



Tax Update

August 2024



The tax environment in Bangladesh is undergoing significant changes with introduction of the several Acts in the last year, which are going through some interesting transformations in this year. This newsletter presents some of our picks from the major updates which any professional should be aware of.

Income Tax

1. Introduction of Income Tax Alternative Dispute Resolution Rules 2024

A comprehensive income tax rule has recently been published with the primary objective of providing detailed guidance on the procedures and mechanisms related to alternative dispute resolution (ADR) within the tax framework, with some minor changes to the existing regulations.

2. Exemption on tax for businesses in economic zone

Income generated by investors from business operation (manufacturing of goods and rendering of service) is exempted from starting of their commercial operation within 30 June 2035 at reducing rates as mentioned in the SRO for first 10 years, subject to fulfilment of prescribed conditions. The reduced rates for each year of operation remain unchanged as compared to the previous regulations.

3. Exemption on income from operation within high tech park

Income generated by investors from business operation (manufacturing of goods and rendering of service) is tax exempted from starting of commercial operation within 30 June 2035 at reducing rates (100% for first 7 years and 70% for the next 3 years), subject to fulfilment of certain conditions. Please note that the slab wise rates are now more beneficial compared to previous regulations.

4. Tax deducted at source against payment of contractors

Recently the Tax Deducted at Source (TDS) Rules 2024 replaced the earlier TDS Rules 2023. Subsequently through an SRO further amendment are incorporated and among which the tax deduction at source for organisations involved in gas distribution is reduced to 2%. Similarly, the withholding tax rate on payment to supplier of any kind of fruits, is raised to 2% from 1%.

5. Clarification of tax deducted at source and environmental surcharge against motor vehicles

For individual taxpayers owning more than one motor vehicle, an environmental surcharge applies to each additional vehicle. The surcharge rate for multiple vehicles will be based on the rates applicable to all vehicles except the one with the lowest surcharge rate. It should be noted that VAT and supplementary duty are not applicable to the environmental surcharge. Additionally, TIN or PSR is not required for the application of the environmental surcharge.

A higher tax deducted at source will be applicable during registration or renewal of fitness of both privately owned and commercially operated motor vehicles if the taxpayer fails to furnish the proof of submission of return (PSR). In addition, a higher amount will be applicable for privately owned motor vehicles if taxpayer owns more than one motor vehicle.

6. Issuance of the Income Tax Paripatra 2024-25

The Income Tax Authority has recently published the Income Tax Paripatra for providing clarification and clear guidance on the amendments brought forward by the Finance Act 2024 in the Income Tax regulations.

7. Clarification of tax deducted at source during registration of lease deed

The clarification states that section 128 of ITA 2023 will also be applicable for the tax deducted at source for the lease of any land in an economic zone or city to an investor after developing said land has been prepared for industrial establishment. Furthermore, tax will not be deducted at source under this provision if lease term of the immovable property is less than 10 years or if the transferee is not a lessee.

The clarification has also mentioned certain conditions for collecting tax at source. An important condition is that the tax deducted at source will be 50% higher if proof of submission of return (PSR) is not furnished where applicable.

VAT and Customs

1. Exemption on excise duty for depositors and lenders of offshore banking units

For banking or financial institutions and airlines services under offshore banking unit mentioned in SRO No 136-AIN/2024/242-Excise, excise duty in excess of the amount mentioned in the table has been exempted.

Furthermore, this order provides exemption of excise duty payable on the accounts of depositors

and foreign lenders maintained under the Offshore Banking Act 2024.

2. Introduction of the Expedited Shipment Rules 2024

The SRO introduces the expedited clearance of certain goods if certain formalities are maintained. For this preferential treatment, the express service entities will need to obtain license from the Commissioner of Customs in general case. Once this license is obtained, an Express Service Providers Identification Number (ESPIN) is provided along with user ID and password for the computer system enabled processes. The rules also specifies certain categories of goods which are eligible for this preferential treatment.

3. Introduction of the Authorized Economic Operators Rules 2024

The SRO repeals the previous SRO of 2018 and introduces updated rules for Authorized Economic Operators (AEOs). To obtain AEO status, applicants must submit Form-A, along with a Self-Assessment Questionnaire (SAQ) and supporting documents, including an affidavit. Temporary recognition may be granted, subject to conditions, with final certificates issued upon meeting the requirements. The SRO also outlines categories of authorized economic operators and the benefits they will receive.

4. Introduction of the Annual Import Availability determination of Direct and deemed export oriented industrial establishments rules 2024

The SRO introduces the method based on which annual production capacity will be calculated for the allowance. It specifies that, 300 working days per year and 20 working hours per day shall be considered. Then based on the annual import availability of raw materials will be determined as 30% of the annual production capacity.

5. Introduction of General Bond Rules,2024

The SRO outlines the process for licensed entities to import, warehouse, and export goods without customs duties by executing a general bond with the Commissioner of Customs. To qualify, industries such as export-oriented businesses and duty-free institutions must obtain a warehouse license and submit the necessary bond documentation. Once approved, the general bond allows for duty-free storage and export under specified conditions. The rules also highlight the importance of audits and provide guidelines for temporary bond extensions when audits are incomplete. Specific sectors are granted varying bond validity periods based on industry requirements.

6. Introduction of Warehousing licensing rules 2024.

The SRO outlines the process for obtaining and maintaining a warehouse license for import-export operations. To apply for a license, individuals must submit forms, documents, and fees, and the license will be granted if all conditions are met. Licensees must pay a BDT 100,000 fee and ensure audits are up to date before receiving a warehouse license. The license is valid for three years, with renewal options if specific import-export activities have been maintained. Audits

must be conducted annually, and certain industries may receive continuous bond facilities for multiple production units under the same license, provided all necessary records are maintained separately.

7. Introduction of Electronic Document Filing, Payment, and Record Preservation Rules, 2024

The SRO introduces the framework for electronic filing, payment, and record-keeping for customs-related activities. To access these services, individuals must apply for permission from the Commissioner of Customs. Upon approval, they can electronically file documents and make payments for duties, taxes, and fees. The system ensures that records are preserved for five years, and automated decisions and actions by customs authorities are considered valid. The rules also outline the process for electronic payments through approved banks and MFS institutions, ensuring streamlined and secure transactions for importers and exporters.

8. Exemption on local production of cellular phones

The SRO 165-AIN/2024/17/Customs allows industrial IRC holders and VAT-compliant manufacturers of cellular phones to enjoy a CD of 1% for certain items and CD of 10% for certain other items, and exemption on all the applicable VAT, RD and SD at import stage. These exemptions will remain in force until June 30, 2026.

9. Introduction of the Warehouse Storage Period Determination Rules, 2024

These rules apply to all establishments licensed under the Warehouse Licensing Rules, 2024, and regulate the storage period for goods in licensed warehouses. The rule presents different allowable time limits for different categories of warehouses, which ranges from 6 to 48 months. It should be noted that the respective authorities can extend this time limit if application is made in the prescribed manner.

10. Introduction of Goods Declaration, Assessment, and Re-Assessment Rules, 2024

These rules will govern the customs processes related to goods declaration, including import and export shipments. The rule prescribes a specific form for declaration of goods for the purpose of assessment. It provides a specific list of documents to be submitted and also the steps which need to be taken for proper assessment. Further, procedures for self-assessment and re-assessment are also presented.

11. Introduction of the Customs Guarantee Rules 2024

This rule provides clear guidelines for providing guarantees for customs-related activities, applicable for only those situations in which there is a requirement for providing guarantee under the customs regulations. The rules also specifies the method in which the guarantee can be released.

12. Exemption for local production of electric motors and parts

SRO 163-AIN/2024/15/Customs introduces exemption for local production of electric motors and parts. The H.S codes mentioned in Table 1 are subject to CD of 1% and the H.S codes mentioned in Table 2 are subject to CD of 5%. In addition to that, VAT, RD and SD are also exempted till 30 June 2027 under this order.

13. Exemption on local production of motorcycles

The SRO 166-AIN/2024/18/ Customs amended exemption allowed local manufacturers of motorcycles to benefit from CD (reduced rates of 3%/10%/15% applicable depending on HS Code), RD, and SD exemptions on the importation of raw materials. This new SRO further enhances these benefits by including materials under H.S. code 84.09 which includes Blank crank case, other engines, etc.

14. Exemption on local production of ATM & CC camera

The SRO 168-AIN/2024/20/Customs amended the exemptions allowed to local manufacturers of ATMs and CC cameras, increasing the rate of CD from 1% to 5% for certain items as mentioned in Table 1 of the SRO. The rate applicable for items mentioned in Table 2 of the SRO remains the same as before, i.e., 10%. Further, full exemption is continued to be allowed on VAT, RD and SD at import stage of these items.

This SRO is effective up to 30 June 2026.

15. Exemption on raw materials for manufacturers of generators

The SRO 171-AIN/2024/23/Customs raised the CD payable by Industrial IRC holder VAT compliant manufacturer or assemblers of generators at import stage for certain items from being fully exempted to 1%. Further, the applicable VAT remain exempted for these specified items. This will raise the import cost for these entities, which may be passed on in the form of higher prices for the customers.

16. Exemption on raw materials for local production of led lamp and energy saving lamps

The SRO 173-AIN/2024/25/Customs raised the CD payable at import stage for importing certain specified parts and components by manufacturers of LED lamp and energy saving lamps from being fully exempted to 10%. This rise in cost may lead to higher prices for the customers.

17. Exemption for importation of vehicles by industrial units of economic zone

Previously, industrial units established within the economic zone were granted full exemptions on CD, SD, VAT and RD for the importation of vehicles under the now-repealed SRO 210-AIN/2015/47/Customs.

With the introduction of the new SRO 186-AIN/2024/38/Customs, exemptions on VAT, RD and SD have been removed. Consequently, vehicles imported by industrial units within the economic zone will now receive full exemption solely for CD.

However, there has been a relaxation in the conditions required to claim this exemption. Industrial units are now required to invest US\$5 million or employ 250 people, compared to the previous requirement of US\$10 million or employing 500 people.

18. Exemptions for importation of vehicles by industrial units in High Tech Park

Previously, under SRO 213-AIN/2015/50/Customs importation of any vehicles by industrial units established within the high-tech park used to get full exemption in CD, SD, RD and VAT at import stage.

With the introduction of the new SRO 189-AIN/2024/41/Customs, exemptions VAT, RD and SD have been removed. Consequently, vehicles imported by industrial units within the High Tech Park will now receive full exemption solely for CD.

However, there has been a relaxation in the conditions required to claim this exemption. Industrial units are now required to invest US\$5 million or employ 150 people, compared to the previous requirement of US\$10 million or employing 500 people.

19. Amendment to VAT and Advance Tax applicability on local and imported raw materials for production of computer and accessories

The previous SRO No.-150-Act/2021/147-VAT focused primarily on the importation of essential raw materials, applying VAT and Advance Tax only at the import stage for materials used in production.

The new SRO No.-147-Act/2024/253-VAT expands the scope to cover both imports and local purchases of materials and spare parts used in production, ensuring that VAT and Advance Tax apply to both imported and locally sourced materials.

20. Time and rate amendment of VAT exemption for certain industries at manufacturing stage

With various regulatory orders the VAT exemption of multiple industries (manufacturing stage) have been amended. Snapshot is as follows:

- **Optical Fiber**- Over 5% up to 30 June 2027
- **LABSA & SLES**- Over 5% up to 30 June 2025
- **LPG Cylinder**- Over 5% up to 30 June 2025
- **Sanitary napkin**- VAT exempted up to 30 June 2025
- **Refrigerator & Freeze**- Over 7.5% up to 30 June 2025
- **Air conditioner & compressor**- Over 7.5% (just for air conditioners) up to 30 June 2025
- **Mobile phone**- VAT exempted up to 30 June 2025
- **Propylene staple fiber**- VAT exempted up to 30 June 2025

21. Amendment of definition of withholding entity

Now the person or institutions having annual turnover exceeding BDT 100 million will be considered to be withholding entities.

22. Change in definition of procurement provider

Now any person or institution with annual turnover exceeding BDT 100 million to whom any supply is made via tender will also be considered under the definition.

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