 and Tk. 25,000 respectively.
- ii) Interest on Defence Savings Certificate Tk. 4,000.
- iii) Int. on less tax Commercial and Govt. Securities Tk. 2,800 and Tk. 3,000 respectively.
- iv) Interest on Debenture Tk. 20,000.

He paid bank interest Tk. 800 taken for the purchase of tax free Commercial Securities.

Income Tax-238

C) Income from House Property :

He purchased a house in the name of his wife on 1st January, 1998 which has been let out at Tk. 4,000 per month. The municipal value of the house is Tk. 50,000. After 3 months vacancy, the house was sold out on 1st July, 2002 at a capital gain of Tk. 20,000. He paid municipal tax of Tk. 1,200 for the year.

D) Income from Agriculture and Business :

He sold out agricultural products received on crop sharing basis for Tk. 25,000 and also received Tk. 40,000 from sale of products out of his own cultivated land. His expenses for agriculture was as follows :

Cultivation cost Tk. 28,000; UP tax Tk. 3000 and Land revenue Tk. 2,000.

He has a sole tradership business from which he received profit Tk. 3,00,000. In the last year the business incurred a loss of Tk. 12,000.

E) Income from Other Sources :

	Tk.
i) Prize from Prize Bond	40,000
ii) Income from Salt Production	21,000
iii) Prize for passing departmental exam.	5,000
iv) Bank interest	22,000

His investments during the year were as follows :

- i) Life Insurance Premium Tk. 3,000
- ii) Donation to Red Crescent Society Tk. 7,000
- iii) Purchase of ICB Unit Certificate 19,000
- iv) Purchase of Share Tk. 18,000 of which Tk. 5,000 has been provided from sale of share purchased in last year the purchase value of which was Tk. 7,000
- v) Contribution to Zakat Fund Tk. 4,000
- vi) Contribution to President Relief Fund Tk. 5,000

Investigation disclosed that he received Tk. 40,000 from Insurance Company for destruction of some assets of his business, the W.D.V of which was Tk. 30,000.

Assessment of Individual-239

Solution:

The problem has been solved in the prescribed I. T. form for Self-Assessment Purpose.

Form-B

Circle Tax area/Town/Dist

Assessment year 2005-2006

Birth date :

Name : Mr. B. Hazarika

TIN

Father's/Husband's Name :

Designation :

Address :

Statement of Income for the year ended on 30-6-2005

	Description	Tk.
1.	Gross income from Salary (Description-1)	1,89,454
2.	Taxable income from Salary (Description-2)	1,79,854
3.	Income from other sources except salary (Description-3)	2,02,866
4.	Total taxable income	3,82,720
5.	Tax payable on total taxable income (Description-4)	39,044
6.	Rebate on Tax-credit income (Investment Allowance) (Des.-5)	8,077
7.	Net tax payable	30,967
8.	Tax paid by employer or deemed to be paid	—
9.	Tax deducted at source (if any)	—
10.	Net tax payable after adjustments	30,967

Appendices :

Description-1 : Gross Income from Salary

Particulars	Tk	Tk.
i) Basic Salary :		
Tk. 9760 (10,200-440) x 9 =	87,840	
Tk. 10,200 x 3 =	30,600	1,18,440
ii) Dearness allowance @ 10% of B. S.		11,844
iii) Medical allowance 300 x 12		3,600
iv) Bonus (9,760 + 10,200)		19,960
v) House Rent allowance :		
25% of Basic =	29,610	
Less deduction @ 7.5%	8,883	20,727
vi) Int. on P. F.		6,000
vii) Car allowance : 7.5% of B. S		8,883
		1,89,454

Income Tax-240

Description-2 : Taxable Income from Salary

Particulars		Tk.
i)	Basic Salary	1,18,440
ii)	Dearness Allowance	11,844
iii)	Bonus	19,960
iv)	House Rent allowance	20,727
v)	Car allowance	8,883
		1,79,854

Description-3 : Income other than Salary

Particulars		Tk.	Tk.
1. Income from Securities :			
a)	Int. on tax-free Govt. Securities 8% on Tk. 25,000 = Tk. 2,000 (exempted in full)	—	
b)	Int. on Defence Certificate 4,000 (exempted in full)	—	
c)	Int. on less tax Govt. Security = 3000 ; Grossed up $\frac{3000 \times 10}{7.5} = 4,000$ Less exempted upto = <u>5,000</u>		
d)	Int. on tax-free Com. Securities 8% on 20,000 = 1,600 Grossed up = $\frac{1600 \times 10}{7.5}$	2,133	
e)	Int. on Less tax Com. Securities = Tk. 2,800, Grossed up = $\frac{2800 \times 10}{7.5}$	3,733	
f)	Int. on Debenture = Tk. 20,000 Less exempted = <u>Tk. 16,000</u> (Tk. 20,000 - Earlier exemption 4,000 = Tk. 16,000)	4,000	
		9,866	
Less allowable deduction		800	9,066
2. Income from House Property			
House purchased in the name of wife (Income under Sec. 43)			
Annual Value :			
i)	Rental value = Tk. 48,000		
ii)	Municipal value = Tk. 50,000		
Higher one =		50,000	
Less allowable deductions			

Assessment of Individul-241

a) Repair $\frac{1}{4}$ of AV =	Tk. 12,500		
b) Municipal Tax =	Tk. 1,200		
c) Vacancy allowance $(50,000 \times \frac{3}{12}) =$	Tk. <u>12,500</u>	26,200	23,800
3. Agricultural Income :			
a) Sale of crop received from share cropping		25,000	
b) Sale of crop received from owner's cultivation =	40,000		
Less cost of cultivation 60% maximum =	<u>24,000</u>	16,000	
		41,000	
Less other allowable expenses			
i) UP Tax	Tk. 3,000		
ii) Land Revenue	Tk. <u>2,000</u>	5,000	36,000
4. Income from Business :			
a) Income from sole tradership		30,000	
Less last year's loss		12,000	
		18,000	
b) Receipt from insurance company : Tk. 40,000 (for distruction of asset)			
W/D/V of asset	Tk. <u>30,000</u>	10,000	28,000
5. Capital Gain :			
Sale of House		20,000	
Less loss on Sale of Share (7,000-5,000)		2,000	
			18,000
6. Other Income :			
i) Prize from Prize bond		4,000	
ii) Income from salt production		21,000	
iii) Bank interest		22,000	
iv) Prize for passing departmental exam. (Assumed in accordance with service condition)		5,000	88,000
Total			<u>2,02,866</u>

Description-4 : Tax Liability on Total Income of the Taka 3,82,720:

On 1st Tk. 1,00,000	Nil
On Next Tk. 2,00,000 @ 10% =	20,000
On Next Tk. 2,50,000 @ 15% =	<u>12,408</u>
(Here on Rest Tk. 82,720) =	<u>32,408</u>

Income Tax-242

Description-5 : Rebate/Allowance of Tax-Credit Income

Tax Credit Income	Tk.
i) Life Insurance Premium	3,000
ii) Purchase of ICB Unit Certificate	19,000
iii) Purchase of share	Tk. 18,000
Less Sale of share purchased earlier :	
Sale price or purchase price – Higher one	Tk. <u>7,000</u>
iv) Zakat Fund	4,000
v) President's Relief Fund	5,000
vi) Employee's contribution to Statutory Provident fund	11,844
	53,844
Rebate 15% on :	
i) Actual Investment =	Tk. 53,844
ii) 20% of Total income =	Tk. 76,544
iii) Tk. 2 lakh - whichever is less =	8,077

(Students are advised to calculate head wise income, tax liability and rebate first and then fill up the return form)

Notes :

- 1) Repairs etc. @ $\frac{1}{4}$ th of AV are allowed irrespective of expenditure.
- 2) Donation to Red crescent is not allowed for investment allowance.
- 3) Capital gain has arisen within 5 years of purchase and thus has been added with total income and taxed at normal rate applied.

Illustration-11:

Mr. Murtoza Bashir, an accountant of a Textile Mill drew monthly salary of Tk. 10,000. He was provided with a house by the employer at a concessional rate of Tk. 1,250 a month. Both employer and employee contribute 10% of B. S to the provident fund which was not recognized. He got two bonus equivalent to one month basic salary each.

His service was terminated on 1st March, 2005 for which he received compensation of Tk. 80,000. He also received Tk. 80,000 from Provident Fund balance among which his contribution and interest there on was Tk. 40,500. His other income for the year ended on 30th June, 2004 were as follows :

- | | |
|-----------------------------------|------------|
| i) Interest on Municipal Security | Tk. 8,000 |
| ii) Honourarium as Jury | Tk. 20,000 |

Assessment of Individul-243

- iii) Profit from firm Tk. 25,000 (Taxed)
- iv) Sale of paddy grown in his Agricultural Land Tk. 40,000

He has a house. Half of which is let out at Tk. 4,500. Other half of the house is used by his son-in-law. The municipal value of the house is Tk. 50,000 on which 10% municipal tax is paid. Half of the tax of tenant's part is borne by the tenant. Land revenue of the house is Tk. 500 which has not yet been paid. He spent Tk. 6,000 for repair of the house.

His investments during the year were as follows :

- i) Purchase of Debenture Tk. 6,000. During the year he sold Debenture at Tk. 5,000 which was purchased at Tk. 3,000 in the year 2000.
- ii) Life Insurance premium for self and wife Tk. 8,000 and Tk. 5,000 respectively.
- iii) Purchase of ICB unit Certificate Tk. 20,000.

During the year he purchased a plot of land at Tk. 1,00,000. He could not satisfactorily explained the source of Tk. 40,000 used for purchase of this land.

Compute tax to be paid by Mr. Murtaza Bashir.

Solution:

Tax Assessment of Mr. Murtaza Bashir

Income Year : 2004-2005

Assessment Year : 2005-2006

Part-A : Computation of Total Income

Description	Tk.	Tk.
1. Income from Salary (Sec. 21)		
a) Basic Salary : Tk. 10,000 x 8	80,000	
b) Bonus 10,000 x 2	20,000	
c) House allowance :		
i) 25% of B. S. = 16,000	16,000	
ii) Deduction by employer = <u>10,000</u>	6,000	
d) Compensation for termination of service	80,000	
e) Accumulated balance of URPF	40,000	
(Employer's part)		2,26,000
2. Income from Security (Sec. 22-23)		
a) Int. on Municipal Security Tk. 10,000		
Grossed up $\frac{10000 \times 10}{7.5}$	13,333	13,333

Income Tax-244

3. Income from House Property (Sec. 24-25)			
A) Let out portion			
Annual value :			
i) Municipal value ($\frac{1}{2}$)	<u>25,000</u>		
ii) Rental value	54,000		
Add : Municipal tax borne by tenant	<u>1,250</u>		
Actual Rent	<u>55,250</u>		
Higher one = A. V =		55,250	
Less deductions :			
a) Repairs $\frac{1}{4}$ th of AV. =	13,813		
b) Municipal Tax $\frac{1}{2}$ =	<u>2,500</u>	16,313	38,937
B) House used by Son-in-law (Similar value as let out part)			38,937
4. Agricultural Income (Sec. 26-27)			
Sale of Paddy		40,000	
Less cost of cultivation (60%)		24,000	16,000
5. Income from Business (Sec. 28-30)			
Share of Profit of firm			25,000
6. Capital Gain (Sec. 31-32)			
Profit on Sale of Debenture			2,000
7. Income from Other Sources (Sec. 33-34)			
a) Honararium as Jury		20,000	
(It is non assessable casual income and thus exempted in full)		20,000	—
8. Income under Sec. 19			
a) Unexplained source of Investment (for purchase of land)			40,000
Total Income			4,00,207

Part-B : Computation of Tax-Credit Income

Particulars	Tk.
1. Purchase of Debenture (Note-1)	1,000
2. Life Insurance Premium :	
Self	8,000
Wife	5,000
3. Purchase of ICB Unit Certificate	20,000
	<u>34,000</u>

Assessment of Individual-245

Computation of Tax:

Income Level & Tax	Rate	Amount
i) On 1st Tk. 1,00,000	—	Nil
ii) On next Tk. 2,00,000	10%	20,000
iii) On next Tk. 2,50,000	15%	15,031
Here on Tk. 1,00,207		
Less Rebate:		35,031
a) Less Tax rebate @ 15% on Tax credit Income:		
i) Actual investment Tk. 34,000		
ii) 20% of total income Tk. 80,041		
iii) Tk. 2 lakh : whichever is less : thus on Tk. 34,000		
Rebate on lesser one i. e on 34,000		5,100
		29,931
Less "tax rebate" on firm's income (Note-2)		2,188
Net tax =		27,743

Notes-1: Investment on Debenture :

- a) Investment in income year - sale (Purchase or sale value : higher one)
= 6,000 - 5,000 = Tk. 1,000
- b) Investment in 3 years - sale (purchase or sale value : higher one)
= 9,000 - 5,000 = Tk. 4,000
- ∴ Lower of the two = Tk. 1,000

Notes-2:

Tax rebate on income of partnership firm (assumed to be taxed) is allowed at average rate : Average rate = $\frac{35,031}{4,00,207} \times 100 = 8.75$

∴ Rebate = 8.75% on Tk. 25,000 = Tk. 2,188

Illustration-12:

Mrs. Jahanara Imam is a Professor of a Medical College. She draws Tk. 15,000 as salary, Tk. 300 as medical allowance and Tk. 1,000 as entertainment allowance per month. She also receives 40% of her basic salary as house allowance and two bonus a year equivalent to one month's basic salary each.

In the evening she provides consultancy services to patients and gives lectures as part time Lecturer in another Medical College for which her income amounted to Tk. 60,000 & 20,000 respectively. She pays Tk. 2,000 per month to her assistant in the Chamber.

Income Tax-246

She owns a house at Banani, Dhaka. During the year income from the house has been computed at Tk. 23,000 as follows :

Description	Tk.	Tk.
Rent		74,000
Less Expenses :		
a) Repair	8,000	
b) Water bill	10,000	
c) City Corp. Tax	5,000	
d) Insurance	4,000	
e) Salary of Guard	24,000	
Total	51,000	51,000
		23,000

Her other income were as follows :

- | | |
|--|------------|
| a) Agricultural income
(From lease of land) | Tk. 25,000 |
| b) Receipts from LIP on maturity | Tk. 80,000 |
| c) Examination remuneration | Tk. 25,000 |
| d) Interest on Postal Saving Account | Tk. 15,000 |
| e) Income from Garden | Tk. 20,000 |

During the year her investments were as follows :

- i) Purchase of Share from Secondary Market Tk. 30,000
- ii) Life Insurance Premium Tk. 10,000
- iii) Purchase of Surgical Instruments Tk. 50,000
- iv) Contribution to Group Insurance Tk. 1,800
- v) Contribution to Recognized Provident Fund @ 10% of B. S.

Investigation disclosed that she had a plot of land at Baridhara, Dhaka. She gave it to a land developer who built a five storied flat on it with 20 units. The developer gave her four flats valuing Tk. 40,000 each. She sold two flats at Tk. 82,500 each and rented out other two flats at Tk. 12,000 each. The cost of the land was taka 5 lakhs at the time of purchase & its cost estimates at 20 lakhs during the construction. Compute Total and Taxable Income of Mrs. Jahanara Imam for the assessment year 2005-2006.

Assessment of Individual-247

Solution :

Assessment of Mrs. Jahanara Imam

Income year : 2004-2005

Assessment year : 2005-2006

Part-A : Computation of Total Income

Description	Tk.	Tk.
1. Income from Salary (Sec. 21)		
a) Basic Salary Tk. 15000 × 12	1,80,000	
b) Medical allowance 300 × 12 = Tk. 3,600 Exempted in full assuming that it has been fully spent.	—	
c) Entertainment allowance	12,000	
d) House allowance : Amount received Tk. 72,000 Exempted upto 50% of B. S. = Tk. 90,000 or Tk. 15,000 per month = Tk. 1,80,000 whichever is less. Thus exempted in full	—	
e) Bonus Tk. 15,000 × 2	30,000	
f) Employee's contribution to RPF @ 10% of B. S.	18,000	2,40,000
2. Income from Securities (Sec. 22-23)		—
3. Income from House Property (Sec. 24-25)		
a) Let out house at Banani Annual Value :		
i) Municipal value – ?		
ii) Rental value = 74,000 (Higher one)	74,000	
Less allowable deductions :		
a) Repairs = $\frac{1}{4}$ th of AV = 18,500		
b) City Corp. Tax = 5,000		
c) Insurance = <u>4,000</u>	27,500	46,500
b) Let out house at Baridhara Annual Value :		
Municipal Value – ?		
Rental Value Tk. <u>2,88,000</u>	2,88,000	
Higher one		
Less Repairs $\frac{1}{4}$ th of AV	72,000	2,16,000

Income Tax-248

4. Agricultural Income (Sec. 26-27)		
a) Lease of Land	25,000	
b) Income from Garden	20,000	45,000
5. Income from Business or Profession (Sec. 28-30)		
Consultancy :		
Gross Income	60,000	
Less Salary of Assistant	24,000	36,000
6. Capital Gain (Sec. 31-32)		
Sale price of two flats at Baridhara (82,500 x 2)	1,65,000	
Less : (i) Cost of the flats : 80,000		
(ii) Proportional value of Land: $\frac{500000 \times 2}{20} = 50,000$	1,30,000	35,000
7. Income from other Sources (Sec. 33-34)		
i) Examination remuneration	25,000	
ii) Part-time lecture	20,000	45,000
Total Income		6,28,000

Part-B : Computation of Investment Allowance

Description	Tk.
1. Purchase of Share	30,000
2. Life Insurance Premium	10,000
3. Group Insurance	1,800
4. Employer and Employee's Contribution to Recognized Provident Fund	36,000
	77,800
Rebate @ 15% on :	
i) Actual investment Tk. 77,800	
ii) 20% of T. I. excluding employer's contribution to RPF = 1,22,100	
iii) Tk. 2 lakh - lower one thus on Tk. 77,800	11,670

Computation of Tax on Taxable Income of Tk. 6,28,000

Income level	Rate	Amount
On 1st Tk. 1,00,000	—	Nil
On next Tk. 2,00,000	10%	20,000
On next Tk. 2,50,000	15%	37,500
On next Tk. 3,50,000 (Here on Tk. 78,000)	20%	15,600
Gross Tax		73,100
Less tax rebate		11,670
Net tax payable		61,430

Assessment of Individual-249

Notes :

1. Repair is allowed for $\frac{1}{4}$ th of A.V irrespective of expenditure. Salary of guard is included in it.
2. Water bill is not an allowable expenditure.
3. Amount received on maturity of LIP is a non-assessable income.
4. Purchase of surgical instruments is not allowed as investment allowance.
5. Assumed that capital gain arose within 5 years and thus has not been separately taxed.

Questions

1. Point out the heads of income on which income of an individual assessee may arise. State in brief the incomes that may be added with the income of an assessee under Section 19 and Section 43 of ITO.
2. What items are included as tax-credit income (investment allowance)? State the method of calculation of tax rebate on this income.

Exercises

Ex.-1:

Mr. Azam Khan furnished the following particulars of his income in the financial year 2004-2005 :

Basic salary Tk. 8,000 p. m.; Bonus Tk. 16,000; Dearness allowance 20% of Basic salary. He has been provided with a partly furnished accommodation by the employer for which 7.5% is deducted from his salary. He contributes 10% of his basic salary to a Recognised Provident Fund.

Mr. Khan received Taka 17,000 from a firm; In addition, he received Tk. 20,000 in cash from agricultural land; Tk. 35,000 as dividend; Tk. 6,000 as interest from bank deposit; and Tk. 12,000 as gross rent from the house let out.

During the year Mr. Khan incurred the following expenses :

- a) Purchase of Savings Certificate Tk. 6,000
- b) Purchase of books Tk. 5,000
- c) Donation to Zakat Fund Tk. 3,000
- d) Children's educational expenses Tk. 8,000
- e) Payment of life Insurance Premium Tk. 2,500 on the Policy of Tk. 20,000.

Compute taxable income of Mr Azam Khan.

[C. U. 2nd year B. B. A (Hons.) in Management, 1990]

Income Tax-250

Ex.-2:

Mr. Shetu is the Finance Director of a Company. During the year ended 31st December, 2004 he had the following sources of income :-

- a) Monthly salary Tk. 8,000 and House allowance Tk. 4,000.
- b) Income from a registered firm Tk. 20,000 and soletradership Tk. 25,000
- c) Agricultural income : Tk. 60,000 from sale of crop and Tk. 20,000 from lease of land.
- d) Income from dividend Tk. 16,000. He owned a house which was let out at Tk. 4,000 per month. Municipal tax and land revenue paid for the house were Tk. 3,000 and Tk. 500 respectively. His investment during the year included the following :
 - i) Contribution to Contributory Provident Fund 10% and Benevolent Fund Tk. 50 per month.
 - ii) Purchase of books Tk. 1,500 and purchase of Shares Tk. 20,000.
 - iii) Life insurance premium Tk. 4,000. He had two sons aged 19 and 22 both of them were studying at the University during that years and paid their educational expenses Tk. 12,000.

Calculate tax to be paid based on the taxable income of Mr. Shetu.

[C. U. B Com (P) 1986, modified]

Ex.-3:

Mr. Rahman is a manager of a company. His monthly salary is Tk. 9,500. He draws a monthly dearness allowance of Tk. 900. He contributes 10% of his basic salary to a Recognised Provident Fund. His employer also contributes an equal amount to this fund. He is provided with a rent-free unfurnished quarter and a car for office and private use.

Mr. Rahman is the owner of a house. The municipal valuation of which is Tk. 48,000 but he receives Tk. 4,500 per month as rent from the house. He spent Tk. 5,000 for repairs, Tk. 1,500 for collection charges, Tk. 1,000 for legal expenses and Tk. 1,000 for municipal tax. The house remained vacant for two months during the year.

He has a Departmental stores, the Profit and Loss Account of the same is as follows :

Dr.	Tk.	Cr.	Tk.
Particulars		Particulars	
Salaries to staff	40,000	Gross Profit	1,20,000
Interest : on loan	5,000	Int. of Securities	10,000
on capital	6,000		
Bad debt	4,000		
Bad debt reserve	5,000		
Rent of premise owned by the owner	10,000		
Advertisement	8,000		
Entertainment	4,000		
Embezzlement of Fund	5,000		
Net Profit	43,000		
Total	1,30,000		1,30,000

Assessment of Individual-251

During the year, he purchased shares of a Company for Tk. 8,000 and paid insurance premium Tk. 3,500 for his own life, the assured sum being Tk. 30,000

His other incomes during the year are as follows :

Dividend income Tk. 22,5000 and Agricultural income Tk. 50,000.

Ascertain his Total Income and Tax to be paid taking 2005-2006 as assessment year.

Ex.-4:

Mr. Abul Barkat is an Officer. His sources of income and amount received thereof for the year ended 30th June, 2005 were as follows :

a) **Income from Salaries :**

Basic pay Tk. 9,000 p. m.; Entertainment allowance Tk. 500 p. m.; House rent allowance Tk. 4,500 p. m.; Medical allowance Tk. 300 p. m.; Festival allowance equivalent to 2 months' basic pay.

Mr. Barakat has a car. He contributes 10% of his basic pay to Recognised Provident Fund and his employer also contributes the same amount to that fund. He received Tk. 900 as interest @ 9% from the accumulated balance of Recognised Provident Fund.

b) Mr. Barakat owns 5% Tax-free Commercial Securities of Tk. 15,000. He received Tk. 4,500 as interest from less-tax Govt. Securities.

c) He is the owner of a house. Half of the house is used by him as residence and other half is let out at a monthly rent of Tk. 5,500. The municipal value of the house is Tk. 90,000. The expenses of both the parts of the house were as follows :

Fire Insurance Tk. 500; Repairs Tk. 1,500; Collection charge Tk. 700; Interest on Loan from HBFC Tk. 800; Legal expenses Tk. 900; Municipal tax Tk. 600. The house was vacant for a month.

d) Sale of agricultural crops Tk. 50,000; Interest paid on borrowed capital Tk. 2,000.

e) Profit from partnership Tk. 24,000.

f) Other Income :

i) Reward from Get-a-word Competition Tk. 3,000;

ii) Interest on Bank Deposits Tk. 4,000;

iii) Dividend Income Tk. 16,000;

iv) Share of profit from Islami Bank 15,000;

v) Prize from Prize Bonds Tk. 5,000.

He got Prize Bonds worth Tk. 4,000 as a gift for his birth-day.

During the year he incurred the following expenses :

Life Insurance Premium Tk. 10,000 (Insured amount Tk. 40,000); Purchase of shares from a Ltd. Co. Tk. 20,000; Purchase of Books Tk. 4,000; Payment to Deposit

Pension Scheme Tk. 500 p. m.; Donation to Zakat Fund Tk. 4,500. and Mutal fund certificate Tk. 10,000.

Determine the Total Income and Tax Liability of Mr. Abul Barakat.

[C. U. B Com (H.) 1991. Year Changed]

Ex.-5:

Mr. M. A. Karim is an employee. His monthly salary is Tk. 8,500. He has been provided with a rent-free furnished quarter, the annual value of which is Tk. 40,000. He receives Tk. 600 per month as conveyance allowance and Tk. 450 per month as entertainment allowance. He has also received medical allowance Tk. 3,600 in that year but actually spent Tk. 4,400 for this purpose. He contributes 10% of his basic to a Statutory Provident Fund. Interest at 12% amounting to Tk. 1,800 was credited to his P. F. Account.

He owns a house, the annual value of which is Tk. 40,000, but he receives Tk. 5,600 per month as rent from that house. He spent Tk. 3,500 for repairs, Tk. 1,750 for collection charges and Tk. 1,450 as municipal tax and land revenue.

He is the owner of 10 acres of agricultural land which he cultivates. He sold 40 maund of paddy @ Tk. 200 per month and Rabi crops Tk. 25,000. His expenses of cultivation was Tk. 30,000 and paid land revenue Tk. 4,000 UP tax Tk. 3,000 and crop insurance premium Tk. 5,000.

His other income during the year are as follows :-

Dividend from a Company Tk. 22,000; Interest on Fixed Deposit Tk. 8,000; Share of profit from Islami Bank Tk. 27,000 and Share of profit from a firm Tk. 7,500.

During the year Mr. Karim invests Tk. 25,000 in purchasing Savings Certificates and Tk. 10,000 in purchasing shares from an approved company. He pays Life Insurance Premium Tk. 5,000 for his own life. He donated Tk. 1,000 to President's Relief Fund.

Ascertain Mr. Karim's Total Income and Income Tax payable taking 2004-2005 as income year.

[N. U. B. Com, 1994, Modified]

Ex.-6:

Mr. Talha is employed in Luxury Fashions Ltd. as Manager. The details of his income for the year ending on 30-06-2005 were as follows :

Salary Tk. 1,80,000, Dearness Allowance Tk. 60,000, Car Allowance Tk. 12,000, Entertainment Allowance : Tk. 7,500.

He was also provided with free furnished accommodation.

The details of his other income were as follows :

Dividend Tk. 25,000 from a Private Company;

Interest Tk. 50,000 from the Debenture a Private Company;

Assessment of Individul-253

Dividend Tk. 50,000 from a Public Limited Company listed with Stock Exchange.

He also took a loan of Tk. 2,00,000 from a bank for the purchase of shares of a Company. No dividend was declared by that Company. Although he had to pay an interest of Tk. 20,000.

He sold a property, purchased by his father for Tk. 50,000 in 2003 and gifted to him in July, 2004 at a value of Tk. 5,00,000.

He got an amount of Tk. 2,00,000 as yield from the Defence Savings Certificates.

He also received Tk. 2,40,000 as rent from a property which was constructed between 1997 and June, 1998. The building was let out to a doctor who used it as a nursing home. Against the income from property apart from the exemption as envisaged in Sixth Schedule of the I. T. Ordinance, 1984, he also claimed repairing charges, interest on H. B. F. C. loan Tk. 60,000 (Payable) but paid only Tk. 40,000. He also claimed charges of Tk. 18,000 for liftman and Tk. 15,000 for electrician who operated waterpump machine.

His contribution to Provident Fund (Recognised) is Tk. 18,000. His employer also contributed the same amount.

He purchased Shares of Tk. 25,000 of an Approved Company which were however sold in Dec., 2004. He also purchased ICB Mutual Fund Units for Tk. 1,00,000.

From the above compute Mr. Talha's Total Income and the Tax payable by him for the income year 2004-2005.

[C. A. Final, 1996, year changed]

Ex.-7:

Mr. Ghali is the General Manager of a Company with its Head Office in Dhaka. The particulars of his income for the income year ended on 30th June, 2005 are given below :

Basic salary Tk. 96,000, Dearness allowance Tk. 12,000, House rent allowance Tk. 40,000. Entertainment allowance Tk. 5,000.

He is a member of the Recognised Provident Fund of the company to which he contributes 10% of his basic salary and a similar amount is contributed by the employer. During the year a sum of Tk. 10,000 was credited to his P. F. Account as interest at 20%. He maintains a car registered in his own name and that is used for coming to and going from the place of employment. The cost of maintenance of the car amounted to Tk. 12,000 during the income year. Mr. Ghali lives in his own house half of which has been let out during the year for Tk. 60,000. For the entire house the repair cost amounted to Tk. 7,000 and the premium for fire insurance was Tk. 4,000. Particulars for other expenses connected with the house were not available with him. During the year he bought books of his professional interest of Tk. 2,000 and he paid insurance premium of Tk. 3,000 on a policy of his life of Tk. 50,000. He deposited Tk. 60,000 in a Savings Account with a Nationalised Bank and earned Tk. 8,000 as interest thereon. Mr. Ghali purchased ICB unit certificates worth Tk. 10,900. He spent Tk. 10,000 for purchasing shares of a Public

Limited Company from Dhaka Stock Exchange. His income from agriculture was Tk. 40,000 and received dividend Tk. 20,000.

Investigation disclosed that he purchased a piece of land at Nawabpur, Dhaka at Tk. 2 lakh but the price has been shown at Tk. 1 lakh. He received lottery prize taka 20,000. He has a business in the name of his wife from which an income of Tk. 30,000 arose for this relevant income year. Tax deducted at source Tk. 12,000.

Compute his Taxable Income and Tax to be paid for the concerned assessment year. [D. U. B Com (H) (1998) Modified]

Ex.-8:

Mr. Asif Ahmed furnished the following particulars of his income in the financial year 2004-2005 :

Basic salary Tk. 8,000 p. m.; Bonus Tk. 16,000; Dearness Allowance 20% of monthly basic salary. He has been provided with unfurnished accommodation by the employer for which $7\frac{1}{2}\%$ of his basic salary is deducted every month. He contributes 10% of his basic salary to a Recognised Provident Fund and Tk. 120 to Group Insurance. Tax deducted at source from salary at Tk. 600 per month.

He received Tk. 37,000 from a partnership business. In addition, he received Tk. 20,000 in cash from agricultural land and dividend Tk. 20,000.

Income received from a house let-out for Tk. 8,000 per month (the house remained vacant for one month). Municipal tax paid Tk. 5,000.

His income from interest on securities were as follows :

- a) Int. on tax-free Govt. Securities Tk. 8,000
- b) Int. on less-tax Govt. Securities Tk. 12,000
- c) Int. on less-tax Commercial Securities Tk. 15,000
- d) 8% less-tax Port Trust Debenture of Tk. 50,000

During the year Mr. Asif incurred the following expenditures :

- a) Purchase of Savings Certificate Tk. 14,000;
- b) Donation to Government Zakat Fund Tk. 8,000;
- c) Payment of Life Insurance Premium Tk. 6,000;
- d) Purchase of I. C. B. Unit Certificate Tk. 10,000 and Shares of Public Limited Company Tk. 20,000.
- e) Donation to Prime Minister's Relief Fund Tk. 5,000.

Calculate the Tax Liability of Mr. Asif Ahmed.

Ex.-9:

Mr. S. A. Chowdhury was a manager of a company. He drew salary of Tk. 16,000 per month in the scale of Tk. 15,000-250-17500. His date of salary increment was 1st November. He was released from job on 31st March, 2005 and received compensation Tk. 2 lakh. Besides, he received Tk. 80,000 from Provident Fund. Employer provided him a

Assessment of Individul-255

concessional residential house and a car for full time use. A deduction of Tk. 1,000 per month for house and Tk. 200 per month for the car was made.

Mr. Chowdhury has a house at Dhanmondi half of which has been let out at Tk. 12,000 per month. Rest half is used by his son for medical profession. The City Corporation tax for the house is Tk. 4,000. He pays Tk. 12,000 per year as instalment repayment of loan taken from House Building Finance Corporation, of which Tk. 2,000 stands for interest.

His other income for the assessment year 2004-2005 was as follows :-

a) Dividend received from Public Ltd. Company	Tk. 40,000.
b) Interest on Government Security	Tk. 16,000.
c) Income from Partnership	Tk. 40,000.
d) Income from sale of agricultural crops	Tk. 60,000.
e) Prize from Lottery	Tk. 1,00,000.

His investment and expense for the year were as follows :-

a) Life Assurance Premium	Tk. 5,000.
b) Purchase of Share of Company	Tk. 25,000.
c) Donation to Government Zakat Fund	Tk. 5,000.
e) Presentation to wife on the occasion of marriage day	Tk. 5,000.
f) Purchase of Defence Savings Certificate	Tk. 5,000.

Investigation disclosed that he has a piece of land at Banani purchased at Tk. 2,00,000, tax authority considers that it has been under valued by 50%. Find out Tax Liability of Mr. Chowdhury.

[N. U. B. Com (H), 2002]

Ex.-10:

Mr. Joinul Abedin is a service holder. His sources of income for the year ended 30th June, 2005, were as follows :-

(A) Income from Salary :	Taka.
Basic Salary per month	18,000
Dearness allowance per month	2,000
Entertainment allowance per month	1,000
House Rent Allowance per month	9,000
Conveyance Allowance per month	1,500
Medical Allowance per month	500
Bonus-2 months basic salary.	

Mr. Abedin contributed 10% of basic salary to Recognised Provident Fund. He received Tk. 4,000 as interest on the accumulated balance of Recognised Provident Fund @ 10% pa. He has been provided with a car fully for his personal use. During the year ended on 30th June, 2002, his employer spent Tk. 24,000 for running and maintaining the car.

Income Tax-256

(B) Mr. Abedin has received interest on 9% Less-tax Commercial Securities worth Tk. 50,000. He also received Tk. 7,500 as interest on Less-tax Govt. Securities and Tk. 10,500 as interest on Debentures and Tk. 25,000 as dividend from shares of Public Ltd. Co.

(C) He is the owner of a house which is let out at a monthly rent of Tk. 10,000. The Municipal Value of the house is Tk. 1,00,000. Expenses of the house for the year were as follows :

Fire insurance Tk. 2,000; Repairing Tk. 12,000; Interest on H. B. F. C. Loan Tk. 9,000; Legal Expenses Tk. 2,000; Electricity for Water Pump, etc. Tk. 5,000, Municipal Taxes Tk. 5000 & Salary of Guard Tk. 24,000.

The house remained vacant for 3 months during the year.

(D) Other Income :	Tk.
i) Interest on Bank Deposits	4,000
ii) Prize of Red Crescent lottery	50,000
iii) Income of lease of Agricultural Land	20,000

During the year he incurred the following expenses :

Insurance Premium Paid (Policy value Tk. 40,000)	4,500
Purchase Debentures from a Ltd. Co.	44,000
Donated to Prime Minister's Relief Fund	10,000
Donated to Recognised Educational Institution	12,000
Deposited to Pension Scheme per month.	500

Find out the Total Income and the Tax Liability of Mr. Joinul Abedin.

Ex.-11:

Mr. Fazle Elahi is an Officer. His source of income for the year ended 31st December, 2004 were as follows :-

- a) Basic salary Tk. 10,000 per month, Entertainment allowance per month Tk. 1,500, Monthly house rent allowance Tk. 5,000, Monthly medical allowance Tk. 200, Festival allowance equivalent to two month's basic pay.

Mr. Elahi has a car. He contributes 10% of his basic salary to a Recognised Provident Fund and his employer also contributes the same amount to that fund. He received Tk. 18,000 as interest @ 18% from accumulated balance of the Provident Fund.

- b) Mr. Elahi has 5% Tax-free Commercial Securities of Tk. 20,000 on which he receives interest regularly. He received Tk. 8,000 as interest from less-tax Govt. Securities during the year.
- c) He owns a house. Half of the house is used for his residence and the other half is let out at a monthly rent of Tk. 8,000. The Municipal value of the house is Tk. 1,50,000. His expenses relating to the house were as follows :-

Assessment of individual-257

Fire Insurance Premium Tk. 500, Repairs Tk. 1,500, Collection charges Tk. 700, Law charges Tk. 900, Municipal Tax Tk. 600. Let out portion of the house was vacant for a month.

- d) Sale of agricultural crops Tk. 50,000. Interest paid on agricultural loan Tk. 2,000, Land revenue Tk. 3,000 and UP tax Tk. 4,000.
- e) Profit from partnership business Tk. 24,000.
- f) Other incomes :-

	Tk.
i) Reward from Get-a-word Competition	3,000
ii) Interest on bank deposits	5,000
iii) Dividend Income	30,000
iv) Share of Profit from Islami Bank	15,000
v) Prize from Prize Bonds	25,000

He sold his old car at Tk. 2,00,000 which was purchased in 1998 at Tk. 4,00,000, Depreciation charged for the period Tk. 2,50,000. His investments and donation during the period were :

Purchase of share from Secondary Market Tk. 30,000, LIP Tk. 10,000, Donation to National Cricket Board Tk. 20,000, Zakat fund Tk. 8,000 and Dhaka Medical College Tk. 25,000. Compute Total Income and Tax Liability of Mr. Fazle Elahi.

Ex.-12:

Mr. Sadeq Ali is the manager of Alfa Shipping Service. He draws monthly salary of Tk. 20,000. He also receives medical allowance @ Tk. 1,000, entertainment allowance @ Tk. 1,200 per month and Commission @ 2% on profit of the company which for the year amounted to Tk. 3,50,000.

He has been provided with a rent free house of annual rental value of Tk. 2,40,000 and a full time car for his personal use. He contributed 10% of B. S. to Recognized Provident Fund (RPF) and his employer also contributed the same amount. He received interest @ 15% for Tk. 60,000 on the accumulated balance of Recognized Provident Fund.

(2) Income from House Property :

He has a house which is let out at Tk. 18,000 per month. The Municipal Value of the house is Tk. 2,00,000. Expenses of the house for the year were as follows :

(a) Land revenue : Tk. 3,000; (b) Repairing Tk. 10,000; (c) Interest on H. B. F. C. Loan Tk. 30,000; (d) Electricity and Gas Tk. 20,000 and Tk. 10,000; (e) Salary to Lift-man 18,000, (f) Municipal Taxes Tk. 10,400 and (g) Bathroom fittings Tk. 30,000.

The house remained vacant for four months during the year.

Income Tax-258

(3) Agricultural Income :

Sale of Agri-products Tk. 80,000; Cash rental of agricultural land Tk. 30,000.

Expenses relating to agriculture were-local rates and taxes Tk. 2,000; Insurance premium Tk. 5,000, Land revenue Tk. 30,000 and land development expenses Tk. 12,000.

(4) Business Income :

Share of profit from: partnership firm Tk. 30,000; Income from soletradership business Tk. 50,000; last year's loss carried forward Tk. 20,000

(5) Other Income :

	Tk.
a) Royalty received	20,000
b) Prize of Lottery	50,000
c) Dividend Income (Tax deducted at source 10%)	40,000

(6) During the year he incurred the following expenses :

	Tk.
a) Family expenses	2,00,000
b) Insurance Premium-own (Policy value Tk. 5,00,000)	55,000
c) Purchased share from a Private Ltd. Co.	15,000
d) Purchased share from Stock Exchange	50,000
e) Zakat to relatives	20,000
f) Paid to Blind School	5,000

Find out the Total Income and the Tax Liability of Mr. Sadeq Ali for the year ended on 30-6-2005.

Ex.-13:

The particulars of income of Mr. T. H. Khan for the financial year 2004-2005 are given below :-

Basic salary Tk. 10,000 p. m.; Bonus Tk. 10,000; Dearness allowance 20% of Basic salary. He has been provided with a furnished accommodation by the employer for which 15% is deducted from his salary. He contributes 10% of his basic salary to a Provident Fund, which is not recognized under ITO.

Mr. Khan received Tk. 40,000 from a registered firm. In addition, he received Tk. 20,000 in cash from agricultural land: Tk. 36,000 as dividend: Tk. 6,000 as interest from bank deposit and Tk. 40,000 from lottery. He owns a house which is let out at Tk. 2,000 per month. Municipal tax and land revenue paid for the house were Tk. 3,000 and Tk. 500 respectively.

His income from Securities were as follows :

	Tk.
a) Int. on tax-free Govt. securities	10,000
b) Int. on less-tax Commercial securities	12,000
c) Debenture interest on Municipal securities	8,000

Assessment of Individul-259

During the year Mr. Khan incurred the following expenses :

	Tk.
a) Purchase of savings certificate	12,000
b) Purchase of books	5,000
c) Donation to Zakat fund	5,000
d) Children's educational expenses	15,000
e) Payment of life insurance premium	8,000

Compute Taxable Income of Mr. T. H. Khan and tax to be paid by him.

Ex.-14:

Professor M. Atiq has filed his income-tax return for the year ending on 30-6-05 furnishing the following particulars :-

- a) Basic salary Tk. 12,000 per month.
Festival bonus equivalent to two month's salary.
Conveyance allowance Tk. 200 per month.
Medical allowance Tk. 300 per month (Actual expenses during the year Tk. 5,000)
Contribution to Recognised Provident Fund 10% of basic salary.
- b) Income from less tax commercial securities Tk. 8,000 & Sanchaya patra Tk. 5,000
- c) Income from a house let out for Tk. 6,500 per month (the house remained vacant for two months).
- d) Agricultural income Tk. 24,000.
- e) Royalty from writing a book Tk. 25,000
- f) Other Income :
Examination of Scripts Tk. 25,000
Dividend from a Company Tk. 28,000

Professor Atiq claimed the following deductions :

	Tk.
i) Life Insurance premium	4,500
ii) Purchase of shares of a Public Co.	10,500
iii) Purchase of books	3,500
iv) Donation to Zakat Fund	5,000

Calculate the Taxable Income and Tax Liability of Professor M. Atiq.

Ex.-15:

Mr. Ahmed has the following income for the income year ending on 30th June, 2005:

- a) His basic salary was Tk. 14,000 per month.
- b) He received two bonuses at the rate of one month's salary each.
- c) He has been given an unfurnished quarter for which his employer deducted 12.5% of his basic salary.
- d) He got an entertainment allowance of Tk. 2,400 per month.

Income Tax-260

- f) His employer provided him with a car for personal and official use, plus a cash conveyance allowance of Tk. 1,000 per month.
- g) He is given medical allowance of Tk. 8,000 for the year from which he spent Tk. 5,000.
- h) He is given a servant allowance of Tk. 400 per month.
- i) He contributes 10% of his basic salary to a Recognised Provident Fund where his employer also contributes an equal amount. Interest on the accumulated balance of the Provident Fund was Tk. 85,000.
- j) He received Tk. 65,000 from sale of paddy and Tk. 90,000 from sale of jute from his agricultural land. He performed the agricultural activities through hired farmers but did not maintain any accounts of expenses. He however paid Tk. 5,000 interest on agricultural loan during the year.
- k) Mr. Ahmed has a house from which he received rent @ Tk. 13,800 per month. He spent the following during the income year for the house :-
- i) White wash Tk. 5,000;
 - ii) Mosaic work Tk. 10,000;
 - iii) Collection charge Tk. 2,000;
 - iv) Municipal tax Tk. 3,000;
 - v) Land revenue tax Tk. 1,000;
 - vi) Salary of security guard Tk. 2,400;
 - vii) Amount paid to House Building Finance Corporation Tk. 8,000 (interest of Tk. 2,000 is included);
 - viii) Fire insurance premium Tk. 500.
- l) He received interest from Savings Account in Janata Bank of Tk. 7,300 (from which tax deducted at source was at the rate of 10%). He also received interest of Tk. 21,600 from Postal Savings Certificate on which tax was also deducted.
- During the year he bought shares of Tk. 50,000 from Secondary market. He contributed Tk. 500 per month to a Deposit Pension Scheme. He donated Tk. 10,000 to Bangladesh Krira Unnayan Parishad and purchased ICB certificate of Tk. 25,000.

Calculate the Income Tax Liability of Mr. Ahmed. Show all your workings clearly.

[N. U. B. Com (H)]

Ex.-16:

The sources of income of Mr. Layek Ali for the year ended 31st December, 2004 were as follows :-

a) Salary Income :

Basic salary monthly Tk. 9,500; Dearness allowance @ 15% of basic salary; Entertainment allowance and medical allowance @ of 20% and 25% of basic salary respectively and Annual Bonus and fees Tk. 16,000. He contributes 10% of basic salary to a recognised provident fund. The date of annual increment of his salary is 1st April and the existing scale of his pay is 7,500-250-10,000 taka. During that year he received Tk. 3,000

as interest on Provident fund and the rate of interest was 15%. The employer has provided him with a rent free well-furnished quarter whose Municipal value is Tk. 25,000 annually.

b) Income relating to interest on security :

- i) 8% tax-free Commercial and Government Securities amounting to Tk. 20,000 and Tk. 25,000 respectively;
- ii) Interest on less tax Commercial and Government Securities amounting to Tk. 1,800 and Tk. 3,000 respectively.

He took bank loan while purchasing tax-free Commercial Security and paid Tk. 1,200 during the relevant year as interest. Beside, he paid Tk. 900 during the said year as bank commission for the collection of interest on all securities.

c) House Property Income :

Mr. Ali is the owner of two houses. In one house, he along with his family resides whose Municipal value is Tk. 40,000 annually. The other house has been let out at a monthly rent of Tk. 4,000 and its Municipal value is Tk. 45,000 annually. He incurred the following expenses for the two houses during the relevant year :

Expenses on 1st house : Repairs Tk. 6,000; Municipal tax Tk. 2,000; Land revenue Tk. 1,500; Insurance premium Tk. 1,000 and Annual Charge Tk. 900.

Expenses on 2nd house : Repairs Tk. 7,000; Municipal & local tax Tk. 3,000; Land revenue Tk. 3,000; Legal and collection charges Tk. 2,400; Insurance premium Tk. 1,200 and Annual Tax Tk. 1,000.

d) Business Income :

Income from Registered Firm Tk. 20,000 and income from Un-registered firm Tk. 16,000. Loss from Sole-tradership Business Tk. 12,000.

e) Agricultural Income :

Sale proceeds of crops produced in agricultural land worth Tk. 30,000; Income from poultry farm Tk. 10,000 and sale proceeds of pond fishes Tk. 8,000.

f) Other Income :

i) Prize bond-reward Tk. 10,000; ii) Lottery-reward Tk. 8,000; iii) Remuneration as examiner Tk. 12,000; iv) Amount received as Travelling allowance Tk. 15,000; v) Bank interest Tk. 10,000 and vi) Dividend income Tk. 12,000.

Mr. Ali made and incurred the following investment and expenses respectively during the said year :

- i) Life insurance premium Tk. 6,000; the value of policy worth Tk. 70,000;
- ii) Purchase of Books Tk. 6,000 and purchase of Scientific Instruments Tk. 10,000;
- iii) Purchase of Shares of Approved Company Tk. 20,000 and purchase of its Debenture Tk. 15,000;

Income Tax-262

- iv) Donation to Educational and Religious Institutions Tk. 8,000; donation to Zakat fund Tk. 7,500; donation to President Relief Fund Tk. 20,000 & donation to National Sports Organisation Tk. 5,000.
- v) Purchase of a piece of land worth Tk. 70,000 in the name of his wife and a sum of Tk. 5,000 was spent for its registration:
- vi) Spent a sum of Tk. 15,000 as educational expenses of children.

Other Information :

His wife received jewellery of Tk. 70,000 and household effects of Tk. 40,000 from her father. He presented his wife on the occasion of her marriage ceremony a piece of Benarasi sharee worth Tk. 10,000

From the above information compute total income and taxable income Mr. Layek Ali for the relevant tax year (solution is preferable according to the specific form of Income Tax Ordinance).

[C. U. B. Com (H) 1990]

Ex.-17:

Mr. Chowdhury is an executive in a Public Limited Company. The details of his income for the year ending on 30-06-05 are as follows :

- a) Salary Tk. 20,000 a month, Dearness Allowance Tk. 5,000 a month, Entertainment Allowance Tk. 8,000 a year.

He is allowed free furnished accommodation. The house he lives in, is however owned by him and he let it out to the company he serves at a monthly rent Tk. 20,000. He is also allowed a car for his whole time use.

- b) Mr. Chowdhury owns a house property on a 10 khata plot in Dhanmondi residential area. He entered into an agreement with a developer and according to the agreement he would get 4 flats out of 16 flats that the developer would construct: two flats out of 4 flats measuring 1,600 sq. ft. each and two 1,200 sq. ft. each. The selling rate of the flat measuring 1,600 sq. ft. is Tk. 28 Lac each and that of 1,200 sq. ft. is Tk. 20 Lac each.

The land was purchased for Tk. 5,00,000 and the building standing on the plot of land cost Tk. 10 Lac. The present selling price of the plot of land is around Taka one crore.

Besides he constructed a four storied building in 1996. The entire building was let out to a doctor for nursing home. Against the income from this property amounting to Tk. 12 Lac an exemption is contemplated as per Part 'A' of the Sixth Schedule of the I. T. Ordinance, 1984. He has also claimed repairing charges Tk. 30,000, interest on loan Tk. 70,000 (payable) but has paid only Tk. 40,000. He has also claimed charges of Tk. 16,000 for Liftman and Tk. 14,000 for Darwan, who also operated water pump machine.

His contribution to Provident Fund is Tk. 30,000. His employer contributes the same amount. Interest @ 12% credited to his account was Tk. 24,000.

Assessment of Individual-263

He purchased shares worth Tk. 1,00,000 of an approved company (public) in the income year and disposed it off within six months of the purchase, making a gain of Tk. 20,000. He was the original allottee of the shares.

He took a loan of Tk. 2,00,000 from bank for the purchase of shares, and he paid interest of Tk. 30,000 on that loan. No dividend was declared by the company.

From the above compute his Total Income and the Tax Payable by him.

(CA Final, Nov.-97)

Ex.-18:

Mr. Roy is the manager of a Private Enterprise. Following is the statement of his income and expenditure for the year ended on 30th June, 2005 :-

A) Salaries :

Basic salary Tk. 9,500 p. m.; House rent allowance Tk. 8,000 p. m.; Entertainment allowance Tk. 1,000 p. m. and Medical allowance Tk. 500 p. m. As festival allowance he gets an amount equal to two month's basic salary. His contribution to provident fund is 10% of his basic salary. His employer also contributes the same amount. The provident fund is recognised.

B) House Property :

Mr. Roy has a house. Half of it is let out at Taka 20,000 per month. He resides in the rest half. The expenses of the house are as follows : Municipal tax Tk. 15,000; Repair Tk. 18,000; Collection charges Tk. 2,000; Insurance Tk. 4,000.

C) Agricultural Income :

Sale of agri-products Tk. 40,000; Cash rentals of agricultural land Tk. 20,000.

D) Business Income :

Income of partnership Tk. 60,000; Income from sole tradership Tk. 50,000; last years loss Tk. 10,000.

E) Other Income :

	Tk.
Income from Get-a-Word competition	10,000
Interest on Bank deposit	6,000
Income from dividend	35,000
Reward from Prize Bond	50,000

Following are his expenditure and investment for the year :

Family expenses Tk. 1,20,000; Premium of life policy Tk. 5,000; Purchase of share Tk. 10,000; Purchase of books Tk. 2,000; Deposit to the Deposit Pension Scheme Tk. 2,000; Donation to Zakat Fund Tk. 7,000 and Donation to President's Relief Fund Tk. 4,000.

Find out Total Income and Tax to be paid by Mr. Roy.

[D. U. B. Com (II)]

Ex.-19:

Determine the Total Income of Mr. Adbul Huq from the following particulars relating to income year ended on 30th June, 2005 :

a) Income from Salary (he is employed in a private firm) :

- i) Basic salary Tk. 9,000 per month;
- ii) Dearness allowance Tk. 400 per month;
- iii) Medical allowance Tk. 300 per month;
- iv) House Rent allowance Tk. 500 per month;
- v) Entertainment allowance Tk. 600 per month;
- vii) He owns a motor vehicle which is used partly for private purposes and partly for business purposes. Running and maintenance cost borne by him was Tk. 4,900 during the said year;
- viii) He contributes 10% of his basic salary to a recognized provident fund. Interest on the accumulated balance was Tk. 4,500 for the year.
- ix) He subscribes to a group insurance for Tk. 100 per month;
- x) During the year he received Taka 6,000 as travelling allowance.

b) Income from Securities :

- i) Interest received on tax free government securities Tk. 4,500;
- ii) Interest on less tax commercial securities Tk. 18,000;
- iii) Interest on tax free commercial securities Tk. 1,600.

c) He has a two-storied house at Bannai. Ground floor of which is let out for Tk. 11,000 per month. The let out portion of the house remained vacant for $3\frac{1}{2}$ months.

He stays in the first floor of the house. Expenses relating to the house were as follows :

- i) Municipal tax Tk. 3,000 per quarter;
- ii) Ground rent Tk. 50 per month;
- iii) Collection charges Tk. 1,500;
- iv) Interest paid to HBFC Tk. 8,500 per year;
- v) Fire insurance premium Tk. 600 per annum.

Land development tax Tk. 600 p. q. of the year. He invested Tk. 12,000 in buying shares of a new company listed in the stock exchange. He bought books and magazines for Tk. 6,000 during the year. He donated Tk. 10,000 to the Presidents flood Relief Fund. He paid life insurance premium Tk. 16,000 (insured amount on the life of his wife, principal amount being Tk. 1,50,000).

Also show the total of exemptions (as per part B of the 6th Schedule) available to Mr. Huq and tax to be paid.

Assessment of individual-265

Ex.-20:

Mr. Rashik Banik had the following income for the year ended 30th June, 2005. Compute his tax liability :-

- i) Basic salary Tk. 15,000 per month;
- ii) Bonus equivalent to two months basic salary;
- iii) He was provided with a car for both personal and official use. His employer spent Tk. 400 per month for running and maintenance of the car;
- iv) He contributed 10% of his basic salary to a recognized provident fund. His account was credited with Tk. 800 as interest.

Income from investment :-

- i) Interest from Debenture Tk. 20,000;
- ii) Dividend from a Company enjoying tax holiday Tk. 6,000;
- iii) He holds 500, 10% Preference Share of Tk. 100 each of a company.
- iv) Interest on Fixed Deposit Tk. 6,000.

Other Income :

He holds agricultural land from which he earned Tk. 10,000 as agricultural income. He claimed Tk. 7,000 as expenses for the purpose. He earned capital gain of Tk. 8,000 on transfer of a building, the incidental expenses being Tk. 2,000.

Investment :

- i) Purchase of Defence certificate Tk. 8,000;
- ii) Life insurance premium Tk. 2,000;
- iii) He deposited Tk. 200 per month to the deposit pension scheme maintained by him.
- iv) Donation to a charitable hospital Tk. 10,000.
- v) Purchase of Municipal Bond Tk. 20,000 and Share of a Listed Company Tk. 25,000.

Tax deducted at source from salary Tk. 18,000, from debenture Tk. 2,000 and Tk. 600 from bank interest.

Ex.-21:

Mr. Amir Khan is a Director of a Company. Particulars of his income during the income year 2004-2005 were as follows :-

A) Income from Salary :

- i) Basic salary Tk. 15,000 p. m.
- ii) Bonus equivalent to 2 month's basic salary.
- iii) House rent allowance at the rate of 50% of basic salary.
- iv) The employer paid a premium of Tk. 6,000 towards life insurance premium of Mr. Khan actual sum assured was Tk. 50,000.
- v) Mr. Khan contributed 10% of basic salary to a recognised provident fund. The employer also contributed the same amount.

B) Income from House Property:

- i) Mr. Khan constructed a residential house consisting of four flats. Construction started in January 2000 and ended in December 2003.
- ii) He received monthly rent of Tk. 5,000 per flat. One flat was vacant for two months. One flat was in the occupation of Mr. Khan for the purpose of his residence for the whole year.
- iii) Interest on borrowed capital for construction of the house amounting to Tk. 25,000 but the same was not paid during the year.
- iv) Annual Municipal tax for the entire building was Tk. 24,000.
- v) Mr. Khan claimed pump-operator's salary of Tk. 1,000 per month. But he failed to furnish any evidence before the Deputy Commissioner of Taxes.

C) Income from Other Sources :

- i) Interest on Postal Saving Bank Account Tk. 20,000
- ii) Interest on Government Securities Tk. 10,000
- iii) Interest on Debentures Tk. 25,000
- iv) Interest on Deposit Pension Scheme Tk. 12,000
- v) Dividend from Public Limited Company listed with Stock Exchange Tk. 30,000. It was declared by the Company in May, 2002 but actually received in August, 2002.
- vi) Tk. 2,00,000 was received as salami from a newly constructed shop by virtue of a lease agreement covering 10 years. The assessee opted for allocating this income proportionately.

His investments were as follows :

- i) Purchase of Shares of a Private Co. Tk. 40,000 and of a listed company from Stock Exchange Tk. 50,000.
- ii) Paid LIP Tk. 25,000, Group Insurance Premium Tk. 2,400.
- iii) Paid Donation to a Trust of Dhaka Medical College Tk. 15,000 and Bangladesh Cricket Control Board Tk. 25,000. Compute Total Income and Income-tax payable by Mr. Khan.

Chapter-17

Offences and Penalties

Chapter Synopsis/Contents:

- 17.1 : Introduction
 - 17.2 : Penalty and Imposing Authorities
 - 17.3 : Conditions to Impose Penalty
 - 17.4 : Offences and Penalties Under Income Tax Ordinance
 - 17.5 : Offences and Prosecutions
- Questions
-

17.1: Introduction

It is the normal tendency of the assessee to reduce tax liability on his income and to pay less amount to the authority as tax. However, to achieve this goal if there is violation of tax rules by the assessee, penalties will be imposed on the basis of tax law. These penalties may be in terms of cash or in the form of imprisonment depending upon the nature of offences. So it is necessary to have idea about the offences which are punishable and the nature of punishment. In this chapter issues relating to offences and penalties have been discussed.

17.2: Penalty and Imposing Authorities

A penalty is an additional amount imposed on the assessee for payment over and above the normal tax or super tax or surcharge imposed on him. All the IT Authorities are not entitled to impose penalty on the assessee. Only the following authorities are entitled to impose penalty on the assessee within their power :

- (a) **Deputy Commissioner of Taxes** : The DCT is empowered to impose penalty on an assessee to administer and control the assessment function subject to the approval of the Inspecting Joint Commissioner of Taxes although the latter has no authority to impose penalty directly on the assessee. This controlling authority can do a lot to safeguard the interest of the Govt. and protecting the assessee from harassment.
- (b) **Appellate Joint Commissioner of Taxes and Appellate Tribunal** : If an assessee is not satisfied with the decision given by the DCT, he may appeal to these authorities for revision or cancellation of the order. These authorities may either revise or cancel or even impose new penalty considering the fact of the case. But they do not require any permission from the higher authority.

17.3: Conditions to Impose Penalty

No penalty under Income Tax Law will be considered as the violation of basic rights of a citizen. However, before imposing penalty on an assessee, he should be allowed to defend his case. In other words, no penalty can be imposed without notice. But it is not necessary that written notice should be served always.

17.4: Offences and Penalties under Income Tax Ordinance

A penalty may be imposed on the assessee for one or more of the faults and upto a sum indicated in the respective sections of the ordinance. Now a chart showing the nature of offences and penalties thereon is presented below :

	Nature of Offences	Amount of Penalties
1.	Penalty for not maintaining accounts in prescribed manner (Sec. 123) : If an assessee fails to maintain books of accounts in pursuance of or for the purpose of Section 35 (2) without reasonable cause, the DCT may impose penalty on the assessee.	(A) A sum not exceeding one and a half times the amount of tax payable by him. (B) If the total income does not exceed minimum taxable limit, the amount of penalty may be a sum upto Tk. 100.
2.	Penalty for failure to file return (Sec. 124) : If an assessee fails to file return of income without reasonable cause, or any certificate or statement of accounts or TIN as per sec. 184(e), the DCT may impose penalty.	A sum of Tk. 2,500 after expiry of due date. In case of continuing default, a further penalty of Tk. 250 for every month or fraction thereof.
3.	Penalty for failure to pay advance tax (Sec. 125) : If a person fails to pay advance tax or submits an incorrect statement of Income, the DCT may impose penalty on the assessee.	Penalty of a sum not exceeding the amount equal to the difference between actual tax payable and tax paid.
4.	Penalty for non-compliance with notice (Sec. 126) : If an assessee fails to comply with any notice issued to him, the DCT may impose penalty on him.	An amount not exceeding the amount of tax chargeable on the total income of such person.
5.	Penalty for failure to pay tax on the basis of return (Sec. 127) : If an assessee does not pay tax or the tax paid by him is less than 80% of the tax payable, the DCT may impose penalty.	A sum not exceeding 25% of that tax not paid or total tax payable.

Offences and Penalties-269

6.	<p>Penalty for concealment of Income (Sec. 128) : If any person conceals particulars of his income or understates the value of any property in connection with its sale or transfer to evade tax, is subject to penalty.</p>	<p>A sum upto two and a half times the amount of tax sought to evade. It will be 5 times of the tax sought to evade in case of self assessment.</p>
7.	<p>Penalty for incorrect distribution of income by partnership firm (Sec. 129) : If the income of a partnership firm is not distributed in accordance with the partnership deed and as a result, the partner submitted a statement of income below its actual amount, the assessee is subject to penalty.</p>	<p>The amount of Penalty may be any sum not exceeding $1\frac{1}{2}$ times the amount of tax which has been avoided or would have been avoided.</p>
8.	<p>Penalty for default in payment of tax (Sec. 137) : Where an assessee is in default or is deemed to be in default in making payment of tax, the DCT may impose penalty on the assessee.</p>	<p>A sum not exceeding the amount that shall be recovered from the assessee as arrear tax.</p>
9.	<p>Penalty for failure to display TIN Certificate (Sec. 184 (c)) : If an assessee has business income, he has to collect TIN certificate from DCT for one time only and it should be displayed in the suitable place within business premise. Failure to observe this requirement is a punishable offence.</p>	<p>Penalty is imposed under section 124 at the amount prescribed therein.</p>

17.5: Offences and Prosecutions

Some offences are not punishable by the Income Tax Authorities. For such offences, tax authority initiates prosecution proceedings against the assessee in the court of law. So it is the magistrate who will penalise the assessee in case of prosecution. The offences and prosecutions as per Income Tax Ordinance are as follows :

- a) **Punishment for non-compliance of certain obligations (Sec. 164) :** A person is guilty of an offence punishable with imprisonment for a term of at least 3 months and upto one year or with fine or with both, if he, without reasonable cause :
- i) fails to deduct tax at source u/s 49;
 - ii) fails to produce accounts, documents or statements as are referred to in the notice;
 - iii) fails to furnish, in due time, the return of income as required under sec. 75, 77 and 93;
 - iv) refuses to permit inspection or to allow copies to be taken in accordance with provision of section 114; and
 - v) refuses to permit search and seizure, under sec. 117.

Income Tax-270

- b) **Punishment for submission of false statement in verification (Sec. 165) :** A person would be guilty of an offence if he makes a false verification in any return or documents. The penalty of such offence is imprisonment upto 3 years but not less than 3 months or with fine or with both.
- c) **Punishment for concealment of income (Sec. 166) :** A Person would be guilty of such offence and punishable with imprisonment upto 5 years but not less than 3 months or fine or with both.
- d) **Punishment for disposal of property to prevent attachment (Sec. 167) :** A person would be punishable for such offence with imprisonment for a term, which may extend to 5 years or fine or with both.
- e) **Punishment for disclosure of protected information (Sec. 168) :** If a person is guilty of such offence, he would be subject to punishment with imprisonment for a term which may extend to 6 months or with fine or with both.

Questions

1. (a) Who are the authorities to impose penalties under the Income Tax Ordinance?
(b) Discuss the penalties for various offences done under Income Tax Ordinance. .
[D. U. B. Com. (H) '97]
2. What penal measures can be taken in the following cases :
(a) Failure to submit books of accounts required by income tax authorities.
(b) Non-submission of tax return by the assessee.
(c) Failure of the employer to deduct tax at source.
(d) Submission of false return by the assessee.
[C. U. B. Com. (H) 1997 and BBA 1994]
3. Discuss in brief the penal measures under Income tax Ordinance 1984.
[C. U. B Com. (H) 1984]

Chapter-18

Tax Evasion and Tax Avoidance

Chapter Synopsis/Contents:

- 18.1 : Introduction.
 - 18.2 : Definition.
 - 18.3 : Distinction between Tax Avoidance and Tax Evasion.
 - 18.4 : Socio-economic Effects of Tax Evasion and Tax Avoidance.
 - 18.5 : Reasons for Tax Evasion and Tax Avoidance.
 - 18.6 : Common Methods of Tax Avoidance.
 - 18.7 : Common Methods of Tax Evasion.
 - 18.8 : Preventive Measures Adopted in Bangladesh.
Questions.
-

18.1: Introduction

Tax evasion and Tax avoidance are two common terminology used in taxation. It is natural that the Government will desire more tax from the tax-payers and the tax-payers have the tendency to pay as minimum as possible. The tax-payers can reduce their tax liability either by following tax planning within the tax rules or by concealment or under statement of income. The former practice is legal and the latter is illegal. For better tax planning by the tax-payers and efficient tax administration, both the tax authority and tax-payers should have clear idea of tax evasion and tax avoidance. This chapter deals with these concepts and other legal aspects of tax evasion and tax avoidance.

18.2: Definition

Tax evasion may be defined either as the understatement or concealment of taxable object or as the failure to pay tax in time either by the assessee or his agent. So it is illegal.

On the other hand, tax avoidance is the minimization of tax liability by the tax-payer or his agent by efficient tax planning. It is possible by fully complying with the tax laws and meeting tax liabilities. Thus tax avoidance takes the advantages of the loopholes in the existing fiscal laws.

In the above context the remarks of the Taxation Enquiry Commission of India is worth mentioning. The Commission opined that one of the reasons for low tax collection can be attributed to the practice of providing wrong information or adopting fraudulent measures by tax payer, or to the skillful and cunning tax planning by the assessee. The former is tax evasion & the latter is tax avoidance.

18.3: Distinction between Tax Avoidance and Tax Evasion

Although the main objectives of tax avoidance and tax evasion are the same, yet there are some differences between their application. In case of tax evasion, tax liability is reduced or tax is not paid at all. It is illegal. But in case of tax avoidance, tax-liability is minimized by taking the advantage of existing loopholes in tax rules. Although it is not illegal, but it is undesirable. The distinction between them is given very nicely in a case decision which is stated below :

"Avoidance of tax is not tax evasion and it carries no ignominy with it, for, it is sound law and certainly not bad morality for any body so to arrange his affairs as to reduce the brunt of taxation to the minimum" [Aruna Group of Estate Vs. State of Madras (1965) 51 ITR 642 (Mad)].

18.4: Socio-economic Effects of Tax Evasion and Tax Avoidance

Tax avoidance and evasion have some adverse impacts on the economy and society. These are--

- (a) **Loss of Govt. Revenue :** The ultimate result of tax evasion and avoidance is the tax loss or revenue reduction. This necessitates a higher tax burden on the assessee or in other areas. Further, if the tax authority thus Govt. fails to collect required tax revenue, its level of development expenses also falls. It affects the distribution function of wealth of the Government and adversely affects socio-economic development of a country.
- (b) **Vicious Cycle of Tax Evasion is Developed :** If tax rules are not sufficient to check the tax evasion and avoidance, it may lead to the development of a culture of evasion. So a vicious cycle of tax evasion may take place.
- (c) **Unwarranted use of Tax-evaded Income :** Tax-evaded incomes are used for conspicuous consumption in the form of buying luxurious goods. As the demand for such goods increases with the resultant increase in price, the honest tax payers gradually find themselves priced out of the market. This may create frustration and encourage people to avoid tax. So the stability of the society will be endangered. Such illegal money is also transferred abroad weakening the economy of the country.

18.5: Reasons for Tax Evasion and Tax Avoidance

The followings can be identified as the main causes of tax evasion and avoidance by the tax payers :

- (a) **Ambiguity in Tax Rules :** There are some tax rules in our Tax Ordinance, alike some other countries, which are ambiguous. A tax-payer can take advantage of these rules to his own benefit.

Tax Evasion and Tax Avoidance-273

- (b) **High Tax Rate :** If the tax rate is high, the tax payers feel discouraged to pay tax. So they adopt different means to reduce or minimize tax liability either through tax evasion or through tax avoidance.
- (c) **Inadequacy of Preventive Measures :** The existing measures to prevent tax evasion or avoidance are considered inadequate to solve the problem. Moreover, a section of corrupt people relating to tax administration also helps the tax payers to evade and avoid tax in exchange of speed money.
- (d) **General Tendency :** It is said to be the human tendency of the assessee to avoid tax. So, they try to find out loopholes in tax rules to avoid tax payment.

18.6: Common Methods of Tax Avoidance

Tax avoidance is possible by adopting any of the following means:

- (a) Transfer of property in the name of wife or minor child is one of the ways of tax avoidance. By making such transfer, the assessee can reduce his level of income and tax liability.
- (b) Transfer of property to Trust is another way of tax avoidance. Through such transfer of property to a Charitable Trust created by him and the income of which is indirectly controlled and enjoyed by the assessee himself the tax can be avoided.
- (c) Creation of Private Limited Co., by the members of the family and relatives is also a clever practice for tax avoidance. By creating such companies, the management shows expenses and allowances in such a way that helps to reduce tax liability.
- (d) A company can also avoid tax by transferring a portion of profit prior to the declaration of dividend to capital reserve or converting it to capital.

However, it is not always possible to avoid tax by adopting above techniques. Because some preventive provisions were found to have been inserted in income tax laws of different countries. In Bangladesh also some rules were framed to prevent tax avoidance. For example, income from properties transferred to the names of minor child or spouse is taken as the income of the assessee. But it is not always possible to prevent tax avoidance.

18.7: Common Methods of Tax Evasion

Tax evasion is made through adopting illegal means. Generally, an assessee adopts the following means to evade tax :

- (a) **Cash Sales :** To conceal actual sales and income, some organisations only make cash sales. In such a case, proper record of sales is not maintained and from investigation also neither actual position nor adequate idea can be formed as to sales volume, profit and tax liability.

- (b) **False Expenses :** To reduce profit volume and tax liability, false items of expense or excess amount for an item of expense can be shown in the income statement. These help reduction of profit with resultant reduction of tax liability.
- (c) **Concealment of Additional Sources :** Sometimes, the assessee does not disclose the additional sources of income. Similarly, a business may conceal income by not incorporating the branch income properly.
- (d) **Forgery in Documents :** By forging documents like vouchers and imports and exports documents, sometimes assessee's try to evade tax liability.
- (e) **Maintenance of Duplicate Records :** Some assessee's maintain duplicate records of their business and economic activities. They maintain one set of accounts for tax purpose and another set for internal use.

18.8: Preventive Measures Adopted in Bangladesh

In the Income Tax Ordinance of Bangladesh, some provisions have been included to prevent the tax avoidance and tax evasion. These provisions are described below :

(a) **Avoidance of Tax through Transactions with Non-resident (Sec. 104) :** Where any business is carried out between a resident and a non-resident and it appears to the Deputy Commissioner of Taxes that, owing to the close connection between them, the course of business has been so arranged that either no profits or profits less than the normal expected profit from the business will be shown. In such a situation, the DCT shall determine the amount of income which may reasonably be considered to have accrued to the resident from such business and included such amount in the total income of the resident.

(b) **Avoidance of Tax through Transfer of Assets to Non-resident (Sec. 105) :** If any asset is transferred to the non-resident for payment of loan and it appears to the tax authority that the transferor will enjoy the benefit from such transferred assets, the tax authority will then take necessary action for such fake transfer. However, no action can be taken under this section if the transfer is honest and genuine.

(c) **Avoidance of Tax by Transactions in Securities (Sec. 106) :** Where the owner of any securities sells the securities to other with an arrangement of buying them back to avoid tax on those transferred securities, the interest payable on these securities at the time of their transfer is considered as the income of the transferor.

(d) **Tax Clearance Certificate for Persons leaving Bangladesh (Sec. 107) :** Any person domiciled or not domiciled in Bangladesh leaving Bangladesh needs to procure a tax clearance certificate, if in the opinion of tax authority, he is not likely to return to Bangladesh. However, if the DCT is satisfied that the assessee has the intention of returning to Bangladesh, an exemption certificate will serve the purpose. In this connection it may be mentioned that if any shipping or aircraft company makes arrangement for travel

any people outside Bangladesh without tax clearance certificate, these companies are to bear the unsettled tax liability of such person or persons.

(e) **Collection of Information by Tax Authority (Sec. 108-110) :** Any organization paying salary to its employees should submit full particulars of income of those employees whose total income exceeds minimum taxable limit within 1st September each year. Similarly, any organization selling securities of company paying interest and dividend should submit the list of recipient of such interest and dividend to tax authority within 1st September each year.

(f) **Identification of Assessee on National Basis [Sec. 184 (B)] :** Now assessee are identified on national basis through Tax Identification Number (TIN). This system will effectively help to identify the income of the assessee from different sources and places to prevent tax avoidance.

(g) **Reward for Providing Information (Sec. 184 (D)) :** Any person providing information about the concealed income of any person, will be rewarded by the government.

All these preventive measures will reduce tax evasion and tax avoidance to a significant extent. But what is warranted is the sincerity of tax officials and tax payers.

Questions

- (a) What is meant by 'Tax Evasion' and 'Tax Avoidance'?
- (b) Discuss the provisions of Income Tax Ordinance, 1984 relating to prevention of 'Tax Evasion' and 'Tax Avoidance'.

[D. U. B. Com (H), 1990, 1994, 1996]

- (a) What is 'Tax Evasion' and 'Tax Avoidance'?
- (b) What circumstances are responsible for these?

By what procedure can an assessee evade and avoid tax? Describe the preventive measures available in Income Tax Law with respect to Tax Evasion and Tax Avoidance. Are these provisions adequate?

- (a) Distinguish between 'Tax Evasion' and 'Tax Avoidance'?
- (b) Discuss the socio-economic effects of 'Tax Evasion' and 'Tax Avoidance'.

- (a) What are the common methods of 'Tax Evasion' and 'Tax Avoidance'?
- (b) What are the preventive measures for 'Tax Evasion' and 'Tax Avoidance' in Bangladesh?

- (a) "Successful tax planning is synonymous to tax evasion" examine the statement.
- (b) Discuss the anti-evasion measures under Income tax law.

[N. U. B. Com (H), 1999]

Chapter-19

Set off and Carry Forward of Losses

Chapter Synopsis/Contents:

- 19.1 : Introduction
 - 19.2 : Set-off of Losses
 - 19.3 : Carry forward of Losses and Depreciation
 - 19.4 : Conditions and Limitations of Carrying forward of Losses
 - 19.5 : Illustrations
- Questions**
Exercises
-

19.1: Introduction

Income tax is a tax on income. For this purpose, income from different heads namely salary, interest on securities, business income, agricultural income, house property income etc., are lumped together. But it is also possible that one or more heads of income may show net loss instead of income. In such a situation, tax rules are rational enough to allow the assessee to set off losses arising from any head of income in any year against the income from other heads and carry forward the balance of loss, if any, to future year. In the Income Tax Ordinance, 1984, provisions relating to set off and carry forward of losses are stated under sections 37-42. In the following paras such provisions are discussed.

19.2: Set-off of Losses

Losses of one head of income are allowed to set off against the income from other heads. But the rules for such setting off of losses are not common for all types of assessee and business. Finance Act, 2005 provided that losses arising to an assessee from tax free or tax exempted source will not be eligible for set-off from the heads of income chargeable to tax. Now the rules of set off are elaborated :

A) Set off of Losses by an Individual (Sec. 37) :

When an assessee incurs loss on any of the specified heads of income in an assessment year, he can set off such loss against his income from other heads in the same assessment year. In this connection following procedure will be followed :

i) Aggregating Income under same source

An assessee may have different heads of income. Further under one head there may be different sources. For example under business head he may have income from cloth business, income from jute business. Thus first, income of each source be determined after

Set Off and Carry Forward of Losses-277

adjusting all allowances, expenses and loss of that source. If there is loss of one source it will be so determined to adjust with other sources.

ii) Aggregating Income and losses under one head

Loss of one source be adjusted with income of another source, if any. In this way net gain or loss of one head be determined.

iii) Setting off of loss of one head against Profit of another head

If an assessee incurs loss in one head of income and he has income from one or more than one head of income, he shall adjust the loss of one head against the income of others. In this way set-off process will be completed.

But the following conditions are to be satisfied for getting set off facility under this section :

- i) Loss arising from speculative business in any assessment year can be set off only against the income from speculative business in that assessment year.
- ii) Loss from any source under the head capital gains in any assessment year can be set off only against the income from any other source falling under that head and assessable for that year.

The DCF shall deduct any cash subsidy received by the assessee from the Government in computing loss under this section.

B) Set off of Losses of a Firm and its Partners : [Sec. 42 (3)]

The loss sustained by a firm under any head of income can be set off only against the income of the firm under any other head. It is not allowed to set off or carry forward such loss against the income of any of the partners of the firm.

C) Set off of Losses of Succession in Business or Profession : [Sec. 42 (4)]

In case of succession of any business or profession by any person otherwise than by inheritance, the loss of such business can not be set off against the income under any other head of the person.

D) Set off of Losses in Case of Constitutional Change of a Firm : [Sec. 42 (5)]

In case of change in the constitution of a firm, the changed firm shall not be entitled to set off the proportionate share of the loss of the retired or deceased partner. A partner of the firm would not be entitled to the benefit of any portion of the said loss as is not apportionable to him.

E) Set off of Losses in Case of Companies :

If a company has more than one business, loss of one business can be set off against the income of other business. But the condition is that the company must be a Bangladeshi company. It is to be noted that if Bangladeshi company has overseas branch or business, loss or gain of them can be set off against one another.

19.3: Carry forward of Losses and Depreciation

Losses which can not be set off in the year of loss can be carried forward for set off in the subsequent years subject to some terms and conditions. Now different types of carry forward system of losses are discussed :

A) Carry forward of Business Losses : [Sec. 38]

The amount of business losses, remaining after set off in the year of loss, can be carried forward for set off within six subsequent assessment years. Such set off is allowed only against the income from the business or profession for which the loss was originally computed. In case of discontinuance of such business, the loss is not allowed to be carried forward and it would become capital loss.

B) Carry forward of loss of Speculative Business : [Sec. 39]

Any loss in respect of speculative business in any assessment year, which could not be set off during the same year from any other speculative business, can be carried forward for set off in six successive subsequent assessment years.

C) Carry-forward of Losses under the head "Capital Gains" : [Sec. 40]

Loss under this head upto Tk. 5,000 can be and should be set off against other income of the same year. So any capital loss in excess of Tk. 5,000 under this head can be carried forward for set off during the six successive subsequent assessment years against the income under the same head.

D) Carry forward of Loss under the head "Agricultural Income" : [Sec. 41]

The amount of loss under this head which remains unabsorbed during the year of incurrence can be carried forward for set off. This facility is granted for six successive assessment years and the amount carried forward can only be set off against the income from same head.

E) Carry forward of Unabsorbed Depreciation : [Sec. 4(6)]

If the depreciation allowance of an assessment year can not be absorbed for shortage of revenue, such unadjusted allowance can be carried forward for set off in subsequent year(s) without any time limit.

F) Carry forward of Loss in Case of Companies :

If there is a loss in business of a company in an accounting year it can be carried forward upto six years for setting off against income of the succeeding years. It is to be noted that if the company has more than one business, it is not necessary that these businesses be under same tax area or same DCT. But it must be a Bangladeshi Company.

It may be mentioned here that unabsorbed depreciation of tax-holiday period of an industrial undertaking can also be carried for setting off beyond tax holiday period. Priority is given regarding set off of losses of business and speculation business over depreciation. Because the later category of expenses can be carried forward for unlimited period.

19.4: Conditions and Limitations of Carrying forward of Losses [Sec. 42]

- a) The provisions of Sections 37, 38, 39, 40 and 41 shall have effect subject to the conditions and limitations set out in this section.
- b) For firm- The firm itself is treated as an assessee and rules of Sec. 37 is applicable for such firm. So the partners shall not be entitled to set off and carry forward of partnership losses against their own income.

19.5: Illustrations

Illustration-1:

From the following information calculate the taxable income of Mrs. Bannya for the year ending 31st December, 2005.

Basic Salary	Tk. 1,20,000
Bonus	Tk. 20,000

She contributes Tk. 12,000 in recognized provident fund. Her employer also contributes same amount to the fund.

She earns Tk. 5000 monthly by letting a house and she pays Tk. 1,000 annual interest on the loan taken for the erection of the building. Other expenses relating to the building is Tk. 700. The house was vacant for 3 months.

Her income from rice business is Tk. 19,300 and losses from tea business is Tk. 20,000. She incurs a loss of Tk. 12,000 from agricultural income but received a subsidy of Tk. 5,000. There was an unabsorbed loss of rice business Tk. 3,000 from previous year. She also has an unabsorbed loss from speculative business.

Solution:

Assessment of Mrs. Bannya

Assessment Year-2005-2006

Income Year-2004-2005

Description	Tk.	Tk.
1. Income from Salary :		
Basic Salary		1,20,000
Bonus		20,000
Employer's Contribution to P. F.		12,000
		1,52,000
2. Income from House Property :		60,000
Less : Admissible expenses-		
a) Repairs $\frac{1}{4}$	15,000	
b) Interest on loan $\frac{1}{4}$	1,000	
c) Other expenses	700	
d) Vacancy allowance	15,000	31,700
		28,300

Income Tax-280

3. Business Income :		
a) Income from rice business	19,300	
Less : Loss of last year	(3,000)	16,300
b) Loss from tea business		(20,000)
		(3,700)
4. Loss from 'Agricultural Income' :	(12,000)	
Less Govt. Subsidy	(5,000)	(7,000)
∴ Total Income = (1,52,000 + 28,300 – 10,700)		1,69,600

Notes : (1) As there is no income from speculative business in the assessment year, the loss from such business from previous year can not be carried forward for absorption.

(2) Government subsidy for agricultural income is deductible from loss of 'Agricultural Income'.

Illustration-2:

From the following particulars of Mr. Rana show the taxable income, set off and carry forward of losses for the years 2002-2003 and 2003-2004 :

Description of Income and Losses	2002-2003 Tk.	2003-2004 Tk.
1. Interest on Securities	15,000	12,000
2. Loss from House Property	13,000	15,000
3. Income from Jute business	15,000	16,000
4. Deductible expense thereon	19,000	14,000
5. Income from leather trade	13,000	11,000
6. Loss of last year	15,000	—
7. Depreciation	10,000	11,000
8. Unabsorbed depreciation	20,000	—
9. Loss from Speculative Business	3,500	—
10. Loss from Garments Business	16,000	—
11. Loss of last year	2,000	—

Mr. Rana closed the Garments Business in 2003-2004.

Set Off and Carry Forward of Losses-281

Solution :

Assessment of Mr. Rana
For the Assessment Year-2004-2005

Description	Tk.	Tk.
1. Income from securities		15,000
2. Loss from house property		13,000
		2,000
3. Business Income :		
a) Income from Jute trading	15,000	
Less : Expenses	19,000	
Loss from Jute business		(4,000)
b) Income from leather trade	13,000	
Less : Last Year's loss	15,000	(2,000)
c) Loss from speculative business	3,500	
d) Loss from garments business	16,000	
Add : Last year's loss	2,000	(18,000)
Total loss from business except loss from speculative business		(24,000)
Less : Surplus from securities income		2,000
Unabsorbed business loss to be carried forward		(22,000)

A) Calculation of Carry forward of business Losses :

Total Loss – Loss from a business closed i. e. garments business = (22,000 – 18,000)
= Tk. 4,000.

This loss is to be carried forward in proportion :

i) Jute business = $4,000 \times \frac{2}{3} = \text{Tk. } 2,667.$

ii) Leather business = $4,000 \times \frac{1}{3} = \text{Tk. } 1,333.$

B) Unabsorbed depreciation = (10,000 + 20,000) = Tk. 30,000.

C) Loss from speculative business Tk. 3,500.

Income Tax-282

Assessment of Mr. Rana
for the Assessment year of 2005-06

Description	Tk.	Tk.
1. Business Income :		
A) Income from Jute business	16,000	
Less Expenses	14,000	
Less Loss of last year	2,000	
Loss from Jute business	2,667	(667)
B) Income from Leather Business	14,000	
Less Loss of Last year	1,333	
	12,667	
Less Depreciation	11,000	1,667
Income from business		1,000
Less Unabsorbed depreciation		1,000
Business Income		xx
2. Interest on Securities		12,000
Less : Loss from house property		15,000
Loss from house property		3,000
Losses to be carried forward :		
A) Unabsorbed depreciation (30,000-1,000)	29,000	
B) Loss from Speculative business	3,500	

Note : Loss from House Property Income can not be carried forward.

Illustration-3:

A, B and C are three partners of Luna Enterprise sharing profits in the ratio of 2 : 2 : 1. The total losses of this business for the year ended 31st Dec., 2004 are Tk. 1,20,000. The amount of capital contributed by A, B and C is Tk. 1,00,000, Tk. 80,000 and Tk. 50,000 respectively. The partners are entitled to interest on loan @ 5% on Capital. The business is conducted in a rented house of B. The annual rent of the house is Tk. 24,000. Income of the business from other sources is Tk. 50,000. Personal Income of A, B, and C are :

Salary income of	A	Tk. 86,000
House property income of	B	Tk. 64,000
Miscellaneous income of	C	Tk. 31,000

Calculate the total income, taxable income and losses to be carried forward.

Set Off and Carry Forward of Losses-283

Solution :

Luna Enterprise
Income year-2004-2005
Assessment Year-2005-2006

Description	Tk.
Loss before adjustments	1,20,000
Add : Interest on Capital (5000+4000+2500)	11,500
Add : House rent	24,000
	1,55,500
Less : Income from other sources	50,000
Net Loss	1,05,500

The firm is entitled to carry forward losses of Tk. 1,05,500 to the subsequent years to set off losses.

Calculation of Assessable Income of Partners

Particulars	A	B	C
1. Salary Income	86,000	—	—
2. House Property Income		48,000	
Less $\frac{1}{4}$ th of repair Cost			31,000
3. Miscellaneous Income			31,000
	86,000	48,000	31,000

Notes : 1) B and C will not pay tax because their total income is below the minimum taxable income. A's tax liability is Tk. 1,100 but he is to pay tax of Tk. 1,200 (which is the minimum tax).

2) The loss of a partnership firm can be carried forward by the firm itself.

Illustration-4:

X, Y and Z are equal partners of a firm. The loss of the firm for the income year-2004-05 was Tk. 46,000 after charging interest of Tk. 20,000 on capital and depreciation Tk. 8,000. Income of the firm from investment Tk. 8,000. Personal income of the partners from different sources are :

- A : Salary Tk. 72,000, House property income Tk. 24,000
- B : Business Income Tk. 46,000
- C : Miscellaneous Income Tk. 11,000

Show the tax assessment of X, Y & Z Firm.

Solution :

Assessment of X, Y, Z

Income year 2004-05

Assessment year 2005-06

Description	Tk.
Loss as per P/L Account	46,000
Less : Depreciation	8,000
	38,000
Less : Investment Income	8,000
Loss From Business	30,000
Loss from business	30,000
Add : Unabsorbed depreciation	8,000
Total Loss of the business	38,000

Note : The firm can carry forward the loss for next six years.

Questions

1. a) What do you mean by Carry Forward and Set Off of Losses ?
b) What are the conditions and limitations to carrying forward of losses?
[D. U. B. Com (H), 1986, 88]
2. a) What do you mean by set off of losses?
b) How can you carry forward of losses under the head 'Capital gain'?
c) List down the conditions and limitations of carrying forward of losses.
[D. U. B. Com. (H), 91]
3. a) Discuss the provision of law with regard to set off and carry forward of losses.
b) What is unabsorbed depreciation? What are the provisions of carry forward in this regard?
[D. U. B. Com. (H), 97]
4. Discuss the provisions relevant to Set-off and Carry-forward of losses relevant to the following :
(a) Individual (b) Firm (c) Company (d) Unabsorbed Depreciation and (e) Capital Gain.

Exercises

Ex.-1:

A trader made a profit on Grain Business amounting to Tk. 20,000 during the year ended on 31. 12. 2004 and in the same year suffered a loss of Tk. 24,000 from Cloth Business. In the next year he had an income from House Properties amounting to Tk. 40,000 and from Grain Business he suffered a loss of Tk. 33,000 and earned a profit of Tk. 21,000 from cloth business. What amount of income tax, if any, he will pay for the assessment year 2005-2006.?

[R. U. B. Com. 1961, Modified]

Set Off and Carry Forward of Losses-285

Ex.-2:

From the following particulars compute assessee's total income for several assessment years :

Sl. No.	Particulars Accounting year ended on	Income from House Property	Income from Business	Other Income
1.	31. 3. 1997	45,000	(30,000)	24,000
2.	31. 3. 1998	46,000	28,000	—
3.	31. 3. 1999	46,000	(45,000)	11,000
4.	31. 3. 2000	47,000	(36,000)	—
5.	31. 3. 2001	47,000	33,000	—
6.	31. 3. 2002	(1,000)	32,000	11,500

Notes : 1) Figures in the bracket indicate loss.

2) Income from House Property has been determined after allowing allowable expenses.

Ex.-3:

Ram, Shyam and Madhu are equal partners of a firm styled 'Brothers Enterprise'. During the Income year 2004-2005, the firm incurred a loss of Tk. 52,000 under the business head and earned Tk. 23,000 under interest on security head. The business loss has been computed after debiting depreciation allowance of Tk. 13,000. The partners had the following private income :

Ram : Profit from house property Tk. 50,000

Shyam : Income from private business Tk. 43,000

Madhu : Dividend income Tk. 46,000 but loss from his private business Tk. 33,000.

Determine the position of all the partners of the firm.

Ex.-4:

A, B and C are partners in a firm which incurred a loss of Tk. 45,000 for the accounting year ended on 30th June, 2005. On the same date C retires and the firm is being dissolved. But A and B invited D to join their firm and to continue the business.

Explain the legal position of carry-forward and set-off loss from all angles.

[C. U. B. Com. (Hons) 1978]

Chapter-20

Assessment of Partnership

Chapter Synopsis/Contents:

- 20.1 : Introduction
 - 20.2 : Definition of Partnership Firm
 - 20.3 : Procedure of Assessment of Firm
 - 20.4 : Format of Income and Tax determination
 - Computation of Income from Business
 - Allocation of Income Among Partners
 - Computation of Total Taxable Income of Partners
 - 20.5 : Points to Remember
 - 20.6 : Illustrations
 - 20.7 : Change in the Constitution of Firm
 - 20.8 : Inheritance of Partnership Firm
- Questions
Exercises
-

20.1: Introduction

There are several types of business organisation. Partnership is one of them. In the eyes of general law, the partnership firm has got no separate entity. Legally, the partnership firm can not deal with any legal activity in its own name and the partners are entitled to do so in their own names individually. But according to Income Tax Ordinance 1984, the partnership firm has got its own separate entity and from that point of view, the firm is entitled to pay tax i. e. the firm has been given right to deal with tax matters. In this chapter assessment procedures of partnership firm have been discussed.

20.2: Definition of Partnership Firm

There is no clear definition of partnership firm given in the Income Tax Ordinance, 1984 but Section 2 (32) of ITO, 1984 refers to 'the meaning assigned to it by the Partnership Act, 1932.' According to the Partnership Act, 1932, Partnership is– "the relationship between the persons who have agreed to share the profits of a business carried on by all or any one of them acting for all". The members of the firm are individually known as 'Partner' and collectively known as 'Firm' or 'Partnership Firm'.

Assessment of Partnership-287

The above definition is also accepted by the Income Tax Act but the meaning of Partner is different to some extent in the eyes of Income Tax Law. A minor or an underaged child who enjoys the benefit of a partnership firm may also be considered as the partner of a firm according to Income Tax Law. It is to be mentioned here that a partnership is not a separate legal entity like a limited company, yet it is to an extent, treated as such for tax purposes.

20.3: Procedure of Assessment of Firm

The following three steps are followed for the assessment of a Firm :

- 1) Computation of Total Income,
- 2) Determination of Tax, and
- 3) Allocation of Income among the Partners.

The assessment procedure of the Partnership Firm has been discussed as follows :

- 1) The profit of the firm is to be computed according to Sec. 28 and Sec. 29 of ITO 1984.
- 2) The profit of the firm excluding interest, salary and commission given to the partners is to be distributed among the partners.
- 3) Total Income of the firm is taxable but a portion of which is exempted income i. e. 15% tax credit on allowable investment is to be deducted from Taxes Payable.
- 4) If the computed profit i. e. total income of the firm exceeds Tk. 1,00,000 then tax is to be imposed on the basis of the following rates :

On the first Tk. 1,00,000	0%
On the next Tk. 2,00,000	10%
On the next Tk. 2,50,000	15%
On the next Tk. 3,50,000	20%
On the rest (Balance) amount	25%

It is to be mentioned here that the minimum amount of tax should not be less than Tk. 1,500.

- 5) The share of income from the firm is to be added to the total income of the individual assessee (each partner) and tax is to be calculated as per applicable tax rates of individual assessment. Finally, income from firm is to be considered as tax free income and partners will get rebate at average rate on their partnership income from tax so computed.

It is to be noted here that if the income of the firm does not exceed Tk. 1,00,000, no tax is to be imposed thereon and then such total income is to be distributed among the partners completely.

40. B. Journal of Income and Tax Computation for

Name of the Firm
 Address
 Income Year
 Assessment Year
Computation of Income From Business

Particulars	Taka	Taka
Net Income as per Profit and Loss Account		***
Add : Inadmissible Expenses shown in the Profit and Loss A/C :		
a) Salaries to Partners	**	
b) Interest on Capital	**	
c) Depreciation as shown in Accounts (Considered later on)	**	
d) Other inadmissible Expenses as per Section 30	**	
e) Donation / Gift	**	****

Add : Income from Business or Profession as per Section 28 which are not shown in the Profit and Loss A/C		****

Less : Allowable Other Expenses :		
a) Admissible Depreciation as per Income Tax Ordinance	**	
b) Admissible Expenses as per Section 29 which are not shown in the Profit and Loss A/C	**	****

Less : Non-Business Income which are shown in the Profit and Loss A/C :		
a) Interest on Securities	**	
b) Income from House Property	**	
c) Interest on Drawings, etc.	**	****

Business or Professional Income		****
Add : Non-business Income of the Business :		
a) Interest on Securities	**	
b) Income from House Property	**	
c) Interest on Drawings, etc.	**	****

Total Income of the Business or Profession		****

[Exempted Income = Allowable Investment Allowance on which a 15% tax credit is allowed.]

Assessment of Partnership-289

Allocation of Income Between/Among Partners

Particulars	Partners		
	Total Taka	A	B
		Tk.	Tk.
Income of the Partners Received from the Business :			
a) Salary	**	**	**
b) Interest on Capital	**	**	**
c) Interest on Loan	**	**	**
d) Other Receipts of Partners	**	**	**
e) Commission, etc.	**	**	**
f) Interest on Drawings (Let, Partner B) [The total of Items a) to e) is to be deducted from Total Business Income and this amount of Interest is to be adjusted with the deducted result and then finally such interest on drawing is to be deducted from the income of the respective partner.]	(**)		(**)
g) Allocation of the rest Business Income as per Profit and Loss sharing ratio (i. e., from Total Business Income Partners' personal receivables are to be deducted and interest on drawings is to be adjusted. After doing so, the resulted figure is to be allocated between/among partners according to Profit and Loss Sharing Ratio.)	**	**	**
Total Partnership Income	**	**	**

Computation of Total Taxable Income of Partners

Particulars	Partners	
	A	B
	Taka	Taka
Income From Partnership	**	**
Add : Private Income	**	**
(Here all other sources of Income of the Individual Partner are to be shown)		
Total Income of Individual Partner	**	**

20.5: Points to Remember

- 1) Income tax paid by the firm would not be deducted from the Total Income of the Business, while allocating firm's income between/among the partners.
- 2) Source-wise private income of the individual partner is to be added with the share of business income from firm at the time of determining Total Taxable Income of each partner.
- 3) At the time of calculating total income of the individual partner, income from firm is to be added. But as the firm itself pays tax, so, partners will get rebate at average rate on their partnership income from tax so computed.

20.6: Illustrations

(A) General Illustrations

Illustration-1:

Othelo and Debdas are equal partners of a firm. You are given the following Profit and Loss Account for the year ended 31st December, 2004 and other relevant information from which you are asked to determine the Total Income of the Business and Partners :

Profit & Loss Account

Dr.	Tk.	Cr.	Tk.
Salaries to the Staff	31,200	Gross Profit	2,09,200
General Expenses	34,500	Interest on Commercial Securities	12,400
Rent and Taxes	25,700		
Salaries :			
Othelo 24,000			
Debdas <u>22,000</u>	46,000		
Interest on Capital :			
Othelo 12,000			
Debdas <u>11,000</u>	23,000		
Commission to Debdas	12,000		
Net Profit	49,200		
	2,21,600		2,21,600

Rent includes Tk. 12,400 paid to othelo for the use of his house for business purpose. Private income of the partners were as follows :

Othelo : Income from House Property Tk. 60,000 (Net)

Debdas : Income from Dividend Tk. 13,500.

Assessment of Partnership-291

Solution:

Othelo-Debdas Partnership Firm

Income year : 2004-2005

Assessment year : 2005-2006

1. Computation of Total Income from Business :

Particulars	Taka	Taka
Net Profit as per Profit & Loss A/C		49,200
Add : Inadmissible Expenses :		
Salaries to the Partners :		
Othelo	24,000	
Debdas	<u>22,000</u>	
	46,000	
Interest on Capital :		
Othelo	12,000	
Debdas	<u>11,000</u>	
	23,000	
Commission to Debdas	12,000	81,000
		1,30,200
Less : Non Business Income :		
Interest on Commercial Securities		12,400
Business Income		<u>1,17,800</u>
a) Business Income		1,17,800
b) Income from Interest on Securities $(12,400 \times \frac{100}{75})$		16,534
Total Income		<u>1,34,334</u>

2. Tax Liability of the Firm :

On 1st Tk. 1,00,000 = Nil

On Next Tk. (1,34,334-1,00,000)

= Tk. 34,334 @ 10% = Tk. 3,433

Total = Tk. 3,433

3. Allocation of Income Between Partners :

Particulars	Total (Tk.)	Othelo (Tk.)	Debdas (Tk.)
Interest on Capital	23000	12000	11000
Salary to Partners	46000	24000	22000
Commission	12000	—	12000
Share of Divisible Profit [(Tk. 134334-81000) ÷ 2]	53334	26667	26667
Share of Total Income of the Firm	134334	62,667	71,667

4. Computation of Total Income of Partners :

Particulars	Othelo (Tk.)	Debdas (Tk.)
a. Income from Business	62,667	71,667
b. Income from House Property	60,000	—
c. Income from Dividend		13,500
Total Income	1,22,667	85,167

Notes :

- (1) The Partnership Firm is to pay tax as per the tax rates applicable for individual assessee.
- (2) It is assumed that house rent paid to Othelo is his private house property income and it is not included in his house property income of Tk. 40,000. Repairs, etc. of $\frac{1}{4}$ th of such income has been deducted.
- (3) Debdas does not require to pay tax because his total income does not exceed minimum taxable income limit of Tk. 1,00,000 but othelo is to pay tax of Tk. 22,667 as per applicable tax rates.
- (4) Dividend income of Public Ltd. Co. is now taxable in the hand of individual assessee firm etc. (except company) vide F. A. 2005.

Illustration-2:

Bush and Gorchachev started a Departmental Store as a Partnership Firm as on 1st July, 2004. Their profit sharing ratio was 2 : 1 and initial capital was Tk. 10,00,000. During the middle of the year, in January, they took loan from Janata Bank amounting to Tk. 50,000 @ 20% interest p. a. each and invested the same in the firm to meet the working capital requirement. As on 30th June, 2005 the transactions summary of the business was as follows :

	Taka
1) Salary	44,000
2) Interest	5,000
3) Rent	22,000
4) Electricity	8,000
5) Other Expenses	4,000
6) Sales	5,47,000
7) Purchases	2,90,000
8) Wages and Purchases Expenses	20,000

During the relevant income year, Government Security worth Tk. 10,000 and Savings Certificate worth Tk. 5000 were purchased on behalf of the firm. Prepare Tax Statement of the firm as per the prescribed Format of the ITO, 1984.

Assessment of Partnership-293

Solution :

Bush-Garvachev Partnership Firm

Address :..... ?

Status : Partnership Firm

Residential Status : Resident

G. I. R. No. ?

Income Year : 2004-2005

Assessment Year : 2005-2006

PART : A

**Statement of Income for the year ended
on 30-06-2005**

Description of Income	Taka
1. Income from Salary : Sec. 21	—
2. Income from Securities : Sec. 22	—
3. Income from House Property : Sec. 24	—
4. Income from Agriculture : Sec. 26	—
5. a) Income from Business and Profession Sec. 28	—
b) Income from Firm (See Computation -1)	1,49,000
6. Income from Capital Gain : Sec. 31	—
7. Income from Other Sources : Sec. 33	
a) Dividend	—
b) Interest	—
c) Others (Details)	—
8. Total (1-7)	1,49,000
9. Foreign Income	—
10. Total Income	1,49,000
Tax on Total Income	7,400
Tax Credit : Sec. 44(2)	2,250
Tax Payable (See Note)	5,150
Tax Paid	—

PART : B

Tax Credit Income/Investment

Description	Taka
1. Life Insurance Premium	—
2. Contribution to Deferred Annuity Fund	—
3. Contribution to Provident Fund Under Provident Fund Act, 1925	—
4. Employee's and Employer's Contribution to Recognised Provident Fund	—
5. Contribution to Old age Fund	—
6. Purchase of Shares and Debenture of Recognised Company	—
7. Purchase of Govt. Securities and Savings Certificate (10,000+5,000)	15,000
8. Contribution to Deposit Pension Scheme	—
9. Zakat Fund	—
10. Welfare and Group Insurance	—
11. Other Deductions (if any)	—
Actual Total Tax Credit Investment	15000

* Here tax credit investment would be Tk. 15,000 (because actual investment is less than that of 20% of Total Income)

Computation-1:

Computation of Total Income of the Firm :

	Taka
Sales	5,47,000
Less : Purchases	2,90,000
Wages and Other Expenses	<u>20,000</u>
Gross Profit	2,37,000
Less : Operating Expenses	
Admissible Expenses :	
a) Salary	44,000
b) Interest paid	5000
Payable	<u>5000</u>
c) Rent	22,000
d) Electricity	8,000
e) Other Expenses	<u>4,000</u>
(Assuming Allowable)	88,000
Net Profit	<u>1,49,000</u>

Assessment of Partnership-295

Note: The Partnership Firm pays tax as the same rate applicable in case of individual assessee. Therefore, the amount of tax of the firm would be :

On 1st Tk. 1,00,000 =	Tk. Nil
On next (here rest) Tk. 49,000 @ 10% =	<u>4,900</u>
Total Tax =	4,900
Less Tax Credit @ 15% on Investment Tk. 15000 =	<u>2,250</u>
Net Tax to be paid =	<u>2,650</u>

B. Questions of Different Examinations :

Illustration-3:

Khane Alam and Jane Alam are partners of a firm. They share profit and losses equally. From the following Profit and Loss Account for the year ended 30th June, 2005 and related information compute the total income of the firm and partners :

Profit and Loss Account

Dr.		Cr.	
Particulars	Taka	Particulars	Taka
Salary : K. Alam	13,200	Gross Profit	1,44,300
J. Alam	13,500	Income from	30,000
Municipal Tax	4,500	House Property (Net)	
Time Barred Bad Debt	400	Interest on tax free	2,200
Rent Paid to K. Alam	12,400	Govt. Securities	
Donation	600	Interest on Drawing :	45
Sundry Expenses	3,500	Jane Alam	
Net Profit	1,28,445		
	1,76,545		1,76,545

Private Income of the Partners :

Khane Alam : Income from House Property Tk. 44,000.

Jane Alam : Income from Business Tk. 37,500

[C. U. B. Com (Hons.) 1973 - Modified]

Income Tax-296

Solution:

Income Year : 2004-2005
Assessment Year : 2005-2006

1. Computation of Business Income of the Firm :

Particulars	Taka	Taka
Net Profit as per Profit & Loss A/C.		1,28,445
Add : Inadmissible Expenses :		
Salary : Khane Alam 13,200		
Jane Alam <u>13,500</u>	26,700	
Donation	600	27,300
		1,55,745
Less : Non-Business Income :		
Income from House Property	30,000	
Interest on Tax-free Govt. Sec.	2,200	
Interest on Drawing : Jane Alam	45	32,245
Business Income		1,23,500

2. Computation of Total Income of the Firm :

Particulars	Taka
a) Interest on Tax-free Govt. Security (Fully Exempted)	—
b) Income from House Property (Net)	30,000
c) Income from Business	1,23,500
d) Interest on Drawing	45
Total Income	1,53,545

3. Allocation of Income between the Partners :

Particulars	Total Tk.	Khane Alam (Tk.)	Jane Alam (Tk.)
Salary	26,700	13,200	135,00
Interest on Drawing (Jane Alam)	(45)	--	(45)
Rest Amount of Business Income (123500-26655=96845)	96,845	61,622	61,878
a) Share of Business Income	1,58,500	61,622	61,878
b) Share of House Prop. Income	—	15,000	15,000
c) Share of Interest on tax-free Govt. Security (Fully Exempted)		—	—
Share of Total Income of the Firm		76,622	76,878

Assessment of Partnership-297

4. Computation of Total Income of the Partners :

Particulars	Khane Alam Tk.	Jane Alam Tk.
Share of Total Income of the Firm	76,622	76,878
Add : Private Income :		
Income from House Property (Net)	44,000	—
Rent Received from Firm for House let out. (Tk. 12,400–Repairs $12,400 \times \frac{1}{4}$)	9,300	—
Business Income	—	37,500
Total Income	1,29,922	1,14,378

5. Tax Liability of the Firm :

	Tk.
i) On 1st Tk. 1,00,000 =	Nil
ii) On Next Tk. 2,00,000 @ 10% =	5,354
(here, rest Tk. 53,545)	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>
∴ Total Tax Liability =	<u>5,354</u>

6. Computation of Tax Liability of The Partners :

Total Income :	Khane Alam	Tk. 1,29,922
	Jane Alam	Tk. 1,14,378

Tax Liability :

Particulars	Khane Alam Tk.	Jane Alam Tk.
On 1st Tk. 1,00,000	Nil	Nil
On Next Tk. 2,00,000 @- 10% :		
Khane Alam : 29,922 x 10%	2,992	
Jane Alam : 14,378 x 10%		1,437
	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>
	2,992	1,437
Less Tax Liability on the Firm's Income at average rate		
Khane Alam $\frac{76,622 \times 2,992}{1,29,922}$	1,765	
Jane Alam $\frac{76,878 \times 1,437}{1,14,378}$		966
	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>
	1,227	471

Income Tax-298

Notes :

- (1) Sundry Expense is assumed to be Business Expense.
- (2) Rent paid to Khane Alam by the firm has been considered as Gross Rent and his personal Property Income has been considered as Net Rent Income.
- (3) It is assumed that Income Tax Authority is satisfied about the time barred Bad Debt.
- (4) Khane Alam and Jane Alam have to pay tax according to ITO, 1984 orther income from which they will get rebate at average rate on their partnership income so computed. But as minimum tax payable is Tk. 1,500 both of them shall pay this minimum sum as tax.

Illustration-4:

From the following particulars compute the Total Income of the Firm and The Partners A, B and C :

Profit and Loss Account For the year ended 30th June, 2005

Dr.	Taka	Cr.	Taka
Particulars		Particulars	
Loss on Stock destroyed by fire	61,000	Gross Pofit	1,93,000
Interest on Capital :		Income from Property	2,500
A 1500		Interest on Tax-free Govt. Securities	800
B <u>1000</u>	2,500	Dividend from Public Ltd. Co.	31,200
Interest on A's Loan	1,800	Interest on Drawings : B	60
Rent Paid to C	12,000		
Salary paid to B	11,200		
Net Profit	1,39,060		
	2,27,560		2,27,560

Personal Income of the Partners :

A : Salary Tk. 30,600

B : Income from Property Tk. 80,000 (Net)

C : Income from Business Tk. 56,000

A, B & C share the profit and losses in the ratio of 1 : 2 : 3.

[D. U. M. Com (Modified)]

Assessment of Partnership-299

Solution:

Income year : 2004-2005
Assessment year : 2005-2006

1. Computation of Business Income of the Firm :

Particulars	Taka	Taka
Net Profit as per Profit and Loss Account		1,39,060
Add : Inadmissible Expenses :		
Salary to Partner : B	11,200	
Interest on Capital : A 1,500		
B <u>1,000</u>	2,500	
Interest on A's Loan	1,800	15,500
		1,54,560
Less : Non-business Income :		
Income from House Property	2,500	
Interest on Tax-free Govt. Security	800	
Dividend	31,200	
Interest on B's Drawing *	60	34,560
∴ Business Income		1,20,000

2. Computation of Total Income of The Firm :

Particulars	Taka
a) Business Income	1,20,000
b) Income from Property (Assuming Net)	2500
c) Interest on Drawings	60
d) Dividend	31,200
∴ Total Income	1,53,760

[* Interest on drawing may be treated as business income. If so, it is not to be deducted here and as a result it is not to be added to the total income of the firm once again. However, it is better to consider interest on drawing as non-business income.]

Income Tax-300

3. Allocation of Income Among the Partners :

Particulars	Total Tk.	A Tk.	B Tk.	C Tk.
Salary	11,200	—	11,200	—
Interest on Capital	2,500	1500	1,000	—
Interest on Loan	1,800	1800	—	—
Interest on Drawing	60	—	(60)	—
Rest of the Business Income (Tk. 1,20,000–15,500+60)	1,04,560	17,427	34,853	52,280
a) Share of Business Income		20,727	46,993	52,280
b) Share of Income from Property	2,500	417	833	1,250
c) Share of Dividend	31,200	5,200	10,400	15,600
∴ Share of Total Income From Firm	1,53,700	26,344	58,226	69,130

Total Income of the Firm : Tk. 1,53,760. From this int. on drawing Tk. 60 is deducted as it is charged to Mr. B. So income is 1,53,700.

4. Computation of Total Income of the Partners :

Particulars	A Tk.	B Tk.	C Tk.
Share of Total Income from Firm	26,344	58,226	59,130
Add : Personal Income :			
a) Salary	30,600		
b) Income from Property		80,000	
c) Income from Property (Received from Firm)			9,000
[Tk. 12,000–Repairs $\frac{1}{4}$ th]			
d) Business Income			56,000
∴ Total Income	56,944	1,38,226	1,34,130

B and C will get rebate at average rate on their partnership income of Tk. 58,226 and Tk. 69,130 respectively from tax so computed. A is not supposed to pay tax because his total income does not exceed minimum taxable income limit of Tk. 1,00,000.

Notes :

- Income from House Property of B has been considered as net amount.
- House Rent from the firm received by C has been considered as gross amount and as a result, repairs @ $\frac{1}{4}$ th of such rent has been deducted.
- Interest on tax-free Govt. securities is fully exempted from tax.
- According to Finance Act, 2005 exemption for dividend has been withdrawn. Now it is taxable in the hand of assessee (except company).

Assessment of Partnership-301

Illustration-5:

Ashit, Rashid and Khurshid are partners of a Firm. They have decided to share the Profit and Loss in the ratio of 2 : 2 : 1. The Profit and Loss Account for the year ended 31st Dec., 2004 is given below :

Particulars	Taka	Particulars	Taka
Sundry Business Expenses	14,000	Gross Profit	1,45,000
Interest on Capital :		Income from Property	2,500
Ashit 2000		Int, on Tax-free Govt.	
Rashid 3000		Security	3,500
Khurshid <u>1500</u>	6,500	Dividend	6,000
Salary : Ashit	5,000	Interest on Drawing : Rashid	200
Commission : Rashid	4,000	Profit on Sales of	3,000
Interest on Loan : Khurshid	1,600	Investment	
House Rent : Ashit	5,000	Interest on Debenture	16,000
Loss on Sale of Machineries	2,500		
Time Barred Bad debt	1,500		
Donation	3,000		
Sales Tax	500		
Advertisement	1,000		
Reserve Account	2,000		
Net Profit	1,29,600		
	1,76,200		1,76,200

Other Information :

- (1) Sundry business expenses include legal expense of Tk. 1,000 paid for preparing new partnership deed.
- (2) Advertisement expenses include cost of permanent signboard of Tk. 500 and purchase of business journal of Tk. 250.
- (3) Private Income of the Partners :

a) Ashit	:	Agricultural Income	Tk. 40,000 (Net)
b) Rashid	:	Business Income	Tk. 80,000
c) Khurshid	:	Business Income	Tk. 20,000
		Interest on Commercial Securities	Tk. 2,800

Determine the tax liabilities of the firm and the partners.

[N. U. B. Com. (Pass) 1999]

Assessment of Partnership-303

2. Computation of Tax Liability of the Firm :

Particulars	Rate	<u>Tax</u> Tk.
Total Income	Tk. 1,33,075	
On Ist	Tk. 1,00,000	Nil
On Next	Tk. 1,50,000	10%
(Here on Rest Tk. 33,075)		3,308
Total		3,308

3. Allocation of Business Income Among the Partners :

Particulars	Total Taka	Ashit Taka	Rashid Taka	Khurshid Taka
Interest on Capital	6,500	2,000	3,000	1,500
Salaries	5,000	5,000		
Commission	4,000		4,000	
Interest on Loan	1,600			1,600
Interest on Drawings	(200)		(200)	
Rest Amount of the Business Income (Tk. 1,33,075-16,900) (In the ratio of 2.2:1)	1,16,175	46,470	46,470	23,235
	1,33,075	53,470	53,270	26,335

4. Computation of Total Income of the Partners :

Particulars	Ashit Taka	Rashid Taka	Khurshid Taka
a) Income from Business	53,470	53,270	26,335
b) Personal/Private Income :			
Property Income			5,000
— Repairs $\frac{1}{4}$			<u>1,250</u>
	3,750		
Agricultural Income (Net)	40,000		
Business Income		80,000	20,000
Income from Com. Securities (Assuming Gross)			2,800
Total Income	97,220	1,33,270	49,135

Comment : Ashit and Khurshid do not require to pay tax because their total income does not exceed the minimum taxable income limit of Tk. 1,00,000.

Income Tax-304

Tax Liability of Rashid :

	Taka
On 1st Tk. 1,00,000	Nil
On Next Tk. 2,00,000 @ 10%	3,327
(Here rest Tk. 33,270)	3,327
Total Tax	3,327
Less Tax Rebate at average	
Rate = $\frac{\text{Tk. } 53,270 \times 3,327}{1,33,075}$	1,332
Net Tax =	1,995

Notes:

1. Time barred Bad debt is irrecoverable. So, it has been considered as admissible loss.
2. It is assumed that Investment has been transferred within the period of five years. Loss on sale of machineries has been deducted from the profit on sale of investment and the rest amount of capital gain has been included in the total income.
3. Repairs, etc., $\frac{1}{4}$ th of the property income have been deducted assuming that such income is a gross income.
4. Legal expenses for preparing deed and cost of making permanent sign board are capital expenses and so they are inadmissible expenses.
5. Interest on Debenture in case of Partnership firm is exempted upto Tk. 20,000. (Finance Act-2002)
6. It is assumed that the house is used for business purpose for which rent is paid to the partner and so it is admissible expense.

Illustration-6:

The Partnership Firm consisting of A, B and C submitted return showing net income of Tk. 1,70,000 for the assessment year 2005-2006. The shares of all partners were equal and their Profit and Loss A/C was as follows :

	Dr.		Cr.
Particulars	Taka	Particulars	Taka
To Salaries	20,000	By Gross Profit	2,20,000
" Rent and Taxes	9,000	" Profit on Sale of Car	10,000
" Interest	6,000		
" Conveyance Expenses	12,000		
" Legal Expenses	3,000		
" Bad Debt	5,000		
" Other Expenses	5,000		
" Net Profit	1,70,000		
	2,30,000		2,30,000

Assessment of Partnership-305

Other Information :

- 1) **Salaries** : Included Tk. 500 per month paid to each partner.
- 2) **Rent and Taxes** : Included Tk. 3,000 paid to the land lord A and Municipal Tax Tk. 1,000 (Paid by the Firm). Moreover, Income Tax on Firm's income Tk. 2,000 charged in the last year was also included in this item.
- 3) **Interest** : Included interest on capital paid to each partner Tk. 1,000 and interest on loan Tk. 5,000 @ 10% given by B to the Firm.
- 4) **Conveyance Expenses** : Included Tk. 10,000 paid to C for visiting abroad and opening a branch therein.
- 5) **Legal Expenses** : Included Fine Tk. 1,000 charged by the Custom Authority for false declaration.
- 6) **Bad debt** : Included an advance payment of Tk. 1,000 to the staff (which is irrecoverable). An embezzled amount of Tk. 2,000, which was misappropriated by the cashier-cum-accountant, was also included in this item.
- 7) **Information relating to the sale of car :**

	Taka
Original cost of car	20,000
Accumulated Depreciation (Shown in the Accounts)	12,000
Written down value as per Accounts	8,000
Depreciation approved by the Tax Authority	8,000
Written down value approved by the Tax Authority	12,000
Sales Value	18,000

8) Personal Income of Partners :

A Tk. 60,000, B Tk. 58,000 and C Tk. 45,000

Determine the Total Income of the Firm and Total Income of the individual Partner and also compute the tax liability of the Firm and Partners.

[C. U. B. Com. (Hons) 1978, D. U. B. Com. (Hons) 1982-Slightly changed.]

Income Tax-306

Solution:

A, B & C Firm
Assessment year : 2005-2006
Income year : 2004-2005

Particulars	Tk.	Tk.
1. Computation of Business Income of the Firm		
Net Profit as per Profit and Loss A/C.		1,70,000
Add : Inadmissible Expenses :		
a) Salaries to the Partners (500 x 12 x 3)	18,000	
b) Rent and Taxes (Income Tax)	2,000	
c) Interest on Capital (Tk. 1,000 x 3)	3,000	
d) Interest on B' Loan	500	
e) Conveyance Allowance (To C for visiting abroad – as capital expenditure)	10,000	
f) Legal Expenses (Fines for false declaration)	1,000	34,500
		2,04,500

g) Business Income from sale of Car :	Tk.
Sales value	18,000
Less : Written down value	
(Approved by ITA)	12,000
Business Income =	6,000

This is purely business income and there is no capital gain. But in P/L A/C the profit was shown as Tk. 10,000. So $Tk. 10,000 - 6,000 = Tk. 4,000$ profit was shown in excess.

∴ Business Income of the Firm Would be :
 Tk. 2,04,500 – 4,000 = Tk. 2,00,500

Computation of Tax Liability of the Firm :	Tk.
On 1st Tk. 1,00,000 =	Nil
On Next Tk. 2,00,000 @ 10%	
(Here, the rest amount Tk. 1,05,500)	10,550
∴ Total Tax Liability =	10,550

Assessment of Partnership-307

2. Computation of Total Income of the Individual Partner :

Particulars	Total (Tk.)	A (Tk.)	B (Tk.)	C (Tk.)
Salaries	18,000	6,000	6,000	6,000
Interest on Capital	3,000	1,000	1,000	1,000
Interest on Loan	500	—	500	—
Rest of the Divisible Profit (Tk. 200500–21500)	1,79,000	59,667	59,667	59,666
Share of Business Income	2,00,500	66,667	67,167	66,666
Add : Personal Income				
Property Income 3,000				
— Repairs, etc $\frac{1}{4}$ <u>750</u>		2,250	—	—
Private Income		60,000	58,000	45,000
∴ Total Income		1,28,917	1,25,167	1,11,666

3. Computation of Tax Liability of The Partners :

a) Tax Liability of A = Tk. (1,28,917–1,00,000) × 10% = Tk. 2,892

b) Tax Liability of B = Tk. (1,25,167–1,00,000) × 10% = Tk. 2,517

c) Tax Liability of C = Tk. (1,11,666–1,00,000) × 10% = Tk. 1,167

Net Tax Liability = Total Tax – Tax Rebate at average Rate

∴ Net Tax Liability of A = Tk. 2,892 – 1,495 = Tk. 1,397

B = Tk. 2,517 – 1,351 = Tk. 1,167

C = Tk. 1,167 – 696 = Tk. 471

N.B. : Tax Rebate at Average Rate = $\frac{\text{Tax Liability} \times \text{Relevant Income (Here Income from Firm)}}{\text{Total Income}}$

Notes :

- (1) Municipal Tax paid by the firm has been considered as business expense and hence it is admissible.
- (2) Advance payment to the staff Tk. 1,000 (Which is irrecoverable) is a business loss and so it is admissible.
- (3) Embezzlement of cash Tk. 2,000 due to misappropriation of accounts by the cashier cum-accountant has been considered as business loss with in the office hours. So it is treated as admissible loss.
- (4) Repairs, etc. $\frac{1}{4}$ th of the House Rent received by A has been deducted as per Finance Act-2002.
- (5) All the partners shall have to pay Tax 1,500 each which is minimum tax payable.

Income Tax-308

Illustration-7:

Ruma, Rekha & Seema are equal partners of a firm. According to their accounts, after considering the following income and expenditure, the business house is showing a net loss of Tk. 6,000 for the year ended 31st March, 2005.

Expenditures:

Salary : Ruma Tk. 22,000, Rekha Tk. 25,000 and Seema Tk. 28,000.

Interest on Capital : Ruma Tk. 6,000, Rekha Tk. 3,000 and Seema Tk. 4,000.

Commission Tk. 7,000, Loss on Sale of Investment Tk. 26,000. Compensation for avoiding competition Tk. 13,000.

Income :	Tk.
Interest on Drawing (Seema)	800
Interest on less tax commercial security	16,428

Private Income of the partners :

Ruma : Income from Property Tk. 72,000

Rekha : Income from Sale of Timber Tk. 35,000 & Interest on Bank Deposit Tk. 3,000

Seema : Income from Business Tk. 26,000.

Compute the Tax Liability of the firm and the partners.

[C. U. B. Com. (Hons)-1976, Slightly changed.]

Solution :

Income year : 2004-2005
Assessment year : 2005-2006

I. Determination of Tax Liability of the Firm :

Particulars	Taka	Taka
Net Loss of the Firm		(6,000)
Add : Inadmissible Expenses :		
a) Salary to the Partners (Tk. 22,000 + 25,000 + 28,000)	75,000	
b) Interest on Capital (Tk. 6,000 + 3,000 + 4,000)	13,000	
c) Loss on Sale of Investment	26,000	
d) Compensation for avoiding Competition	13,000	1,27,000
Income		1,21,000
Less : Non-business Income :		
Interest on Drawing	800	
Interest on Less-tax Commercial Security	16,428	17,228
Business Income		1,03,772
Computation of Total Income of The Firm :		
a) Business Income		1,03,772
b) Interest on Drawing		800

Assessment of Partnership-309

e) Interest on Less tax Commercial Security :- Net Tk. 16,428		21,904
Gross Tk. $\frac{16,428 \times 10}{7.5}$		
Total Income		1,26,476
Tax Liability: (On Taxable Income)		2,648
Tk. $(1,26,476 - 1,00,000) \times 10\% = \text{Tk. } 26,476 \times 10\%$		2,648
∴ Total Tax Liability		2,648

2. Determination of Tax Liabilities of the Partners :

a) Allocation of Income Among the Partners

Particulars	Total Tk.	Ruma Tk.	Rekha Tk.	Seema Tk.
Salaries	75,000	22,000	25,000	28,000
Interest on Capital	13,000	6,000	3,000	4,000
Interest on Drawing	(800)	—	—	(800)
Rest of the Business Income [Tk. 1,03,772 - (88,000 - 800)]	16,572	5,524	5,524	5,524
a) Business Income	1,03,772	33,524	33,524	36,724
b) Interest on Security	21,904	7,301	7,301	7,302
Income from the Firm	1,25,676	40,825	40,825	44,026

b) Computation of Total Income of The Partners :

Particulars	Ruma Tk.	Rekha Tk.	Seema Tk.
a) Income from the Firm (Less Tax)	40,825	40,825	44,026
b) Personal Income :			
Income from Property (Net)	72,000	—	—
Sale of Timber	—	35,000	—
Interest on Bank Deposit	—	3,000	—
Business Income	—	—	24,000
∴ Total Taxable Income	1,12,825	78,825	68,026

C) Computation of Tax Liability :

i) Ruma : Tk. $(1,12,825 - 1,00,000) \times 10\% = \text{Tk. } 12,825 \times 10\% = \text{Tk. } 1,283$

ii) Rekha & Seema : They do not require to pay tax because their total income is less than that of minimum taxable income limit of Tk. 1,00,000.

(iii) Ruma will get rebate on firm's income at average tax rate. But as minimum tax payable is Tk. 1,500, they will pay Tk. 1,500 as Tax.

Income Tax-310

Notes :

1. Loss on Sale of Investment and Compensation for avoiding the Competition are inadmissible.
2. Income from Sale of Timber is assumed to be net figure and considered under Agricultural Income.
3. Income from Property is assumed to be net figure and hence Repairs, etc. $\frac{1}{4}$ th has not been deducted.
4. Income from Interest on Less tax Commercial Security has been grossed up assuming that a 25% tax has been deducted thereon at source.
5. Partners will get rebate at average rate on their partnership income from tax so computed.

Illustration-8:

X and Y are equal partners in a partnership firm whose Profit and Loss Account is given below :

Profit and Loss Account for the year ended 30th June, 2005

Dr.	Tk	Cr.	Tk.
Salaries and Allowances	18,000	Gross Profit	1,58,500
Sundry expenses	6,400	Interest on Bank Deposit	2,500
Rent and Rates	12,000	Profit on Sale of Investment	6,000
Depreciation Reserve	2,000		
Bad Debt	1,900		
Reserve for doubtful debt	2,100		
Sales Tax	1,200		
Advertising	1,400		
Subscription and Charity	1,300		
Interest on Capital :			
X	1,600		
Y	1,600		
Commission to X	3,000		
Loss on sale of car	4,000		
Net Profit (1,10,500)			
X	55,250		
Y	55,250		
	1,67,000		1,67,000

Assessment of Partnership-311

Notes :

- a) Sundry expenses include Tk. 200 being legal charge for a new Partnership Deed.
- b) Advertising cost represents Tk. 700 being cost of permanent signboard and Tk. 500 being cost of insertion on news paper.
- c) Subscription and Charity include :
 - i) Tk. 200 Subscription to a Trade Association.
 - ii) Tk. 800 donation to an Educational Institution.
 - iii) Tk. 200 to Zakat Fund.
- d) The Motor Car is used entirely for private purpose of the partners.
- e) The amount of depreciation is Tk. 2,000.
- f) Partners have the following other income :

Particulars of Income	X : Taka	Y : Taka
Interest from Govt. less tax securities	—	5,000
Dividend form Company	4,000	—
Rent from property	—	9,000
Agricultural income	67,600	—
Income from private business	—	16,000
Winning from lottery	6,000	—

- g) Mr. X purchased shares worth Tk. 5,000 during the year.
Compute tax to be paid by the firm and taxable income of partners.

(ICMA-July Exam. 1984)

Solution:

(This Problem has been solved according to Finance Act-2004 as assessment year is 2004-2005)

(A) Computation of Income from Business :

Assessment year : 2005-2006

Income year : 2004-2005

Particulars	Tk.	Tk.
Net profit as per P and L A/C.		2,10,500
Add : Inadmissible Expenses :		
Dep. Reserve	2,000	
Reserve for Bad Debts	2,100	
Int. on Capital (X-1,600, Y-1,600)	3,200	
Commission to X	5,000	
Preliminary exps. (Partnership Deed)	200	
Cost of permanent signboard	700	
Loss on sale of car	4,000	
Donation to Educational Institution	800	

Income Tax-312

Zakat Fund	200	16,200
Less: Allowable expenses:		1,26,700
Depreciation		2,000
		1,24,700
Less: Non Business Income:		
Int. on Bank Deposit	2,500	
Sale of Investment	6,000	8,500
Total Income from Business:		1,16,200
Add: Non-Business Income:		
Int. on Bank Deposit	2,500	
Sale of Investment	6,000	8,500
∴ Total Income of the firm:		1,24,700
Tax Liability:		
on First Tk. 1,00,000	Nil	
" Next Tk. 24,700 @ 10%	2,470	2,470

(B) Distribution of Income among Partners :

Particulars	Total Taka	X Taka	Y Taka
Income from Business:			
(a) Interest on Capital	3,200	1,600	1,600
(b) Commission to X	3,000	3,000	—
(c) Rest of the income distributed	1,18,500	59,250	59,250
	1,24,700	63,850	60,850

(C) Computation of Total Taxable Income of Partners :

Particulars	Total	X	Y
1. Income from Securities	5,000		
Less exempted up to	5,000	—	
2. Income from House Property	9,000		
Less: repair ($\frac{1}{4}$ of A. V.)	2,250		6,750
3. Income from Agriculture (assumed net)		67,600	
4. (a) Income from business			16,000
(b) Income from firm		63,850	60,850
5. Income from Other Sources:			
(a) Dividend income		4,000	
(b) Winning from lottery		6,000	
Total Income subject to tax		1,41,450	83,600
Tax credit investment (Purchase of shares)		5,000	

Note: Y will not pay tax as his income does not exceed minimum taxable limit of Tk. 1,00,000.

20.7: Change in the Constitution of Firm

The constitution of a Partnership Firm will be changed in the following circumstances:

- a) Death of a Partner;
- b) Retirement of a Partner;
- c) Admission of a Partner;
- d) Departure of all old Partners;
- e) Formation of a New Firm with all New Partners.

According to Income Tax Ordinance 1984, if there is any change in the constitution of a Firm due to any of the above reasons, the new firm with the changed Constitution would be imposed tax i. e. the firm with the changed constitution would pay tax. In the Judgement of a case in the Dhaka High Court (C. I. T. Vs. Messers East Bengal Agencies), it has been stated that in any previous year (i. e. accounting year) if there is any change in the constitution of a firm then both the firms would be taxed separately i. e. the existing firm with the old constitution and the new firm with the changed constitution would be imposed tax separately. Because the firm before the change of constitution and the firm after the change of constitution are not the same firm. However, the profit of the firm, undoubtedly, would be allocated among the partners who were in the partnership during the previous year. The partners are to pay tax on the actual share of profit received from the firm during the previous year.

It is noted here that at present there is no difference between registered firm and unregistered firm. As a result, there would be no differentiation of the amount of tax payable due to change of the constitution. In both cases, same rates of taxes would be applicable like individual assessee. The profit of the firm is to be allocated according to profit sharing ratio among the partners to determine the total income of the existing or disassociated partners. The partners will have to pay tax on their share of profit of the firm if the total income of the firm does not exceed the minimum taxable income limit of Tk. 75,000. If old or disassociated partners fail to pay tax, then that amount of tax would be collected from the firm.

On the contrary, according to the aforesaid rules, if there is any change in the constitution of a firm then the total income of the firm during the previous year is to be determined and such total income is to be allocated among the all partners as per their profit sharing ratio. Each partner is to pay tax on their individual share of profit and if any partner fails to pay tax, in that case such burden of tax is to be borne by the firm itself.

20.8: Inheritance of Partnership Firm

Inheritance means the transfer of proprietorship. Any successor of the firm possesses the total proprietorship of his/her predecessor. It is stated in the Ordinance that the successor and the partner have to pay tax on their share of profit received from the firm during the income year in the same way. Therefore, the income of the firm for the relevant previous year is to be apportioned between the predecessor and the successor according to their allocation ratio and both of them have to pay tax on the basis of their total income. But exception of this rule is observed in the following cases :

- a) If predecessor is not available, i. e., if it is not possible to find out the predecessor;
- b) If predecessor fails to pay tax, i. e., if it is not possible to collect tax from the predecessor.

In the above circumstances, the successor would be responsible for the payment of taxes.

Questions

1. What is meant by partnership under Income tax law? What steps are followed to determine tax liability of a firm? State them in brief.
2. Explain the provisions of Income Tax regarding the following :
 - a) Granting registration.
 - b) Renewal of registration.
 - c) Cancellation of registration.
 - d) Refusal to registration.
3. Under what circumstances changes in the constitution of a firm occur? State how such change affect a firm and its partners. [C. U. B. Com. (Hons.), 1977, 1988]
4. Explain the basis and steps in determining tax of a firm. State the provisions regarding set off and carry forward of losses in partnership business.
5. a) Discuss the situations of changing in the constitution of a firm.
b) State the provisions for determining tax in case of changing in the constitution of a firm.
c) How may tax be determined if a partnership firm is enclosed? [N. U. B. Com. (Hons.), 1999]

Exercises

Ex.-1:

Chandra, Surya and Tara are the partners of a firm. They share profit and losses equally. The Profit and Loss Account for the year ended 30th June, 2005 of their firm was as follows :

Particulars	Taka	Particulars	Taka
Salaries	1,00,000	Gross Profit	3,00,000
Rent and Taxes	15,000	Income from Security	10,000
Legal Expenses	3,000	Profit from Speculation	30,000
Bad debt	5,000	business	
Commission	12,000		
Sundry Expenses	2,000		
Net Profit	1,63,000		
	3,40,000		3,40,000

The investigation disclosed the following information :

- a) Salaries included the payment of salaries @ Tk. 2000 p. m. to each partner.
- b) House Rent paid to Chandra Tk. 3000 as the owner of the house used for business purpose and income tax paid for the previous year Tk. 4000 were included in Rent and Taxes.
- c) Fines for providing wrong information to the Custom Authority Tk. 2000 was included in Legal Expenses.
- d) Bad debt included an advance payment of Tk. 2000 to the employees which was irrecoverable.

Determine the Total Income of the Firm and Taxable Income of the Partners .

[C. U. B. Com. (Hons), 1978-Modified]

Ex.-2:

Rashid, Mamun and Khalid are equal partners of a firm. In the year 2004 (January to December) their firm incurred a net loss of Tk. 33,000. The private income of the partners during that year were as follows :

Rashid : Business Income Tk. 47,000 & Dividend Received Tk. 12,000

Mamun : Business Income Tk. 1,05,000 and Prize of Lottery Tk. 5,000

Khalid : Income from House Property Tk. 96000 and Salary Income Tk. 48000

How much tax would each partner pay?

[C. U. B. Com. (Hons.), 1974-Slightly changed.]

Income Tax-316

Ex.-3:

A, B & C share profit & losses in the ratio of 2 : 2 : 1 of a firm. You are given the following Profit & Loss Account of the firm for the year ended 31st Dec., 2004 :

Profit and Loss Account

Dr.	Taka	Cr.	Taka
Particulars		Particulars	
Interest on Capital :		Gross Profit	2,40,000
A 16,000		Income from House	8,500
B <u>12,000</u>	28,000	Property	
Rent and Taxes	22,100	Interest received from Tax-	3,500
General Expenses	12,000	free Govt. Security	
Loss on Sale of Machine	1,800	Dividend Income	18,000
Interest on A's Loan	3,500		
Salary to C	13,600		
Rent paid to C	14,800		
Commission paid to B	14,000		
Charity	3,000		
Net Profit	1,57,200		
	2,70,000		2,70,000

Private Income of the Partners were :

A : Income from Salary	Tk. 40,000
B : Income from Property	Tk. 38,000 (Net)
C : Income from Business	Tk. 20,000

Determine the Tax Liabilities of the Firm and the Partners assuming that the firm is unregistered.

[R. U. B Com. (Hons.), 1979-Slightly changed.]

Ex.-4:

Alpha, Beta and Gama started a Partnership Firm with capital of Tk. 10,0000, Tk. 60000 and Tk. 40000 respectively. They decided to share profit and losses at 50%, 30% and 20% respectively. All the partners would get 10% interest on Capital. Beta would get a monthly Salary of Tk. 3,500 and Gama would get a monthly House Rent of Tk. 4,000. They were agreed verbally about the above matters. At the end of the year 30th June, 2004 after charging interest on capital, House rent, Salary and the following expenses their Partnership Firm earned a net profit of Tk. 2,00,000 :

- a) Installation charges of AC Machine Tk. 4,000;
- b) Medical charges of a partner Tk. 10,000 while visiting at abroad for business purpose;
- c) Fines for over invoicing and breaking the Custom Rules Tk. 8,000.

Determine the Total Income of The Firm and show the allocation of Income of the Firm among the Partners.

[C. A. (Inter), 1973, Slightly changed]

Assessment of Partnership-317

Ex.-5:

A, B and C are partners of a firm. They share profit and loss equally. From the following statement of account determine total income of the firm and partners justifying the exclusions and additions :

Dr.

Cr

Particulars	Tk.	Particulars	Tk.
Opening Stock on July 1, 2004	90,000	Sales	2,80,000
Purchases	1,10,000	Closing Stock on June 30, 2005	60,000
Gross profit carried down	1,40,000		
	3,40,000		3,40,000
Publicity expenses	6,000	Gross profit brought down	1,40,000
Salaries : Tk.			
(a) Establishment	12,000		
(b) Partners A	3,000		
B	2,000		
C	3,000		
	20,000		
Rent paid to the mother of B	3,000		
Reserve for taxes	5,000		
Speculation loss	7,000		
Charity	2,000		
Contribution to Chambers of Commerce	3,000		
Miscellaneous expenses	1,000		
Net Profit A : Tk.	31,000		
B : Tk.	31,000		
C : Tk.	31,000		
	93,000		
	1,40,000		1,40,000

Partner's other incomes are :

- A- Gross rent of bungalow let out Tk. 86,000 and Bank interest Tk. 15,000.
- B- Interest on Savings Bank Account Tk. 12,500 kept in a scheduled bank and agricultural income Tk. 60,000.
- C- Income from speculation Tk. 45,000 and rent from let-out property Tk. 8,000 per month.

Income Tax-318

Ex.-6:

Kabir, Sagar and Tagar were the partners of a Firm sharing profit and losses in the ratio of 2 : 2 : 1. They gave admission to Rubel as a new partner as on 1st March, 2004 and Sagar retired from the firm on the same day. Subsequently, they agreed to share profit and losses equally. The Profit and Loss A/c for the year ended 30th June, 2005 was as follows:

Particulars	Tk.	Particulars	Tk.
Salaries	32,000	Gross Profit	2,80,000
House Rent	18,000	Interest on Govt. Security	6,000
Sundry Expenses	14,000		
Bad debt	5,000		
Legal Expenses	12,000		
Depreciation	3,000		
Net Profit	2,02,000		
	2,86,000		2,86,000

Investigation disclosed the following :

- a) Salaries included a Salary of Tk. 1,000 p. m. paid to Sagar.
- b) Legal Expenses included preparation expenses of constitution of the firm Tk. 4,000.
- c) Bad debt included an embezzlement of cash Tk. 4,000 by a stranger.
- d) Interest on security was received half yearly i. e., 30th June and 31st Dec., of each year.

-) Private Income :
- Sagar Tk. 25,000
- Tagar Tk. 18,300

Determine the tax liabilities of the firm and the partners.

Ex.-7:

Alo and Shikha are equal partners of a firm. The Profit and Loss A/C for the year ended 30th June, 2005 was as follows :

Particulars	Tk.	Particulars	Tk.
General Expenses	24,000	Gross Profit	2,80,000
Life Assurance Premium :		Sale of Car	25,000
Alo 2,500		(Purchase Price Tk. 25000)	
Shikha <u>2,000</u>	4,500	Profit on Sale of Machineries	10,000
Rent and Taxes	22,500	Income from House	4,000
Conveyance Expenses	13,000	Property (Net)	
House Rent : Alo	22,000	Bank Interest	11,000

Assessment of Partnership-319

Legal Exps. for Income tax Return	2,700		
Municipal Tax	800		
Salaries : Alo	13,500		
Depreciation Provision	2,000		
Charity to Recognised Concern	2,500		
Net Profit	2,22,500		
	3,30,000		3,30,000

Notes :

- 1) Rent and Taxes included House Rent of Tk. 4,000 paid for residential purpose for the Son-in law of Alo.
 - 2) General Expenses included Tk. 2,000 as subscription paid to the Chamber of Commerce.
 - 3) Private Income of the Partners :

Alo : Dividend	Tk. 34,000
Interest on Tax-free Govt. Security	Tk. 3,000
Shikha : Interest on Post Office Savings A/C	Tk. 2,500
Income from House Property (Gross)	Tk. 2,400
Interest on deposit in Co-operative Bank	Tk. 6,000
- Determine the Tax Liabilities of the Firm and the Partners.

Ex.-8:

A, B & C are equal partners of a Firm. Their Profit & Loss A/c for the year ended 30th June, 2005 was as follows :

Dr. Cr.

Particulars	Tk.	Particulars	Tk.
To Salaries	50,000	By Gross Profit	3,00,000
" Rent and Taxes	19,000	" Profit on Sale of Car	20,000
" Interest	16,000		
" Conveyence Expenses	12,000		
" Legal Expenses	3,000		
" Bad Debt	5,000		
" Municipal Tax	2,000		
" Trade Expenses	3,000		
" Net Profit	2,00,000		
	3,20,000		3,20,000

Income Tax-320

Other Information :

- 1) Salaries included monthly salary of each partner Tk. 500.
- 2) Rent and Taxes included Tk. 2,000 paid to A for House Rent.
- 3) Interest included interest on Capital to each partner Tk. 2,000 and interest on loan from C Tk. 2,500.
- 4) Conveyance expenses included Tk. 10,000 paid to B for opening a branch in foreign country.
- 5) Legal expenses included a fine of Tk. 2,000 paid to the Custom Authority for false declaration.
- 6) Bad debt included Tk. 3,000 paid to the employees in advance and Tk. 1,000 embezzled by cashier-cum Accountant.
- 7) Information Relating to Sale of Car :

	Tk.
Original Cost	20,000
Depreciation As per Accounts	12,000
Depreciation approved by the Incometax Authority	8,000
Sales Value	18,000
- 8) Private Income of the Partners were :

	Tk.
A : Interest on Commercial Security	9,000
Income from House Property	60,000
B : Agriculture Income	48,000
Income from other Sources	20,000
C : Professional Income	75,000
Dividend Income	12,000

Determine the Total Income and Tax Liabilities of the Firm and the Partners.

[D. U. B. Com. (Hons.), 1982--Modified]

Ex.-9:

A, B & C are equal partners of a Firm. The Profit & Loss A/C for the year ended 30th June, 2005 was as follows :

			Cr.
Particulars	Tk.	Particulars	Tk.
General Expenses	34,000	Gross Profit	3,70,000
Salaries : A	28,000	Income form Property	40,000
Commission : B	15,000	Int. on Tax-free Govt. Security	12,000
Interest on Loan : C	6,000	Int. on Taxable Govt. Security	7,000
Interest on Capital :		Dividend from the shares of Public Ltd. Co.	20,000

Assessment of Partnership-321

A	3000		Interest on Debenture	15,000
B	3000		Profit on Sales of	10,000
C	<u>2000</u>	8,000	Investment	
Bad Debt		5,000	Bank Interest	4,500
Charity		4,000	Interest on Drawings :	
Advertisement		13,000	A	500
Income Tax Provision		4,000	B	500
			C	<u>400</u>
Life Assurance Premium :		5,000	Sundry Income	100
A	2,000			
B	2,000			
C	<u>1,000</u>			
Fines (Breaking of Custom Rules)		5,000		
Travelling Expenses		12,000		
Loss on Sale of Machine		4,000		
Sundry Expenses		3,000		
Net Profit		3,34,000		
		4,80,000		4,80,000

Other Information :

1. Advertisement included the cost of making a permanent sign board Tk. 4,000.
2. General Expenses included the formation expenses of Partnership Deed Tk. 2,500 and Salaries to the Staff Tk. 12,000.
3. Travelling Expenses included Tk. 8,000 incurred for opening a new branch.
4. Bad Debt included Tk. 3,000 embezzled by the cashier.
5. Personal Income of the Partners were :
 - A : Professional Income Tk. 3,000, House Property Income Tk. 25,000, Dividend Income Tk. 25,000.
 - B : Salary Income Tk. 6,000, Agricultural Income Tk. 40,000, Interest on Bank Deposit Tk. 5,000
 - C : Income from Business Tk. 3,000, Other Sources Tk. 10,000, Less-Tax Commercial Security, Interest Tk. 5,000 and Interest on Post Office Savings A/C Tk. 10,000.

Determine the Total Income and Tax Liabilities of the Firm and the Partners.

Income Tax-322

Ex.-10:

A, B & C are equal partners of a Firm. Their Profit and Loss A/C for the year ended 30th June, 2005 was as follows :

Dr.

Cr.

Particulars	Taka	Particulars	Taka
To Salaries	40,000	By Gross Profit	4,40,000
" Rent & Taxes	30,000	" Income form Security	20,000
" Legal Expenses	10,000	" Profit from speculation	60,000
" Bad Debt	10,000	business	
" Commission	24,000	" Sundry Income	8,000
" Sundry Expenses	8,000		
" Net Profit	4,06,000		
	5,28,000		5,28,000

Investigation disclosed the following information :

- a) Salaries included monthly salary of each partner Tk. 2,000.
- b) Rent and Taxes included Tk. 6,000 paid to A as House Rent and Tk. 8,000 paid for Income tax of previous year.
- c) Legal Expenses included a fine by the Custom Authority Tk. 4,000 for false declaration.
- d) Bad debt included an irrecoverable advance payment to the employees Tk. 2,000.
- e) Net Wealth of A, B & C as on 30th June, 2002 were Tk. 10 lakh, Tk. 15 lakh and Tk. 18 lakh respectively.

Determine the Tax Liabilities of the Partners.

[C. U. B. Com. (Hons.), 1999]