

Tomorrow begins today

Bangladesh

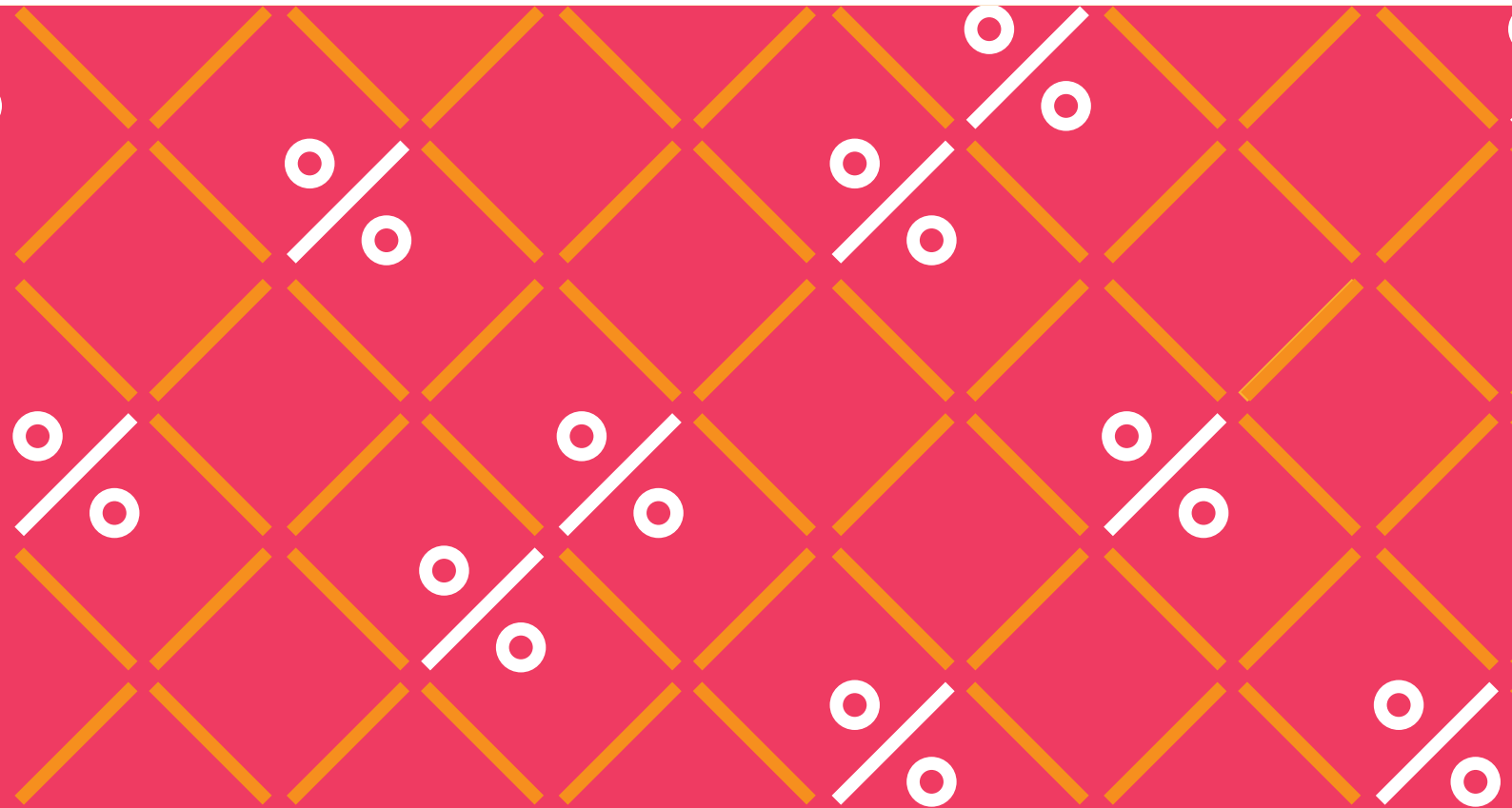
Key Budget Proposals 2021





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Personal Tax

Basic tax rates and surcharge

- Tax-free threshold for third gender taxpayers to be increased from BDT 300,000 to BDT 350,000.
- New surcharge slabs to be introduced and provisions of minimum surcharge to be withdrawn.
- The new surcharge slabs are tabulated below:

Net wealth	Rate
Up to BDT 30m	Nil
(a) Above BDT 30m to 100m; or (b) Ownership of more than one motor car; or (c) Ownership of house property having an aggregate area of more than 8,000 sq. ft. in a city corporation	10% of tax payable
Above BDT 100m to 200m	20% of tax payable
Above BDT 200m to 500m	30% of tax payable
Above BDT 500m	35% of tax payable

Simplification/ Clarification

- Non-resident or resident foreigners may submit statement of assets, liabilities and expenses with respect to wealth located in Bangladesh only.
- For the purpose of tax deduction at source on specified deposits, e-TIN of the parent shall be considered as the e-TIN of the minor.
- Requirement to obtain e-TIN in case of submission of plan for construction of building restricted to cases where approval is to be obtained from specified development authorities or concerned authorities in any city corporation or paurasava.

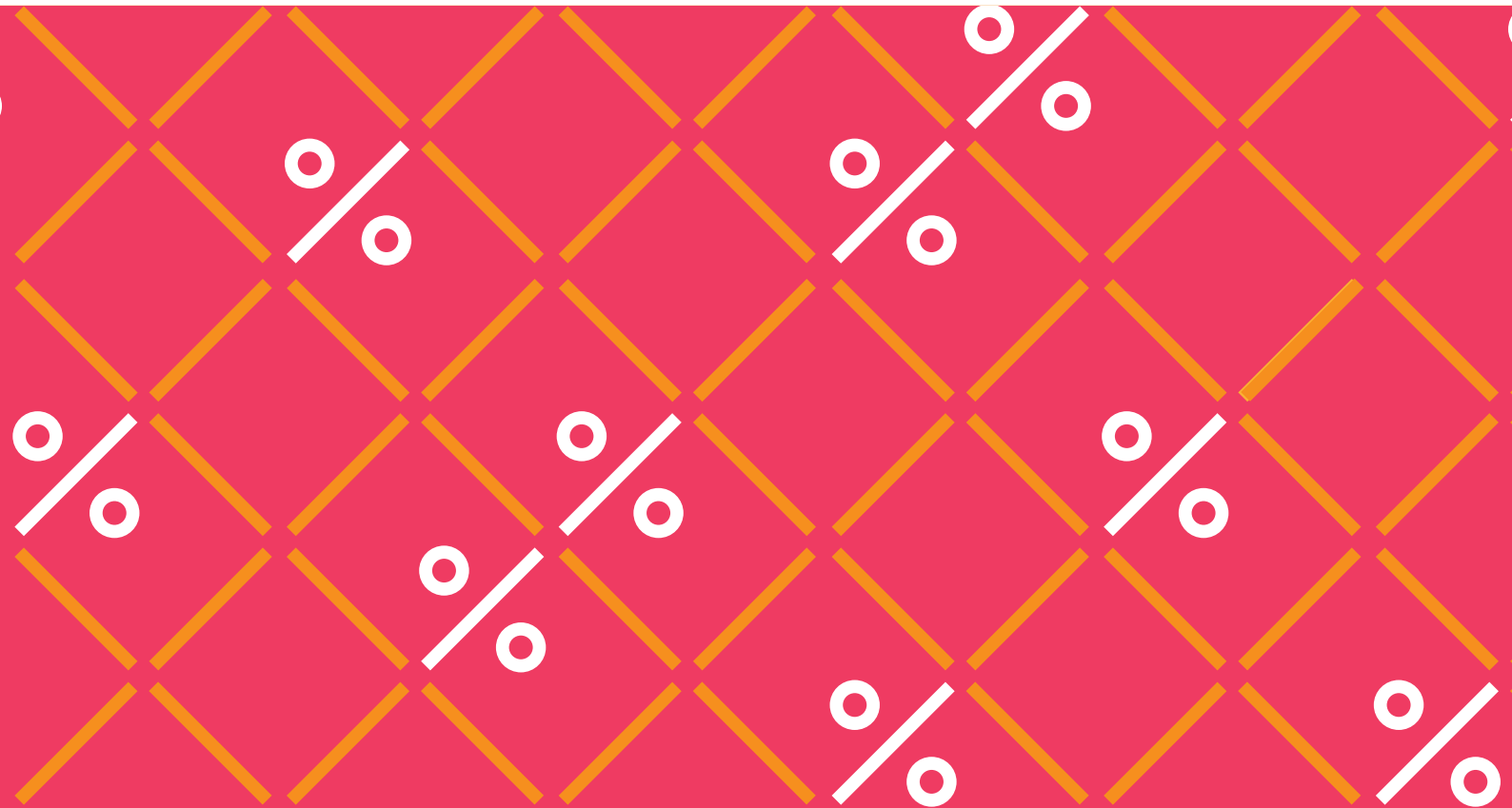
Widening of tax base/ Scope

- Requirement to obtain e-TIN to be extended for the following cases:
 - Purchasing savings instruments (Sanchayapatra) exceeding BDT 0.2m;
 - Opening postal savings accounts exceeding BDT 0.2m;
 - Obtaining registration of co-operative society.
- Minimum tax on specified individuals* reduced from 0.50% to 0.25% of gross receipts.
*Individuals having gross receipts of BDT 30m or more, other than individuals engaged in mobile phone operation or in the manufacturing of cigarette, bidi, chewing tobacco, smokeless tobacco or any other tobacco products.
- Maximum limit of eligible amount for computing investment tax credit to be reduced from BDT 15m to 10m.
- Scope of advance tax on ownership of motor vehicles to be extended to include electric vehicles.

Incentives/ Relaxations

- No tax to be deducted from the payment of workers' participation fund, where the beneficiary does not have taxable income and amount of fund does not exceed BDT 25,000.





Corporate Income-tax

Corporate tax rates

- The basic income-tax rate to be modified in certain cases, as tabulated below:

Particulars	Existing rate	Proposed rate
Publicly traded companies*	25%	22.5%
Non-publicly traded companies*	32.5%	30%
One Person Company	32.5%	25%
Publicly traded provider of MFS	32.5%	37.5%
Non-publicly traded provider of MFS	32.5%	40%
Association of Persons	32.5%	30%
Artificial juridical person and other taxable entities	Rate applicable for individual taxpayer	30%
Private university, private medical, dental and engineering college solely dedicated to imparting education on information, communication and technology	15% (rate fixed by SRO)	15%

*Companies, other than banks, insurance and financial institutions, merchant banking companies and cigarette, tobacco and zarda manufacturing companies.

- Additional tax rate of 5% to be applicable on any school, college, university or NGO that does not have adequate facilities for disabled persons as per extant laws.
- Collection of advance income-tax at prescribed rates on import of goods to be capped at 20% of import value.



Widening of tax base/ Scope

- Scope of inadmissible expenditure on payment exceeding BDT 50,000 (other than by bank transfer), to be extended to purchase of raw materials.
- Rate of tax deduction for payment to contractors, etc., to be increased by 50% if payment not received by bank transfer or MFS or other digital means approved by the Bangladesh Bank.
- The ambit of 'specified person' having obligation to deduct tax at source to be widened to include e-commerce platforms.
- Scope of deduction of tax at source on purchase of power to be extended to power distribution entities. A person whose income is exempt from tax or is subject to a reduced rate of tax may obtain a lower/ nil withholding tax certificate, subject to fulfilment of conditions.
- Recruiting agencies to pay advance tax at the rate of 10% of service charge or fees to be received on export of manpower for obtaining export clearance. Advance tax of BDT 50,000 to be paid for obtaining new licence or for renewal.
- Tax to be collected at the rate of 10% on the sale price of goods or property (1% in case of tea) sold by public auction before delivering the possession or allowing exercise of rights.
- The definition of company to be widened to include firm for the purpose of deduction or collection of tax at source from commission, discount, fees, etc.
- The rate of depreciation on buildings (general) reduced to 5% (from 10%) and on factory buildings to 10% (from 20%).
- Scope of advance tax on ownership of motor vehicles to be extended to include electric vehicles.
- Minimum tax provisions to be extended to import of goods by an industrial undertaking engaged in the production of perfumes and toilet waters as raw materials for its own consumption.

Simplification/ Clarification

- The permissible mode of payment for the allowability of expense expanded to include MFS or any other digital means approved by the Bangladesh Bank.
- Any loss from a source, the income of which is subject to tax at reduced rate, not to be available for set-off against any income from any source.
- Tax to be deducted at source at the rate of 1.5%/ 2% of gross bill of stevedoring/ berth operation.
- For the purpose of tax deduction at source on specified deposits, e-TIN of the parent to be considered as the e-TIN of the minor.
- Provisions for set-off of loss with respect to speculation business and loss under the head 'capital gains' rationalised.

Incentives/ Relaxations

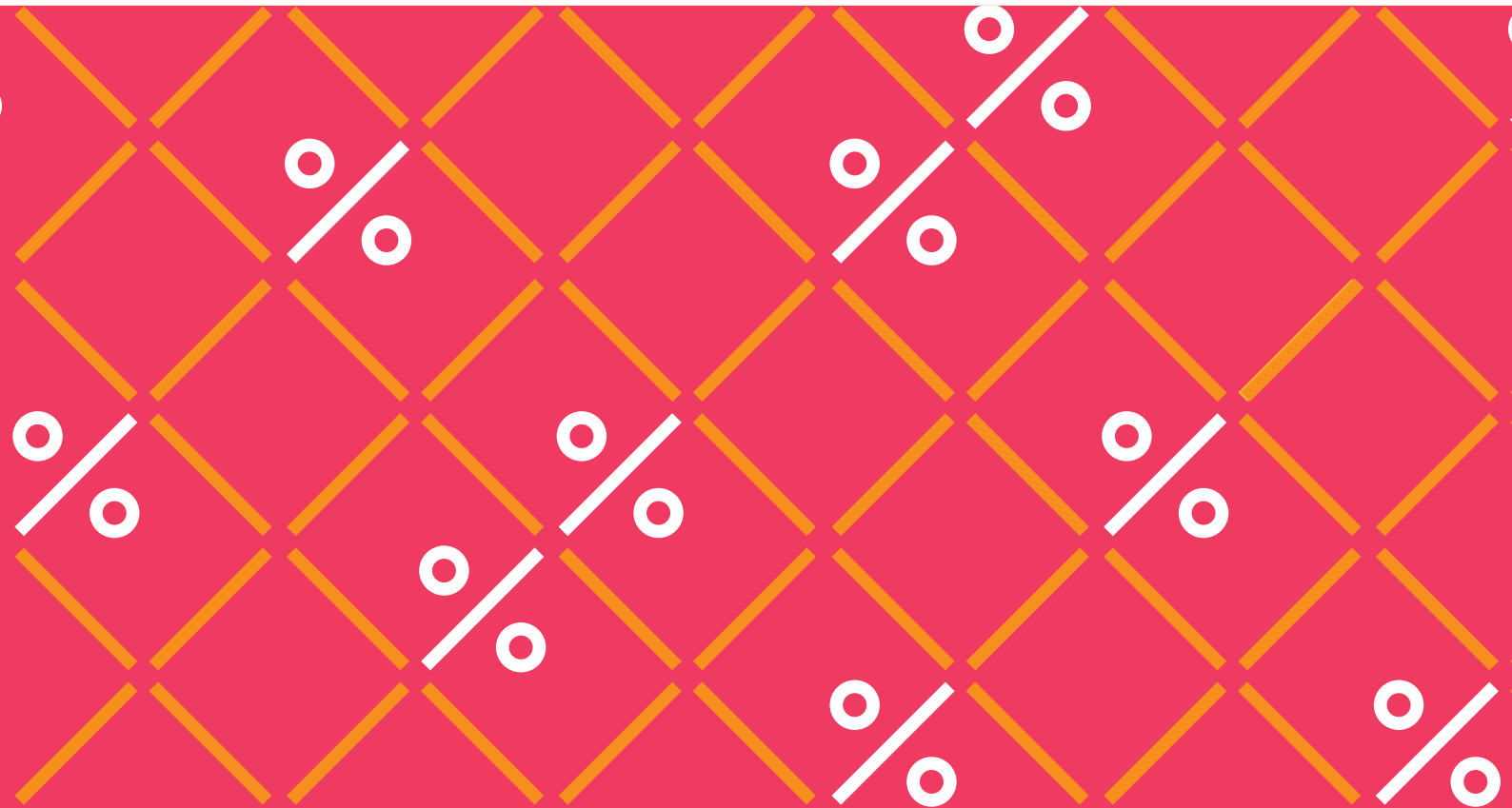
- No tax to be deducted from the payment of workers' participation fund, where the beneficiary does not have taxable income and amount of fund does not exceed BDT 25,000.
- Tax deduction rate reduced from 10% to 7.5% on specified remittance* from abroad.
*Specified remittance means consideration received in respect of contracts for manufacturing, process or conversion, civil work, construction, engineering or works of similar nature rendered in Bangladesh.
- The scope of exemption on ITES to be widened to include the following businesses:
 - Cloud service,
 - System integration,
 - E-learning platform,



- E-book publication,
- Mobile application development service, and
- IT freelancing
- A rebate of 5% of the tax to be allowable to an employer where at least 10% of its total workforce comprise of disabled persons.
- A rebate (being lower of 5% of the tax liability of the employer or 75% of the total salary paid to its third gender employees) to be allowable where it employs more than 10% of its total workforce or more than 100 employees from the third gender.
- The time limit for facilitating an agreement under the Alternative Dispute Resolution to be extended from two months to three months from the end of the month in which the application is filed.
- Taxes not to be collected at source at the time of registering documents for transfer of property to a trust or special purpose vehicle established only for the purpose of issuing sukuk approved by the Government or BSEC and vice versa.
- The benefit of exemption to be extended to NGO registered with MCRA for any service charge derived from the operation of micro credit. The earlier benefit was available only to an NGO registered with the NGO Affairs Bureau.
- The income derived from any SME owned by women and engaged in the production of goods with annual turnover up to BDT 7m to be exempted, subject to compliance with provisions of the Ordinance.

Tax reforms

- The following were mentioned in the Budget Speech but not in the Finance Bill, 2021:
 - Taxes up to BDT 0.5m to be mandatorily paid through automated challan or e-payment;
 - The draft of the Income Tax Act, 2021, has been prepared modifying the Ordinance;
 - Software being developed to facilitate the submission of income tax returns online by all taxpayers in a centralised system;
 - E-TDS system has been designed to bring the income tax deducted at source under an automated system;
 - Tax exemptions are being considered for manufacturing sectors, such as IT hardware, automobile, home and kitchen appliances and light engineering products as well as agro-based industry, hospitals and vocational training institutions.



Indirect Tax

Key amendments in the Customs Act

- The Bangladesh Customs water area is extended from 12 nautical miles to 24 nautical miles.
- The amount of penalty is increased from BDT 50,000 to 100,000 for contravention of any provision of the Customs Act not specifically mentioned in section 156 of the Customs Act.
- Amount of penalty is increased from BDT 20,000 to BDT 50,000 for failure to produce requisite documents asked by the customs authority.
- Chartered accountants are now included in the definition of 'Authorised Representative' under section 196K of the Customs Act. This makes them eligible to appear before any authority in relation to the customs proceedings.

Multi-Tier VAT rates continues under the Act

- Exempted goods and services are listed in the First Schedule to the Act.
- Goods on which SD is leviable are listed in the Second Schedule to the Act.
- The reduced VAT rates at 5%, 7.5% and 10% will continue with respect to the supply of specific goods and services covered under the Third Schedule to the Act.
- All other goods and services not falling under the Third Schedule to the Act will continue to be charged at the standard VAT rate of 15%.
- Reduction in the rate of AT payable on all imports from 4% to 3% applicable to the manufacturer importer.

Increase in the base value of cigarettes

Present Base Price (in BDT)	Proposed Base Price (in BDT)	Present SD Rate (%)	Proposed SD Rate (%)
39 and above	39 and above	57	57
63 and above	63 and above	65	65
97 and above	102 and above	65	65
128 and above	135 and above	65	65

Key effects on the domestic industry

Positive

- LP gas is classified as a petroleum product on which VAT rate is being reduced from 5% to 2% at the trading stage.
- The benefit of reduced rate of VAT at 5% for the manufacturing and supply of LPG cylinder is extended to 30 June 2022.
- Distributors of sanitary wares and tiles that purchase goods from a local manufacturer are allowed to discharge VAT at the rate of 15% only on their commission received against their supply. Where the sales price charged by the manufacturer includes such a commission, the distributors are not required to discharge any further VAT subject to following certain procedures. Where such distributors are also engaged in import of similar goods, these provisions would not be applicable for such a distributor.
- VAT payable on local sale of fresh fruits is exempted.

Negative

- There is an increase in the rate of SD on import of soap used for toilet and washing preparation from 20% to 45%.
- There is an imposition of 20% SD on import of washing preparations for retail sale.
- There is an increase in the rate of VAT on local supply of mustard oil from 5% to 15%.

Key amendments in the Act

- Suppliers of tobacco products will not be eligible for centralised VAT registration.
- 'Import of service' will now be taxable only when such service is eligible for credit when supplied from Bangladesh.
- If the sale price is lower than the input cost, then the ITC will not be allowed.
- A VDS certificate received from the recipient of goods and services will be allowed for decreasing adjustment in the hands of the supplier of goods and services in the month of payment or within the next month of payment. The VDS certificate received after such period will not be allowed to set-off.
- A registered limited company will be required to file the audited financial statements within six months from the end of the financial year.
- The prescribed manner of deemed export procedure under internal back-to-back letter of credit is introduced under Rule 18B of the Rules to facilitate supply by a deemed exporter.
- The prescribed manner of supply made by a backward linkage industry to a deemed exporter as required under section 2(62)(c) of the Act is framed under Rule 18C of the Rules to facilitate supply by a backward linkage industry.
- VAT Withholding and Collection Rules, 2020 is amended to clarify that a 'Procurement Provider' will be other than a manufacturer supplying goods and services to a withholding entity. This amendment clarifies that a trader supplying goods to a VAT-withholding entity will be considered a procurement provider and 7.5% VAT is applicable on supply made by a procurement provider. However, since the clarification of "Trader" as provided in Para 3 of the Third Schedule of the Act has not been amended, trader would continue to be eligible to supply goods @5%.
- The definition of 'information technology enabled services' is to be widened to include e-learning and e-book.

Specific amendments in the Act apropos of VDS

- Section 49 of the Act is amended such that the VAT-withholding entity will withhold VAT at the time of making payment, and deposit to the treasury within 15 days of such deduction. VAT Deduction and Collection Rules, 2020 is also amended to clarify that upon such deduction of VAT, a certificate in Form Mushak 6.6 is to be issued within three working days from the date of such deposit. The consequence of such amendment is that the VAT-withholding entity will no more be eligible to use the ITC against the VDS payable, and, therefore, the VDS withheld is to be deposited in cash.
- The amended VAT Deduction and Collection Rules, 2020 also provides that the VDS certificate is to be used as decreasing adjustment in the month of payment received and subsequent to that month. Thus, the VDS certificate received beyond this period will not be allowed to adjust as a decreasing adjustment.



Ease of Doing Business

- The definition of 'representative' is being widened to include a CEO and any such person appointed by the CEO.
- Regarding electronic service provided by a non-resident entity, only the non-resident entity will be liable for payment of taxes, fines, penalties and interest if imposed by the authority. Earlier, the VAT agent was also jointly and severally liable for such taxes, fines, penalties and interest.
- The export of service is redefined and simplified under section 24(5) of the Act, where all export of service to outside Bangladesh is considered zero-rated supply.
- The input-output coefficient in Form Mushak 4.3 is now required to be submitted only for the supply of goods.
- The invoice issued by a bank, an insurance company and a port will also now be considered a valid tax invoice based on which ITC will be available.
- The penalty for non-disclosure of appropriate output VAT or ITC or increasing/ decreasing adjustment in the VAT return is reduced from 200% to 100% of the amount of purported evasion of tax.
- The rate of interest payable for delay in payment of VAT is reduced from 2% to 1% per month.
- Rule 118 of the Rules is modified to allow a registered entity to claim its unused ITC balance as of 30 June 2019, even if any litigation is pending before any forum including the court.

Incentive/ exemption granted on specified goods and services and refunds

- The AT payable on import and VAT payable on local purchase of raw materials and spares used in the manufacture of compressors and air-conditioners by a VAT-registered manufacturer are exempted, and such exemption is extended till 2024.
- The AT payable on import and VAT payable on local purchase of raw materials and spares used in the manufacture of refrigerators and freezers by a VAT-registered manufacturer are exempted, and such exemption is extended till 2024.
- The AT payable on import of raw materials and spares used in the manufacture of motorcars and motor vehicles up to 1600 CC by a VAT-registered manufacturer is exempted. The condition of investing a minimum of BDT 5bn within one year of import is abolished, and such exemption is extended till 2026.
- The AT payable on import and VAT payable on local purchase of raw materials and spares used in the manufacture of mobile telephone sets or cellular phones by a VAT-registered manufacturer are exempted, and such exemption is extended till 2023.
- The VAT payable on local manufacture of various household goods, namely, washing machine, microwave oven, electric oven, blender, juicer, mixer etc., as well as VAT, AT and SD payable on import and local purchase of raw materials and spares used in the manufacture of such goods, are exempted upon fulfilment of certain conditions.
- CD in excess of 5% and 10%, RD, VAT, AT and SD payable on import of raw materials and spares used in the manufacture of washing machines is exempted upon fulfilment of certain conditions.
- The VAT payable on the local manufacture and sale of various computer-related electronics equipment is exempted upon fulfilment of certain conditions. Such exemption is available till 2023. CD in excess of 1%, VAT, RD and SD payable on import of various raw materials and inputs used in the manufacture of such goods are also exempted.
- Regarding CD in excess of the rate specified in Statutory Regulatory Order 117, dated 3 June 2021, the RD and SD payable on import of various spares and inputs imported by a medical device manufacturer are exempted.



Abbreviations

Act – VAT & SD Act, 2012

AT – Advance tax

BDT – Bangladeshi Taka

BSEC – Bangladesh Securities Exchange Commission

CEO – Chief Executive Officer

CD – Customs Duty

Customs Act – Customs Act, 1969

ITC – Input tax credit

m – Million

MFS – Mobile Financial Services

MCRA – Microcredit Regulatory Authority

NGO – Non-Governmental Organisation

Ordinance– Income-tax Ordinance, 1984

Rules – VAT & SD Rules, 2016

RD – Regulatory Duty

SD – Supplementary duty

SME – Small and Medium Enterprise

SRO – Statutory Regulatory Order

e-TIN – Electronic Taxpayer's Identification Number
[Twelve-Digit]

IT – Information Technology

ITES – Information Technology Enabled Services

VAT – Value added tax

VDS – VAT deducted at source

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