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Technical Seminar on Finance Bill 2023
(Proposed amendments to Income Tax and VAT provisions)

4 June 2023

Salient Features of Finance Bill 2023

Introduction

Dear Guests

Welcome to KPMG's Technical Seminar on Finance Bill 2023.

As you know, the Finance Bill will now be debated in Parliament, perhaps amended to an extent, and final version is expected to become law in July 2023. In our experience, however, most of the key provisions in such bills remain largely unchanged.

We have compiled today's presentation and this booklet for sharing the key provisions of Finance Bill 2023 with you. Errors and omissions, may happen, for which we seek your understanding. In any event, the contents of today's presentation and this booklet cannot be taken as a comprehensive analysis of either the Bill, or Income Tax and VAT proposals contained in the Bill. More importantly, no decision should be taken exclusively on the basis of today's presentation or this booklet; we recommend you obtain professional advice tailored to your specific circumstances.

Our objective for today is to bring to your knowledge, in a concise and organised manner, the key proposals in the Bill regarding Income Tax and VAT. We trust you will find this initiative beneficial.

Thank you.

Adeeb H. Khan
Senior Partner

Dhaka, 4 June 2023



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Proposals in connection with Income Tax

1. Tax rates for individual and firm are proposed to be updated as follows:

Total annual income	Income tax rate
First Taka 350,000	Nil
Next Taka 100,000	5%
Next Taka 300,000	10%
Next Taka 400,000	15%
Next Taka 500,000	20%
Balance amount	25%

Initial exemption limit for individual taxpayers:

Taxpayer	Existing	Proposed
General taxpayer	Taka 300,000	Taka 350,000
Women and senior citizens aged 65 years or above	Taka 350,000	Taka 400,000
Third gender	Taka 350,000	Taka 475,000
Physically challenged persons	Taka 450,000	Taka 475,000
Gazetted war-wounded freedom fighters	Taka 475,000	Taka 500,000

In case of parent/legal guardian of a physically challenged person, he/she (only one assessee if father and mother both are taxpayers) will get a further initial exemption of Taka 50,000 in addition to above limit.

2. Non-residents [remain unchanged]

Non-residents other than Bangladeshi non-residents shall pay tax on the total income at the rate of 30%.

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Proposals in connection with Income Tax (contd.)

3. Minimum tax payable

As before, minimum tax payable depending on location of the taxpayers remain unchanged as follows:

Location	Minimum tax
Within Dhaka North City corporation, Dhaka South City Corporation and Chattogram City Corporation	Taka 5,000
Any other City Corporation	Taka 4,000
Other than City Corporation area	Taka 3,000

However, individuals required to submit income tax return need to pay minimum tax of Taka 2,000 even though no taxable income.

4. Charge of surcharge

The minimum threshold has been increased to Taka 40 million from 30 million. Surcharge is payable by an individual assessee at following rate:

Total net worth	Rate
Over Taka 40 million to Taka 100 million or owner of more than 1 motor car or owner of house property of more than 8,000 sft size in total within city corporation area	10%
Over Taka 100 million to Taka 200 million	20%
Over Taka 200 million to Taka 500 million	30%
Over Taka 500 million	35%

5. Environment surcharge

Environment surcharge is proposed as stated below:

Engine capacity of motor car	Rate
Up to 1500cc or 75kw	Taka 25,000
Exceeding 1500cc or 75kw but not 2000cc or 100 kw	Taka 50,000
Exceeding 2000cc or 100 kw but not 2500cc or 125 kw	Taka 75,000
Exceeding 2500cc or 125 kw but not 3000cc or 150 kw	Taka 150,000
Exceeding 3000cc or 150 kw but not 3500cc or 175 kw	Taka 200,000
Exceeding 3500cc or 175 kw	Taka 350,000

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Proposals in connection with Income Tax (contd.)

- Environment surcharge is payable to all taxpayers having more than one motor car and surcharge will be exempted on the motor car with the lowest applicable surcharge.
- Environment surcharge will be collected during registration or fitness renewal.

6. Investment tax rebate [remain unchanged]

Allowable limit of investment tax rebate is 15% of the eligible amount. If assessee fails to comply to submit return under section 75, then investment tax rebate will be 7.5%.

Eligible amount is the lowest of the following:

- Actual investment; or
- 20% of total income or
- Taka 10 million

7. Statement of assets, liabilities and lifestyle [remain unchanged]

An individual assessee must submit the statement of assets, liabilities and lifestyle, if he

- Has a gross wealth over **Taka 4 million**;
- Owns a motor car; or
- Has made an investment in a house property or an apartment in the city corporation area.

If any individual, not being a shareholder director, has total income not exceeding Taka 0.4 million, he may opt not to submit the statement of lifestyle. Non-resident Bangladeshi and non-Bangladeshi shall submit the assets and liabilities statements only in respect of assets located in Bangladesh.

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Proposals in connection with Income Tax (contd.)

8. Tax rates for corporate [remain unchanged]

As before, applicable tax rates for companies are as follows:

Companies	Rate
Publicly traded companies (i.e. companies listed with any stock exchange in Bangladesh other than banks, insurance companies, merchant banks and other financial institutions and jute, textile, mobile phone operator companies and cigarette, zarda, bidi, gul or any other tobacco product manufacturing companies) listed more than 10% of their paid-up capital through IPO.	20%*
<i>However, publicly traded companies listed 10% or less of their paid-up capital through IPO.</i>	22.5%*
One-person company	22.5%*
Non-listed companies including branch companies other than banks, insurance companies, merchant banks and other financial institutions, jute, textile, mobile phone operator companies and cigarette, zarda, bidi, gul or any other tobacco product manufacturing companies.	27.5%*
Banks, insurance and other financial institutions (except merchant banks) if not publicly listed	40%
Banks, insurance and other financial institutions (except merchant banks) if publicly listed	37.5%
Merchant banks	37.5%
Cigarette, zarda, bidi, gul or any other tobacco product manufacturing companies (companies, firms and individuals) irrespective of listing status	45%
Surcharge in addition to above tax is applicable on business income.	2.5%
Mobile phone operator companies if not publicly listed as below	45%
Mobile phone operator companies that convert themselves into a publicly traded company by transfer of at least 10% shares through stock exchanges, of which maximum 5% may be through Pre-Initial Public Offering Placement	40%
<i>[If mobile phone operator companies list at least 20% of their paid-up capital through IPO, they shall receive a rebate of 10% in the year of listing.]</i>	
Association of persons, any artificial judicial person created by law and other taxable entities	27.5%*

* All income and receipts, and all expenses and investments over Taka 0.5 million for a single transaction and total Taka 3.6 million in a year shall be made through banking channel; otherwise, tax rate will be increased by 2.5%.

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Proposals in connection with Income Tax (contd.)

However, 5% additional tax will be charged if disabled persons are not provided with proper arrangement for movement at the place of service by school, college, university and NGO.

On the other hand, rebate of 5% tax or waiver of 75% of salary to physically challenged or third gender employees, whichever is lower, will be allowed for employing 10% of total employees or more than 25 persons from physically challenged or third gender persons.

9. Corporate tax rates for autonomous bodies

Tax rate of autonomous bodies reduced to 25% by SRO 158-Act/Income Tax/2014 has been repealed and regular corporate tax rate has been proposed.

- | | |
|--|--|
| 1. WASA (Dhaka, Chattogram, Khulna and Rajshahi) | 12. Bangladesh Betar |
| 2. Bangladesh Civil Aviation Authority | 13. BIWTA |
| 3. RAJUK | 14. BTRC |
| 4. RDA | 15. BPDB |
| 5. KDA | 16. BREB |
| 6. CDA | 17. BWAPDA |
| 7. National Housing Authority | 18. BEPZA |
| 8. Chattogram Port Authority | 19. Bangladesh Bridge Authority |
| 9. Mongla Port Authority | 20. Borendra Multipurpose Development Authority (Rajshahi) |
| 10. Pyra Port Authority | 21. Bangladesh Hi-Tech Park Authority |
| 11. Bangladesh Television | 22. IDRA |
| | 23. Sustainable and Renewable Energy Development Authority |
| | 24. BEZA |

10. Amendment of deduction from payment to contractors, etc. (Section 52, Rule 16)

The rate of deduction on supply of tobacco leaves and tobacco products is proposed at flat rate of 10% and on supply of Extra High Voltage Power Cable 33KV to 500KV by local manufacturers having own Vertical Continuous Vulcanisation line at 3%.

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Proposals in connection with Income Tax (contd.)

11. Amendment of collection of tax on transfer, etc. of property (Section 53H, Rule 17II)

The registering authority while registering a document shall collect income tax from the transferor on the value of the land, building which the document of transfer relates to and on which stamp duty is chargeable under Stamp Act 1899. The tax so collected shall be treated as final tax liability as per section 82C. The rate of tax will depend on the location of the land and building. The rates of tax on transfer of properties are proposed to be increased at double in most cases and the applicable rate may vary from 2% to 8% based on the location.

12. Withdrawn of withholding tax exemption on Government approved foreign loans interest

Interest payment by the Government, local authorities, industrial undertakings, financial institutions or banks for the purpose of lending to industrial undertakings against money borrowed from outside Bangladesh was out of scope of withholding income tax through SRO 417A-L/76. Now, it is proposed to delete this exemption.

13. Withdrawal of certain compliances

- Monthly statement of deduction or collection at source: Section 58, Rule 18(7)
- Monthly statement of deduction of tax under the head "Salaries": Section 50, Rule 21
- Annual statement of salary payment: Section 108, Rule 23
- Annual statement regarding payment of interest other than interest on securities: Section 109, Rule 20
- Annual statement regarding payment of dividend: Section 110, Rule 19

14. Changes of time period of withholding tax return under section 75A

Currently withholding income tax return needs to be submitted on bi-annual basis i.e. first return and second return. It is proposed to submit on monthly basis.

15. Repeal of allowances related to salary income as stated in Rule 33 to 33J

Valuation of perquisites, allowances, benefits as mentioned in Rules 33 to 33J has been proposed to be deleted. Income Tax Act 2023 (proposed) has contained provisions for taxing such benefits and there are deductibility provision at lower of 2/3rd of total income from salary and Taka 450,000.

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Proposals in connection with Income Tax (contd.)

16. Withdrawal of certain exemptions

Exemption from income tax on ICB Mutual and Unit Funds and issuer of Mutual Funds is proposed to be deleted.

17. Introducing a new rule on Income Tax Return Preparers: SRO 168-law/income tax/2023

A new rule is proposed to form a new group of people who will be responsible for electronic return preparation. Income tax return preparers would be eligible to receive incentives from National Board of Revenue (NBR) based on tax payment under section 74 of the assessee and they will be responsible for return preparation and submission only. Associated entities selected by NBR will get a service charge at 10% of return preparers' incentives. This arrangement of incentive will be active up to 5th return of an assessee.

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Proposals/Changes in connection with Value Added Tax (VAT)

1. Amendment of provisions related with Central VAT registration

It is proposed that business units should not be the criteria for central VAT registration. The “place” where books & records are centrally maintained shall be considered.

2. Inclusion of products in mandatory VAT registration at production stage

- Cooking Appliances
- Kitchen Appliances

3. Updated definition of “Input”

To reduce the confusion, ‘vehicle purchase’ is now clearly stated in the negative list of input.

4. Definition of “Output Tax” extended

Supplementary duty is defined under “Output Tax”. It is now proposed to align with the VAT return.

5. Definition of “Export” aligned with the Foreign Exchange Guidelines of the central bank

The definition of “deemed export” contains provision of foreign currency proceeds. Now, it is clarified in the definition of “export”.

6. Defining “Online Goods Sales” and “Marketplace”

“Online Goods Sales” – purchase or sale of goods and services through an electronic network which has previously been procured from a manufacturer, wholesaler or trader paying applicable VAT and it will be supplied by retailers upon paying of applicable VAT by customers. Retailer should not have a physical sales centre.

“Marketplace” – it is a digital market platform where one or more sellers integrate information of their goods or services and supply them through this platform.

The operator of the marketplace will not involve in the purchase or sale and they will not have a sales centre.

Applicable VAT rate is 5% for these services.

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Proposals/Changes in connection with Value Added Tax (VAT) (contd.)

7. Restriction for amendment of VAT return

Decreasing adjustment and input VAT credit cannot be rectified by the revised return.

8. Digital payment of electricity

If electricity is paid through digital payment gateway, receipt of payments will be considered as VAT invoice (Mushak – 6.3). Payment through mobile financial service will be considered as payment through banking channel.

9. Amendment of partial input VAT credit formula

Currently, partial input VAT credit is allowed based on the percentage of all taxable supplies to all supplies. However, it is proposed not to consider the non-rebatable taxable supplies. Formula of partial input VAT credit is stated below:

Existing formula	Proposed formula
$I \times T/A$	$I \times T/A$
I= Total amount of input VAT T= Value of all taxable supplies A= Value of all supplies	I= Total amount of input VAT T= Value of all rebate-able supplies A= Value of all supplies

10. Extension of VAT exemptions for certain manufacturers

VAT exemption period under certain conditions for following manufacturers has further been extended

Industry	Exemption up to
Air-conditioner and compressor	30 June 2024
Refrigerator and freezer	30 June 2024
Automobiles	30 June 2030
Polystyrene staple fiber	30 June 2024
Mobile phone	30 June 2024
Sanitary napkin and diaper	30 June 2024
LPG cylinder	30 June 2024

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Proposals/Changes in connection with Value Added Tax (VAT) (contd.)

11. Withdrawal of VAT exemption at import stage

Product	Earlier	Proposed
Dates and cashew Nuts	Exempted	15%
Basmati Rice	Exempted	15%
Database operating system	Exempted	15%

12. Withdrawal of VAT exemption at production stage

Product/service	Earlier	Current Status
Ball Point pen	Exempted	15%
Software and software Customization	Exempted	5%

13. Increase of VAT rate at production stage

VAT rates for products are proposed to be increased.

Product	Existing	Proposed
All plastic tableware, kitchenware, household products, hygienic and toiletries products, and other similar products. (except tiffin box & water bottle)	5%	7.5%
Kitchen towel and toilet tissue	5%	7.5%
Iron or steel (LPG Cylinder)	5%	7.5%
Aluminum and aluminum products	5%	7.5%
Sunglass (Plastic and metal frame)	5%	7.5%

14. VAT rate on locally manufactured mobile phone and cellular

Extension of VAT exemption period for mobile and cellular devices is proposed.

Parties	Existing	Proposed
Component manufacturer	Fully exempted	VAT over 2%
Assembler and component manufacturer	VAT over 3%	VAT over 5%
Assembler	VAT over 5%	VAT over 7.5%

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Proposals/Changes in connection with Value Added Tax (VAT) (contd.)

15. VAT benefit for confectionery items

Product	Existing	Proposed
Sweetmeats	15% VAT	7.5% VAT
Home-made biscuit	Up to Taka 150 per kg VAT exempted	Up to Taka 200 per kg VAT exempted
Home made cake	Up to Taka 250 per kg VAT exempted	Up to Taka 300 per kg VAT exempted

16. Enhancement of advance VAT exemption List

Product	Existing	Proposed
Aircraft engine imported by airlines company	5%	Exempted
Turbo Jet imported by airlines company	5%	Exempted
Solar power-operated water distillation plant	5%	Exempted
Petroleum oil and obtained from bitumines	5%	Exempted
Furnace oil, Kerosene type jet fuel, High speed Diesel oil	5%	Exempted

17. Streamline of supplementary duty

Currently, supplementary duty (SD) is claimed as refund after six months of carrying forward. However, SD refund can now be claimed instantly without carrying forward.

18. Increase SD rate at Import Stage

Product	Existing	Proposed
Products containing tobacco, reconstituted tobacco, nicotine, or tobacco or nicotine substitutes, intended for inhalation without combustion, other nicotine containing products intended for the intake of nicotine into the human body	100%	150%
Cigarette paper imported by other importers	-	150%



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