



Rahman Rahman Huq  
Chartered Accountants

# Taxation Handbook

(Updated to Finance Act 2019)

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### About Rahman Rahman Huq (KPMG in Bangladesh)

In 1962, when Price Waterhouse Peat & Co. left Pakistan, one of its former partners Mr. Rezaur Rahman joined forces with two other Chartered Accountants Mr. M. Saifur Rahman and Mr. Tashfin I. Huq to form Rahman Rahman Huq.

Rahman Rahman Huq is a Member Firm of KPMG International. Rahman Rahman Huq (hereinafter referred to as RRH or the Firm) takes pride in being the first Member Firm in Bangladesh of any of the Big 4 global accounting firms. Member Firm status is the highest level of affiliation offered by such global firms. This formally establishes RRH as a top tier accounting firm in Bangladesh. This status is positioned on top of our reputation built over the last half a century by providing services to our clients with sound technical knowledge, combined with uncompromising integrity, objectivity and independence.

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- |                           |                                   |                         |                               |
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| - Banglalink              | - Weatherford                     | - Unilever              | - Cemex                       |
| - Robi/Axiata             | - Foster Wheeler                  | - Singer                | - Emirates Cement             |
| - Alcatel Lucent          | - WorleyParsons                   | - Bata Shoe             | - Tesco                       |
| - Huawei                  | - Vinarco                         | - Marico                | - Walmart                     |
| - IBM                     | - Esprat                          | - Nestle                | - Sainsbury's                 |
| - Microsoft               | - AusGroup                        | - Syngenta              | - Mustafa Mart                |
| - HP                      | - Eni SpA                         | - Bangladesh Edible Oil | - Maersk                      |
| - Dell                    | - Cameron                         | - Asian Paints          | - Aramex                      |
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| - Southeast Bank Ltd.     | - Meghnaghat Power                | - Intertek              | - icddr,b                     |
| - The City Bank Ltd.      | - NEPC                            | - TUV SUD               | - SMC                         |
| - Bank Asia Ltd.          | - Rolls-Royce Power               | - Avery Dennison        | - OXFAM                       |
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Currently RRH has seven active partners/directors. Operating from offices in Dhaka and Chattogram, we employ more than 450 professionals. The Firm, the partners and personnel who work for it and the processes under which we operate are governed not just by a strict code of ethics, but also by an elaborate risk management structure. We have an IT wing manned by professionals with the qualification and experience necessary to meet the diverse needs of clients.

Our ambition is to continue to recruit some of the best talent entering this profession, train them in an environment of technical and ethical excellence to meet the highest expectations of clients in this age of continually evolving multi-dimensional challenges.

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## 1. Preface

We have prepared this booklet mainly for the guidance of our existing clients. This booklet incorporates many of the important provisions of the Income Tax Ordinance 1984 as amended up to the Finance Act 2019 and major changes brought in by the Finance Act 2019 in respect of the Value Added Tax and Supplementary Duty Act 2012 and Rules 2016.

The information contained in this booklet 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 information at the time of preparation, there can of course be no assurance that such information would continue to be accurate in the future. No one should act on such information without appropriate professional advice, given after an examination of the particular circumstances. This booklet contains selected aspects of Bangladesh tax provisions; it is not intended to be comprehensive.

We would welcome your comments on the booklet.

Adeeb H. Khan  
*Senior Partner*

## 2. Tax rates

### 2.1 Tax rates for individual, etc.

No tax is payable by tax residents on income not exceeding Tk 250,000. The following rates are applicable to resident individual, Hindu undivided family, partnership firm, non-resident Bangladeshi, association of persons and any other taxpayer including artificial judicial person created by the act:

#### Residents including non-resident Bangladeshi

Total income	Tax rate
First Tk 250,000*	Nil
Next Tk 400,000	10%
Next Tk 500,000	15%
Next Tk 600,000	20%
Next Tk 3,000,000	25%
On the balance	30%

\*Initial exemption limit for women and senior citizens aged 65 years or over is Tk 300,000, for physically challenged persons, it is Tk 400,000 and for gazetted war-wounded freedom fighters, it is Tk 425,000.

In case of parent/legal guardian of a physically challenged person, he/she will get a further initial exemption of Tk 50,000 in addition to above limit.

Please see section 3.2 for the definition of resident.

#### Non-residents

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

#### Minimum tax payable

Minimum tax payable is as follows depending on location of the assessee:

Location	Minimum tax
Within Dhaka and Chattogram City Corporation	Tk 5,000
Any other City Corporation	Tk 4,000
Other than City Corporation	Tk 3,000

#### Dividend income

Dividend income received for individual assessee from company listed with an exchange in Bangladesh is tax exempted up to Tk 50,000.

### Charge of surcharge

Surcharge is payable by an individual assessee on total tax payable if the total net worth exceeds Tk 30 million as stated below:

Total net worth	Rate
a) Over Tk 30 million to Tk 50 million or owner of more than 1 motor car or owner of a flat of 8,000 sft size within City Corporation area	10%
b) Over Tk 50 million to Tk 100 million	15%
c) Over Tk 100 million to Tk 150 million	20%
d) Over Tk 150 million to Tk 200 million	25%
e) Over Tk 200 million	30%

However, minimum surcharge will not be less than Tk 3,000 for option (a) above and not less than Tk 5,000 if net worth exceeds Tk 100 million.

However, if the total net wealth is Tk 500 million or more, surcharge will be higher of the following:

- a) 0.1% of net wealth; and
- b) 30% of surcharge on total tax.

### Rate for owner of small or cottage industry

If an individual is the owner of a small or cottage industry situated in a less or least developed area and is engaged in manufacturing of products and derives income from such industries then he will be entitled to rebate on income derived from such industries at the following rates:

Particulars	Rate of rebate
If production during the year is more than 15% but less than 25% compared to previous year	Rebate of 5% on tax payable on income derived from such industries.
If production during the year exceeds 25 % as compared to previous year.	Rebate of 10% on tax payable on income derived from such industries.

### Tax rates applicable for owners of motor car and jeep

Tax payable at the time of registration or renewal of fitness certificate for motor vehicles is:

Type of Vehicle	Tax payable (Tk)
Up to 1500 CC for each motor car or jeep	15,000
Up to 2000 CC for each motor car or jeep	30,000
Up to 2500 CC for each motor car or jeep	50,000
Up to 3000 CC for each motor car or jeep	75,000
Up to 3500 CC for each motor car or jeep	100,000
More than 3500 CC for each motor car or jeep	125,000
Micro-bus each	20,000

Such advance tax shall not be collected from government, local government, any project under government, foreign diplomat, development partner, an educational institute under MPO, public university, gazetted war-wounded freedom fighter and any letter issued by NBR to any institute.

However, if any assessee owns more than one motor vehicle self or jointly, then registration cost will be 50% higher for every subsequent registration. This shall be treated as advance payment of tax of the assessee. Moreover, such advance tax shall not be refundable.

## 2.2 Corporate tax rates

The rates of tax applicable to companies, banks, insurance and other financial institutions:

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, garment industries, mobile phone operator companies and cigarette zarda, bidi, gul or any other tobacco product manufacturing companies.	25%
Non-listed companies including branch companies other than banks, insurance companies, merchant banks and other financial institutions, jute, textile, garment industries, mobile phone operator companies and cigarette, zarda, bidi, gul or any other tobacco product manufacturing companies.  <i>[If non-listed companies other than banks, insurance companies, merchant banks and other financial institutions, jute, textile, garment industries, mobile phone operator companies and cigarette, zarda, bidi, gul or any other tobacco product manufacturing 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>  <i>50% of export income is exempt from tax.</i>  <i>However, rebate on income from export business shall not apply to companies who are enjoying tax exemption or paying tax at the reduced rates as mentioned in 2.3.]</i>	35%
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 and those which got approval from the Government in 2013	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  <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>	40%

However, 5% additional tax will be charged from 1 July 2020 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 5% tax rebate will be allowed if at least 10% of total employees constitute disabled person.

### 2.3 Reduced rates of Corporate Tax applicable to certain industrial companies

Companies	Rate
Textile industries (time extended up to 30 June 2022)	15%
Jute industries (time extended up to assessment year 2019-2020)	10%
Knit wear and woven garments manufacturer and exporter (time extended up to assessment year 2019-2020)	12%
Knit wear and woven garments manufacturer and exporter with internationally recognised factory with 'green building certification'	10%
Research Institutes at national level, registered under the Trust Act, 1882 or Societies Registration Act, 1860	15%
Private Universities, Private medical college, Private dental college, Private engineering college or Private college engaged in imparting education on information technology	15%
Co-operative society registered under Co-operative Society Act 2001 other than income from agricultural or cottage sector	15%
Production of pelleted poultry feed, Production of pelleted feed for fish, shrimp and cattle, Production of seeds marketing of locally produced seeds, cattle farming, dairy farming, horticulture, frog farming, sericulture, mushroom farming and floriculture:	
▪ Income up to Tk 1,000,000	3%
▪ Next Tk 2,000,000	10%
▪ On the balance amount	15%

### 2.4 Reduced tax rates applicable to local authority

25% reduced tax rate will be applicable for following local bodies:

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

## 2.5 Capital gains tax

### 2.5.1 Capital gains tax on sale of shares of listed companies

Capital gain from transfer of stocks and shares of public limited companies listed with stock exchange except listed Govt. securities:

	Rate
a) For resident companies and firms	10%
b) Capital gain tax of non-resident shareholders (refer to section 5.9)	15%
c) For sponsor shareholders and shareholder directors	5%
d) For resident individual holding at least 10% of the total share capital of the company	5%

Capital gains tax on sale of stocks and shares of public limited companies listed with stock exchange in respect of resident individual assessee shall be exempt from tax unless such residents fall in categories (c) and (d) above.

### 2.5.2 Capital gains tax other than sale of shares of listed companies

In the case of a company, income from capital gains will be separated from total income and tax at 15% is payable on such capital gains regardless of the period of holding of the asset from the date of its acquisition.

In the case of an assessee other than a company, if the asset is transferred before the expiry of five years from the date of acquisition, the capital gains will be taxed at the usual rate applicable to the assessee's total income including the capital gains. If the asset is transferred at any time after expiry of five years from the date of its acquisition, the capital gains will be taxed at the usual rate applicable to the assessee's total income including the capital gains or at the rate of 15% on the amount of capital gains whichever of the two is lower.

## 2.6 Tax on dividend/remittance of profit

A company paying dividend shall withhold tax at the rate of 20% on dividend payable to a company and at 10% (subject to furnishing 12 digit Tax Payer's Identification Number) or 15% on dividend payable to a resident individual.

A company paying dividend shall withhold tax at the rate of 30% on dividend payable to any non-resident individual (other than a company).

If stock dividend declared or distributed by a listed company exceeds the cash dividend in any income year, 10% tax on the whole amount of stock dividend will be applicable. Such tax cannot be adjusted with any other tax liability of the company. The provision is also applicable if any cash dividend is not declared or distributed in the income year.

A branch company shall withhold tax at the rate of 20% while remitting profit to Head Office.

However in cases where dividend is payable to a shareholder resident in a country with which Bangladesh has signed a tax treaty, the rate mentioned in the tax treaty will apply subject to confirmation/certification from NBR.

Further, any distribution from mutual fund or alternative investment fund would be subject to tax like dividend declared by a company.

## **2.7 Tax on retained earnings**

A company (listed in stock exchange) shall pay tax at the rate of 10% on the total amount transferred to retained earnings or any fund, reserve or surplus, if such amount exceeds 70% of the net profit/income after tax in the income year.

## **2.8 Applicability of tax rates**

All rates quoted from 2.1 to 2.6 will apply for the assessment year 2019-2020, unless stated otherwise.

## **2.9 Charge of additional tax**

Additional tax will be charged to the employer who employs or allows an individual not being a Bangladeshi citizen to work at his business or profession without prior approval of BIDA or any other competent Government authority. This additional tax is higher of 50% of the tax payable on his income or Tk 500,000.

## **2.10 Filing of tax return**

Filing of tax return is compulsory for every person who:

- in a fiscal year earns total income from all sources exceeding the minimum threshold;
- was assessed for tax for any one of the three years immediately preceding that income year;
- is a company; or a non-government organization registered with NGO affairs bureau or co-operative society or a firm or an association or persons or a shareholder director or shareholder employee of a company, partner of a firm, an employee of the government or an authority corporation, body or units of the government who draws basic salary of Tk 16,000 or more at any time during the income year, an employee holding an executive or a management position in a business or profession; a Micro Credit Organisation having licence with Micro Credit Regulatory Authority; a non-resident having permanent establishment in Bangladesh; or
- is subject to tax exemption or lower tax rate except not being an institution established solely for charitable purpose or a fund;
- at any time during the relevant income year fulfils any of the following conditions:
  - owns a motor car, owns membership of a club registered under any law governing value added tax.
  - runs any business or profession having obtained a trade licence from any City Corporation, pourashava or /and operates a bank account;
  - has registered with a recognised professional body as a doctor, lawyer, income tax practitioner, chartered accountant, cost and management accountant, engineer, architect or surveyor or any other similar profession;
  - is a member of a chamber of commerce and industry or trade association;
  - Runs for an office of any pourashava, city corporation or a Member of Parliament;

- participates in a tender floated by the government, semi-government, autonomous body or local authority;
- Serves in the board of directors of a company or group of companies;
- Participates in a ride sharing arrangement by providing motor vehicle.

However, a return of income shall not be mandatory for-

- i. an educational institution receiving government benefits under Monthly Payment Order (MPO); or
- ii. a public university; or
- iii. a fund; or
- iv. a non-resident, not being a non-resident individual, having no permanent establishment in Bangladesh; or
- v. a non-resident individual having no fixed base in Bangladesh; or
- vi. any class of persons which the Board, by order in official gazette, exempt from filling the return.

### **3. Personal income tax**

#### **3.1 Introduction**

In general, Bangladesh residents are taxed on their worldwide income. Non-residents are taxed on income earned in Bangladesh irrespective of where the payment is made.

There is no provision for married couples to file joint returns. Returns are to be filed by 30 November for the income year ending 30 June.

Individuals may file returns under universal self-assessment scheme but the assessing officers have discretion to scrutinise the returns.

Where total income exceeds Tk 600,000 during the income year for any individual, he is required to pay advance tax as either 100% of last assessed tax or 75% of current estimated income tax and pay the outstanding tax (if any) at the time of filing the return. Tax on an employee's salary is required to be withheld on a monthly basis by the employer.

#### **3.2 Resident**

An individual is treated as a resident of Bangladesh if that person stays in Bangladesh for 182 days or more in any income year; or 90 days or more in an income year if that person has previously resided in Bangladesh for a period of more than 365 days during the four preceding years. Residence is determined in Bangladesh purely on the period of presence in Bangladesh irrespective of residency in other countries. Short-term visitors and dependents of foreign nationals not earning any income in Bangladesh are not taxed in Bangladesh and are not required to file tax return.

#### **3.3 Taxable income**

Taxable income is the total income earned from all sources, excluding exempt income. Foreign source income of a resident is included in his/her taxable income with the exception of the foreign source income of foreign nationals who are resident in Bangladesh.

#### **3.4 Requirement of twelve digit Taxpayer's Identification Number (e-TIN)**

It has been made compulsory to submit e-TIN certificate or acknowledgement receipt of income tax return or the tax certificate issued by Deputy Commissioner of Taxes at the time of:

- opening a letter of credit for the purpose of import;
- submitting an application for the purpose of obtaining an import registration certificate;
- renewal of trade licence;
- submitting any tender documents;
- submitting an application for membership of a club registered under the Companies Act 1994;
- issuance or renewal of license or enlistment of a surveyor of general insurance;
- registration of land, building or apartment situated within any city corporation deed value of which exceeds Tk 100,000. Such document shall contain TIN of both the seller and the purchaser. This provision will not apply in cases of non-resident Bangladeshis;
- registration, change of ownership or renewal of fitness of a car, jeep or a microbus;

- registration, renewal of fitness or change of ownership of a bus, truck, prime mover, lorry etc. plying for hire;
- sanction of loan exceeding Tk 500,000 to a person by a commercial bank or a leasing company;
- issue of credit card;
- issue of practicing license to a doctor, a lawyer, a chartered accountant, a cost and management accountant or an income tax practitioner;
- all sponsor directors at the time of registration of a company (other than non-resident foreign directors/sponsors);
- applying for or renewal of membership of any trade body;
- submitting a plan for construction of building for the purpose of obtaining approval from RAJUK, CDA, KDA and RDA;
- Issuance of drug license;
- applying for connection of gas for commercial use within a city corporation, pourashava or cantonment board;
- applying for connection of electricity within a city corporation, pourashava or cantonment board;
- issuance or renewal of survey certificate of a water vessel including launch, steamer, fishing trawler, cargo, coaster and dump-barge etc., plying for hire; or
- registration or renewal of certificate as agent of an insurance company;
- parents of the students of English medium school following international curriculum within City Corporation or in any pourashava of a district headquarter.
- receiving the salaries by an employee of the government or an authority corporation, body or units of the government who draws a salary at a scale of grade 10 or above;
- receiving any amount from the government under Monthly Payment Order (MPO) if the amount of payment exceeds Tk 16,000 per month;
- receiving any payment which is an income of the payee classifiable under the head of salaries by any person employed in the management or administrative function or any supervisory position in the production function;
- obtaining or maintaining the agency or the distributorship of a company;
- receiving any commission, fee or other sum in relation to money transfer through mobile banking or other electronic means or in relation to the recharge of mobile phone account;
- receiving any payment by a resident from a company against any advisory or consultancy service, catering, service, event management service, supply of manpower or providing security service;
- submitting a bill of entry for import into or export from Bangladesh;
- participates in a ride sharing arrangement by providing motor vehicle; and
- releasing overseas grants to a registered NGO or a Micro Credit Organisation having licence with Micro Credit Regulatory Authority.

### **3.5 Issuance of e-TIN without application and re-registration**

- Twelve digit Taxpayer's Identification Number (e-TIN) may be issued without any application where any income tax authority has found a person having taxable income during the year and has failed to apply for TIN.

- Board may direct any person having a TIN to furnish such information or documents for the purpose of re-registration and thereafter issue a new twelve digit Taxpayer's Identification Number.

### **3.6 Issuance of Temporary Registration Number (TRN)**

Temporary Registration Number (TRN) may be given to a person who has been found having taxable income in any year and has failed to apply for Taxpayer's Identification Number (TIN) under section 184B.

### **3.7 Universal self-assessment (Section 82BB)**

The Universal self-assessment has been re-structured. The responsibilities of the tax authority has been specified. Where an assessee files a return of income mentioning twelve-digit Taxpayer's Identification Number (TIN) in compliance with the conditions and within the time specified and pays tax on the basis of the tax return, tax authority will issue an acknowledgment of receipts of the return and such acknowledgment shall be deemed to be an order of assessment of the Deputy Commissioner of Taxes.

Upon receipt of an income tax return, the DCT shall compute the total income after necessary adjustments of any arithmetical accuracy and incorrect claim. He shall determine tax liability taking into account of tax refundable claimed including any tax deducted at source, any tax collected at source and any advance tax paid.

After processing the submitted tax return, the DCT shall send a notice to the assessee communicating the difference of computation of income, tax, refund or other related particulars with opportunity to justify his position in writing and to file an amended return specifying time limit in the notice. If the assessee files an amended return properly, the DCT shall send a letter of acceptance within 90 days. In case the assessee does not respond to the notice, the DCT shall send a demand notice within 9 months specifying total income and tax payable or refundable.

After filing the return, if the assessee finds any unintentional mistake resulting less tax liability has been paid or computed, he may file an amended return with a written statement mentioning the reason and paying tax in accordance with the amended return. An interest at the rate of 2% will be applicable for the tax that was paid or computed less. However, amended tax return cannot be filed after the expiry of 180 days from the date of the filing the original return or after the original return has been selected for audit.

A return of income filed under universal self-assessment shall not be selected for audit where such return except the return of income of a financial institution shows at least 15% higher income than the income assessed or shown in the return of immediate preceding assessment year and such return:

- is accompanied by corroborative evidence in support of any income exempted from tax;
- is accompanied by a copy of bank statement or account statement, as the case may be, in support of any sum or aggregate of sums of loan exceeding Tk 500,000;
- does not show receipt of gift during the year;
- does not show any income chargeable to tax at a rate reduced under Section 44; or
- does not show or result in any refund.

No question regarding the source of investment shall be raised, if a new assessee shows income at least 20% of the capital invested in a business or profession and shows income which exceeds the tax exemption threshold. However, the initial capital investment or any fraction thereof shall not be transferred within five years from the end of the income year.

Time limitation for disposal of universal self-assessment cases is two years from the end of assessment year in which the income was first assessable.

### **3.8 Submission of Statement of Assets and Liability and Life Style (Section 80)**

It is mandatory for an individual assessee to submit the statement of assets, liabilities and lifestyle, if he

- a) has a gross wealth over Tk 2.5 million; or
- b) owns a motor car; or
- c) 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 his income from salary or his income from business or profession does not exceed Tk 0.3 million, he may opt not to submit the statement of lifestyle.

### **3.9 Tax Clearance Certificate**

Every expatriate employed in Bangladesh is required to obtain a Tax Clearance Certificate from the concerned Deputy Commissioner of Taxes. This certificate is required to be produced as an evidence of tax payment/exemption at the port of departure from Bangladesh.

### **3.10 Tax rebate on investment**

An assessee shall be entitled to a rebate from the amount of tax payable if he/she invests during the income year in the following items e.g.

- a) life insurance premium
- b) contribution to approved Provident Fund (both by the employee and employer)
- c) contribution to deposit pension scheme amounting to not exceeding Tk 60,000 sponsored by a scheduled bank or a financial institutions
- d) donation to a national level institution set up in memory of the liberation war
- e) donation to a national level institution set up in memory of father of the nation
- f) donation to Prime Minister's Higher Education Fund
- g) donation to Aga Khan Development network/Asiatic Society/CRP/Dhaka Ahsania Mission Cancer Hospital/icddr,b
- h) donation to Zakat Fund/charitable fund established by or under Zakat Fund
- i) any sum invested in Bangladesh Government Treasury Bond and Sanchayapatra
- j) stocks and shares of listed companies, mutual funds and debentures listed with any stock exchange in Bangladesh

Allowable limit of investment tax rebate is as follows:

Total income	Investment tax rebate on eligible amount*
Up to Tk 1.5 million	15%
Over Tk 1.5 million	10%

\*Eligible amount is the lowest of the following:

- a) Actual investment; or
- b) 25% of total income; or
- c) Tk 15 million

### 3.11 Deemed income

- **House rent**

If rent free accommodation is provided to the employee, the rental value or 25% of the basic salary, whichever is less, is included in income. If accommodation is provided at a concessional rate, the actual payment by employee is excluded from the above. Tax exempted house rent receivable in cash is Tk 25,000 per month or 50% of basic salary, whichever is lower.

- **Conveyance allowance**

Tax exempt conveyance allowance receivable in cash is a maximum of Tk 30,000 per annum. If the employer provides conveyance for personal or private use, an amount equal to 5% of the employee's basic salary or Tk 60,000, whichever is higher, is added with total income.

- **Loan**

Any amount of loan not exceeding Tk 500,000 received by any assessee not being a company from any person, not being a banking company or financial institution, without crossed cheque or bank transfer shall be treated as income under the head 'income from other sources' if not paid back within three years.

- **Gift**

Loan or gift received from any source by an individual exceeding Tk 500,000 without crossed cheque or bank transfer shall be treated as income under the head 'income from other sources'

- **Medical expenses:**

Where any amount is received or receivable by the employee by way of hospitalisation, medical expenses or medical allowance, the amount, if any, so receivable or received exceeds 10% of basic salary or Tk 120,000 annually, whichever is less, shall be included in his income.

In case of an employee being a person with disability, the medical expenses exceeds Tk 1,000,000 shall be include in his total income.

Other items of such deemed incomes are contained in section 19 of the Income Tax Ordinance 1984.

### 3.12 Unexplained investments – special tax treatment in respect of investment in residential building and apartment (Section 19BBBBB)

Any sum invested by any person in the construction/purchase of any residential building/apartment shall be deemed to have been explained if tax is paid at following rates:

	Area	Tax per square meter	
		Up to 200 square meter	More than 200 square meter
A.	Gulshan Model Town, Banani, Baridhara, Motijheel Commercial Area and Dilkusha Commercial Area	Tk 4,000	Tk 5,000
B.	Dhanmondi Residential Area, Defence Officers Housing Society (DOHS), Mohakhali, Lalmatia Housing Society, Uttara Model Town, Bashundhara Residential Area, Dhaka Cantonment, Kawran Bazar, Bijoy Nagar, Segunbagicha and Nikunja of Dhaka and Panchlaish, Khulshi, Agrabad and Nasirabad of Chattogram	Tk 3,000	Tk 3,500

	Area	Tax per square meter		
		Up to 120 square meter	Up to 200 square meter	More than 200 square meter
C.	Any City Corporation other than area mentioned in A and B above	Tk 800	Tk 1,000	Tk 1,500
D.	Pourashava or any district headquarters	Tk 300	Tk 500	Tk 700
E.	Other area	Tk 200	Tk 300	Tk 500

The rates will be 20% higher if the assessee makes investment in two or more buildings/apartments or already has any building or apartment in any City Corporation.

Furthermore the rate of tax will be 100% higher if for the income:

- notice issued before submission of return for concealment or escaped assessment;
- notice issued before submission of return to furnish information; and
- proceeding initiated before submission of return for any noncompliance or providing false statement or false information.

However, the above will not be applicable rather under section 164, 165 and 166 if the source of income is:

- derived from any criminal activities; or
- not derived from any legitimate source.

### 3.13 Imposition of tax on income of chamber of commerce and industry, trade federation or any such business organisation

Any income derived from any source other than income from business, and interest income of government approved chambers of commerce and industry, trade federation, industry and trade cooperative etc. shall not fall under scope of tax liability.

## 4. Corporate tax

### 4.1 Introduction

Every company is required to obtain an e-TIN and register with the VAT authorities to receive distinctive numbers. Companies have to file their tax returns within Tax day\*. **The filing date may be extended up to two months and further extension up to another two months by the tax authorities upon application.** The return has to be accompanied with audited statement of accounts, computation of total income along with supporting schedules, for example depreciation schedule as per tax law, statement of profit/loss on sale of fixed assets, excess perquisite calculation statements, etc. An assessing officer verifies the filed return and may ask for information, explanation and evidences of claims made where required. Based on this, the officer may re-compute the total income and tax payable, and pass an order of assessment and communicate the order to assessee.

Company means a company incorporated under the Companies Act in Bangladesh and includes:

- A body corporate established or constituted by or under any law in force
- Any nationalised bank or industrial or commercial organisation
- Any association or combination of persons, if any of such persons are registered as a company
- An association or body incorporated by or under any laws of a country outside Bangladesh
- Any foreign association or body which the NBR declares to be a company.

\*Tax day means in case of company the 15<sup>th</sup> day of the seven month following the end of the income year or 15th September following the end of the income year where said 15th day falls before the 15th September.

### 4.2 Resident

In general, a company which is incorporated in Bangladesh will be treated as a resident for tax purposes. Any company whose control and management is situated wholly in Bangladesh will also be treated as a resident for tax purposes.

### 4.3 Permanent establishment

Detailed definition of “Permanent Establishment” (PE) has been inserted in the definition section of tax law.

PE in relation to income from business or profession, means a place or activity through which the business or profession of a person is wholly or partly carried on, and includes:

- (i) a place of management; (ii) a branch; (iii) an agency; (iv) an office; (v) a warehouse; (vi) a factory; (vii) a workshop; (viii) a mine, oil or gas well, quarry or any other place of exploration, exploitation or extraction of natural resources (ix) a farm or plantation; (x) a building site, a construction, assembly or installation project or supervisory activities in connection therewith; (xi) the furnishing of services, including consultancy services, by a person through employees or other personnel engaged by the person for such purpose, if activities of that nature continue (for the same or a connected project) in Bangladesh; and (xii) any associated entity or person (hereinafter referred to as “Person A”) that is

commercially dependent on a non-resident person where the associated entity or Person A carries out any activity in Bangladesh in connection with any sale made in Bangladesh by the non-resident person”.

However, earlier definition of PE in Transfer Pricing section of tax law has been deleted.

#### **4.4 Taxable income**

Tax is imposed on total income from all sources after all allowable deductions. Sales revenue, fees, commissions, realised exchange gains, rents, dividends and interest received, provisions and trading liabilities not paid within three years as well as inadmissible expenses are included in taxable income. All expenses, including realised exchange losses and tax depreciation incurred in earning this income are allowable as deductions.

Foreign source income of companies resident in Bangladesh is included in taxable income but credit is given for tax paid outside Bangladesh. Foreign source income of a non-resident company is not taxed in Bangladesh unless such income is brought into Bangladesh.

Where a company not listed with a stock exchange, receives its paid up capital by issuing shares in an income year, the amount so received in any mode other than by crossed cheque or bank transfer, shall be deemed to be the income of the company from ‘other sources’ for that income year. However, capital contribution through land transfer (non-cash contribution) is acceptable.

#### **4.5 Income deemed to accrue or arise in Bangladesh**

The scope of income has been widened in our tax law. As per the new law, any income from the below sources will be captured:

- (a) any permanent establishment in Bangladesh;
- (b) any property, asset, right or other source of income, including intangible property, in Bangladesh;
- (c) the transfer of any assets situated in Bangladesh;
- (d) the sale of any goods or services by any electronic means to purchasers in Bangladesh; and
- (e) any intangible property used in Bangladesh.

Below is the explanation for this section:

- (a) the shares of any company which is a resident in Bangladesh shall be deemed to be property in Bangladesh;
- (b) intangible property shall be deemed to be property in Bangladesh if it is (i) registered in Bangladesh; or (ii) owned by a person that is not a resident of Bangladesh but has a permanent establishment in Bangladesh to which the intangible property is attributed; and
- (c) Transfer of shares of non-resident company will be treated as transfer of asset in Bangladesh to the extent it is attributable to the value of any assets in Bangladesh.

#### **4.6 Income year**

Entities other than banks, insurance companies or financial institution (and subsidiaries thereof) are required to have their accounting year, for tax filing purposes, as July to June.

Banks, insurance companies or financial institution (and subsidiaries thereof) are required to have their accounting year, for tax filing purposes, as January to December.

Deputy Commissioner of Taxes (DCT) may allow a different financial year for an entity which is a subsidiary or holding company or a branch or liaison office of a parent company incorporated outside Bangladesh if such entity is required to follow a different accounting year for the purpose of consolidation.

#### **4.7 Deductions of the Income Tax Ordinance 1984**

All expenses relating to the business operations of a company and incurred during the relevant income year are allowed as deductions. Tax depreciation on fixed assets of the company (except on cost of land) is allowed at prescribed rates as per third schedule. The cost of free samples and entertainment expenses are allowed as deductions at prescribed rates based on turnover and profit respectively or on the actual amounts, whichever are lower. Provision for bad debts is not allowed.

Specific provisions for accrued expenses in the relevant income year are allowed as deductions. Prepaid expenses can be carried forward and allowed as a deduction in the relevant accounting year.

Liabilities for expenses which remain unpaid are added to income in the fourth year but allowed as a deduction in the year when the payments are made.

#### **4.8 Tax depreciation**

There will be no limit for allowing tax depreciation of a bus or minibus transporting the students and teachers in case of educational institute or employees of the business or profession.

Amortisation of licence fee is now allowed as an admissible expenses for any company engaged in providing specialised services, if such licence is integral to the operation of the company. Previously it was only allowed for cellular mobile phone operator.

#### **4.9 Allowable perquisites**

Perquisite has been defined as follows:

Perquisite means -

- (i) Any payment made to an employee by an employer in the form of cash or in any other form excluding basic salary, festival bonus, incentive bonus, arrear salary, advance salary, leave encashment and overtime, and
- (ii) Any benefit, called by whatever name, provided to an employee by an employer, whether convertible into money or not; other than contribution to a recognised provident fund, approved pension fund, approved gratuity fund and approved superannuation fund.

Provided that the provision of this clause shall not be applicable to an employer where perquisites were paid to an employee in pursuance of any Government decision published

in the official Gazette to implement the recommendation of a Wage Board Constituted by the Government.

Limit of allowable perquisites has been fixed at Tk 550,000 per employee. The value of perquisites paid/provided to an employee in excess of Tk 550,000 in an assessment year shall be disallowed in company's assessment.

#### 4.10 Deductions not admissible in certain circumstances (u/s 30)

Certain payments will not be allowable for tax purposes as detailed below:

- (i) Payment of salaries if tax is not deducted;
- (ii) Salary payment made to any employee who does not have TIN number (if it is required by law);
- (iii) Salary payment after Tax Day to an employee if the employee is required to file the return of income but fails to file the same on or before the Tax Day or obtain time extension.
- (iv) Salary payment to an employee for whom the statement under section 108A was not provided;
- (v) Head office expenses or intra-group expense debited in excess of the 10% of net profit disclosed in the statement of accounts;
- (vi) Payments of royalty, technical know-how fee and technical assistance fee in excess of 10% for first three years and 8% for subsequent years of net profit disclosed in the statement of accounts;
- (vii) Any payment by way of salary or remuneration made otherwise than by crossed cheque or bank transfer by a person to an employee having monthly gross salary of Tk 15,000 or more;
- (viii) Any expenditure by way of incentive bonus exceeding 10% in aggregate of the net profit disclosed in the statement of accounts;
- (ix) Any expenditure by way of overseas travelling exceeding 1.25% of the disclosed turnover;
- (x) Provisions for deduction not admissible in certain circumstances have been introduced as follows:
  - (a) any payment by way of commission paid or discount made to its shareholder director by a company.
  - (b) any payment by way of any rent of any property, whether used for commercial or residential purposes, otherwise than by a crossed cheque or bank transfer.
  - (c) any payment by a person exceeding Tk 50,000 or more, otherwise than by a cheque or bank transfer excluding:
    - payment for the purchase of raw materials;
    - salary or remuneration made to any employee, without prejudice to an obligation referred to in clause (i); and
    - any payment for government obligation i.e. municipal tax, payment for electricity, WASA and gas.

Provisions of section 30 shall apply for insurance business as well in allowing management expenses or any other expenses under Fourth Schedule of tax ordinance.

#### 4.11 Donations

Any sums paid by an assessee as donation to philanthropic or educational institutions (especially girls' school/college, technical and vocational training institutes) which are approved by the Government for this purpose and national level institution engaged in the Research & Development (R&D) of agriculture, science, technology and industrial development are exempt from tax. Such institutions have to apply to National Board of Revenue for obtaining approval.

#### 4.12 Minimum tax- Section 82C

Section 82C *final discharge of tax liability* of ITO 1984 has been - replaced with new 82C *minimum tax*. As per new 82C minimum tax, minimum tax would be higher of:

- Withholding tax on certain sources of income (refer to section 4.10.1 below); and
- Minimum tax calculated on the basis of overall gross receipts regardless of sources of income (refer to section 4.10.2 below).

##### 4.12.1 Minimum tax based on withholding tax of certain sources

As per new 82C minimum tax, sources of income have been divided into three broad categories for tax computation purpose considering the concept of minimum tax.

- a) Tax deducted or collected at source would be minimum tax for 24 (twenty four) sources of income as follows:

Sl. no.	Section	Details	Withholding tax rate
1	52	Supply of goods/execution of contract	Up to 5% or 7%
2	52A	Royalty fee, franchise, technical know-how, etc.	10% or 12%
3	Sl no. 1 of 52AA	Advisory or consultancy service	10% or 12%
4	52AAA	Commission from C&F Agent	10%
5	52B	Cigarette manufacturer	10%
6	52JJ	Tax collection from travel agent	0.30%
7	52N	Sale of rental power	6%
8	52O	Foreign technician salary of diamond cutting industry	5%
9	52R	IGW and ICX for international call	1.5% and 7.5%
10	53	Imported goods (excluding raw material for own consumption)	5% or 2% or Tk 800 per ton
11	53AA	Shipping business of a resident	5% or 3%
12	53B	Manpower export	10%
13	53BB	Export of certain items	- 0.60% for jute goods - 0.70% for other than jute goods

Sl. no.	Section	Details	Withholding tax rate
14	53BBB	Collection of tax from member of stock exchange	0.05%
15	53BBBB	Export of any other goods	0.70%
16	53C	Auction purchase	5%
17	53CCC	Income from courier business of non-resident	15%
18	53E	Commission, discount, fees etc.	10%, 1.5% & 0.25%
19	53EE	Commission/ remuneration of agent of foreign buyer	10%
20	53FF	Real estate /land development business	- Land 3% or 5% - Residential building Tk 300 to Tk 1,600 per square meter - Commercial building Tk 1,200 to Tk 6,500 per square meter
21	53G	Insurance agent	5%
22	53GG	Payment to surveyor of insurance company	10%
23	53M	Transfer of securities or mutual fund units by Sponsor shareholders	5%
24	53N	Transfer of share of shareholder of stock exchange	15%
25	55	Winning lottery	20%

Income from above sources will firstly be computed on regular basis as per provision of ITO 1984 and the assessee's regular income tax rate would be applied on such taxable income determined on regular basis as per ITO provisions. If such regular tax liability is higher than the withholding tax deducted from these sources of income, the regular tax liability would be payable after adjusting withholding tax deducted at source.

However, if regular tax liability of those sources is lower or nil compared to withholding tax on those sources, such withholding tax on those sources would be considered as final and minimum tax for those sources of income. In such case, if those sources of income have taxable loss, such loss cannot be set off against the income of other sources of income and vice-versa.

Also note that tax deducted/collected from the following sources shall not be the minimum tax for the purpose of above calculation:

- i) tax collected under section 52 from the following persons:
  - a. a contractor of an oil company or a subcontractor to the contractor of an oil company as may be prescribed;
  - b. an oil marketing company and its dealer or agent excluding petrol pump station;
  - c. any company engaged in oil refinery; and
  - d. any company engaged in gas transmission or gas distribution.

- ii) tax deducted under section 53 from import of goods by an industrial undertakings except an industrial undertaking engaged in cement, iron or iron products as raw materials for its own consumption.
- iii) tax deducted under sections 53F(1)(a) and (b)
- b) Withholding tax deducted from the following 5 (five) sources of income will be considered as final tax liability considering the rate of withholding tax would be their applicable tax rate:

Sl. no.	Section	Source of income	Rate of tax
1	52C	Compensation against acquisition of property	2% and 1%
2	52D	Interest on savings instrument	10%
3	53DDD	Export cash subsidy	10%
4	53F(1)(c) and 2	Interest on savings deposits and fixed deposits	10% and 5%
5	53H	Transfer of property less cost of acquisition	Depending on location and square meter
6	53P	Any sum paid by real estate developer to land owner	15%

- c) For any other sources of income except those mentioned in (a) and (b) above, income would be determined following the provisions of ITO 1984.

#### 4.12.2 Minimum tax based on overall gross receipts

Every companies and every firms (having gross receipts of more than Tk 5 million) shall be liable to pay minimum tax based on gross receipts as mentioned below:

Sl.	Classes of assessee	Rate of minimum tax
1	Manufacturer of cigarette, bidi, chewing tobacco, smokeless tobacco or any other tobacco products	1% of the gross receipts
2	Mobile phone operator	2% of the gross receipts
3	Industrial undertaking engaged in manufacturing of goods for first 3 years of commercial operations	0.10% of the gross receipts
4	Any other cases	0.60% of the gross receipts

If an assessee has income from any source that is exempt of tax or is subject to reduced tax rate, the minimum tax rate on gross receipts shall be computed as a summation of:

- i) Minimum tax based on gross receipts from regular sources by applying the rate as mentioned in the above table.
- ii) Minimum tax based on gross receipts from sources which enjoys exemption or reduced tax rate by applying the rate in the above table as reduced in proportion to the exemption of tax or the reduction of rate of tax.
- iii) Minimum tax shall be the aggregate of the amounts calculated above.

#### 4.12.3 Other major provisions of section 82C

- Books of accounts shall be maintained in the regular manner in accordance with the provisions of section 35 of ITO 1984 for the sources of income for which minimum tax is applicable.
- Minimum tax under section 82C shall not be refunded, nor shall be adjusted against refund due for earlier year or years or refund due for the assessment year from any source.
- Where any surcharge, additional interest, additional amount etc. is payable under provisions of ITO 1984, it shall be payable in addition to the minimum tax.
- Where the regular tax calculated for any assessment year is higher than the minimum tax under section 82C, regular tax shall be payable.
- Where tax has been mistakenly deducted and collected in excess or deficit of the proper due amount, minimum tax under this section shall be computed based on the proper due amount of deduction or collection and provisions of this section shall apply accordingly.

#### 4.13 Losses

Losses can be carried forward for a maximum period of six years, but cannot be carried back. Unabsorbed tax depreciation can be carried forward indefinitely.

Foreign sourced losses of a Bangladesh entity cannot be offset against the Bangladesh profits of that entity. Moreover, any losses of any head of income cannot be set off against any income from manufacturing of cigarette, bidi, zarda, chewing tobacco, gul, or any other smokeless tobacco products

Capital losses can only be offset against capital gains. As with trading losses, unabsorbed capital losses can only be carried forward for up to six years.

#### 4.14 Advance tax payment

Advance tax payment is required by an assessee on the basis of the last assessed income or provisionally assessed income if his total income exceeds Tk 600,000. New assessees will also be required to pay advance tax if their estimated income is likely to exceed Tk 600,000. Here total income excludes agricultural income and capital gain except gain from transfer of share of a company listed with a stock exchange.

Advance tax is to be paid in four equal instalments on 15 September, 15 December, 15 March and 15 June of the financial year for which the tax is payable.

In case of failing to pay advance tax, simple interest @ 10% per annum shall be charged on the amount by which the tax as so paid falls short of 75% of the assessed tax. However such interest rate will be 50% higher if the return is not filed on or before the Tax Day.

#### 4.15 Advance tax payment on certain income (Section 68A)

Manufacturer of cigarette shall pay advance tax at the rate 3% on net sales price every month in addition with quarterly advance tax payment. Although, such tax shall be adjustable against the quarterly advance tax.

However, net sales shall be A-B,

Where, A = Gross sales and B = VAT and SD (if any) on such gross sales.

#### **4.16 Annual tax return filing and tax payment**

Filing of tax return within due date and payment of due taxes have been made compulsory for any organisation who has obtained a Taxpayers Identification Number (TIN). It is also compulsory for all companies, businesses and professional firms, joint ventures, all registered NGOs, universities and educational institutions run commercially to file tax returns and pay taxes within due dates. For the list of tax return filing, please see section 2.9.

Submission of computation sheet along with audited statement of accounts has been made mandatory showing how the income has been arrived in the tax return.

#### **4.17 Return of withholding tax**

Every person shall file return of withholding tax collected or deducted half-yearly accompanied by withholding statement along with copy of treasury challans or payment orders.

Such return shall be filed by the following dates:

- i. First return: by 31 January of the year for the periods from July to December; and
- ii. Second return: by 31 July of the year for the periods from January to June

The time for submission of such return may be extended by DCT upon application for maximum 15 days. For failure of filing such return, penalty u/s 124 will be imposed. The Deputy Commissioner of Taxes, with the approval of the Commissioner, shall select the number of returns of withholding tax within four years from the end of the year in which the return is filed.

DCT after examining the withholding tax return may impose penalty under sections 57, 57A and 124 for any non-compliance regarding deduction of withholding tax appropriately.

#### **4.18 Annual Information Return**

Government may require any person or group of persons responsible for registering or maintaining books of accounts or other documents containing a record of any specified financial transaction to furnish an Annual Information return in a prescribed form.

#### **4.19 Concurrent jurisdiction**

Board may direct any other authority to exercise concurrently the power and functions of Deputy Commissioner of Taxes in respect of all or any proceeding relating to receiving of return of income and issuance of acknowledgement.

#### **4.20 Assessment**

Assessment of companies may be completed under provisional assessment, assessment on correct return or universal self-assessment. The most common mode of assessment is universal self-assessment scheme.

Any tax assessment should not be opened after the below mentioned years:

- 2 years from the end of the assessment year where the income was first assessment been done audit under section 82BB;
- 3 years from the end of the relevant assessment year where first assessment been done as per transfer pricing u/s 107C; and
- 6 months from the end of the assessment year in cases other than above.

#### **4.21 Universal self-assessment scheme**

Refer to section 3.8 above.

#### **4.22 Appeals**

An assessee who feels aggrieved may file an appeal against the order to the Commissioner of Taxes (Appeal) and against the order of the Commissioner of Taxes (Appeal) to the Taxes Appellate Tribunal. An assessee can file appeal against the order of the Taxes Appellate Tribunal only on the point of law to the Supreme Court – High Court Division. An appeal can further be filed to the Appellate division if High Court Division allows for such appeal.

The first appeal before the Commissioner of Taxes (Appeal) shall have to file within 45 days of the date of received of assessment order. The time limit for second appeal is 60 days from the date of receiving of first appeal order. The first and second appeal shall be disposed of by the appellate authority within 150 days and 180 days respectively from the end of the month at which the appeal was filed.

Where the return of income was not filed, no appeal shall lie against any order of assessment under the section 153(4), unless the assessee has paid 10% of the tax as determined by the Deputy Commissioner of Taxes.

An assessee can file appeal against the order of the Taxes Appellate Tribunal only in the area of law to the High Court Division of Supreme Court within 90 days from the date of receiving tribunal order. If the assessee is aggrieved with the decision of High Court Division, he may appeal to the Appellate Division of Supreme Court. There is no time limit for disposal of appeal to Supreme Court.

No appeal shall be filed to the Appellate Tribunal unless the assessee has paid 10% of the amount representing the difference between the tax as determined on the basis of the order of the Appellate Joint Commissioner or Commissioner of Taxes (Appeals) and the tax payable under section 74.

However, Appellate Joint Commissioner/Commissioner of Taxes (Appeals) may allow the appeal for hearing if assessee pay the tax on the basis of return before filing of appeal to Joint Commissioner or Commissioner of Taxes (Appeals).

*Provided that the Commissioner of Taxes (Appeals) may reduce the requirement of such payment upon application by the assessee if the grounds of such application appears reasonable to him.*

No reference shall lie to the High Court Division against an order of the Taxes Appellate Tribunal unless the assessee has paid the following tax at the rate of-

- a) 15% of the difference between the tax determined by the Appellate Tribunal and the tax payable u/s 74 where tax demanded does not exceed Tk 1 million.
- b) 25% of the difference between the tax determined by the Appellate Tribunal and the tax payable u/s 74 where tax demanded exceeds Tk 1 million.

#### **4.23 Submission of certain returns**

Companies are required to submit the following returns to the Deputy Commissioner of Taxes before the first day of September each year:

- Information regarding the payment of salary
- Information regarding the payment of interest
- Information regarding the payment of dividend

With the publication in official gazette of SRO 161 of 2014, transfer pricing chapter has become effective from 1 July 2014 (Please refer to Section 7) which also require following particulars of international transactions to be furnished along with income tax return

- Tangible property of revenue and capital nature transaction
- Rent, royalties and intangible property related transaction
- Services related transaction
- Financial transaction on interest, sale of financial assets, lease payment etc.
- Interest bearing/free loans, advances and investments

#### **4.24 Power of search and seizure**

Under section 117 of the Ordinance, an officer may extract data or any inputs stored in the electronic system or enter system by breaking through password protection or analyse data, books of accounts, etc.

#### **4.25 Freezing of property**

Director General, Central Intelligence Cell or the Commissioner or the Deputy Commissioner of Taxes, by order in writing, may require a person not to remove assets upon receiving definite information on concealment of person's income/investment.

## 5. Tax incentives

### 5.1 Special Economic Zones and Developing Unit

In the year 2015, Government has introduced tax exemption for investment in setting up industries in Special Economic Zones (SEZ) and in Developing Economic Zones. These are illustrated in below sections:

#### a) Tax benefits for investment in Special Economic Zones (SEZ):

The business income is exempted from Income tax for next 10 years from the date of commercial operation in the following manner:

Year	Exemption % of income
1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup>	100%
4 <sup>th</sup> year	80%
5 <sup>th</sup> year	70%
6 <sup>th</sup> year	60%
7 <sup>th</sup> year	50%
8 <sup>th</sup> year	40%
9 <sup>th</sup> year	30%
10 <sup>th</sup> year	20%

Furthermore, “capital gains” arising from transfer of share capital, royalty, technical know-how and technical assistance fee paid by such company and declared dividend are exempted from income tax for next 10 years from the date of commercial operation.

#### b) Tax benefits for Developing unit in SEZ:

The business income is exempted from Income tax for next 12 years from the date of commercial operation in the following manner:

Year	Exemption % of income
1 <sup>st</sup> , to 10 <sup>th</sup> year	100%
11 <sup>th</sup> year	70%
12 <sup>th</sup> year	30%

The foreign technicians appointed in investing unit will get 50% tax exemption for next 3 years from the date of appointment subject to such company does not cross 5 years from the date of commercial operation i.e. the company who has crossed 5 years from the date of commercial production, their foreign technicians can not avail this benefit.

Both the above exemptions are subject to the following condition being met by the Project Company/foreign technicians:

- (i) Obtain 12 Digit Taxpayer’s Identification Number; and
- (ii) Submit income tax return as per section 75.

## 5.2 Hi-Tech Park Zone

The government has introduced “Bangladesh Hi-Tech Park Authority Act, 2010” (BHTPA) for the development of the country. It is not limited for exporters only. The high-tech park act has specified the meaning of high tech industry. As per section 2(12) of Bangladesh Hi-Tech Park Authority Act, 2010-

*“Hi-tech Industry means knowledge and capital based eco-friendly and information technology (IT), software technology, bio-technology renewable energy, green technology, hardware, information Technology Enabled Services (ITES) and Research and Development (R&D) related industry.”*

### a) Tax benefits for Investing unit of Hi-Tech Park Zone

The business income is exempted from Income tax for next 10 years from the date of commercial operation in the following manner:

Year	Exemption % of income
1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup>	100%
4 <sup>th</sup> year	80%
5 <sup>th</sup> year	70%
6 <sup>th</sup> year	60%
7 <sup>th</sup> year	50%
8 <sup>th</sup> year	40%
9 <sup>th</sup> year	30%
10 <sup>th</sup> year	20%

Moreover, capital gains arising from transfer of share capital, royalty, technical Know-how and Technical assistance fee and declared dividend paid by such company are 50% exempted from Income tax for next 10 years from the date of commercial operation.

The foreign technicians appointed in investing unit will get 50% tax exemption for next 3 years from the date of appointment subject to such company does not cross 5 years from the date of commercial operation i.e. the company who has crossed 5 years from the date of commercial production, their foreign technicians can not avail this benefit.

Both the above exemptions are subject to the following condition being met by the Project Company / foreign technicians:

- (i) Obtain 12 Digit Taxpayer's Identification Number; and
- (ii) Submit income tax return as per section 75.

However, no question shall be raised to the source of any sum invested in any economic zone or any hi-tech park, if 10% of invested amount is paid as tax before filing of the tax return.

**b) Tax benefits for Developing unit in Hi-Tech Park Zone:**

The business income is exempted from Income tax for next 12 years from the date of commercial operation in the following manner:

Year	Exemption % of income
1 <sup>st</sup> , to 10 <sup>th</sup> year	100%
11 <sup>th</sup> year	70%
12 <sup>th</sup> year	30%

Moreover, declared dividend is exempted from income tax for next 10 years from the date of commercial operation.

Please note that, the above exemptions are subject to the following condition being met by the project company:

- (i) Obtain 12 Digit Taxpayer's Identification Number; and
- (ii) Maintain accounts as per section 35 (Method of Accounting) and submit income tax return as per section 75.

**5.3 Partial tax exemption for newly established undertaking**

Qualifying industrial undertaking set up between 1 July 2019 and 30 June 2024 and going into commercial production/operation within those dates will be entitled to apply for granting tax exemption. However, the exemption structure has been revised as follows:

**Industrial undertaking**

Area	Year	Exemption % of income
Dhaka, Mymensingh and Chattogram Divisions excluding Dhaka, Narayanganj, Gazipur, Chattogram, Rangamati, Bandarban and Khagrachari Districts	1 <sup>st</sup> year	90%
	2 <sup>nd</sup> year	80%
	3 <sup>rd</sup> year	60%
	4 <sup>th</sup> year	40%
	5 <sup>th</sup> year	20%
Rajshahi, Khulna, Sylhet, Barisal and Rangpur divisions (excluding City Corporation area) and Rangamati, Bandarban and Khagrachari Districts	1 <sup>st</sup> and 2 <sup>nd</sup> year	90%
	3 <sup>rd</sup> year	80%
	4 <sup>th</sup> year	70%
	5 <sup>th</sup> year	60%
	6 <sup>th</sup> year	50%
	7 <sup>th</sup> year	40%
	8 <sup>th</sup> year	30%
	9 <sup>th</sup> year	20%
	10 <sup>th</sup> year	10%

“Bio-fertilizer” and “computer hardware” production industry shall be entitled to partial tax exemption for 10 years even if it is set up in the districts of Dhaka, Gazipur, Narayanganj or Chattogram.

Brick made of automatic hybrid kiln technology will be treated as industrial undertakings for the purpose of this incentive.

Industrial undertaking does not include expansion of an existing undertaking for the purpose of this section. In other words, expansion units will not qualify for tax exemption. The following undertakings and facilities only will qualify for tax exemption:

- a) **"Industrial Undertaking"** means:
- i) An industry engaged in or in the production of, active pharmaceuticals ingredient and radio pharmaceuticals; agriculture machineries; automatic bricks; automobile; barrier contraceptive and rubber latex; basic components of electronics (e.g. resistor, capacitor, transistor, integrated circuit, multilayer PCB etc.); bi-cycle including parts thereof; bio-fertilizer; biotechnology based agro products; boiler including parts and equipment thereof; compressor including parts thereof; computer hardware; furniture; home appliances (blender, rice cooker, microwave oven, electric oven, washing machine, induction cooker, water filter etc.); insecticides or pesticides; leather and leather goods; LED TV; locally produced fruits and vegetables processing; mobile phone; petro-chemicals; pharmaceuticals; plastic recycling; textile machinery; tissue grafting; toy manufacturing; tyre manufacturing.
  - ii) Any other category of industrial undertaking as the Government may, by notification in the official Gazette, specify.
- b) Only those profits and gains of the said industry shall qualify for tax exemption which is within the purview of section 28, *Income from business or profession*, of the Income Tax Ordinance, 1984.
- c) The newly established undertaking is required to ensure that their paid up capital is not less than two million and thirty per cent of the income exempted is invested in the said undertaking or in any new industrial undertakings during the period of exemption or within one year from the end of the period to which the exemption under that sub-section relates and in addition another 10% of the income exempted is invested in each year before the expiry of three months from the end of the income year in the purchase of shares of a company listed with any stock exchanges in Bangladesh, failing which the income so exempted shall, notwithstanding the provisions of this Ordinance, be subject to tax in the assessment year in which the undertaking failed to comply with the provision and an individual not being a Bangladeshi citizen is employed or allowed to work without prior approval of BIDA or any competent Government authority.
- Provided that the quantum of investment referred to in this clause shall be reduced by the amount of dividend, if any, declared by the company enjoying tax exemption under this section.
- d) The undertaking has to apply in prescribed form for approval within six months from the end of the month of commencement of commercial production and be approved by the Board for this purpose.
- e) The undertaking need to obtain a clearance certificate from the Directorate of Environment and the undertaking has to maintain books of account on a regular basis and submits income tax return under section 75 of the ordinance.

#### 5.4 Partial tax exemption for newly established physical Infrastructure facility

Qualifying physical Infrastructure set up between 1 July 2019 and 30 June 2024 and going into commercial production/operation within those dates will be entitled to apply for granting tax exemption. Tax exemption of different proportions will now be granted for 10 years if the said physical undertakings are set up in any area of Bangladesh.

Year	Exemption % of income
1 <sup>st</sup> and 2 <sup>nd</sup>	90%
3 <sup>rd</sup> year	80%
4 <sup>th</sup> year	70%
5 <sup>th</sup> year	60%
6 <sup>th</sup> year	50%
7 <sup>th</sup> year	40%
8 <sup>th</sup> year	30%
9 <sup>th</sup> year	20%
10 <sup>th</sup> year	10%

**“Physical Infrastructure facility”** means

an industry engaged in the production of deep sea port; elevated expressway; export processing zone; flyover; gas pipe line; Hi-tech park; Information and Communication Technology (ICT) village or software technology zone; Information Technology (IT) park; large water treatment plant and supply through pipe line; Liquefied Natural Gas (LNG) terminal and transmission line; mobile phone tower or tower sharing infrastructure; mono-rail; rapid transit; renewable energy (e.g. solar energy plant, windmill); sea or river port; (xvi) toll road or bridge; underground rail; waste treatment plant; or any other category of physical infrastructure facility as the Government may, by notification in the official Gazette, specify.

- a) Only those profits and gains of the said industry shall qualify for tax exemption which is within the purview of Income from business or profession under section 28 of the Income Tax Ordinance, 1984.
- b) The newly established undertaking is required to ensure that their subscribed and paid up capital is not less than Tk 2 million and 30% of the income exempted is invested in the said undertaking or in any new industrial undertakings during the period of exemption or within one year from the end of the period to which the exemption under that sub-section relates and in addition another 10% of the income exempted ) is invested in each year before the expiry of three months from the end of the income year in the purchase of shares of a company listed with any stock exchanges in Bangladesh, failing which the income so exempted shall, notwithstanding the provisions of this Ordinance, be subject to tax in the assessment year in which the undertaking failed to comply with the provision or an individual not being a Bangladeshi citizen is employed or allowed to work without prior approval of BIDA or any competent Government authority.

Readymade garments are allowed to invest 40% in the said undertaking or in any new industrial undertakings.

- c) Provided that the quantum of investment referred to in this clause shall be reduced by the amount of dividend, if any, declared by the company enjoying tax exemption under this section.

- d) The undertaking has to apply in prescribed form for approval within six months from the end of the month of commencement of commercial production and be approved by the Board for this purpose.
- e) The undertaking need to obtain a clearance certificate from the Directorate of Environment and the undertaking has to maintain books of account on a regular basis and submits income tax return under section 75 of the ordinance.

### **5.5 Tax exemption for Public Private Partnership (PPP) Project**

In the year 2017, Government has introduced tax exemption as mentioned below (a, b and c) for Public Private Partnership (PPP) work by Project Companies involved in the following PPP projects:

1. National Highways or Expressways and related Service Roads
2. Flyovers
3. Elevated and At-Grade Expressways
4. River Bridges
5. Tunnels
6. River port
7. Sea port
8. Air Port
9. Subway
10. Monorail
11. Railway
12. Bus terminals
13. Bus depots
14. Elderly care home

a) **Income Tax exemption of the business income of PPP Project Company:**

The business income is 100% exempted from Income tax for next 10 years from the date of commercial operation.

b) **Income Tax exemption of capital gains arising from the transfer of share capital of PPP Project Company, Royalty, Technical Know-how and Technical assistance fee paid by such company:**

The capital gains arising from transfer of share capital, Royalty, Technical Know-how and Technical assistance fee paid by such company are 100% exempted from Income tax for next 10 years from the date of commercial operation.

c) **Income Tax exemption for foreign technicians employed in PPP Project Company:**

The foreign technicians appointed in PPE Project Company will get 50% tax exemption for next 3 years from the date of appointment subject to such company does not cross 5 years from the date of commercial operation i.e. the company who has crossed 5 years from the date of commercial production, their foreign technicians can not avail this benefit.

Please note that, the above exemptions are subject to the following condition being met by the project company:

- (i) Obtain 12 Digit Taxpayer's Identification Number; and
- (ii) Maintain accounts as per section 35 (Method of Accounting) and submit income tax return as per section 75.

## 5.6 Income from exports

50% of income derived by any taxpayer from export shall be exempt from tax, except for a company not incorporated in Bangladesh and company paying tax at a reduced rate.

## 5.7 Export Processing Zones

At present the following exemptions are available on tax payable:

- For a period of 5 years if the industry is set up in Export Processing Zones (EPZ) Dhaka and Chattogram divisions excluding Rangamati, Bandarbon and Khagrachari districts; and
- For a period of 7 years if the said EPZ are set up in Rajshahi, Khulna, Sylhet and Barisal divisions and Rangamati, Bandarbon and Khagrachari districts.

Area	Year	Exemption % of income
Dhaka, Mymensingh and Chattogram divisions excluding Rangamati, Bandarbon and Khagrachari districts	1 <sup>st</sup> and 2 <sup>nd</sup> year	100%
	3 <sup>rd</sup> and 4 <sup>th</sup> year	50%
	5 <sup>th</sup> year	25%

Area	Year	Exemption % of income
Rajshahi, Khulna, Sylhet and Barisal divisions and Rangamati, Bandarbon and Khagrachari districts	1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> year	100%
	4 <sup>th</sup> , 5 <sup>th</sup> and 6 <sup>th</sup> year	50%
	7 <sup>th</sup> year	25%

To attain above exemption of EPZ industries, proper books of accounts have to be maintained and must submit income tax return as per section 75 of ITO 1984.

## 5.8 Income from the business of software development or Nationwide Telecommunication Transmission Network (NTTN) and information technology enabled services (ITES)

Income derived from the business of software development or Nationwide Telecommunication Transmission Network (NTTN) and information technology enabled services (ITES) is to be tax exempt up to 30 June 2024. However those enjoying the exemption must file tax return annually disclosing the income along with income from other sources, if any.

Information Technology Enabled Services (ITES) definition has been widened as below:

- Software development;
- Software or application customization;
- Nationwide Telecommunication Transmission Network (NTTN);
- Digital animation development;
- Website development;
- Web site services;
- Web listing;
- IT process outsourcing;
- Website hosting;
- Digital graphics design;
- Digital data entry and processing;
- Digital data analytics;
- Geographic Information Services (GIS);
- IT support and software maintenance service;
- Software test lab services;
- Call centre service;
- Overseas medical transcription;
- Search engine optimization services;
- Document conversion, imaging and digital archiving;
- Robotics process outsourcing; and
- Cyber security services.

#### **5.9 Exemption of capital gains tax from sale of shares of listed companies for non-resident** (Sixth Schedule, Part-A, Para-43)

Any profits and gains of a non-resident assessee arising from the transfer of stocks or shares of a public company listed in any stock exchange of Bangladesh shall be exempt from income tax in Bangladesh subject to the condition that such assessee is entitled to similar exemption in the country in which he is a resident.

#### **5.10 Exemption of income from Cinema Hall or Cineplex**

Any income derived from Cinema Hall or Cineplex has been given tax exemption facility starting commercial exhibition from 1 July 2012 to 30 June 2024 as stated below:

Area	Year	Exemption % of income
Dhaka, Mymensingh and Chittagong divisions excluding Rangamati, Bandarban and Khagrachari districts	1 <sup>st</sup> and 2 <sup>nd</sup> year	100%
	3 <sup>rd</sup> and 4 <sup>th</sup> year	50%
	5 <sup>th</sup> year	25%

Area	Year	Exemption % of income
Rajshahi, Khulna, Sylhet, Rangpur and Barisal divisions and Rangamati, Bandarban and Khagrachari districts	1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> year	100%
	4 <sup>th</sup> , 5 <sup>th</sup> and 6 <sup>th</sup> year	50%
	7 <sup>th</sup> to 10 <sup>th</sup> year	25%

### 5.11 Exemption of income from production of rice bran oil

Any income derived by an industrial undertaking commencing commercial production by 30 June 2024 has been given tax exemption as stated below:

Area	Year	Exemption % of income
Dhaka and Chittagong divisions (excluding City Corporation area and Rangamati, Bandarban and Khagrachari districts)	1 <sup>st</sup> and 2 <sup>nd</sup> year	100%
	3 <sup>rd</sup> and 4 <sup>th</sup> year	50%
	5 <sup>th</sup> year	25%

Area	Year	Exemption % of income
Rajshahi, Khulna, Sylhet, Rangpur and Barisal divisions(excluding City Corporation area) and Rangamati, Bandarban and Khagrachari districts	1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> year	100%
	4 <sup>th</sup> , 5 <sup>th</sup> and 6 <sup>th</sup> year	50%
	7 <sup>th</sup> to 10 <sup>th</sup> year	25%

### 5.12 Income from production of corn, maize or sugar beet

Income from production of corn, maize or sugar beet is tax exempted up to 50%.

### 5.13 Exemption of income of BSEC

Any income of Bangladesh Securities and Exchange Commission (BSEC) has been given tax exemption as stated below:

Tax exempted period	Rate of tax exemption
First year	100%
Second year	80%
Third year	60%
Fourth year	40%
Fifth year	20%

### 5.14 Exemption from income of export of handicrafts

Income derived from the export of handicrafts shall tax exempt up to 30 June 2024.

### 5.15 Income derived from any SME

Income derived from any SME engaged in production of any goods having an annual turnover of not more than Tk 5 million is tax exempted.

### 5.16 Donation to any fund established by “Trust of Prime Minister Education Assistance Act 2012”

**Exemption limit:**

- Companies – lower of 25% of income or Tk 80 million
- Other than companies – lower of 20% of income or Tk 10 million

### 5.17 Incentives for private sector power generation companies (other than coal based)

Private power generation companies starting commercial operations within 31 December 2019 based on other than coal and complying with the requirements of private sector power generation policy of Bangladesh will get the following tax incentive:

- Private power companies' power generation income is exempt from corporate tax for a period of 15 years from the date of commencement of commercial operations.
- Salaries of expatriate employees of such power generating companies shall also be tax exempt for a period of three years, starting with the date of the expatriate's arrival in Bangladesh.
- Interest payments to foreign lenders will be tax exempt. Royalties and technical assistance fees paid by such companies will also be tax exempt.
- Capital gains from the sale or transfer of shares by the investing company shall be exempt from tax.
- All such companies shall maintain accounts and submit return in due date of filing under section 75.

### 5.18 Incentives for private sector power generation companies (other than coal based)

Private power generation companies starting commercial operations after 1 July 2016 based on other than coal and complying with the requirements of private sector power generation policy of Bangladesh will get the following tax incentive:

Tax exempted period	Rate of tax exemption
First 5 years from the commencement of commercial production	100%
Up to next 3 years	50%
Up to next 2 years	25%

Above applies to income from power generation only.

All such companies shall maintain accounts and submit return in due date of filing under section 75.

### 5.19 Incentives for private sector power generation companies (coal based)

Coal based Private power generation companies entering into agreement within 30 June 2020 and starting commercial production within 30 June 2023 and complying with the requirements of private sector power generation policy of Bangladesh will get the following tax incentive:

- Private power companies' power generation income is exempt from corporate tax for a period of 15 years from the date of commencement of commercial operations.
- Salaries of expatriate employees of such power generating companies shall also be tax exempt for a period of three years, starting with the date of the expatriate's arrival in Bangladesh.
- Interest payments to foreign lenders will be tax exempt. Royalties and technical assistance fees paid by such companies will also be tax exempt.

- Capital gains from the sale or transfer of shares by the investing company shall be exempt from tax.
- All such companies shall maintain accounts and submit return in due date of filing under section 75.

#### **5.20 Exemption/reduced tax rate not allowed in case of failure to file the return within stipulated time**

An assessee shall not be exempt from income tax or subject to reduced tax rate if the assessee fails to submit the income tax return of any income year within the stipulated time.

Tax shall be charged at the regular rate on the disallowance u/s 30 even if it is a tax exempted or reduced tax rate availed assessee or any loss or profit computed.

#### **5.21 Agricultural income**

Agricultural income (whose agriculture is the only source of income) up to Tk 200,000 for an individual is tax exempted.

#### **5.22 Interest on pensioners' savings certificate**

Income received by an individual from interest from pensioners' savings certificate up to Tk 500,000 is tax exempted.

#### **5.23 Foreign income by individuals**

Income earned in abroad by an individual assessee being a Bangladeshi citizen and brought any such income into Bangladesh as per existing laws applicable in respect of foreign remittance shall be tax exempted.

#### **5.24 Dividend income**

Dividend income up to Tk 50,000 derived from a company listed in any stock exchange is tax exempted.

#### **5.25 Gratuity income**

Gratuity income up to Tk 2.5 crores is tax exempted.

#### **5.26 WPPF income**

Any payment from WPPF received by a worker up to Tk 50,000 is tax exempted.

#### **5.27 Certain bond income**

Income received by an assessee from wage earners development bond, US Dollar premium bond, US Dollar investment bond, Euro investment bond, Pound Sterling premium bond is tax exempted.

#### **5.28 Donation to girls school/college**

Income of an assessee donated in an income year by a crossed cheque or bank transfer to any girls' school or girls' college approved by the Ministry of Education of the government is exempt from tax.

#### **5.29 Donation to technical and vocation institution**

Income of an assessee donated in an income year by a crossed cheque or bank transfer to any Technical and Vocational Training Institute approved by the Ministry of Education of the Government is exempt from tax.

#### **5.30 Donation to research and development**

Income of an assessee donated in an income year by a crossed cheque or bank transfer to any national level institution engaged in the Research and Development (R&D) of agriculture, science, technology and industrial development is tax exempted.

#### **5.31 Employing disabled person**

5% tax rebate will be allowed if at least 10% of total employees constitute disabled person.

#### **5.32 Income received other than bank interest/dividend by any educational institution**

Income received other than bank interest/dividend by any educational institution is tax exempted if it

- is enlisted for Monthly Pay Order (MPO) of the Government;
- follows the curriculum approved by the Government; and
- is governed by a body formed as per Government rules.

#### **5.33 Income received other than bank interest/dividend by any public university, ICAB, ICMAB and ICSB**

Income received other than bank interest/dividend by any public university, ICAB, ICMAB and ICSB is exempted.

#### **5.34 Corporate Social Responsibility (CSR) activity to get tax rebate**

National Board of Revenue has issued S.R.O. 186-law/Income tax/2014 amending previously issued S.R.O. 229-Law/2011 dated 4 July 2011. Accordingly a company will be eligible to a tax rebate at 10% of allowable limit incurred in connection with corporate social responsibility subject to the following terms and conditions:

- a) any company will be allowed to get rebate on investment in CSR amounting to 20% of income of the company or Tk 120 million, whichever is lower.
- b) any company who intends to get rebate through CSR shall make regular payment of salaries and wages to its employees, have waste treatment plant, make regular payment of tax, VAT and institutional loan, donate to Organisations approved by the Government and comply with all existing provisions of Labour Code.
- c) any company shall not show amount expended in CSR as inadmissible expenditure in its trading account or profit and loss account.

- d) any company shall submit necessary information and documents to the Deputy Commissioner of Taxes regarding the amount expended in CSR as demanded allowable is actually expended or not.
- e) The donation under CSR shall be done through proper banking channel.

The following are the areas of CSR for which company may avail tax rebate facilities:

- a) donation made to natural disaster affected people through government organisation
- b) donations made to institution engaged in establishment and maintenance of old home
- c) donations made to social institution engaged in the welfare of mentally or physically disabled people
- d) donations to organisations engaged in educating street children
- e) donations to organisations engaged in projects on accommodation for the slum dwellers
- f) donations to social institutions engaged in campaign for women rights and against dowry system
- g) donations made to institution engaged in maintenance and rehabilitation of orphan/rootless children
- h) donations made to institutions engaged in research on liberation war, expansion of the consciousness of independence war and the act of honourable living of the freedom fighters
- i) donations made to institutions engaged in sanitation and sewerage work at Chattogram Hill Districts, char areas and areas surrounding breaking up of banks of river
- j) donation made to institution engaged in medicating cleft lip, cataract, cancer and leprosy
- k) donation made to person or institution engaged in treatment of acid affected people
- l) donation to specialised hospital [like cancer hospital, liver hospital, kidney hospital, thalassemia hospital, eye hospital and cardiology hospital] for free treatment to poor patient
- m) donation to public universities
- n) donation to government approved educational institution for giving stipend to insolvent meritorious freedom fighters' children with a view to providing technical or vocational education to them
- o) any assistance made to schools and colleges under MPO for improving computer and English education
- p) donations to organisations engaged in providing technical and vocational training to unskilled or semi-skilled labour for export of human resources
- q) donations made to national sports institutions engaged in the development of infrastructure and training at national level
- r) any contribution to museum made for freedom fighter at national level
- s) any contribution to organisation engaged in the preservation of the memories of the Father of the Nation
- t) any donation to any social welfare organisation, NGO or not for profit organisation engaged with awareness, treatment or rehabilitation for HIV, AIDS and the drug addicted
- u) any donation to any social welfare organisation, NGO or not for profit organisation engaged with rehabilitation for children or women rescued from overseas trafficking
- v) any donation to any government approved fund for national disaster or tournament or national carnival.

## 6. Penalty and prosecution for non-compliance

- **Penalties are applicable for non-filing of tax return (under section 75 only) within due dates as shown below:**

10% of last assessed tax or Tk 1,000; whichever is higher and a further penalty of Tk 50 for every day during which the default continues. However in case of individual, penalty shall not exceed:

- Tk 5,000 for assessee whose income was not assessed previously; or
- Tk 1,000 or 50% of tax liability on last assessed income; whichever is higher.

- **Penalties are applicable for non-filing or non-furnishing of certificate, statement, accounts or information (under section 75A, 108, and 108A) within due dates as shown below:**

10% of last assessed tax or Tk 5,000; whichever is higher and a further penalty of Tk 1,000 for every month during which the default continues.

- **Penalties are applicable for non-filing or non-furnishing of certificate, statement etc. (under section 58, 109, 110 and 184C) within due dates as shown below:**

Tk **5,000**; a further penalty of Tk 1,000 for every month during which the default continues.

- **Penalties are applicable for non-filing or non-furnishing of information (under section 113) within due dates as shown below:**

Tk 25,000; a further penalty of Tk 500 for every day during which the default continues

- **Penalty for failure to verify Taxpayer's Identification Number**

Failure to verify the authenticity of an e-TIN certificate may result in a penalty up to Tk 50,000 to the person responsible for verification of e-TIN.

- **Penalty for failure to pay tax on the basis of return**

A person, who fails to pay balance tax under section 74 may face a penalty at the rate of 25% on the total tax payable or on the short amount of tax payment.

- **Delay interest for not filling return on or before the Tax Day**

An assessee is liable to pay a delay interest at the rate 2% per month but not exceeding one year if the assessee fails to file the income tax return on or before the tax day. However, such delay interest will be applicable on the difference between the tax assessed on total income for the assessment year and the tax paid in advance (including tax deduction) for that assessment year.

- **Failure to issue certificate of deduction of tax**

Tk 500 and a further penalty of Tk 250 for every month during which default continues in issuing certificate of deduction of tax in prescribed form to persons from whom tax has been collected/deducted as required under section 58 of the Income Tax Ordinance or in filing of particulars of salary payments as provided in section 108 or information regarding payment of interest as provided in section 109 or information regarding payment of dividend as provided in section 110 in Income Tax Ordinance 1984.

- **Penalty for using fake Taxpayer's Identification Number**

Where a person has, without reasonable cause, used Taxpayer's Identification Number (TIN) of another person or used fake TIN on a return of income or any other documents where TIN is required under this Ordinance, the Deputy Commissioner of Taxes may impose a penalty not exceeding Tk 20,000 on that person.

- **Punishment for improper use of Taxpayer's Identification Number**

A person is guilty of an offence punishable with imprisonment for a term which may extend to three years or with fine up to Tk 50,000 or both, if he deliberately uses or used a fake Taxpayer's Identification Number (TIN) or a Taxpayer's Identification Number (TIN) of another person.

- **Punishment for obstructing an income tax authority**

A person, who obstructs an income tax authority in discharge of function, shall commit an offence punishable with imprisonment of maximum one year or with a fine, or with both.

- **Punishment for incorrect or false audit report by chartered accountant**

A penalty of Tk 50,000 to Tk 200,000 shall be imposed on such chartered accountant when DCT, CT (Appeals) or Appellate Tribunal is satisfied beyond reasonable doubt that the audit report is not certified by a chartered accountant and is false or incorrect.

- **Punishment for furnishing fake audit report**

Imprisonment between 3 months and 3 years or a fine up to Tk 100,000 or both shall be imposed on a person furnishing fake audit report.

- **Punishment for unauthorised employment**

Imprisonment between 3 months and 3 years or a fine up to Tk 500,000 or both shall be imposed on the person employing or allowing to work any foreign individual without prior approval from appropriate authority of the Government.

- **Penalty for concealment of income**

A penalty of 15% of tax of which would have been avoided shall be imposed for concealment of income by any means.

## 7. Voluntary disclosure

An assessee who had not filed any income tax return or filed return showing lower income than actual or was not assessed for any previous years, may disclose the income in the return under any head. However, the following conditions need to be complied before filing such return:

- a) Tax has to be paid at applicable rate on his total income; and
- b) Penalty has to be paid @ 10% of tax proportionate to such income.

A declaration needs to be submitted along with the tax return stating the name of assessee, head of declared income and amount of tax and penalty.

The assessee will not be able to avail this opportunity if any proceedings have commenced against him by the Tax Authority under sections 93, 113(f), 164, 165 or 166.

Also income derived from any illegitimate source, or any criminal activity, or income exempted from tax, or income chargeable to tax at reduced rate in accordance with section 44 will not be able to avail this opportunity.

The income shown as stated above may be invested in the following sectors:

- Industrial undertaking including its expansion
- Balancing, modernisation, renovation and extension of any existing industry
- Building or apartment or land
- Securities listed with a Stock Exchange in Bangladesh, or
- Any trade, commercial, or industrial venture engaged in production of goods or services.

## 8. Transfer pricing

Key points in brief are as follows:

- (i) Transactions considered under transfer pricing regulation, are those transactions between associated enterprises, either or both of whom are non-residents, in the nature of purchase, sale or lease of tangible or intangible property, provisions of services, lending or borrowing money, or any other transactions having a bearing on the profits, income, losses, assets, financial position or economic value of such enterprises etc.
- (ii) There are extensive provisions in the Act regarding responsibility and determination of “arms-length price” of such transactions.
- (iii) If such a transaction is not found to be at arms-length price, DCT with prior approval of Board, may determine via the Transfer Pricing Officer the arms-length price of the transaction.
- (iv) In absence of provision regarding arm’s length price determination, international best practice of using interquartile range (25th -75th) was being commonly followed for computing arm’s length price. A guideline for applying range concept in computing Arm’s Length Price has been introduced through Finance Act 2019. The new Act introduced a narrow range of 30th percentile to 70th percentile of the comparable data set. If the price at which the international transaction has actually been undertaken is within the range referred as above, then the price at which such international transaction has actually been undertaken shall be deemed to be the arm’s length price. If the price at which the international transaction has actually been undertaken is outside the arm’s length range referred as mentioned above, the arm’s length price shall be taken to be the median of the data set. In case the dataset has less than six comparable, the arm’s length price shall be the arithmetical mean of all the values included in the dataset. Any adjustment made in determining arms-length price shall be treated as income taxable at the regular rate irrespective of income exempted from tax or subject to reduced rate of tax.
- (v) Every person who has entered into an international transaction shall furnish, along with the return of income, a statement of international transactions in the form and manner as may be prescribed.
- (vi) Every person who has entered into an international transaction shall keep and maintain such information, documents and record, and the tax authority shall prescribe the period for which the information, documents and records shall be kept and maintained. The tax authority may require any person by notice in writing, to furnish any information, documents and records within the period as may be specified in the notice.

- (vii) A report from Chartered Accountants/ Cost Management Accountant shall be submitted upon request via a notice issued by the tax authority, if the aggregate value of international transactions exceeds Tk 30 million during an income year. The report from Chartered Accountants/Cost Management Accountant provides reasonable assurance as to whether all information, documents, and records provided by the company are complete and authentic. Further, Failure to furnish such report may lead to a penalty up to TK 300,000.
- (viii) Every person fails to submit transfer pricing return along with corporate income tax return may result in a penalty of maximum 2% on the value of international transactions.

### **8.1 Effective period of transfer pricing**

Transfer pricing regulation is effective from 1 July 2014 (S.R.O. 161/Law/Income tax/2014 dated 26 June 2014).

## **9. Others**

### **9.1 Stay of proceeding in case of pending appeal or reference at Appellate Tribunal or High Court Division**

In the process of Alternate Dispute Resolution (ADR), appeal filed by the Deputy Commissioner of Taxes (DCT) at Tribunal or reference application made by the Commissioner of Taxes (Appeal) at High Court level, will be stayed until disposal of the ADR application.

An assessee shall not be eligible for application to ADR if he fails to pay tax payable u/s 74 where the return of income for relevant year or years has been submitted.

### **9.2 Decision of ADR**

In case of Alternate Dispute Resolution (ADR), time limit for the facilitator to make an agreement is 2 months from the end of the month in which the application was made, unless no agreement shall be deemed to have been reached.

### **9.3 Notice, assessment order and tax form delivered u/s 174**

If any notice, assessment order and tax form has been delivered to authorised representative u/s 174, it will be treated as delivered to the assessee.

### **9.4 Inclusion of amortisation in Third Schedule**

Amortisation of licence fee including Spectrum Assignment fees, GSM license fees, license acquisition fees or license renewal fees paid by cellular mobile phone operator or any other company engaged in providing specialised service allowed if:

- assessee is a resident company for tax purpose;
- licence fee is paid before or after 1 July 2012 wholly and exclusively for the purpose of obtaining a permission from the government authority;
- licence/permission is granted for 2 or more years to run a business; and
- amortisation charge/deduction will be calculated as proportionate to such years, and such amortisation/deduction shall continue till the last year of the period for which the licence was granted.
- In case of other companies, such license should be integral part of the operation of the business.

### **9.5 Computation of income of contractor, etc., of an oil company residing out of Bangladesh (Rule 39)**

Income of contractors to an oil company or as a sub-contractor to the contractor to an oil company residing out of Bangladesh shall be deemed to be an amount equivalent to 15% of the gross earnings from operations.

## 10. Income subject to tax withholding/deduction/collection at source

National Board of Revenue (NBR) has issued an order about use of tax jurisdiction for depositing withholding tax.

As per the new order, companies, non-governmental organizations and co-operatives (other than bank and financial institutions) are advised to deposit all of withholding tax to the respective company's tax zone where its tax file will be assessed. Earlier, withholding tax would be deposited to different tax zone based on withholding tax section applied for tax deduction. The companies which are assessed under the Large Tax-payer Unit (LTU) are advised to continue its existing system in depositing the withholding tax. Also, there are different requirements for Banks, Financial Institutions, any person other than companies and Government and its entity.

A statement is required to be submitted to income tax authority for all deduction or collection made on a monthly basis.

All companies including private companies, branch companies, liaison offices, banks and other financial institutions etc. are required to collect/withhold tax at the time of payment as shown hereunder:

- **Salaries (u/s 50)**

Tax withholding should be made monthly on the basis of computation of estimated annual total income. Refer to section 2 above for tax rates.

This rule is also applicable to the total income from salary of Government official, where government accounts office shall issue a tax deduction certificate.

However, there is a provision of lesser or no withholding of tax from salary in accordance with a certificate issued by DCT and specifying the same upon application by the assessee. Discount on the real value of Bangladesh Bank bills (50A)

- **Discount on the real value of Bangladesh Bank bills (50A)**

Taxes are to be deducted at the maximum rate or at the rate applicable to such amount, whichever is greater. No tax shall be deducted from the discount received from these bills purchased by a superannuation fund, a pension fund, a gratuity fund, a recognised provident fund or a workers profit participation fund.

- **Remuneration of Member of Parliament (u/s 50B)**

Taxes are to be deducted at source from remuneration paid to Members of Parliament at average rate but other allowances paid like bonus, house rent will remain tax-free.

- **Interest/discount on govt. securities and securities approved by the government (u/s 51)**

Taxes are to be collected at 5% upfront on interest or discount, receivable on maturity, from the purchaser of the securities excluding Treasury bill and Treasury bond issued by the Government.

For security which is based on Islamic principles, the tax of 5% shall be deducted at the time of payment or credit.

▪ **Payments for supply of goods, execution of contracts (u/s 52, rule 16)**

Where any payment is to be made by a specified person to a resident on account of execution of contract other than a contract for providing or rendering services, the deduction of payment shall be at the following rates:

Base amount*	Rates
Where the payment does not exceed Tk 1,500,000	2.0%
Where the payment exceeds Tk 1,500,000 but does not exceed Tk 5,000,000	3.0%
Where the payment exceeds Tk 5,000,000 but does not exceed Tk 10,000,000	4.0%
Where the payment exceeds Tk 10,000,000	5.0%

In case of oil supplied by oil marketing companies:

Base amount*	Rates
Where the payment does not exceed Tk 200,000	Nil
Where the payment exceeds Tk 200,000 (up to any amount)	0.6%

Base amount*	Rates
In case of oil supplied by dealer or agent (excluding petrol pump station) of oil marketing companies	1%
In case of supply of oil by any company engaged in oil refinery	3%
In case of company engaged in gas transmission and distribution	3%
In case of an industrial undertaking engaged in producing cement, iron or iron products except MS Billets	3%
In case of an industrial undertaking engaged in the production of MS Billets	0.5%

Provided that in absence of 12 digit TIN, the withholding rate will be 50% higher than from the above mentioned rates.

Provided that where any imported goods on which tax has been paid at source under section 53 or where any goods on which tax has been paid at source under section 53E is supplied, tax at source on the said supply shall be B-A, where -  
A= the amount of tax paid under section 53 or 53E,  
B= the amount of tax applicable under this section if no tax were paid under section 53 or 53E."

Under this section firm, project, programme, joint venture, consortium, trust, cooperative society, public-private partnership are also treated as deducting authority along with any person.

\*The base amount means the higher of the following:

- Contract value, or
- Bill or invoice amount, or
- Payment

▪ **Payments for royalty (u/s 52A)**

Tax is required to be deducted at the following rates from the payment to a resident on account of royalties, franchise, or the fee for using licence, brand name, patent,

invention, formula, process, method, design, pattern, know-how, copyright, trademark, trade name, literary or musical or artistic composition, survey, study, forecast, estimate, customer list or any other intangibles:

Base amount*	Tax rate if the payee has TIN	Tax rate if the payee has no TIN
Up to Tk 2.5 million	10%	15%
Over Tk 2.5 million	12%	18%

Under this section firm, project, programme, joint venture, trust, cooperative society, public-private partnership are also treated as deducting authority along with any person.

*Provided that in absence of 12 digit TIN, the withholding rate will be 50% higher than from the above mentioned rates.*

\*The base amount means the higher of the following:

- Contract value, or
- Bill or invoice amount, or
- Payment

No deduction need to be made in cases where National Board of Revenue has issued a certificate waiving such deduction or exemption.

▪ **Deduction from of payments certain services (u/s 52AA)**

Where any payment is to be made by a specified person to a resident on account of certain services as stated below:

Description of service	Rate of deduction of tax (% of base amount*)	
	Base amount up to Tk 2.5 million	Base amount exceeds Tk 2.5 million
Advisory or consultancy	10%	12%
Professional service, technical services and technical assistance fee	10%	12%
For below and any other service of similar nature-		
a) On commission or fee	10%	12%
b) On gross bill amount	1.5%	2%
- Catering service	However, where both gross bill and commission are shown; minimum withholding tax will be based on 10% commission on gross bill amount.	However, where both gross bill and commission are shown; minimum withholding tax will be based on 10% commission on gross bill amount.
- Cleaning service		
- Collection and recovery service		
- Private security service		
- Supply of manpower		
- Creative media service		
- Public relations service		
- Event management service		
- Training, workshops, etc. organization and management service		
- Courier service		
- Packing and Shifting service		

Description of service	Rate of deduction of tax (% of base amount*)	
	Base amount up to Tk 2.5 million	Base amount exceeds Tk 2.5 million
Media buying agency service a) On commission or fee b) On gross bill amount	10% 0.5%	12% 0.65%
	However, where both gross bill and commission are shown; minimum withholding tax will be based on 2.5% commission on gross bill amount.	However, where both gross bill and commission are shown; minimum withholding tax will be based on 2.5% commission on gross bill amount.
Indenting commission	6%	8%
Meeting fees, training fees or honorarium	10%	12%
Mobile network operator, technical support service provider or service delivery agents engaged in mobile banking operations	10%	12%
Credit rating agency	10%	12%
Motor garage or workshop	6%	8%
Private container port or dockyard service	6%	8%
Shipping agency commission	6%	8%
Stevedoring/berth operation commission	10%	12%
Transport service, carrying service, vehicle rental service or ride sharing services	3%	4%
Wheeling charge for electricity transmission	4%	5%
Any other service unless provided by bank, insurance or financial institution	10%	12%

Provided that in absence of 12 digit TIN, the withholding rate will be 50% higher than from the above mentioned rates.

\*The base amount means the higher of the following:

- Contract value, or
- Bill or invoice amount, or
- Payment

No deduction need to be made in cases where National Board of Revenue has issued a certificate waiving such deduction or exemption.

▪ **Collection of tax from clearing and forwarding agents (u/s 52AAA)**

This section provides for deduction on account of commission receivable by clearing and forwarding agents licensed under Customs Act 1969 at 10%. The collection will be made by the Commissioner of Customs at the time of clearance of goods imported or exported.

- **Cigarette manufacturers (u/s 52B)**

Seller of banderols is liable to collection of tax at 10% of the value of banderols. The seller will collect the tax from the manufacturer of cigarettes. The tax so collected shall be treated as minimum tax under section 82C.

- **Compensation against acquisition of property (u/s 52C)**

Payment on account of compensation against acquisition by the Government of any immovable property is liable to deduction of tax at the rate of -

- (a) 2% of the amount of compensation where the immovable property is situated in any city corporation, pourashava or cantonment board;
- (b) 1% of the amount of compensation where the immovable property is situated outside any city corporation, pourashava or cantonment board.

- **Interest on savings instruments (u/s 52D)**

Tax is required to be deducted at the rate 10% from interest of savings instrument purchased by an approved superannuation fund or pension fund or gratuity fund or a recognised provident fund or a workers' profit participation fund. However, if the accumulated investments do not exceed Tk 500,000, then tax at 5% will be withheld on the interest income from that saving certificate. Earlier the interest income of such funds were exempted from tax deduction.

No deduction shall be made where the cumulative investment at the end of the income year in the pensioner's savings certificate does not exceed Tk 500,000.

Tax is not required to be deducted on interest income from wage earners development bond, US Dollar premium bond, US Dollar investment bond, Euro premium bond, Euro investment bond, Pound Sterling premium bond, Pound Sterling investment bond.

- **Payment to beneficiaries of Worker Profit Participation Fund (u/s 52DD)**

Tax is required to be deducted at the rate 5% for making any payment to a beneficiary of WPPF.

- **Brick manufacturers (u/s 52F)**

Any person responsible for issuing any permission or renewal of permission for the manufacture of bricks shall collect tax from the manufacturer at the following rates:

- (a) Tk 45,000 for one section brick field;
- (b) Tk 70,000 for one and half section brick field;
- (c) Tk 90,000 for two section brick field; and
- (d) Tk 150,000 for brick field producing bricks through automatic machine.

However, such permission is accompanied by a tax clearance certificate of the preceding assessment year along with the receipt of the tax verified by the DCT.

- **Commission on opening of letter of credit (u/s 52I)**

Taxes are to be deducted at 5% by banks at the time of collection of L/C commission.

Banks are required to deposit all taxes deducted by the 15th of the following month to Bangladesh Bank under appropriate head of accounts. The amounts so deposited will be treated as advance tax payment by the banks.

- **Collection of tax from travel agent (u/s 52JJ)**

Tax is required to be deducted or collected by the person responsible for paying commission, discount or any other benefits on behalf of airlines at the rate of 0.3% of the total value of air ticket or charge for carrying cargo at the time of such payments. Value of air ticket or charge for carrying cargo shall not be included embarkation fees, travel tax, flight safety insurance, security tax and airport tax.

In addition to the above, tax is required to be deducted at the rate 0.3% on payment of incentive bonus, performance bonus or any other benefits from sale of ticket bill of carrying cargo by air. Calculation will be as follows:

(A/B)\*C where:

A = Incentive bonus/performance bonus or any other benefit

B = is the amount of commission or discount

C = 0.3% (source tax)

- **Issue or renewal of trade licence (section 52K)**

City Corporation shall collect tax at Tk 3,000 in Dhaka South City Corporation, Dhaka North City Corporation or Chattogram City Corporation, at Tk 2,000 in any City corporation other than above, at Tk 1,000 in any pourashava at any district headquarter, at Tk 500 in any other pourashava, while issuing or renewing trade licence. The tax so collected shall be adjusted against tax payable by the recipient of licence.

- **Collection of tax from freight forwarding agency commission (section 52M)**

Tax is to be withheld at 15% from commission payable to freight forwarding agency. Tax so withheld shall be adjusted against tax payable by the assessee.

- **Collection of tax on account of rental power [section 52N]**

Tax is to be withheld at 6% by Bangladesh Power Development Board from the payment to any rental power company on account of purchase of rental power from the date of its operation in Bangladesh.

- **Collection of tax from rent of convention hall, conference centre (u/s 52P)**

Tax is to be withheld at 5% from rental payment to institutions like convention hall, conference centre, hall room, hotel, community centre or restaurant.

*Provided that no deduction shall be made when such amount is paid directly to the Government.*

▪ **Collection of tax from service charge and consultancy fee (u/s 52Q)**

If any Bangladeshi resident provides service to any foreigner, tax should be deducted at source from the payment received *against* this service. Bank should withhold tax at 10% before the money is credited in the bank account. Conditions apply-

- Person rendering the service has to reside at Bangladesh at the time of rendering the service.
- Service should be rendered to any foreigner.
- Payment should be received against the service rendered.
- The payment is received in any of the following name – service charge, consultancy fees, commission, honorarium or any other name.

However, payment received for service rendered while staying outside the country is excluded from this section.

The remittance received from abroad for proceeds from sales of software or services provided by a resident is exempted from tax if the income is exempted under paragraph 33 of Part A of the 6th Schedule.

▪ **Deduction of tax from receipts in respect of international phone call (u/s 52R)**

The bank, through which the receipt on account of International Gateway Service in respect of international phone calls is received, shall deduct tax at the rate of 1.5% of the total amount representing the said receipt at the time of crediting it to the account of the international gateway service provider.

The international gateway service provider, through which the revenue related to international phone call is shared under an agreement with the Bangladesh Telecommunication Regulatory Commission (BTRC), shall deduct tax at the rate of 7.5% on the whole amount so paid or credited to any other persons under the said agreement.

The provider of Interconnection Exchange (ICX) services or Access Network Services (ANS) shall deduct tax at the rate of seven point five percent (7.5%) on the whole amount so paid or credited at the time of payment or credit where any amount is paid or credited in respect of outgoing international calls.

Notwithstanding anything contained in above paragraph, where the Board gives a certificate in writing on an application made by a person that income of the person getting such payment is exempted from tax or will be liable to tax at a rate of tax less than the rate specified in this section, the person responsible for giving any payment shall, make the payment:

- (a) Without deduction of tax; or
- (b) Deduct tax at a rate lower as specified in the certificate.

▪ **Deduction of tax from any payment in excess of premium paid on life insurance policy (u/s 52T)**

Tax is to be deducted at 5% for paying any sum in excess of premium paid for any life insurance policy maintained with any life insurance company. No deduction shall be made in case of death of such policy holder.

- **Deduction from payment on account of letter of credit (u/s 52U)**

The bank or financial institution, through which any local letter of credit or any financing agreement, called by whatever name, is made between two or more persons within Bangladesh for purchasing any goods for trading or processing will be captured under this section. While the proceeds of such goods are paid, Bank shall deduct tax at 3% on the total proceeds at the time of paying or crediting such proceeds to the account of the person or persons providing such goods. In case of extending such credit facility to any distributor, tax shall be deducted at 1%.

No tax shall be deducted with such arrangement in respect of purchase or procurement of rice, wheat, potato, onion, garlic, peas, chickpeas, lentils, ginger, turmeric, dried chillies, pulses, maize, coarse flour, salt, edible oil, sugar, black paper, cinnamon, cardamom, clove, date, cassia leaf, computer or computer accessories, jute, cotton, yarn and all kinds of fruits.

Nothing in this section shall limit the applicability of section 52.

- **Deduction from payment by cellular mobile phone operator (u/s 52V)**

The Principal Officer of cellular mobile phone operator company responsible for making any payment, on account of revenue or any license fees or any other fees or charges, called by whatever name, to the regulatory authority, shall deduct tax at 10% of such payment at the time of credit to payee or at the time of payment thereof, whichever is earlier.

- **Collection from importers (u/s 53, rule 17A)**

The Commissioner of Customs or any other appropriate officer shall collect tax on imported items at 5% of the value of imported goods, not being goods imported by an industrial undertaking as raw materials for its own consumption.

National Board of Revenue may grant exemption from tax collection upon application where the assessee's income is not taxable in any year.

- **Rent from house property (u/s 53A, rule 17B)**

This is subject to a flat rate of 5% for all rent. Hotel, hospital, clinic or diagnostic centre is also responsible for deduction.

- **Shipping business of a resident (u/s 53AA, 102)**

This section provides for deduction of tax at 5% from total freight received or receivable by a ship owned or chartered by a resident assessee. The rate will be 3% if service is rendered between two or more foreign countries. The deduction will be made by the Commissioner of Customs at the time of granting port clearance. The deduction so made shall be treated as final tax liability under section 82C of the Income Tax Ordinance. In addition to 5% tax on total freight, a certificate from the concerned Deputy Commissioner of Taxes (DCT) shall be required for port clearance.

The amount paid or payable by way of demurrage charge or handling charge or any other amount of similar nature will also be considered at the time of furnishing tax return to Deputy Commissioner of Taxes.

- **Export of manpower (u/s 53B, rule 17C)**

Taxes are to be withheld at 10% from the payment of service charges or fees.

- **Export of certain items (u/s 53BB)**

Garments sector has been a priority segment for the Government. Every year, the applicable withholding tax rate on such exports are reduced by separate regulatory order (SRO). In last year, applicable rate was 0.6%. This year, taxes are to be withheld by banks at 1% from the export proceeds received on account of export of jute goods and from the exports of knitwear and woven garments, terry towel, carton and accessories of garments industry, jute goods, frozen food, vegetables, leather goods and packed food. This rate is as per the Finance Act 2019 and we are yet to receive any SRO this year.

A company enjoying tax exemption either wholly or partially may apply to tax authority and on the basis of his application the tax authority may exempt from deduction at source or give order to withhold at a reduced rate.

- **Member of Stock Exchanges (u/s 53BBB)**

Taxes are to be withheld at 0.10% on the value of shares, debentures, mutual funds, or securities transacted by a member of a stock exchange. The deduction will be made by the Chief Executive Officer of a stock exchange at the time of such payment.

- **Export of any goods other than certain items (Section 53BBBB)**

Every year, the applicable withholding tax rate on such exports are reduced by separate special order. In last year, applicable rate was 0.6%. This year, any export proceeds received from export of any products other than garments was subject to tax withholding at 1%. The tax so withheld shall be treated as advance payment of tax liability. This rate is as per the Finance Act 2019 and we are yet to receive any SRO this year.

A company enjoying tax exemption either wholly or partially may apply to tax authority and on the basis of his application the tax authority may exempt from deduction at source or give order to withhold at a reduced rate.

- **Public auction (u/s 53C, rule 17D)**

Taxes are to be collected from sale price at the rate of 1% in case of tea auction. In all other cases, withholding tax rate will not exceed 7.5%. Currently, as per rule 17D, such withholding tax rate is 5% for all other cases.

- **Courier business of a non-resident (u/s 53CCC)**

Tax is required to be deducted/collected at the rate 15% by the local agent of a non-resident courier company on the amount of service charge accrued from the shipment of goods, documents, parcels, or any other things outside Bangladesh.

- **Actors or actresses (u/s 53D, rule 17E)**

Taxes are to be withheld at 10% in case of any payment made for the purchase of any Cinema, Drama or Radio and TV programme by any authority.

In case of any payment made to an actor/actress, tax is to be withheld at the rate of 10% from such payment.

Provided that, no tax shall be deducted under this section if the total payment does not exceed Tk 10,000.

- **Deduction of tax at source from export cash subsidy (u/s 53DDD)**

Any person responsible for paying any amount on account of export cash subsidy to an exporter for promotion of export shall, at the time of payment or credit of such amount, shall deduct or collect tax in advance at the rate of 10% on the amount so payable.

- **Commission, discount or fees payable to distributors for distribution or marketing of manufactured goods (u/s 53E)**

Tax is to be withheld at 10% of the amount of payment or the amount allowed or the value of benefits allowed by the way of commission, fees, discount, incentive or performance bonus or any other performance related incentive or any other payment or benefit of the similar nature for distribution or marketing of goods at the time of payment or allowing the amount.

Any company making a payment in relation to the promotion of the company or its goods to any person engaged in the distribution or marketing of the goods of the company shall, at the time of payment, deduct tax at 1.5% of the payment.

Tax is to be collected by a company on sale of goods to any distributor or any other person under a contract other than oil marketing company at following manner:

5% on the amount equal to  $B \times C$  where,

B = Selling price of the company to a distributor or any other person

C = 5%

*Provided that a cigarette manufacturing company shall collect tax @3% at the time sale of goods to its distributor or to such other person of the difference between the sales price to distributor and the retail price fixed by such company.*

- **Commission, fees, charges, remuneration payable to foreign buyers' agent (u/s 53EE)**

If any payment is made to a foreign buyer's agent as per terms of L/C as fees, commission etc. then tax is to be withheld at 10% from such payment.

Tax so deducted shall be treated as final tax liability of the exporter with certain exceptions under section 82C.

▪ **Interest on savings, fixed deposits or term deposits and share of profit on term deposits (u/s 53F, rule 17H)**

Taxes are to be withheld by banks, non-banking financial institutions, leasing companies, housing finance companies etc. at the time of credit or payments of interest to a resident at the following rate:

- (i) 10% where the person receiving such interest or share of profit furnishes his twelve-digit Taxpayer's Identification Number (e-TIN) to the payer; or
- (ii) 15% where the person receiving such interest or share of profit fails to furnish his twelve-digit Taxpayer's Identification Number (e-TIN) to the payer

Rate of tax deduction at source shall be at 10% on interest on saving deposits where balance does not exceed Tk 100,000 at any time in the year.

Tax at the rate of 10% shall also be applicable on the receipts of interest or share of profit by public university, or an educational institution whose teachers are enlisted for Monthly Pay Order (MPO), following the curriculum approved by the Government and whose governing body is also formed as per Government rules or regulations, or any professional institute established under any law and run by professional body of Chartered Accountants, Cost and Management Accountants or Chartered Secretaries.

Tax at the rate of 5% is to be withheld from the interest arising out of any deposit maintained by any fund irrespective of their tax exemption facility.

▪ **Real estate or land development business (u/s 53FF)**

Taxes are to be collected at the following rates at the time of registering any document for transfer of any land or building or apartment by the transferor who is engaged in real estate or land development business:

In case of building or apartment situated:

Area	For residential purpose	Not for residential purpose
Gulshan Model Town, Banani, Baridhara, Motijheel Commercial Area, Dilkusha Commercial Area	Tk 1,600 per square metre	Tk 6,500 per square metre
Dhanmondi Residential Area, Defence Officers Housing Society (DOHS), Mohakhali, Lalmatia Housing Society, Uttara Model Town, Bashundhara Residential Area, Dhaka Cantonment, Kawran Bazar of Dhaka, Panchlaish Residential area, Khulshi Residential area, Agrabad and Nasirabad of Chattogram	Tk 1,500 per square metre	Tk 5,000 per square metre
Other areas of Dhaka South City Corporation, Dhaka North City Corporation and Chattogram City Corporation	Tk 1,000 per square meter	Tk 3,500 per square meter
Any other city corporation	Tk 700 per square meter	Tk 2,500 per square meter
Other areas	Tk 300 per square metre	Tk 1,200 per square metre

However, tax in respect of a residential apartment shall be 20% and 40% lower if the size of the apartment including common space is not more than 70 and 60 square metre respectively.

- (i) 5% of deed value in case of property situated in Dhaka, Gazipur, Narayanganj, Munshiganj, Narsingdi and Chattogram district.
- (ii) 3% of deed value in case of property situated in places in districts other than above districts.

▪ **Insurance commission (u/s 53G)**

Tax has to be withheld at 5% on commission paid to an agent.

▪ **Surveyors of general insurance company (u/s 53GG)**

Taxes at 10% is to be deducted from remuneration or fees paid to a resident surveyor engaged for conducting survey in connection with settlement of insurance claim.

▪ **Collection of tax on transfer, etc. of property (u/s 53H and 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 u/s 82C.

The rate of tax will depend on the location of the land and building. The applicable rate may vary from 1% to 4% based on the location. It will not exceed Tk 1,080,000 per katha (1.65 decimal) for land, additional Tk 600 per square meter for any structure, building, flat, apartment or floor space on the land, if any, or 4% of the deed value, whichever is higher.

Collection of tax shall not apply to the following:

- i) sale by a bank or any financial institution as a mortgagee empowered to sell;
- ii) mortgage of any property to the Bangladesh House Building Finance Corporation against loan.

“Financial institution” shall mean the Bangladesh House Building Finance Corporation, the Bangladesh Shilpa Bank and the Bangladesh Shilpa Rin Sangstha.

▪ **Collection of tax from lease of property (u/s 53HH)**

Any registering officer responsible for registering under the Registration Act, 1908 (XVI of 1908) any document in relation to any lease of immovable property for not less than ten years from any authority formed or established under any law or from any other person shall not register such document unless tax is paid at 4% by the lessor on the lease amount of such property.

Authority mean Rajdhani Unnayan Kartipakkha (RAJUK), Chattogram Development Authority (CDA), Rajshahi Development Authority (RDA), Khulna Development Authority KDA) or National Housing Authority.

- **Interest on deposits of Post Office Saving Bank Account (u/s 53I)**

Tax is to be withheld at 10% from interest of Post Office Savings Bank Account.

- **Rental value of vacant land or plant or machinery (u/s 53J, rule 17BB)**

5% tax to be withheld from all such rent.

- **Advertisement of newspaper or magazine or private television channel (u/s 53K)**

Taxes are to be withheld at 4% from the advertising bill of newspaper or magazine or private television channel, or private radio station, or any web site etc.

- **Transfer of share by sponsor shareholders of a company listed with stock exchange (u/s 53M)**

The Securities & Exchange Commission (SEC) is to collect tax at 5% on the difference between transfer value and face value of the share(s) at the time of transfer shares of a sponsor shareholder or director of a company listed with a stock exchange.

- 'transfer' includes transfer under a gift, bequest, will or an irrevocable trust;
- transfer value' shall be deemed to be the value of shares based on the closing price of shares prevailing on the day of consent accorded by the Securities & Exchange Commission or the Stock Exchange, as the case may be, or where such shares were not traded on the date of such consent, the closing price of the last day when such shares were traded.

- **Collection of tax from transfer of share of shareholder of Stock Exchange (u/s 53N)**

The Principal Officer of a stock exchange shall deduct tax at 15% on any profits and gains arising from the transfer of share of shareholder of stock exchange at the time of transfer or declaration of transfer or according consent to transfer of such share, whichever earlier.

For the purpose of the computation of profits and gains of share, the cost of acquisition of such share shall be the cost of acquisition incurred before came in force.

- **Deduction of tax from any sum paid by real estate developer to land owner (Section 53P)**

Any person engaged in real estate or land development business pays any sum to the land owner on account of signing money, subsistence money, house rent or in any other form called by whatever name for the purpose of development of the land of such owner in accordance with any power of attorney or any agreement or any written contract, such person shall deduct tax at the rate of 15% on the sum so paid at the time of such payment.

▪ **Deduction from dividend payments (u/s 54)**

The principal officer of a company shall deduct tax at the time of payment of dividend to a shareholder at the following rates if the shareholder is a resident assessee -

- (i) if the shareholder is a company at the rate of 20%.
- (ii) if the shareholder is a person other than a company at the rate of 10% if twelve-digit Taxpayer's Identification Number (e-TIN) is furnished and 15% if not.

Provided that the provision of this section shall not be applicable to any distribution of taxed dividend to a company if such taxed dividend enjoys tax exemption under the provisions of the paragraph 60 of Part A of the Sixth Schedule.

"Taxed dividend" means the dividend income on which tax has been paid by the recipient under this Ordinance".

▪ **Lottery and crossword puzzles (u/s 55)**

Taxes are to be deducted from the amount of winnings payable at the rate of 20%.

▪ **Income paid or payable to non-resident (u/s 56)**

Under this section firm, project, program, joint venture, trust, cooperative society, public-private partnership are also treated as deducting authority along with any person.

In case of applicability of reduced or nil withholding tax as per double tax treaty or any other reason, a certificate needs to be collected from NBR. Time limit has been specified for issuing exemption or reduced rate certificate by NBR to 30 days after submission of all required documents.

Tax deducted under this section shall be deemed to be the minimum tax liability of the payee and it shall neither be refunded nor be set off or adjusted against any demand.

Relevant government regulatory authority will ask for applicable tax on capital gain arising from the transfer any share of a company.

Applicable withholding tax rates of certain services are stated below:

Sl.	Description of Service	Tax rate
1	Advisory or consultancy service	20%
2	Pre-shipment inspection service	20%
3	Professional service, technical services, technical know-how or technical assistance	20%
4	Architecture, interior design or landscape design, fashion design or process design	20%
5	Certification, rating etc.	20%
6	Charge or rent for satellite, airtime or frequency, rent for channel broadcast	20%
7	Legal service	20%
8	Management service including event management	20%
9	Commission	20%
10	Royalty, licence fee or payments related to intangibles	20%

Sl.	Description of Service	Tax rate
11	Interest	20%
12	Advertisement broadcasting	20%
13	Advertisement making or Digital Marketing	15%
14	Air transport or water transport (other than the carrying services mentioned in sections 102 or 103A)	7.5%
15	Contractor or sub-contractor of manufacturing, process or conversion, civil work, construction, engineering or works of similar nature	7.5%
16	Supplier	7.5%
17	Capital gain	15%
18	Insurance premium	10%
19	Rental of machinery, equipment etc.	15%
20	Dividend- (a) company (b) any other person, not being a company	20% 30%
21	Artist, singer or player	30%
22	Salary or remuneration	30%
23	Exploration or drilling in petroleum operations	5.25%
24	Survey for coal, oil or gas exploration	5.25%
24A	Fees, etc. of surveyors of general insurance company	20%
25	Any service for making connectivity between oil or gas field and its export point	5.25%
26	Any payments against any services not mentioned above	20%
27	Any other payments	30%

▪ **Consequence of failure to deduct, collect etc. (u/s 57)**

- a) Person/company responsible for making deduction shall be treated as assessee in default in respect of tax not deducted.
- b) In addition to above, the required person shall be liable to pay:
  - i) the amount of tax that has not been collected or deducted;
  - ii) the amount of tax which was required to be collected or deducted;
  - iii) the amount of tax which has not been paid after deduction;
  - iv) an additional amount 2% per month on the above amount as mentioned in (i), (ii) and (iii) at below manner:
    - In case of failure to deduct, collect or deduction at lower rate, an additional amount 2% per month from the due date of the deduction or collection to the date of the payment of the amount;
    - In case of failure to deposit after deduction, an additional amount 2% per month for the date of deduction to the date of payment.

However, periods for which additional amount is calculated shall not exceed 24 months.

- **Consequence of issuance of certificate of tax deduction/collection without actual deduction/collection/payment (u/s 57A)**

The person who is responsible for deduction shall be personally liable to pay the amount which not being deducted/collected or paid to the Government. In such case, DCT shall take necessary actions for the collection of the amount from the responsible person after giving him a reasonable opportunity of being heard.

*Note that deduction/collection made under above sections shall have to be deposited to Govt. Exchequer as follows:*

<b>Time of deduction/collection</b>	<b>Due date of payment</b>
Deduction made during July to May of a year	Within 2 weeks from the end of the month of such deduction/collection
Deduction made during 1 June to 20 June of a year	Within 7 days from the date of such deduction/collection
*Deduction made during 21 June to 30 June	Following day from the date of such deduction/collection

\*However, if the deduction/collection was made in the last two working days of the month of June of a year, the payment shall be made on the same day of such deduction/collection.

## 11. International Tax

### 11.1 Double Taxation Avoidance Agreement

There are agreements on avoidance of double taxation between Bangladesh and 34 countries which are:

1	UK	18	Belgium
2	Singapore	19	Thailand
3	Sweden	20	Poland
4	Republic of Korea	21	Philippines
5	Canada	22	Vietnam
6	Pakistan	23	Turkey
7	Romania	24	Norway
8	Sri Lanka	25	USA
9	France	26	Indonesia
10	Malaysia	27	Switzerland
11	Japan	28	Oman (air traffic only)
12	India	29	Mauritius
13	Germany	30	United Arab Emirates
14	The Netherlands	31	Myanmar
15	Italy	32	Kingdom of Saudi Arabia
16	Denmark	33	Kingdom of Bahrain
17	China	34	Republic of Belarus

### 11.2 Double Tax Relief

A foreign tax credit is available to a Bangladesh resident in respect of any taxes paid in a foreign jurisdiction on the same income being taxed in Bangladesh. The allowable credit is the lower of the foreign tax paid or the Bangladesh tax otherwise payable.

No provision exists for carry forward or carry-back of excess tax credits.

## 12. Value Added Tax and Supplementary Duty

### 12.1 The new VAT legislation

The outgoing VAT legislation, Value Added Tax (VAT) Act, 1991, enacted in 1991 began to lose its effectiveness gradually as the business environment of Bangladesh continued to expand and develop. The apparent disconnection between the aging VAT legislation and the evolving business models created several inefficiencies and confusion in the application of the VAT provisions. This necessitated the need for a sophisticated VAT administration and legislation which would cater to the industrial and business environment of Bangladesh while at the same time ensure proper revenue collection for the government.

Thus, the previous VAT legislation has been replaced with the VAT and Supplementary Duty Act, 2012 (VAT Act 2012) from 1 July 2019. The VAT Act 2012 was enacted by the Parliament in 2012 but due to several administrative reasons and concerns raised by the business communities, its enforcement had been delayed. Eventually with the Finance Act 2019 the VAT Act 2012 has been made **effective from 1 July 2019**.

The new VAT legislation has been developed with a view to modernising the previous VAT legislation which had some major difficulties, limitations and deviations from the basic VAT principles. It introduces new concepts such as residency status and fair market price, provides clearer definitions, devises a streamlined and efficient VAT payment and credit mechanism, **reduces the scope of withholding VAT** significantly and eliminates concepts of package VAT, price declaration etc.

### 12.2 VAT Act 2012 in the context of difficulties and challenges in previous VAT Act

The VAT Act 2012 comes in the face of several limitations of the previous VAT Act such as:

- the cumbersome price declaration system,
- advance VAT payment through current account mechanism,
- limited extent of credit or refunds, and
- deduction of VAT at source on almost all services.

The VAT Act 2012 addresses these complexities and provides a modern streamlined VAT system by introducing Input-Output Coefficient declaration in place of price declaration, removing the requirement of maintaining positive balance with VAT authority before any sale, providing a greater scope for obtaining input VAT credit or refund and reducing the scope of withholding VAT significantly.

### 12.3 Registration or Enlistment Requirements

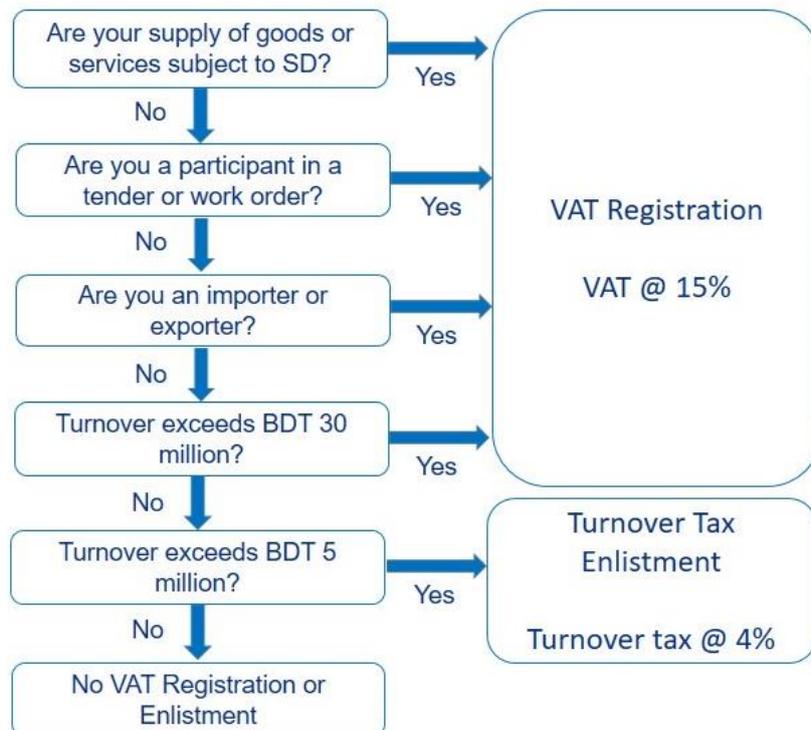
#### ▪ New Requirements

VAT Act 2012 introduces a new guideline of Registration and Enlistment for the purposes of VAT and Turnover Tax respectively. Under the new requirements, business entities having turnover exceeding Tk 5,000,000 will be required to enlist for Turnover Tax and entities having turnover exceeding Tk 30,000,000 will be required to register for VAT.

The following entities will be required to register for VAT regardless of the turnover threshold:

- i) Supplier, manufacturer or importer of goods or services which are subject to supplementary duty;
- ii) Supplier of goods or services through tender, contract or work order;
- iii) Importer and exporter;
- iv) Any other person recommended by the National Board of Revenue (NBR). **NBR has issued a general order prescribing manufacturers or traders and service providers of 175 certain goods and services are to be registered mandatorily.**

Any person who will not be eligible for either Registration or Enlistment will be effectively exempted from VAT. However, such persons can voluntarily register for VAT.



▪ **What constitutes “Turnover”?**

VAT Act 2012 defines turnover as all money received or receivable against the supply of taxable goods or the rendering of taxable services by means of their economic activities.

For the purpose of assessing the eligibility for Registration and Enlistment, Turnover shall not include:

- The value of an exempted supply,
- The value of sale of a capital asset,
- The value of supply made as a consequence of permanently closing down an economic activity, and
- The value of sale of an organization of economic activities or portion thereof.

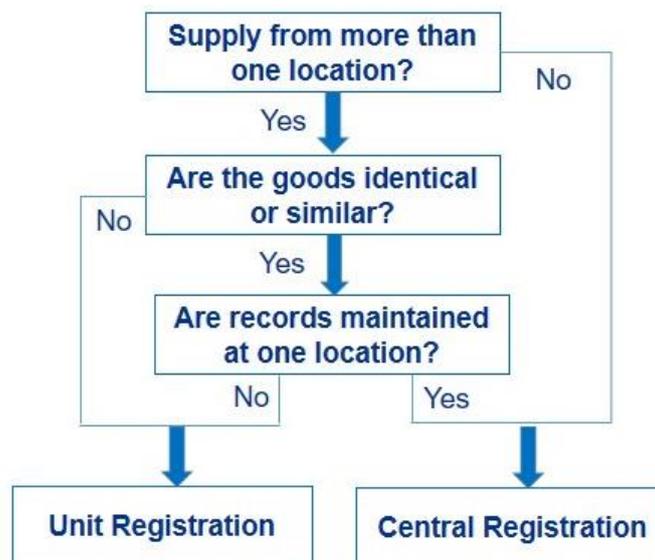
## ▪ Unit Registration vs Central Registration

Mandatory Unit Registration is required when different goods or services are supplied from different locations. Also when identical or similar goods or services are supplied from different locations and the related books and records are kept at separate locations, Unit Registration is mandatory.

Option of Central Registration is available when identical or similar goods or services are supplied from different locations but books and records are maintained centrally.

It is implied that different goods or services supplied from a single location would consequently be under one registration.

Furthermore, transfer of goods or services between one unit to another unit by a centrally registered person will not be considered as supplies. As a result, this internal transaction will not result in output VAT liability and input VAT credit.



## ▪ Economic Activity

VAT Act 2012 imposes VAT on “*economic activity*”. The VAT Act 2012 defines economic activity as any activity carried on regularly or continuously for making supply of any goods, services or immovable property. The definition of economic activity also includes:

- i) any business, profession, vocation, means of earning livelihood, manufacturing or undertaking of any kind;
- ii) supply of any goods, services or properties made under any lease, license or similar arrangement; and
- iii) one-off initiative in the nature of a commercial activity or enterprise.

However, any service rendered by an employee to his employer or any service rendered by any director of a company in general or any recreational pursuit or hobby performed on a non-commercial basis or any activity carried on by the Government without any commercial motive are excluded from the definition of economic activities.

<p><b>Exempted Supplies</b></p> <p>VAT Act 2012 provides VAT exemption on certain goods and services which appears to be broadly consistent with the exempted goods and services under the previous VAT Act 1991.</p>	<p><b>Taxable Import</b></p> <p>Any import other than exempted imports. Import is defined as bringing any goods from outside Bangladesh into the geographical territory of Bangladesh.</p>
<p><b>Imported Supplies</b></p> <p>Taxable Supply means any supply, excluding exempted supplies, made in an economic activity. Supply includes supply of goods, services and immovable property.</p>	<p><b>Imported Services</b></p> <p>Imported service means supply of any service from outside Bangladesh to a registered person or a person required to be registered.</p>

## 12.4 Coverage of VAT

### ▪ VAT Exempted Goods

Similar to the previous VAT Act 1991, VAT Act 2012 provides VAT exemption on certain goods and services through the First Schedule as well as specific exemptions through statutory orders.

### ▪ VAT Exempted Services

The VAT Act 2012 provides VAT exemption on certain services which are broadly categorised as follows:

- i) **Basic services for livelihood** - agricultural services e.g. farming, irrigation of farmlands, storage of agricultural goods and animal products excluding warehouses, etc.
- ii) **Social services** - e.g. Government and private healthcare services, Government education services etc.
- iii) **Cultural services** - e.g. radio or television broadcasting.
- iv) **Financial services** - stock or security exchange institution, life insurance policy and deposit or savings at banks or financial institutions.
- v) **Transportation services** - e.g. passenger transport, goods transport, airlines, ambulance services except certain cases such as shipping agent, courier services, freight forwarder, charterer of aircraft or helicopter etc.
- vi) **Personal services** - e.g. journalist, actor, singer, driver, operator, designer, etc.
- vii) **Other services** - e.g. services for any religious activity or programs, land purchase or transfer and its registration, stevedoring activities, etc.

- **Zero-rated VAT**

- Supply of zero-rated goods
  - Supply of any goods from inside to outside Bangladesh,
  - Temporarily imported goods,
  - Deemed export,
  - Supply of goods for repair, maintenance or modification and supply of stores or spare parts for ocean-going ship and aircraft engaged in international transport.

*Deemed exports are supplies of ingredients of goods or services for consumption outside Bangladesh and supply of any goods or services within the territory of Bangladesh against foreign currency through an international tender or under local letter of credit.*

- Supply of zero-rated services
  - Services given physically on goods situated outside Bangladesh at the time of supply of the service,
  - Services given relating to temporarily imported goods under the Customs Act,
  - Services given to a recipient situated outside Bangladesh at the time of supply,
  - Supply of telecommunication services by a telco supplier to a non-resident telco supplier.

## 12.5 Type of VAT Rates

- **Standard VAT rate**

The standard VAT rate under VAT Act 2012 is 15%.

Input VAT credit can only be obtained against supplies of goods or services subject to 15% VAT.

- **Trade VAT**

Traders are subject to VAT at a rate of 5% on their supplies except traders of **medicine and petroleum products for which reduced trade VAT of 2.4% and 2%, respectively, is applicable.**

Goods and services subject to truncated VAT rate will not be eligible for input VAT credit.

Goods and services subject to trade VAT rate can choose to exercise standard VAT rate of 15% and input VAT credit against their purchase.

- **Advance Tax**

Importers are required to pay Advance Tax at 5% on taxable imports on the value determined for taxable imports. Such Advance Tax can be shown as decreasing adjustment with in the concerning VAT period or 2 succeeding VAT periods.

▪ **Truncated VAT**

VAT Act 2012 prescribes VAT rates lower than the standard VAT rate of 15%, commonly known as Truncated VAT system, in the Third Schedule. Truncated VAT rates are as follows:

- 5% - e.g. mustard oil, biscuits, plastic products, indenting firm, ride sharing services, etc.
- 7.5% - e.g. non air conditioned hotel or restaurant, procurement provider, construction contractor, etc.
- 10% - e.g. printing press, security service, building, floor, compound cleaning or maintenance service provider, etc.
- For building construction firm
  - Up to 1,600 sq. ft. at 2%;
  - Exceeding 1,600 sq. ft. at 4.5%; and
  - Reregistration irrespective of size at 2%

Goods and services subject to Truncated VAT rate will not be eligible for input VAT credit.

Business entities whose supplies are subject to Truncated VAT can choose to exercise the standard VAT rate of 15% and claim input VAT credit against their purchase.

▪ **Specific VAT (Tariff Value VAT)**

Certain goods and services are subject to tariff value based VAT such as SIM cards, mild steel products, newsprint etc.

**12.6 VAT Mechanism**

**Previous VAT legislation’s requirement of having positive VAT balance (VAT receivable) before making any sales led to refund situations and adverse cash flow impact. VAT Act 2012 redefines the manner of VAT payment by allowing VAT to be paid on net basis at period ends. Therefore, businesses can better manage their cash flow and VAT receivables now.**

▪ **VAT Payment through VAT Return**

VAT Act 2012 does not generally require to make any advance payment of VAT or maintain positive VAT current account balance before conducting sales. Thus, the registered persons under VAT Act 2012 will pay the net VAT payable, if any, (i.e. output VAT less input VAT and other adjustments) within 15 days following the month end at the time of submission of VAT Return.

	Output VAT
+	Supplementary Duty, where applicable
+	Increasing Adjustments
-	Input VAT Credit
-	Decreasing Adjustments
=	Net Tax Payable

- **Input-Output Coefficient Declaration**

Price Declarations are not required to be filed under VAT Act 2012.

Registered and enlisted persons are required to file Input- Output Coefficient Declaration in Mushak Form 4.3. For first supply of goods and services (i.e. first supply of a new good or service or first supply after change in input-output coefficient), Input-Output Coefficient Declaration should be filed with the VAT Authority's online system or concerning divisional VAT official 15 days prior to the date of supply. No approval is required from the VAT Authority.

- **Adjustments**

The following adjustments can be made against output VAT and Supplementary Duty payable in a tax period, namely:

- i) a decreasing adjustment for VAT paid in advance.
- ii) an increasing or decreasing adjustment with respect to withholding VAT;
- iii) an increasing or decreasing adjustment applicable in consequence of an annual re- assessment;
- iv) an increasing adjustment for not making payments through banking channels;
- v) an increasing adjustment of input tax and VAT on being registered;
- vi) an increasing adjustment for payment of any interest, monetary penalty, fine, fee, etc.;
- vii) a decreasing adjustment in relation to second-hand goods purchased for re-sale;
- viii) a decreasing adjustment in relation to a policy of insurance, a lottery, lucky draw, raffle draw, housie or similar undertakings;
- ix) an increasing or decreasing adjustment for the change in the tax-rate; and
- x) a decreasing adjustment allowed for a negative amount carried forward from a previous tax period or for VAT overpaid in a previous tax period.

- **Input VAT Credit**

VAT Act 2012 provides a broader scope for obtaining input VAT credit. A registered person shall be entitled to an input VAT credit for any taxable import or taxable supply made to the person for conducting their economic activities and taxable supplies.

The VAT Act 2012 allows to take input VAT credit on most cases excluding, namely:

- i) expenses for exempted goods or services,
- ii) expenses which are not mentioned in the Input-Output Coefficient Declaration,
- iii) expenses related to supply of goods and services which are subject to Turnover Tax (VAT), VAT at a specified rate or VAT at a rate less than 15%,

- iv) expenses over Tk 100,000 for which payment is made without banking channel,
- v) imported services for which output VAT has not been shown in the VAT Return,
- vi) claim of input VAT credits which have not been made either in the VAT period in which VAT is paid or within the two succeeding VAT periods,
- vii) expenses for which the VAT invoice (Mushak Form 6.3) does not mention the name, address and BIN of both the purchaser and seller,
- viii) purchase of passenger vehicle or entertainment services, provided that, input VAT credit may be allowed when such purchases are part of normal course of the economic activities of the person (e.g. dealer or charterer of vehicles);
- ix) purchase of transportation services;
- x) VAT paid on the goods under the custody or possession or occupancy of another person; and
- xi) VAT paid on inputs that have not been entered into the Purchase Register prescribed by the Rules.

#### ▪ **Partial Input Tax**

If a registered person is not entitled to full input VAT credit, their entitlement to input VAT credit against total imports and acquisitions shall be calculated in a proportionate manner as follows:

$$I \times T/A$$

where—

“I” is the total amount of input tax originating from imports or acquisitions;

“T” is the amount paid on all taxable supplies during the tax period; and

“A” is the amount paid by the registered person on all the supplies during a tax period.

Also, when a registered person pays or is liable to pay a part of the consideration for a taxable supply, any input tax credit to which the person is entitled shall be calculated on the basis of the amount of the consideration such person pays or is liable to pay.

Partial input tax calculated on monthly basis is provisional. Annual increasing/decreasing adjustments can be made for the calendar year with the approval of VAT Commissioner considering the above factor on annual basis.

### Key points to note

- VAT is paid on net basis through VAT Return,
- Input VAT credit can only be obtained on supplies subject to zero-rated VAT and standard VAT,
- Withholding entities should only conduct business with registered or enlisted entities who provide integrated VAT invoice and withholding VAT certificate,
- When goods and services subject to VAT at less than 15% are obtained VAT should be deducted at the full rate,
- Advance VAT and applicable refunds can be adjusted as a decreasing adjustment.



- **Withholding VAT**

VAT Act 2012 has given certain business entities the responsibility to withhold VAT.

Sub-section 21 of section 2 of VAT Act 2012 defined withholding entity to mean-

- a) a Government entity (Ministry, board, authority, semi- Government, autonomous body, state owned entity, local authority or similar types of institutes);
- b) a non-government organisation approved by the NGO Affairs Bureau or the Directorate-General of Social Welfare;
- c) a bank, insurance company or a similar financial institution;
- d) a post-secondary educational institution; or
- e) a limited company.

As per Guidelines on Collection of VAT at Source, 2019 as amended by SRO 235-Act/2019/71-VAT, withholding VAT responsibility should be complied in the following manner:

- i) **No Deduction** for obtaining exempted or zero-rated goods and services;
- ii) **No Deduction** for obtaining utilities like fuel, gas, electricity, water (WASA), telephone, and mobile bills;
- iii) **No Deduction** for obtaining goods or services subject to 15% VAT through Mushak Form 6.3;
- iv) **Deduct applicable VAT** for supply of goods or services subject to reduced or specified VAT rates through Mushak Form 6.3.

Where applicable, amount of VAT deduction should be the **full amount of VAT applicable**.

A withholding entity will have to provide a withholding VAT certificate within 3 days from making payment to the supplier. The supplier will be able to use the withholding VAT certificate as an evidence for claiming decreasing adjustment in their VAT Returns.

**Withholding entities are also restricted from obtaining supplies or services from persons who are not registered for VAT or do not issue a Mushak Form 6.3.**

Tax invoices or integrated tax invoices, withholding VAT certificates, deduction documents and other related documents should be preserved for at least 5 years.

- **Reverse Charge of VAT**

The VAT Act 2012 provides clear provision for VAT on imported services under the concept of Reverse Charge.

The imported service will be a taxable supply in the hand of the service recipient and consequently, it has to be shown as output VAT in the VAT Returns. Simultaneously, the service recipient will be required to show the applicable VAT on such imported service as their input VAT in the VAT Return. Hence, there would be no cash flow impact for imported service. However, this will not be the case for non-registered or non-enlisted persons. VAT Act 2012 requires banks or financial institutions that are responsible for payment for imported services obtained by non-registered or non-enlisted persons to deduct VAT appropriately and submit VAT to the Treasury.

VAT on imported service, unless exempted, will be applicable even if the importer is not registered or required to be registered.

## 12.7 Value of Taxable Supply

- **Determination of Value of Taxable Supply**

- **Taxable Supply**

The value of a taxable supply is the amount derived by reducing the tax fraction [VAT Rate/(100+Vat Rate)] from the consideration. Consequently, value of any supply other than the taxable ones shall be the consideration of such supplies.

- **Imported Services**

Value of imported services is determined in the same manner in which value of taxable supplies is determined.

- **Taxable Imports**

Imports will be valued at the Assessable Value determined by the Customs Authority plus the amount of Customs Duty, Regulatory Duty or Supplementary Duty.

It is also required to file Input-Output Coefficient declaration to the VAT authority.

– **Special Cases**

If any taxable supply is made or imported service is taken from an associated entity, the value of such transaction would be the fair market value of that taxable supply or imported service if:

- i) the taxable supply or imported service is of no consideration or consideration lower than the fair market value, and
- ii) the associated entity cannot claim input VAT credit on the taxable supply or imported service.

Also, taxable supplies with no consideration will be valued at the fair market value of the supply reduced by the tax fraction.

▪ **Fair Market Price Concept**

VAT Act 2012 introduces the concept of fair market price. According to the legislation “fair market price” is the consideration arrived at as a result of normal relationship between a buyer and a seller who are not associated with each other. If such price is not identifiable, consideration of similar supply made previously under similar circumstance would then be the fair market value. If the price cannot be derived by the above means, it may be determined by NBR on the basis of impersonal average of consideration in course of normal business relations among buyers and sellers, who are not associated with one another.

▪ **Definition of associated entities**

Associated entities mean two persons with such a relation between them that it would make one act or reasonably expect to act in accordance with the intention of the other, or make both act or reasonably expect to act in accordance with the intention of a third person. Associated entities also include the following persons, namely–

- i) a partner of a partnership;
- ii) a shareholder of a company;
- iii) a Trust and a beneficiary of such Trust; or
- iv) a joint venture for property development and the landowner as a partner of that joint venture, builder, or other related person;
- v) representative, VAT Agent, distributor, licensee or persons with similar relationship;

but do not include persons with employment relations.

▪ **When is Fair Market Price relevant?**

In the context of the VAT Act 2012, fair market price is relevant in the following scenarios:

- To determine the value of free samples above the allowable limit of Tk 20,000 per fiscal year;
- When assessing the consideration of imported services obtained from or supplied

- by a related person;
- When taxable supply is made to an associate for no consideration or consideration which is less than fair market price and also if the associate cannot take full input VAT credit;
  - Supplies of service or immovable property to any employee without a consideration or at a price less than the fair market price;
  - Imposition of Supplementary Duty on the supply of any goods or service subject to Supplementary Duty which is made without any consideration or with inadequate consideration
  - When quantity of goods subject to Supplementary Duties is identified during an audit to have not been accounted properly; or
  - Transfer of immovable property by a property developer to the land-owner.

## 12.8 New Concepts

### ▪ Defining Residents

The VAT Act 2012 brings a definition for Residents which was not present in the previous VAT legislation. In case of individuals, “*resident*” will mean an individual who—

- a) normally lives in Bangladesh; or
- b) stays in Bangladesh for more than 182 days in a current calendar year; or
- c) stays in Bangladesh for more than 90 days in a calendar year and has stayed in Bangladesh for more than 365 days during the four immediately preceding calendar years.

In other cases, resident will include the following:

- a) a company incorporated in Bangladesh or having its center of control and management in Bangladesh;
- b) a Trust, if a Trustee thereof is a resident of Bangladesh or the center of control and management of the Trust is in Bangladesh;
- c) an association of persons other than a Trust, if it is formed in Bangladesh or its center of control and management in Bangladesh;
- d) all Government entities; or
- e) a property development joint venture.

Any other person is a **Non-resident**.

### ▪ Defining Fixed Place

VAT Act 2012 also defines *fixed place* to include, namely—

- i) a place of management;
- ii) a branch, an office, a factory, or a workshop;

- iii) a mine, a gas well, a quarry for extraction of stones or any other similar mineral resource; or
- iv) a location of any construction or installation project;

### ***Implications of Residency Status***

The prime implication of residency status is that if a non-resident is carrying out an economic activity from or through a fixed place in Bangladesh and provides any supply from such a fixed place, such activity or supply would be considered as an economic activity or supply in Bangladesh and will be subject to VAT. A non-resident having no fixed place of business in Bangladesh would not be required to register for VAT for their compliance of VAT obligations, if any, but they have to appoint a VAT Agent in order to discharge these obligations.

- **VAT Agent**

A non-resident can appoint a VAT Agent who will bear and carry all VAT related responsibilities arising out of the activities performed by the non-resident. **The VAT Agent will obtain a VAT Registration in the name of the principal for the concerning economic activities.**

- **Cancelled Transaction**

If a transaction is cancelled, the amount of money which may be retained by the supplier will be subject to VAT. Furthermore, such VAT may be adjusted in the VAT Return.

- **In-kind Benefits**

The price of supply by a registered or required to be registered person of an in-kind benefit to any of their employees will be subject to VAT under the VAT Act 2012.

If a service or an immovable property without a consideration or at a price less than the fair market price is given to the employees, the value of such service or such immovable property shall be its fair market price.

Input VAT credit can also be obtained on in-kind benefits.

## **12.9 New Clarifications**

- **Carry Forward and Refund**

The VAT Act 2012 makes refund process easier compared to the previous VAT law. Refund provisions have been segregated for:

- i) **construction, house building, land development or property development activities** - Negative Net Tax Payable in a tax period can be carried forward indefinitely. Cash refund is not possible for building, construction and property development entities.
- ii) **other economic activities** - Negative Net Tax Payable for a tax period can be carried forward for 6 tax periods. Afterwards, if the Negative Net Tax Payable is not fully adjusted and the remaining amount is greater than Tk 50,000, it can be claimed as cash refund within 3 months from the date of application. If the

remaining Negative Net Tax Payable is less than Tk 50,000, it can be carried forward indefinitely.

Refund can be claimed only after submission of all VAT Returns up to the current tax period.

- **Progressive or Periodic Supplies**

The VAT Act 2012 defines “*progressive or periodic supplies*” as any supply under contract, lease, hire purchase or license (including finance lease) on the condition of progressive or periodic payment of consideration.

VAT imposed on such supplies becomes payable at the earliest of:

- a) when separate invoices are issued for each such supply;
- b) when consideration against each such supply is received in part or in full;
- c) when the price against the series of supplies becomes payable; or
- d) the first day of the tax period to which the payable consideration relates, if it is possible to ascertain the payable amount at that time.

- **Is there VAT on Sale of Business?**

The previous VAT legislation contained provisions regarding fulfillment of certain VAT obligations prior to the transfer of ownership of a business. The VAT Act 2012 further clarifies these obligations by providing clearer instructions for transfer of ownership of a business.

Furthermore, **if a business is purchased with an intention to keep the economic activities associated with it to be continued, such transfer of ownership will not be regarded as a taxable supply**. Similarly, if any part of the business is sold on a going concern basis it would be covered by the aforementioned provisions.

- **Is there VAT on Disposal of Assets?**

The previous VAT legislation did not provide clear definitions or clarifications for applicability of VAT on sale of used goods. The VAT Act 2012, defines second-hand goods as goods (except precious metal or goods made out of precious metal) which have been used previously.

VAT is applicable on second-hand goods. However, VAT Act 2012 provides the opportunity to adjust such VAT against the output VAT, if the second-hand goods are purchased for re-sale (without any manufacturing activities). This implies that under the new legislation, **VAT paid on second-hand goods not for re-sale will be a cost**.

## 12.10 VAT Documentations

- **Filing of Return**

VAT Returns are required to be filed within 15 days following the month end (for Turnover Tax—following the end of quarter).

A late VAT Return may be filed by obtaining extension from the VAT Authority which is limited to 1 month. Nevertheless, interest will be applicable at a rate of 2% per month on the amount of VAT payable, if Return is submitted after 15 days.

The VAT Act 2012 also includes a provision for Amended Return for clerical error or computational errors. The Amended Return can be submitted before completion of 4 years from the date of filing of the relevant return or before commencement of audit by VAT Authority.

The tax payer will have to pay interest on the difference between the amount of tax payable as per the Amended Return less the amount of tax initially paid.

If any tax payer fails to submit the monthly VAT return within the prescribed time limit, Commissioner will issue a notice through VAT Form 11.1 (Mushak 11.1) to the tax payer to submit the late VAT Return.

If the defaulting tax payer does not submit the late VAT Return within 21 days of the notice, Commissioner will issue a VAT Assessment Order through VAT Form 11.2 (Mushak 11.2)

In failure of submission of late VAT Return within 21 days of the stipulated time period, the Board will temporarily lock the BIN including suspension of import and export activities through automatic VAT online system and transactions of source tax deductible supply. With submission of VAT Return, BIN will automatically be unlocked within two days of the submission.

- **Mushak Forms**

The VAT Act 2012 prescribes new templates and forms for VAT compliance and submissions. The followings are some of the important forms relevant to business entities:

<b>Form Name</b>	<b>Form Description</b>
Mushak 2.1	Registration form for VAT and Turnover Tax
Mushak 2.2	Registration form for Branch/Division
Mushak 2.3	Registration Certificate for VAT/Turnover Tax
Mushak 2.4	Cancellation or Amendment of Registration/ Enlistment
Mushak 2.5	Final Return on Cancellation of Registration/ Enlistment
Mushak 3.1	Registration of VAT Agent
Mushak 3.2	Registration Certificate of VAT Agent
Mushak 3.4	Delegation of Power to VAT Agent by Non- resident Person
Mushak 4.3	Input-Output Coefficient Declaration
Mushak 6.1	Purchase Register
Mushak 6.2	Sales Register
Mushak 6.2.1	Purchase-Sale Register
Mushak 6.3	Tax Invoice
Mushak 6.5	Goods Transfer Invoice for Centrally Registered Entity
Mushak 6.6	Withholding Tax Certificate
Mushak 9.1	VAT Return
Mushak 9.2	Turnover Tax Return
Mushak 11.1	Late VAT Return
Mushak 11.2	Assessment Order for VAT

#### ▪ **Tax Invoice**

Every registered supplier is required to issue two copies of serially numbered Tax Invoice on or before the date when VAT becomes payable on the taxable supply containing the following information, namely:–

- a) the date and time of issue of the invoice;
- b) the name, address and Business Identification Number of both the supplier and the buyer if the supply value is greater than Tk 25,000;
- c) description of the goods or services,
- d) quantity of the goods supplied;
- e) the value of the supply (exclusive of VAT and inclusive of VAT);
- f) the VAT- rate applicable to the supply;
- g) the amount of payable VAT; and
- h) any other information prescribed by the Board.

Notably, if supply is made from multiple locations Tax Invoice should be serialized for each location. This number along with the name and address of the location should be mentioned in the Tax Invoices for the supplies made from those locations.

#### ▪ **Integrated Tax Invoice and Withholding Certificate**

A registered person, who makes a supply to a withholding entity shall on or before the date of making such supply, issue to the withholding entity an integrated tax invoice and withholding certificate containing the prescribed information.

The form and manner of the Integrated Tax Invoice and Withholding Certificate shall be prescribed by the Board.

#### ▪ **Books and Records**

VAT Act 2012 allows all prescribed documents to be customized according to the company's formats or templates.

VAT Act 2012 requires the registered and the enlisted persons to complete accounting, reporting and auditing under International Financial Reporting Standards, International Accounting Standards and International Standards on Auditing.

For tax determination all documents which depict the operation of business should be considered.

VAT Act 2012 requires records and accounts to be maintained for at least 5 years. In case of unsettled VAT disputes, all the relevant documents and records shall be kept until the settlement of the disputes.

- **VAT Software**

NBR has made it mandatory for registered entities having turnover exceeding Tk 50,000,000 in the previous financial year to maintain their VAT related books and records in software prescribed by the VAT authority. In order to comply with this provision, only software from NBR approved software developer or supplier should be used. Entities may also use their own personal software provided it has the same specifications as prescribed by the NBR and after obtaining approval from the NBR.

- **Online VAT Services**

The new VAT Rules 2016 makes it easy for entities to use internet-based portals of National Board of Revenue (NBR) to conduct the following activities:

- i) Register for VAT or Turnover Tax,
- ii) Submission of VAT or Turnover Tax Returns, and
- iii) Deposit VAT or Turnover Tax amount through digital platforms of NBR and Sonali Bank Limited.



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