

1.22 What is advance income tax? How advance tax is computed, estimated and paid? (2011)

Advance income tax: Advance tax is the prepaid tax. The tax shall be payable by an assessee during each financial year by way of advance payment of tax, which is referred to as advance tax. The taxpayers are required to pay tax during the year on the basis of their own computation of income. The advance tax is payable on total income of the year from all sources.

How to compute advance income tax: The advance tax is payable if it exceeds Tk 10,000 for the year. In this case of an individual, advance tax needs to be deposited as below:

- 30% of advance tax payable on or before 15th September
- 60% of advance tax payable on or before 15th December
- 100% of advance tax payable on or before 15th March.

1.23 'Taxes are compulsory payment to government without expectation of any direct return in benefit to the tax payer' – Explain. (2012)

- In order to generate revenue, government imposes tax on various areas. Of them, income tax is the tax for which the world is levied on the taxable income of a person or entity as per the provisions of the ITO 1984. It is calculated and computed with reference to the total income of an assessee for a particular period on an annual basis.
- According to the section 16 of the ITO 1984, **'Income tax for any assessment year at any rate or rates shall be charged, levied paid and collected in respect of the total of the income year or years of every person'**
- From the above definition, it is clear that income tax is a direct and single tax on the total income of a person. So we can finally say that income tax is compulsory for every able person in a country, and govt. does not give any direct benefit to the income taxpayers for the income tax. So the statement is fully right.

1.24 Explain the classification of taxes.

(A) Classification of taxes on the basis of number of taxes:

- **Single tax:** When the tax system of a country incorporates only one tax, then it is called single tax. In ancient time, tax was levied on person as poll tax or head tax.
- **Multiple tax:** When the tax system comprises different types of taxes, then it is called multiple tax. At present, all the countries in the world follow multiple tax system.

(B) Classification of taxes on the basis of impact and incidence of taxes:

- **Direct tax:** Direct taxes are those taxes which are paid entirely by those persons on whom they are imposed. The burden cannot be shifted to others in case of direct tax. Such as income tax, land revenue tax, wealth tax etc.
- **Indirect tax:** Indirect taxes are those taxes which are imposed on sales or purchase of any goods or services other than personal services. Here the burden is ultimately shifted to others. Such as VAT, custom duty, excise duty etc.

1.25 Define and explain the impact, incidence and effect of a tax.

- **Tax Impact:** The tax impact is the immediate money burden where tax falls on the person who pays the tax in the first instance. The impact of a tax is on the person on whom the tax is imposed.
- **Tax Incidence:** Tax incidence means the final money burden of a tax to a person. The incidence of tax is on the person who cannot shift it to anybody else. VAT, custom duty are the examples of tax incidence.
- **Effect of a Tax:** When a tax is imposed and collected, it involves certain responses from the taxpayers and the economy. Such responses can be of great variety and can profoundly influence the working of the economy in terms of production, growth, savings, investment, choice of techniques of production, regional imbalances, inequalities of income and wealth, and so on. These responses and their results are collectively called the effect of that tax.

1.26 Income Tax Payment Modes:

Income Slab	Rate
On the first <u>Tk</u> 250000 of total income	Nil
On the next <u>Tk</u> 400000 of total income	10%
On the next <u>Tk</u> 500000 of total income	15%
On the next <u>Tk</u> 600000 of total income	20%
On the next <u>Tk</u> 3000000 of total income	25%
On the balance of Total income	30%

The minimum non-assessable income limit will be Tk 300000 for women, and elderly citizens being more than 65 years of age. For disable persons gazetted wounded freedom fighters the minimum non-assessable income limit will be Tk 375000 and Tk 425000 respectively. However, the minimum tax would be Tk 5000 (Dhaka and Chittagong city corporation area), Tk 4000 (other city corporation area), Tk 3000 (areas other than city corporation). For companies, different tax rates are applicable (e.g. Banks 40% to 42.5%, Public Limited Co. 25%, Private Limited Co. 35% etc.). The tax rates have to be applied on the total income to arrive at the **gross income tax liability**.

(B) Surcharge:

Surcharge is an additional tax payable over and above the income tax. Surcharge is levied as a percentage of income tax. For the assessment year 2015-16 surcharge is applicable as follows:

Net Wealth Amount	Rate of Surcharge
Upto Tk 2.25 crore	Nil
More than Tk 2.25 crore but less than Tk 10 crore	10%
More than Tk 10 crore but less than Tk 20 crore	15%
More than Tk 20 crore but less than Tk 30 crore	20%
More than Tk 30 crore	25%

(C) Computatin of Gross Tax Liability and Surcharge:

By adding gross income tax liability and surcharge an assessee can determine the total amount payable as income tax and surcharge.

(D) Deductin of Tax Credit/Rebate on Tax Free Income and Investment Allowance:

From the total amount payable as income tax and surcharge the assessee will deduct rebates. As per the provisions of the ITO, 1984 tax rebate is allowed:

⇒ @ Average rate on tax free income (e.g. share of profit in a firm/AOP)

⇒ @ 15% on investment allowance. Some example like purchase listed company's share, government securities, savings certificate etc. will be considered as investment allowance.