



Income and VAT changes by Finance Act 2021

KPMG Bangladesh

July 2021





1 Income tax changes

2 VAT changes



Income tax changes

Personal income: Individual/Firm tax rates (1/2)

Tax Payer	Income Slabs	Tax Rate
For Bangladeshi individuals, resident foreigners, and firms	Up to BDT 300,000	-
	Next BDT 100,000	5%
	Next BDT 300,000	10%
	Next BDT 400,000	15%
	Next BDT 500,000	20%
	On balance	25%

No change



For non-resident foreigner, flat tax rate of 30%



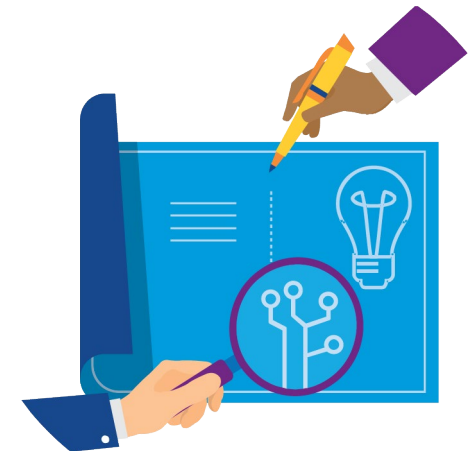
Personal income: Individual/Firm tax rates (2/2)

Tax Payer	Exempted Limit
General – Individuals & Firms	BDT 300,000
Women and senior citizens (65+)	BDT 350,000
Physically challenged persons	BDT 450,000
War-wounded gazetted freedom fighters	BDT 475,000
Persons of Third Gender	BDT 350,000



← Change

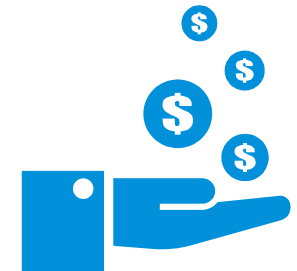
For parents or legal guardians of physically challenged persons, the Tax Exempted Limit would be increased by BDT 50,000.



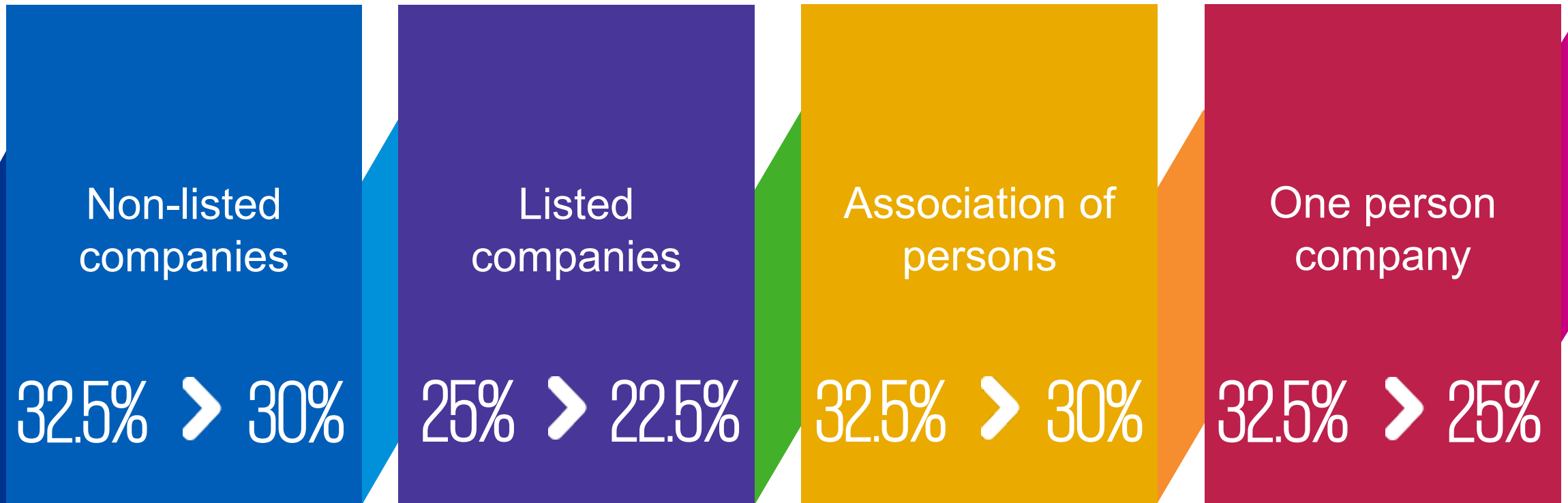
Personal income: Individual/Firm tax rates

Description of Area of Taxpayer's Residence	Minimum Tax (BDT)
Dhaka North City Corporation, Dhaka South City Corporation and Chattogram City Corporation	5,000
Any other City Corporation	4,000
Any area other than City Corporation	3,000

No change

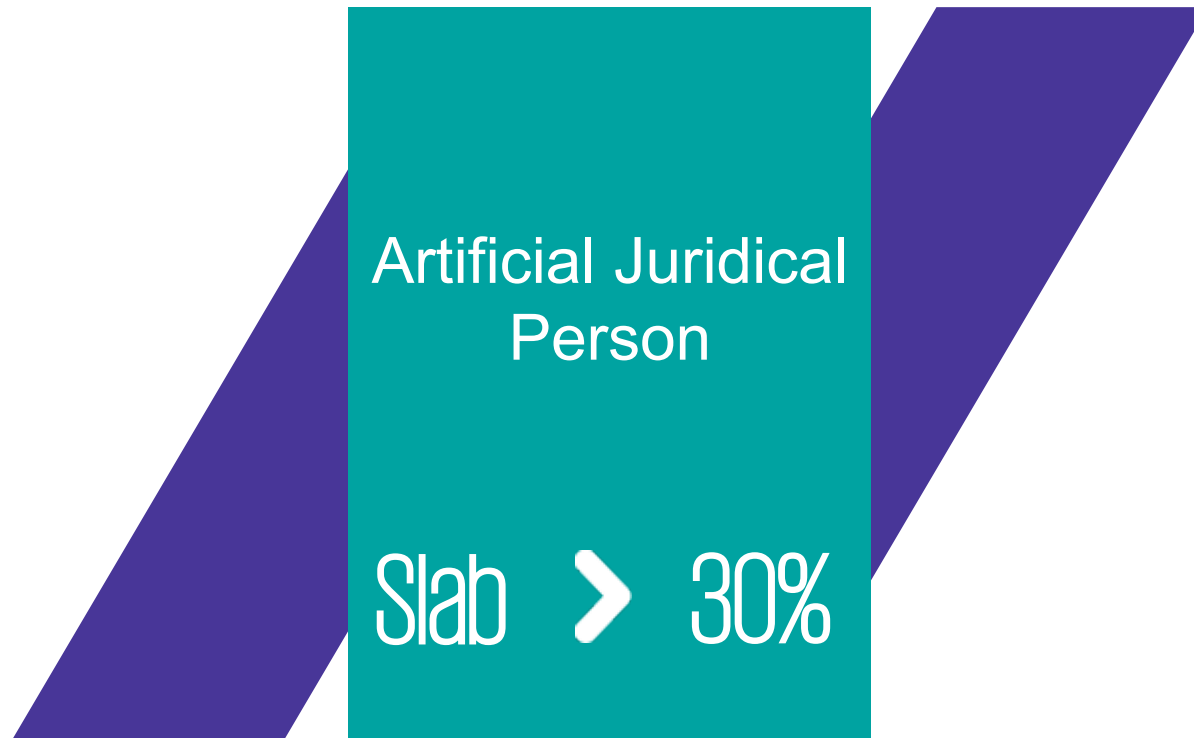


Changes to corporate income tax rates (1/2)



Changes to corporate income tax rates (2/2)

Higher corporate tax rate for artificial juridical person



Special tax treatments for investment in securities (u/s 19AAAA)

25% + 10%

25% tax and additional 10% tax penalty will be payable on the investment amount and No question on the sources of fund invested in securities

Investments should be made between 1 July 2021 and 30 June 2022

If Investment is withdrawn within 1 year of investment, 10% additional tax penalty on withdrawn would be applicable

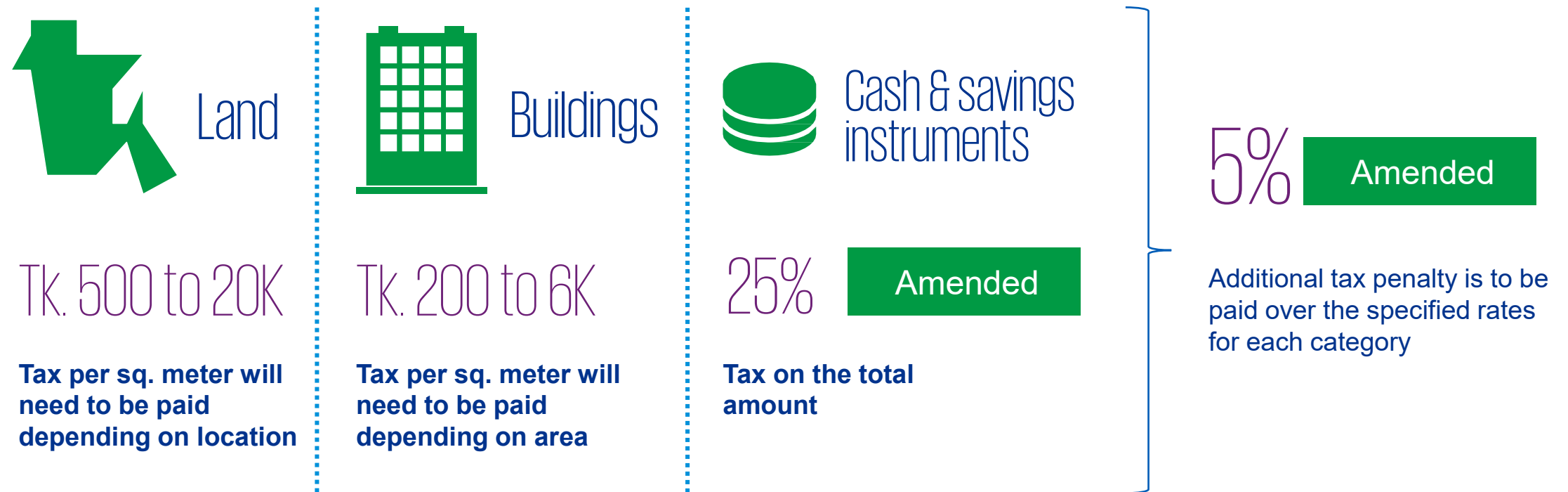
This opportunity will not apply if any proceeding has been initiated under any law before the day of investment

Finance Act 2021 also dictates that the payment is to be made by bank order or automated challan, in addition to the declaration which is to be made to the Deputy Commissioner of Taxes in prescribed form.



Special tax treatments (section 19AAAAA)

No question will be raised over the source of fund of certain previously undisclosed investments



This opportunity will not apply if any proceeding has been initiated under any law before filing their tax returns.

Finance Act 2021 also dictates that the payment is to be made by bank order or automated challan

Insertion of new section 19A



10%

No question on the source of sum invested in a new industrial undertaking if an individual pays tax on the sum invested at the rate of 10%

- ❑ The sum must be invested in between 1 July 2021 and 30 June 2022 (both days inclusive)
- ❑ Tax under this section is to be payable only by bank order or automated challan

Amendments to surcharge (1/3)

Net Worth (Previous)	Net Worth (Amended)	Tax Rate (Previous)	Tax Rate (Amended)
Up to BDT 30m	Up to BDT 30m	-	-
More than BDT 30m but less than BDT 50m	More than BDT 30m but less than BDT 100m	10%	10%
More than BDT 50m but less than BDT 100m		15%	
More than BDT 100m but less than BDT 150m	More than BDT 100m but less than BDT 200m	20%	20%
More than BDT 150m but less than BDT 200m		25%	
More than BDT 200m	More than BDT 200m but less than BDT 500m	30%	30%
	More than BDT 500m		35%

Amendments to surcharge (2/3)



0.1% of net worth test

Persons having wealth over BDT 500m will not have to pay higher of 0.1% net worth or 30% of tax payable



No taxable income no surcharge

No minimum surcharge requirements

Amendments to surcharge (3/3)



10% surcharge on tax payable

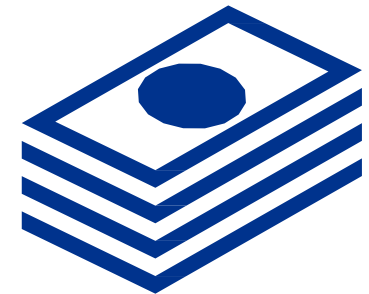
Minimum surcharge, irrespective of Net Worth, for owning more than one motor vehicle or housing property in any of the City Corporation Areas of more than 8000 Sq ft. in dimension



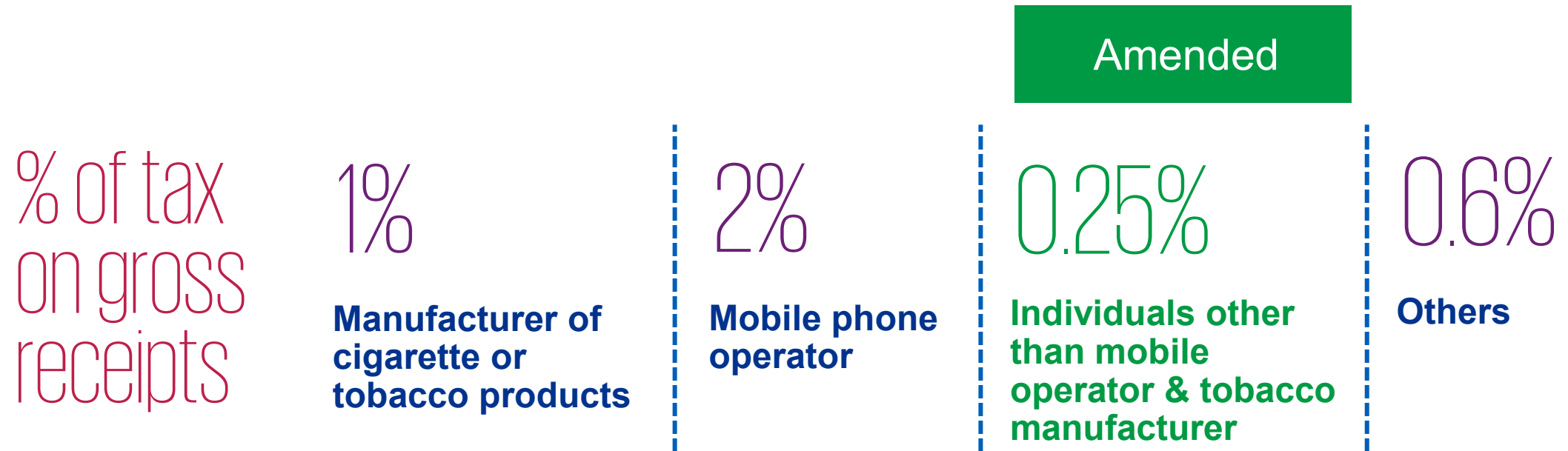
2.5% surcharge on income

for cigarette and tobacco manufacturers

No change



Amendments in minimum tax on gross receipts






Inclusion in scope of Minimum Tax Regulations



AIT paid on import of raw materials by manufacturers of perfumes and toilet waters



Amended requirements for 12-Digit TIN

-  **Purchasing BSPs, postal savings instruments over BDT. 200,000**
-  **Obtaining registration of co-operative society**
-  **Submitting building plan in any city corporation or paurasava**



Other initiatives in Finance Act and Budget Speech



Tax Rebate for employing persons of third gender

- Rebate of 5% of tax or 75% of salary to third gender employees, whichever is lower, for employing person of third gender amounting to 100 persons (and above) or 10% of total manpower



Physically challenged persons
(no change)

- 5% tax rebate for employing physically challenged persons amounting to 10% of total manpower
- 5% additional tax on school, college, university and NGO failing to provide adequate facilities to physically challenged person.



Reduced rate for cement, iron or iron products except MS Billets

- 2% instead of 3% TDS on production of cement, iron or iron products except MS Billets for local supply



Reduced rate on import of clinkers

- AIT at import stage on cement clinker is to be 2%
- AIT at import stage on slag, fly ash is to be 3%

New tax exemptions (10 years)



Dairy products, fruits and vegetable processing, agricultural equipment



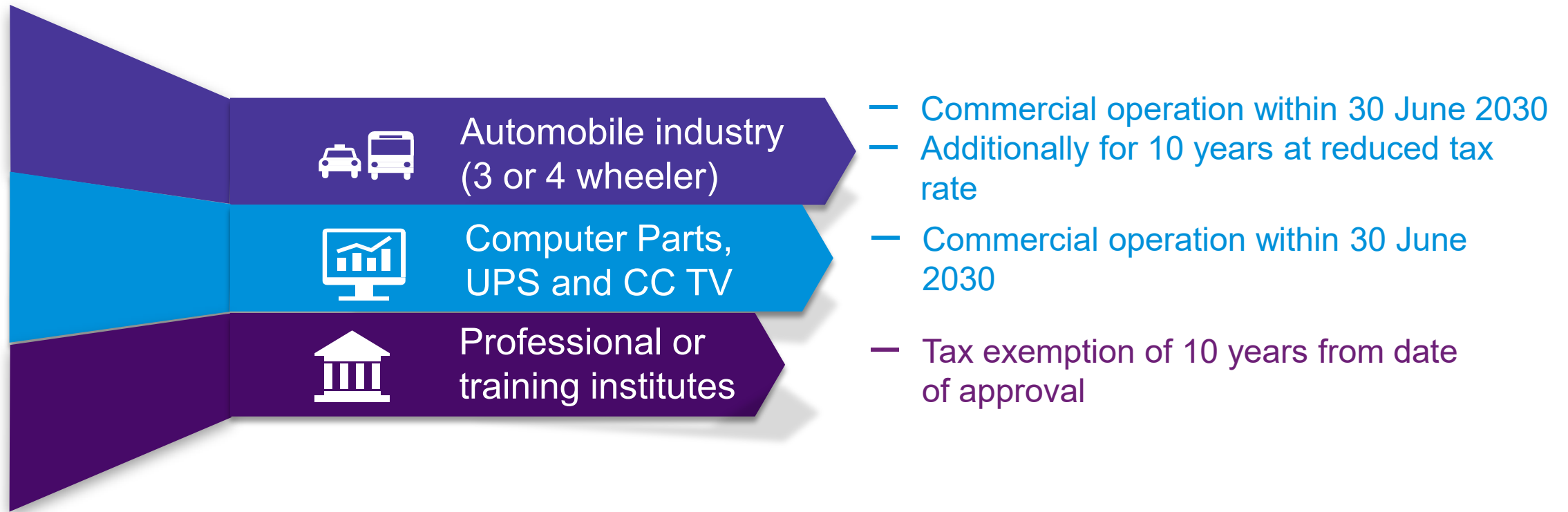
Home appliances, light engineering items



General and Specialised Hospitals

Commercial operation within 2021 to 2030

Amended tax exemptions (10 years)



Amendment of tax exemptions



SMEs

- ✓ SMEs owned by women having turnover less than BDT 7 million
- ✓ No change for other SMEs



Fisheries

- Fisheries income exempted as follows -
- First 1 million nil
 - Next 1 million 5%
 - Next 1 million 10%
 - Rest of income 15%



Micro-credit

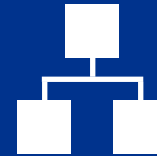
- ✓ Any service charge derived from operation of micro credit by NGO registered with Microcredit Regulatory Authority
- ✓ Previously only NGO registered with NGOAB

Expansion of ITES companies

Will enjoy tax exemption up to 2024



Cloud Service



System integration



IT Freelancing



e-learning platform and
e-book publications



Mobile application
development service

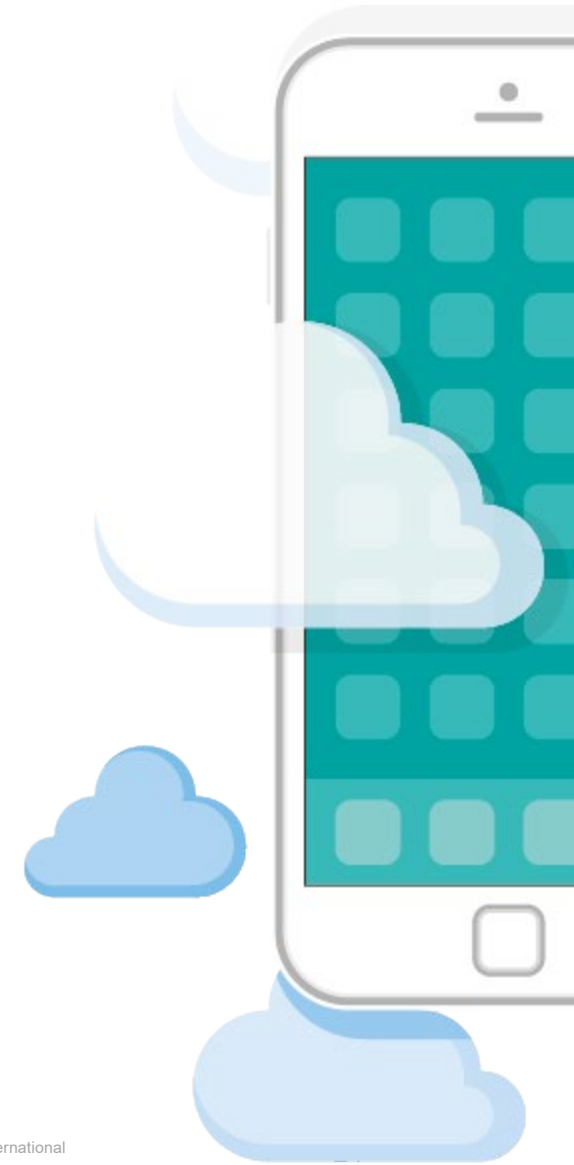
Introduction of digital payment mechanism



“Bank transfer” include transfer of money by crossed cheque, mobile financial services or any other digital means approved by the Bangladesh Bank

Digital payment to be allowed for tax purposes

— Payments of salary or remuneration, rent and other expenses by MFS or digital means are allowable for tax computation



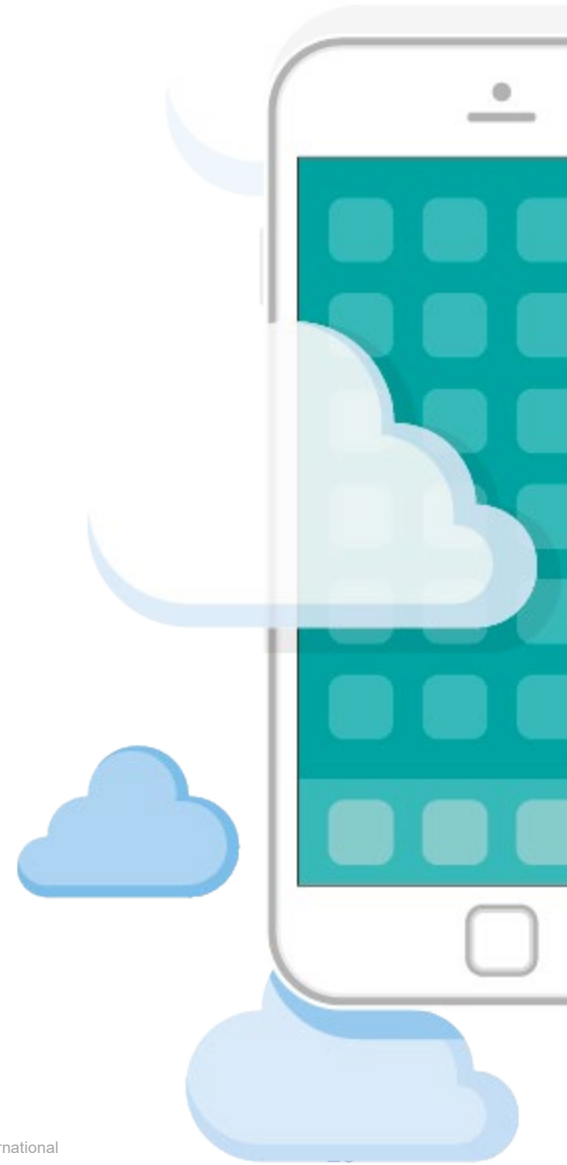
Motivating non-cash payments to contractors

Payments to contractors (Section 52)



50% higher rate of tax

If payment is not made by bank transfer or mobile financial services or any other digital means approved by the Bangladesh Bank



Amended rate of tax deduction on payments to contractors

Base amount (Previous)	Base Amount (Amended)	Tax Rate (Previous)	Tax Rate (Amended)
Up to BDT 1.5m	Up to BDT 5 mil	2%	3%
More than BDT 1.5m to BDT 5m		3%	
More than BDT 5m to BDT 10m	More than BDT 5m to BDT 20m	4%	5%
More than BDT 10m		5%	
	More than BDT 20m		7%

50% higher tax rates deduction if payment without bank transfer



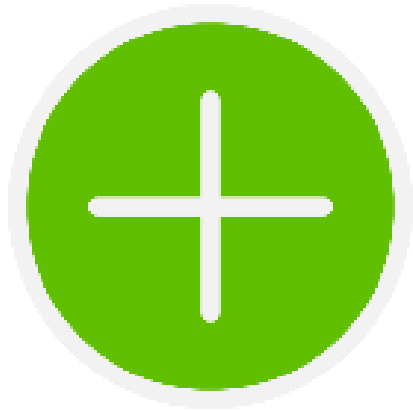
Amended rate of tax deduction on payments to contractors

Base amount	Withholding rate (Previous)	Withholding rate (Amended)	Impact
BDT 1.5 million	2%	3%	15,000
BDT 5 million	3%	3%	No effect
BDT 20 million	5%	5%	No effect
BDT 30 million	5%	7%	60,000

50% higher tax deduction if payment without bank transfer



Addition to withholding entities



E-commerce platforms with annual turnover exceeding BDT 1 crore



Are individual owned e-commerce businesses covered?

Payment by bank transfer for purchase of raw material

Threshold for cash payments for purchase of raw materials have been set by Finance Act 2021

Previous threshold

None

Amended threshold

BDT 500,000



Payment above BDT 500,000

Purchases of raw materials over BDT 500,000 will require bank transfer

Payment by bank transfer for salary or remuneration

Threshold for cash payments for salary or remuneration have been increased by Finance Act 2021

Previous threshold

Amended threshold

BDT 15,000

BDT 20,000



Payment above BDT 20,000

Purchases of salary or remuneration over BDT 20,000 will require bank transfer

Loss under Capital Gains and from speculation business

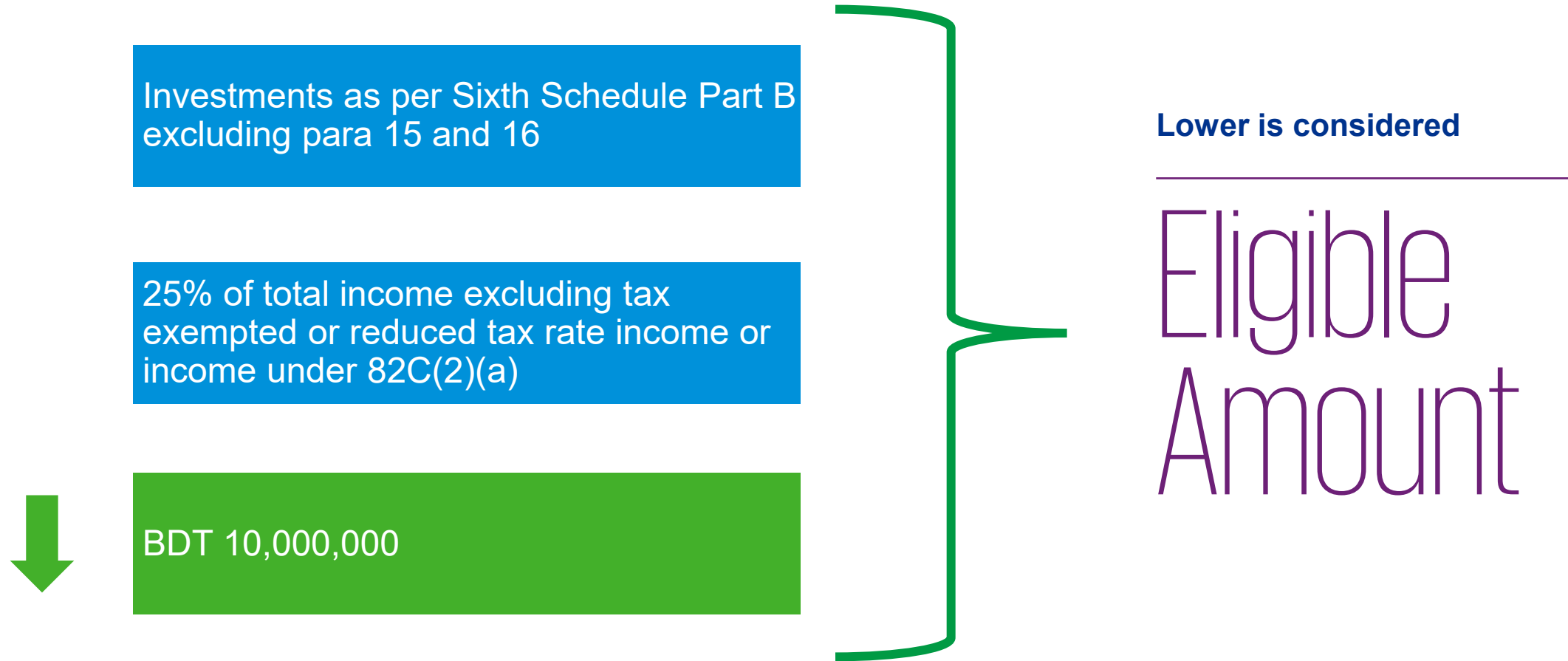
Proviso for set off of loss under Capital Gains or from speculation business has been simplified with only one change:

any loss from reduced tax rate source



cannot be set off against any income from any source

Maximum eligible amount for investment rebate



Amended tax deduction exemptions on payments from WPF

Generally, 5% tax is to be deducted on **whole** amount of payments from workers' participation fund

Amended exception



Persons with no taxable income and



Fund amount is less than BDT 25,000

Both conditions need to be fulfilled



Amended reduced rate of tax deduction on foreign income

Generally, 10% tax is deducted on foreign income receipts (section 52Q)

Amended rate



7.5%

Applicable for contracts on manufacturing, process or conversion, civil work, construction, engineering or work of similar nature



Amended rate of tax deduction on sales by public auction

Tax is deducted on the sale price of goods or property sold by public auction (sec 53C and rule 17D)

Previous

5%

New

10% general

1% sale of tea



Amended advance income tax on imported goods (sec 53)

Previous rate

up to 5%

Amended rate

up to 20%



Advance income tax has been amended to 20% for alcoholic products, perfume and toilet waters (Rule 16)



Other updates in tax deduction at source

Section 52AA

Section 52N

Section 53E

Section 53H

Section 53B

Tax at source on payment for stevedoring/berth operation services

10% (com.)/1.5% (gross)
if base amount is less than Tk. 25 lakh

12% (com.)/2% (gross)
if base amount is more than Tk. 25 lakh

Amended

Other updates in tax deduction at source

Section 52AA

Section 52N

Section 53E

Section 53H

Section 53B

6% tax deduction on payments to power producing companies

All power company

Exemption or reduced tax deduction is applicable on the basis of tax certificate from NBR

Amended

Other updates in tax deduction at source

Section 52AA

Section 52AA

Section 53B

Section 53E

Section 53H

10% advance income tax on account of export of manpower is collected from recruiting agencies by Director General, Bureau of Manpower, Employment and Training

BDT 50,000

Advance income tax is to be paid for renewal of license

Amended

Other updates in tax deduction at source

Section 52AA

Section 52AA

Section 53B

Section 53E

Section 53H

Scope of tax deduction/collection on payments to distributors have been increased to include firms

Firms

Firms are now withholding entities and also subject to withholding tax u/s 53E

Amended

Other updates in tax deduction at source

Section 52AA

Section 52AA

Section 53B

Section 53E

Section 53H

Tax deduction on transfer of property to or by a trust or special purpose vehicle established only for the purpose of issuing sukuk approved by government or BSEC

Exemption
Sukuk bonds

Amended

Amended clarifications



Overseas traveling allowance limit is based on business turnover

0.5% of disclosed business turnover
Clarified that the allowable amount will be computed now on **business turnover** rather than turnover



Parent's TIN can be used for their children

Parent's 12-digit TIN can now be considered as TIN for their minor children to avail 10% TDS on income from savings and other deposits instead of 15%

Amended advance income tax on Electronic Vehicles

Clarification given on the Advanced Income Tax (AIT) applicable on Registration / fitness renewal of Electronic Vehicles

SN	Type and capacity of Electronic Vehicle	AIT (BDT)
1	A car or a jeep, not exceeding 75kw	25,000
2	A car or a jeep, exceeding 75kw but not exceeding 100 kw	50,000
3	A car or a jeep, exceeding 100 kw but 125 kw	75,000
4	A car or a jeep, exceeding 125 kw but not exceeding 150 kw	125,000
5	A car or a jeep, exceeding 150 kw but not exceeding 175 kw	150,000
6	A car or a jeep, exceeding 175 kw	200,000
7	A micro bus	30,000

AIT on
Registration/
fitness renewal on
other vehicles
remain same



Amended compliance on advance income tax for vehicles

Clarification is amended when registration / fitness renewal of motor vehicles is taken for more than one years.



Multiple years

- Pay AIT on or before 30th June for every subsequent year or years following the year in which registration or fitness renewal of motor car has been done.



Computation

- If tax is not paid in subsequent years, AIT will be:
amount of AIT not paid in the previous year/s
+
amount of AIT payable for current year

Requirement for statements of assets, liabilities and lifestyle

Changes in requirement for statements of assets and liabilities for non-resident Bangladeshi or non-Bangladeshi:

Previous

Foreign assets

Bangladeshi assets

New



Bangladeshi assets

Non-resident Bangladeshi or non-Bangladeshi shall only show Bangladeshi assets



Amendment in alternating dispute resolution process

Changes in period for completion of agreement for Alternate Dispute Resolution

Previous

2 months

New

3 months



Amendment on depreciation

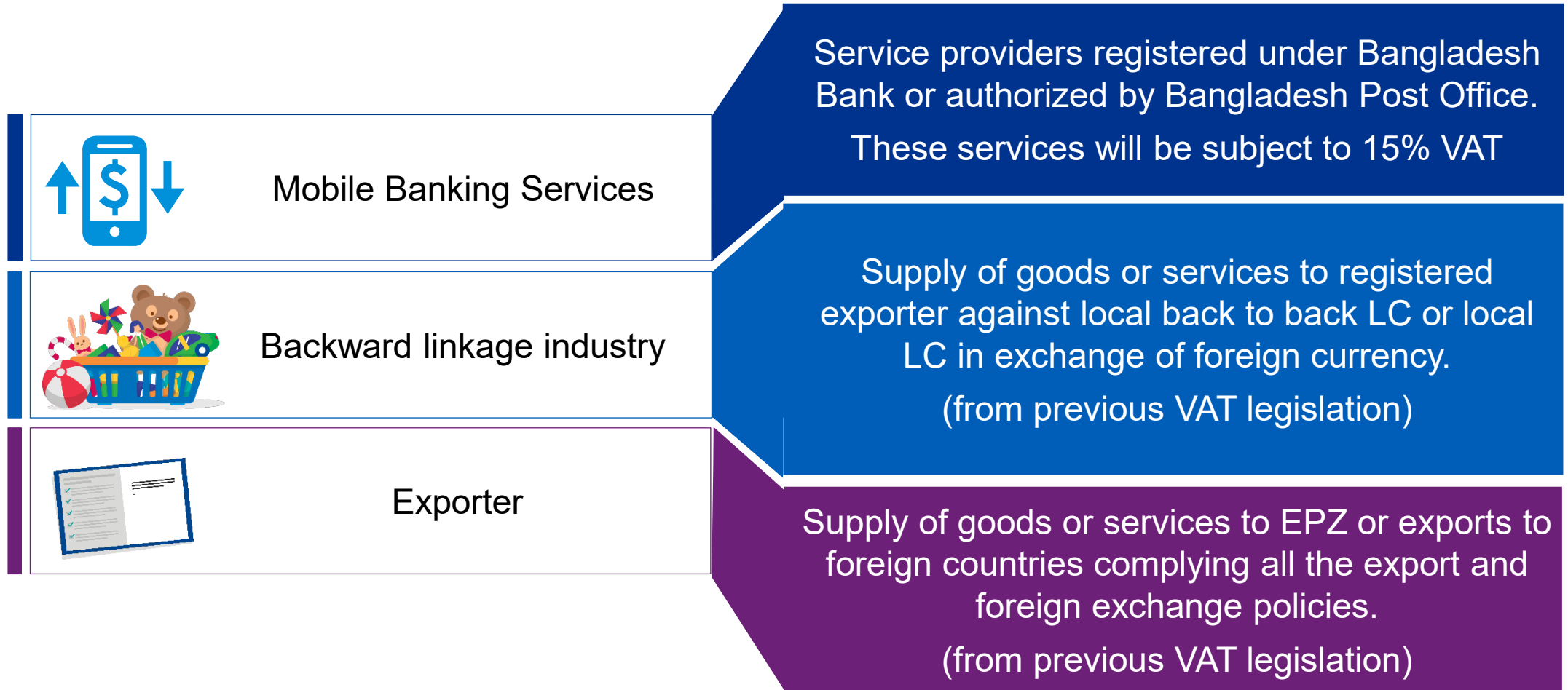
Changes in depreciation rates for general building assets or factory buildings





VAT changes

New definitions



Amended Definition



“Fine”

means a fine imposed by a **VAT Officer** under section 85 but will not include a fine imposed by a court in case of an offence.

Elimination of liabilities of VAT agents of non-residents

Changes regarding liability of non-resident

Previous

Non-resident and VAT agent would be jointly and severally liable

New

Non-residents will be solely liable

VAT agents will not be liable for non-residents' VAT obligations



Input-output co-efficient filing for service providers

Persons required to file input-output coefficient

Previous

Supplier of services

Other suppliers

New



Other suppliers



Previously exempted by office order which is now included into law



Clarification of definition of increasing adjustment



Under payment of VAT in any previous periods will be adjusted through increasing adjustments.

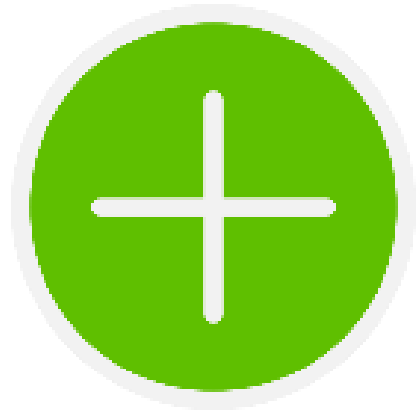


Previously, there was no legal clarity which is now resolved by the amendment

Revised return due to under payment of VAT may be avoided

Addition to ITES services

Two new items are included as IT Enabled Services.



E-learning

E-Book

Amendments in input VAT mechanism (1/3)

Input VAT credit mechanism for exporters have been simplified as others

Previous

Exporters availed input VAT credit through decreasing adjustment.

New

Input VAT credit of the exporters will be availed of through general input VAT credit system

Input VAT credit is not a decreasing adjustment for the exporters

No monetary impact. Only presentational changes in the VAT return.

Amendments in input VAT mechanism (2/3)

“

If sales price less than input cost...

”

Previous



Input VAT credit is allowed

New



Input VAT credit is not allowed as it now amended to be included in the negative list

Amendments in input VAT mechanism (3/3)

Input VAT credit can be taken on the basis of certain commercial invoices



Gas bill



Water bill



Electricity bill



Telephone bill

New



Bank invoices



Insurance invoices



Port invoices

Mushak 6.3 is not required for these services for input VAT credit

Clarification for export of service

Much needed clarity on zero-rated services have been provided

Previous

Zero rated services, if it is given outside Bangladesh and is of a kind that is received by a person at the time and place where it is given

New

Zero-rated service, if it is exported outside of Bangladesh.

Larger scope of service will enjoy zero-rated VAT

Export of service is also simplified



Reduction of advance tax (VAT) rate

The advance tax (VAT) for import of raw materials for manufacturing industries

Previous

4%

New

3%



Will reduce cost of imports from cashflow perspective



Amendment in withholding VAT payment

Changes have been made in time limit for payment/deposit of withholding VAT

	Previous	New
VAT registered person	At the time of submission of VAT return through increasing adjustment	Within 15 days of the deduction
Non-VAT registered person	Within 15 days of the deduction	

Amendment in decreasing adjustments of withholding VAT

Time limit for taking decreasing adjustment of withholding VAT by customers

Previous

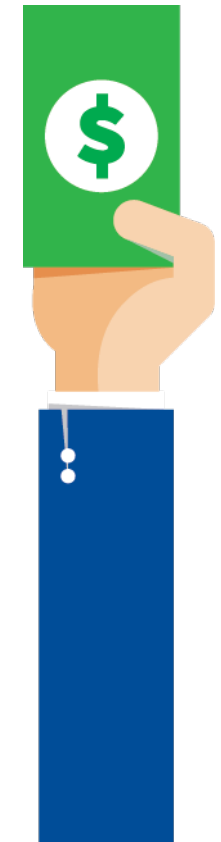
within next 6 months
after date of invoice

New

within next 1 month
following month of payment

Previously, adjustment of withholding VAT was related to issue date of invoice.

Now, withholding VAT can be adjusted within one period from the date of actual payment otherwise lapsed



Amendment in penalty for VAT avoidance

Amount of VAT penalty for VAT avoidance has been changed

Previous

2 times

of VAT avoided

New

Equal

to VAT avoided



Amendment in interest penalty for non-payment of VAT

Rate of interest to be charged on the outstanding VAT liability

Previous

2%

per month

New

1%

per month

2% bi-annual interest penalty for withholding VAT payable will remain unchanged.



Other VAT changes



Chartered Accountants

Chartered Accountant firm has been included in the list of authorized person to co-operate with the VAT authority.



Air-conditioned cruise ships

— Air-conditioned cruise ships has been added to the previous definition of air-conditioned water transport



Financial statements

— Submission of previous year Audited Financial Statements including income-expenditure within 6 months of the current fiscal year. Permission for time extension can be taken.

Changes in imposition of VAT for certain services

Exemption

Any service activities not run for commercial purpose for the social welfare of the Autism

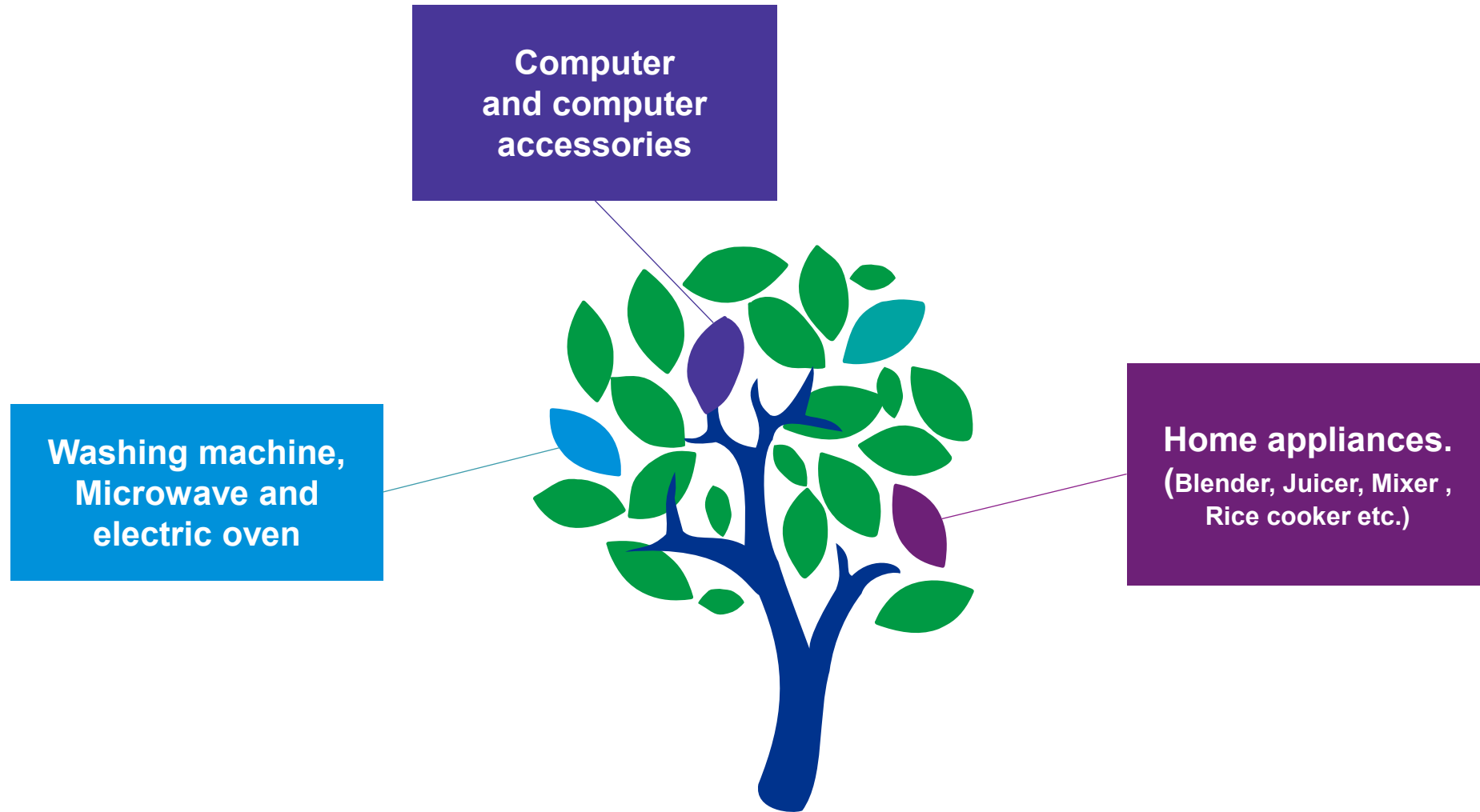
Increase in VAT rate

Supply of furniture by manufacturers to the direct consumer has been increased from 7.5% to 15%

Decrease in VAT rate

For Non- AC restaurants, decreased from 7.5% to 5%
For AC restaurants, decreased from 15% to 10%

New VAT exemptions for manufacturers up to June 2023



Extension of VAT exemptions for certain manufacturers

VAT exemption period for certain manufactures ending at 30 June 2021 has been further extended

Exemption up to

Air-conditioner and compressor	30 June 2024
Refrigerator and freezer	30 June 2022
Automobiles	30 June 2026
Polystyrene fiber production	30 June 2023
Mobile	30 June 2023
Sanitary napkin and diaper	30 June 2023
LPG cylinder	30 June 2022

Clarification of petroleum products



Petroleum products has now been specified and includes diesel, kerosine, octane, furnace oil and LP Gas



LPG is now a petroleum product

Scope broadened for procurement provider services



Procurement providers are all suppliers except manufacturers who supply taxable goods and services to withholding entities



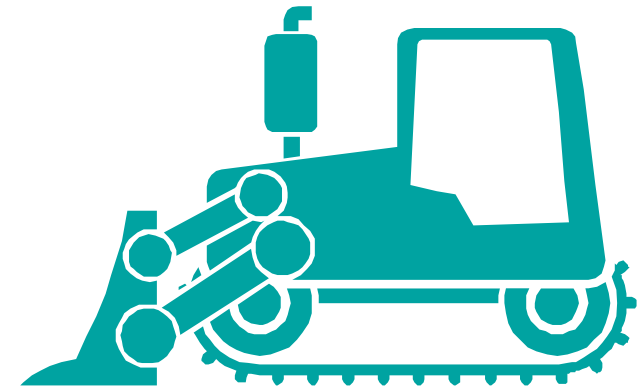
Hence, even if traders (who are subject to 5% VAT/exemption) supply goods and services to withholding VAT entities, now would be considered as procurement provider and subject to withholding VAT at 7.5%.

Rationalisation of VAT exemption on capital machineries

“

Local manufacturers can enjoy similar VAT exemption on certain capital machineries which are exempted at import stage by customs and VAT regulations

”



Declaration of criminal offense

Inclusions

Newly incorporated criminal offense for which there is a punishment clause for one year imprisonment or charge penalty equivalent to VAT payable or both.

Activities in production, marketing, transport of fake, forged or used stamp and banderole.

Activities in production, storage, transport, marketing and sales of products through using fake, forged or used stamp and banderole.

Production, storage, transport, marketing and sales of products without banderole and stamp which are legally required to be used.



Thank you



kpmg.com/socialmedia



kpmg.com/app



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2021 Rahman Rahman Huq and KPMG Advisory Services Limited are entities registered in Bangladesh, and member firms of the KPMG global organisation of independent member firms affiliated with KPMG International Limited ("KPMG International"), a private English company limited by guarantee. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no services to clients. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. Printed in Bangladesh.

The KPMG name and logo are trademarks used under licence by the independent member firms of the KPMG global organisation.