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**Recent Developments in International Taxation  
Bangladesh**

**A.S.A. Bari**  
**Managing Partner, A.S & Associate**  
**[a.bari@as-associates.net](mailto:a.bari@as-associates.net)**

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## 1. **RECENT HIGHLIGHTS**

### 1.1. **Minimum Tax**

- 1.1.1. From 2008 onwards, the Tax-to-GDP ratio in Bangladesh has been increasing with a positive gradient from 8% to 10.3%<sup>1</sup>. In light of the growing trend of the economy, the finance minister of the government of the people's republic of Bangladesh, Mr. AMA Muhith, has come up with a target of increasing the Tax-to-GDP ratio to 15.3% by the Income Year 2018-2019.
  - 1.1.2. View of the veteran Finance Minister of Bangladesh has also been reflected in the Finance Act 2016, which brought about several significant changes in the Income Tax Ordinance 1984 ("**the Ordinance**"). One of the substantial changes is the provision relating to minimum tax.
  - 1.1.3. Previous statutory provision relating to the minimum tax (section 16CCC of the Ordinance), which has been repealed by the Finance Act 2016, provided that an entity having gross receipts of BDT 5 Million, irrespective of profitability of the entity in a given financial year, had to pay a minimum tax at the rate of 0.30% of its gross receipts under any heads of income.
  - 1.1.4. In contrast, under sub-section (4) of new section 82C of the Ordinance, which has been inserted pursuant to the Finance Act 2016, an entity having gross receipts of BDT 5 Million must pay a minimum tax at the rate of 0.60% of its gross receipts under any heads of income. The new provision has clearly doubled the rate. The new provisions of section 82C of the Ordinance do not stop there. In case of a manufacturer of tobacco products and mobile phone operator, the minimum tax rate surges sharply to 1% and 0.75%, respectively.
  - 1.1.5. Previously section 82C of Ordinance offered that the tax deducted or collected at source in respect of certain circumstances (including, but not limiting to, supply of goods, payment of royalty, fees for technical services, sale of rental power, shipping business of a resident, and, transactions of a member of a stock exchange) had been deemed to be final discharge of liability from that source and, income from such source had been determined on the basis of the tax deducted or collected at source. Since, under the previous section, the income from such source was a deemed income, even though an entity had higher income, the tax deducted or collected at source would be the highest tax that they had to pay.
  - 1.1.6. On the other hand, sub-section (2) of the new section 82C of the Ordinance stipulated that tax deducted or collected at source in pursuant to certain sections (altogether 27 sections) of the Ordinance shall be deemed to be the minimum tax on the income from that source, even though the actual tax payable after determining the total income is less than the tax deducted or collected at sources (Section 82C(2)(d)). It means that new provisions on minimum tax under section 82C leave extremely marginal scopes of for refund of tax, or even for credit for subsequent assessment year.
  - 1.1.7. Where both subsections (2) and (4) of section 82C of the Ordinance is applicable, which sub-section should be followed? The answer is higher of those two shall be applicable. The answer is not surprising given the spirit of the new section 82C of the Ordinance.
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- 1.1.8. It also raises another question; if an entity has regular sources of income in addition to those mentioned in sub-section (2) of section 82C of the Ordinance (minimum tax deducted or collected at source), how shall tax be calculated? Regular tax shall be calculated on the income from regular source (in case of loss, as mentioned in paragraph 1.1.4, minimum tax shall be at the rate 0.60% of gross receipts) and tax liability shall be the aggregate of the tax as determined under sub-section (2) (minimum tax applicable for tax deducted or collected at source) and the regular tax.
- 1.1.9. With the government's relentless pursuit to its vision and high ambition to become a developed country within the next couple of decades, growing collection of revenue has been emphasized significantly, as evident from the statement of the veteran Finance Minister of Bangladesh. Therefore, it is likely that the government will continue to increase the rates and/or provisions of tax deduction and collection at source, which means that the situation will exacerbate in the days to come.

## **1.2. Double Taxation Agreements**

Since its independence in 1971, Bangladesh has signed more than double taxation agreement with more than thirty (30) countries. She is also discussing execution of such agreements with almost another thirty (30) countries. As part of the ongoing process, on 27 February, 2017, the cabinet of government of people's republic of Bangladesh has approved two double taxation agreements, one with Bhutan and other with Qatar. Ultimately, on 18 April, 2017, Bangladesh has executed double taxation agreement with Bhutan.

## **2. FUTURE DEVELOPMENTS**

### **2.1. Implementation of VAT and Supplementary Duty Act 2012**

- 2.1.1. The existing Value Added Tax (VAT) Act, 1991 is expected to be substituted with the recently enacted VAT and Supplementary Duty (SD) Act, 2012, which was passed in the parliament as a bill on November 27, 2012. The Act was also one of the conditions of IMF's Extended Credit Facility (ECF) programme which is currently being carried out.
- 2.1.2. The new Act was drafted with the clear objective of simplifying the rules and laws in a more comprehensive and user-friendly manner which was expected to make it easier to understand, and would be reliable for the end-users.
- 2.1.3. Under the New Act, VAT registration requirements have been amended. A second lower threshold has been established, i.e BDT 3 Million per annum, below which businesses are exempted from VAT and turnover tax. Furthermore, Truncated value base will no longer be continued under the New Act. Similarly, provision for "package VAT" will not exist anymore ensuring equal treatment for all entrepreneurs.
- 2.1.4. Moreover, under the new Act, the number of products having supplementary duty (SD) at the import stage is reduced to 170 products from the existing 1,430. According to an estimate provided by the National Board of Revenue, the level of protection for the domestic industry will drop to 23.3% from the existing 50.7% due to the provisions of the new Act. Government will also lose BDT 30 Billion in revenue which would directly be attributable to the reduction in number of products which are subject to SD.
- 2.1.5. Stakeholders have been raising serious concerns in respect of various provisions of the new Act, and their possible implications for enterprise development. One of the concerns that have been constantly expressed by the stakeholders is the withdrawal

of SD from many products produced in the country, as described in paragraph 2.1.4. The Stakeholders believe that it would severely reduce the level of protection for the domestic industries and, they are skeptical about the survival of the local products, as the price of imported finished goods will be lower due to withdrawal of the SD. Local entrepreneurs have sought protection for few more years to achieve competitiveness with imported goods. It appears that the full application of the new Act, once implemented, is likely to have disruptive implications for the manufacturing sector with strong resistance from import substituting producers.

- 2.1.6. The Stakeholders have also been expressing doubts over the readiness in respect of the implementation of the new Act of concerned government bodies and the business community.
- 2.1.7. Consequently, the implementation of the new Act was postponed and planned to be implemented on 1 July, 2016. Initially, the new Act was expected to come into effect from 1 July 2015 according to the previous implementation plan. However, for similar reasons, the Act could not be implemented in 2016-17 fiscal year. Finally, the Act is going to be implemented from 1 July 2017. These stakeholders, still, have urged policymakers to review the new Act further.
- 2.1.8. Due to the persistent questioning from the important stakeholders, the Finance Minister of the government of people's republic of Bangladesh, Mr. AMA Muhith, has stated, during the second week of May, 2017, that the new Act would be amended to fix the rate of VAT at a comfortable level for businessmen from the next fiscal year. Besides, National Board of Revenue has also comforted the local entrepreneurs stating that they are set to ensure protection of some more local industries from uneven competition with foreign one by imposing Supplementary Duty (SD) at import stage under the new Act. A high-powered team of the VAT wing of National Board of Revenue has already started working to identify the goods produced in the country that need further protection.
- 2.1.9. While the new Act is expected to be implemented from 1 July, 2017, as evident from the statement of the government authorities including key officials like the Finance Minister, the amendment and revision of the new Act is still being carried out. To ensure effective implementation and acceptability of new Act, which is a vital element in fulfilling government's objectives to increase revenue collection, it is more than necessary that in-depth consultations with stakeholders to address their concerns take place during the amendment process of the new Act.

## **2.2. Reduction of rate of Corporate Tax**

In Bangladesh, corporate tax rates vary from 25% to 45%. For companies, which are not listed with either of the stock exchanges of the country, the corporate tax rates differ from 35% to 45%. In the context of South Asian region, corporate tax rates of Bangladesh are, definitely, in the higher side of the scale.

One of the consequences of high corporate tax rates is tax evasion, which is nullifying, to some extent, the target of the government, increase in collection of revenue, for attaining its goal of being a developed country within the next couple decades. While about 150,000 companies are registered with the Joint Stock Companies and Firms, only about 30,000 submits income tax returns on regular basis.

Besides, high corporate tax rates make Bangladesh less attractive and non-competitive, for foreign investors, compared to the other markets of the globe. Various chambers of commerce and industries of Bangladesh have repeatedly requested the government to

shrink the corporate tax rates by 10% for all businesses. The government of Bangladesh has taken the suggestions very seriously and, considering to reduce the corporate tax rates in the forthcoming days. Whether the consideration as to reduction of corporate tax rates will turn into a reality will become apparent, when in the approaching month of June 2017, the Finance Minister is going to place his annual budget along with Finance Bill 2017 for approval before the Parliament.