



THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH
CMA DECEMBER, 2016 EXAMINATION
PROFESSIONAL LEVEL-II SUBJECT: 204. TAXATION.

Time: Three hours

Full Marks: 100

- ❖ All questions are to be attempted.
- ❖ Show computations, where necessary.
- ❖ Answer must be brief, relevant, neat and clean.
- ❖ Start answering each question from a fresh sheet.

Q No. 1.

Mr. Abedin's salary during the financial year 2015-16 is as follows:

Particular	Amount in Taka
Basic salary	15,00,000/-
Bonus	300,000/-
House rent	750,000/-
Medical allowance	150,000/-
Conveyance allowance	100,000/-

Mr. Abedin is also the owner of a 3 storied residential building in Dhaka. During the financial year 2015-16 he received total rent Tk. 10,80,000/-, and paid city corporation tax Tk.50,000/-, land tax TK.500/-.

During the year 2015-16 Mr. Abedin received FDR interest Tk.200,000/-, Tk.250,000/- as interest from savings certificate and Tk.150,000/- as dividend from a listed company.

Mr. Abedin purchased savings certificate of Tk.500,000/- during the year 2015-16.

Tax of Tk.180,000/- has been deducted from Mr. Abedin's salary during 2015-16 and other deduction of tax at sources has been made properly.

Mr. Abedin's net asset as on 30/06/2015 is Tk.2,53,78,960/-. As per life style form Mr. Abedin's family expenditure other than taxes is Tk.11,46,537/-. He paid advance tax Tk.350,000/- u/s 64 for the assessment year 2016-17 and Tk.30,000/- to pay off the tax liability of the assessment year 2015-16 vide chalans u/s 74 during 2015-16.

For the assessment year 2016-17 compute the following with regard to Mr. Abedin:

- (1) Salary income;
- (2) House property income;
- (3) Income from other sources;
- (4) Income u/s 82C;
- (5) Total Income and tax payable;
- (6) Investment allowance and investment tax credit;
- (7) Amount of AIT paid on account of tax deducted at sources;
- (8) Net tax payable including surcharge, if any.
- (9) Keeping in view the provision of section 19(3) of Income Tax Ordinance 1984, compute the maximum amount of net asset that Mr. Abedin may have as on 30/06/2016.

[Marks: (9 x 3) = 27]

Solution to the Q. No. 1

Salary Income

Pay and Allowance	Amount (taka)	Exempted portion	Taxable salary
Basic salary	15,00,000	0	15,00,000
Bonus	300,000	0	300,000
House Rent Allowance	750,000	300,000	450,000
Medical Allowance	150,000	120,000	30,000
Conveyance Allowance	100,000	30,000	70,000
Taxable Income from Salary	28,00,000	450,000	23,50,000

House Property Income

▶ Annual Value	10,80,000
Less: Repair & Maintenance (1/4 th of annual value)	270,000/-
City corporation tax	50,000/-
Land tax	500/-
	<u>320,500</u>
House property income	759,500

Income from Other Sources

▶ FDR interest	200,000/-
▶ Interest on savings certificate	250,000/-
▶ Cash dividend	150,000/-
Less: exempted	(-)25,000/-
	<u>125,000/-</u>
Income from other sources	575,000/-

Income from interest on securities u/s 82C

▶ Interest on savings certificate	250,000/-
Tax deducted @ 5%	12,500/-

Total Income of Mr. Abedin

Source of Income	Amount (Tk.)
Salary Income	23,50,000
Income from interest on securities u/s 82C	250,000
House Property Income	759,500
Income from Other Sources	575,000
Total Income	3684,500

Tax Calculation

Income	Tax Rate	Amount of Tax
On the first tk. 2,50,000	0%	0
Next tk. 4,00,000	10%	40,000
Next tk. 5,00,000	15%	75,000
Next tk. 600,000	20%	120,000
Next tk. 1684,500	25%	421,125
interest on securities u/s 82C tk. 250,000	5%	12,500
Tax chargeable on total Income		668,625

Calculation of Investment Tax Credit:

Investment	Amount (Tk.)
Purchase of savings certificate	500,000
Total Investment	500,000
Investment Allowed for tax Rebate (Actual Investment Tk. 500,000 or 25% of TK. 34,34,500 i.e., 858,625 whichever is lower.) Maximum limit is Tk. 1,50,00,000	500,000
Tax Rebate (15% of the first 250,000)	37,500
Tax Rebate (12% of the rest 250,000)	30,000
Total tax rebate	67,500

Tax Calculation

▶ Tax chargeable on Total Income:	668,625	
▶ Less: Investment tax rebate	<u>67,500</u>	
▶ Tax payable		601,125
▶ Tax credit (TDS & AIT)		
▶ Advance Income Tax	350,000	
▶ TDS on salaries	180,000	
▶ TDS on FDR interest	20,000	
▶ TDS on dividend	15,000	
▶ TDS Interest S/C	<u>12,500</u>	<u>577,500</u>
Net tax payable		23,625

Reconciliation of Wealth Statement

Particular	Amount (Tk.)
Net assets as on 30/06/2016-----	2,77,84,423
Net assets as on 30/06/2015-----	2,53,78,960
Apparent Wealth Accretion-----	24,05,463
Tax deducted at source-----	227,500
Tax paid during the previous year-----	30,000
Advance tax paid	350,000
Family expenditure-----	11,46,537
Real wealth Accretion	41,59,500

Source of Fund

Source of fund	Amount (Tk.)
Taxable income	36,84,500
Non-taxable income	
House Rent allowance	300,000
Medical allowance	120,000
Conveyance allowance	30,000
Cash Dividend	25,000
Total	475,000
Total sources of fund	41,59,500

Reconciliation of Wealth Statement

Total Accretion + Family Expenses + Tax Payment	41,59,500
Total Sources of Fund	41,59,500
Deemed income u/s 33(d)/19(3) as income from other sources	-0-

Wealth Surcharge

▶ Tax Payable	TK. 601,125
Net assets as on 30/06/2016	TK. 2,77,84,423
Surcharge payable:(601,125 @ 10%)	TK 60,113

Q. No. 2.

- (a) (i) The contract value of a construction work is Tk. 3 crore. The contractor partly completed the work and submitted bill of Tk. 1 crore on 21/12/2016. It is decided to pay Tk. 90,00,000/- out of the amount of bill submitted. How much income tax has to be deducted at source while paying the bill? What is the base amount? What is the rate of deduction of tax?
- (ii) Mr. Fazle Rabbi lives in Dhaka North City Corporation area. In the assessment year 2016-17 his total income is Tk. 250,100/- and as on 30/06/2016 his net wealth is Tk. 2,25,10,000/-, a part of which is transferred from his father's file. Does Mr. Fazle Rabbi have to pay any income tax and surcharge for the assessment year 2016-17? If yes, how much?
- (b) Citing the relevant legal provisions explain the actions to be taken in the following circumstances:
- (i) For the assessment year 2015-16 the total income as per assessment order (IT 88) is Tk. 850,000/-. However, there was an error in summing up the incomes from different heads. The total income will be Tk. 950,000/- if the summation is done correctly.
- (ii) After the completion of the assessment for the income year 2013-14 it is found that the assessee has another bank account that he has not disclosed. The assessee earned interest income in this bank account during the income year 2013-14 and the balance of this bank account was not included in the assets shown in the statement of assets, liabilities and expenses (IT 10B)
- (iii) After the completion of the assessment for the income year 2014-15 it is revealed that the royalty expense claimed Tk. 20,00,000/- while the disclosed net profit is Tk. 1 crore and the DCT wrongly allowed the claimed royalty expense.

[Marks: (10+15) = 25]

Solution to the Q. No. 2

(a)

- | | | |
|--------------------------|---|-------------|
| (i) Base amount | = | 3 crore |
| Rate of deduction of tax | = | 5% |
| Payment amount | = | 90,00,000/- |
| TDS = 90,00,000/- * 5% | = | 450,000/- |
| (ii) Minimum income tax | = | 5000/- |
| Minimum surcharge | = | 3000/- |

(b)

- a) Correction of error u/s 173 has to be made as the error is apparent from record.
- b) Assessment has to be re-opened u/s 93 as concealment has been detected. Interest earned has to be included in total income and bank balance has also to be added as per provision of section 19(5) with total income
- c) Section 120 will be applicable in this case. As per section 30 (h) excess royalty claimed TK 12,00,000/- has to be disallowed. [20,00,000 – (100,00,000 * 8%)] = 12,00,000/-

Q. No. 3.

- (a) Differentiate between Tax Depreciation and Accounting Depreciation. What types of benefits, using Reducing Balancing method of depreciation in calculating tax?
- (b) For the year ended on June 30, 2016 ABC Limited – a public limited non-listed company reports net profit of Tk.80,00,000/- with a turnover of Tk.5,50,00,000/-. Following observations are made after an in-depth analysis of the books of accounts of ABC Limited:
- (1) Accounting depreciation charged to the accounts is Tk.750,000/- but tax depreciation amounts to Tk.600,000/-.
 - (2) Entertainment expense claimed Tk.150,000/-.
 - (3) Tk.500,000/- claimed as sample expense in the profit and loss account. However, cost of goods sold includes the samples and gross profit was computed deducting sample included cost of goods sold from turnover.
 - (4) Claimed expenses Tk.350,000/- on account of salary paid in cash to an employee whose monthly salary is Tk.25,000/-.
 - (5) Incentive bonus of Tk.12,00,000/- charged to the account.
 - (6) Perquisite of Tk. 500,000/- and Tk. 455,000/- was paid to Managing Director and General Manager respectively.
 - (7) Tax at source was not deducted on Tk. 120,000/- paid as meeting fees but charged to the accounts as expenses.
 - (8) Claimed office expense Tk. 45,000/-. However, such expense was paid other than by a crossed cheque or bank transfer.

Referring relevant sections and rules of Income Tax Ordinance and Rules, 1984 compute total income and tax liability of ABC Limited for the concerned assessment year.

[Marks: (5+20) = 25]

Solution to the Q. No. 3 (b)

Net profit Shown:		TK 80,00,000/-
Add: Accounting depreciation (for separate consideration)	TK 750,000/-	
Entertainment expense (for separate consideration)	<u>150,000/-</u>	
		900,000/-
Add: <u>Expenses not allowed as per law</u>		
Sample expense added back to rectify understated Gross Profit	500,000/-	
Excess sample expense disallowed as per section 30 (f) (iv) and rule 65C (c) $(500,000 - 262,500) = 237,500/-$	237,500/-	
Salary paid in cash disallowed as per section 30 (i)	350,000/-	
Excess incentive bonus disallowed as per section 30 (j) $(12,00,000/- - (80,00,000/- * 10\%)) = 400,000/-$	400,000/-	
Excess perquisite paid to MD disallowed as per section 30 (e) $(500,000 - 475,000) = 25,000/-$	25,000/-	
Meeting fees disallowed for non-TDS as per section 30 (aa)		120,000/-
Office expense paid other than by a crossed cheque or bank transfer. However, the amount is less than 50,000/-.		
Hence no disallowance is made under section 30 (m)		
Total disallowances		<u>16,32,500/-</u>
		1,05,32,500/-

Less: Tax depreciation allowed	<u>600,000/-</u>
	99,32,500/-
Entertainment expense allowed as per rule 65	<u>*150,000/-</u>
Total income	97,82,500/-
Tax liability = $97,82,500 * 35\% = 34,23,875/-$	

- Maximum limit of entertainment expense as per rule 65 is 218,650/-
 $(10,00,000 * 4\%) + (89,32,500 * 2\%) = 218,650/-$. Actual expense is less than maximum limit. Hence actual expense is allowed.

Q. No. 4.

- What is Supplementary Duty?
- What is Excise duty and its scope of imposition?
- What is Travel tax and its jurisdiction?
- Explain the difference between exemption and zero-rating.
- Explain the difference between tax avoidance and tax evasion.
- Is VAT an expenditure? Shortly explain.

[Marks: (3+4+4+4+4+4) = 23]

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