

## International Tax Bangladesh Highlights 2018



### Investment basics:

**Currency** – Bangladesh Taka (BDT)

**Foreign exchange control** – Foreign participation for investments is allowed up to 100%, in all but a few restricted areas. The remittance of dividends is allowed by the Bangladesh Bank (central bank), provided an application is submitted.

**Accounting principles/financial statements** – Accounting Standards adopted by the Institute of Chartered Accountants of Bangladesh largely are based on Bangladesh Financial Reporting Standards. Financial statements must be filed annually by all public and private limited companies.

**Principal business entities** – These are the public and private limited liability company, partnership and branch of a foreign entity.

### Corporate taxation:

**Residence** – An entity is resident if it is registered in Bangladesh or its management and control is in Bangladesh.

**Basis** – Resident entities are taxed on worldwide business income; nonresidents are taxed only on Bangladesh-source income. A branch of a foreign entity is treated as a foreign entity and is taxed accordingly.

**Taxable income** – Business income is taxed under the following “heads” of income: business income, capital gains and other income. Net taxable income is computed on the basis of specific rules and principles, and expenses may be deducted from gross income.

If an employee who is required to file a tax return has not filed the tax return or has obtained an extension of time for filing the return, any salary paid to the employee after his/her “tax day” (see “Compliance for individuals”) will

not be deductible when computing the business or professional income of the employer.

**Taxation of dividends** – Dividends received from resident companies generally are taxed as income, at a rate of 20%.

**Capital gains** – Capital gains are taxed at a rate of 15%, although there are some exemptions.

**Losses** – Business losses may be carried forward for up to six years. The carryback of losses is not permitted.

**Rate** – Publicly traded companies generally are taxed at a rate of 25%. Banks, insurance companies and financial institutions are taxed at a 42.5% rate, with a lower rate of 40% available if the company is publicly traded. Mobile phone operator companies and cigarette manufacturing companies are taxed at a 45% rate. All other companies are subject to a 35% rate.

Where any person employs or allows any non-Bangladeshi individual to work at its business or profession at any time during the income year, without prior approval of the Bangladesh Investment Development Authority, such person will be charged additional tax at a rate of 50% of the tax payable on that person’s income or BDT 0.5 million, whichever is higher.

**Surtax** – No

**Alternative minimum tax** – A minimum tax is imposed at 0.60% on gross receipts from all sources for a company (other than mobile phone operators and manufacturers of cigarettes and other tobacco products) or a firm that has gross receipts of more than BDT 5 million, irrespective of profit or loss, if the minimum tax is higher than the corporate tax liability. The rate of tax is 0.10% on gross receipts for an industrial undertaking engaged in manufacturing of goods for the first three

income years from the commencement of its commercial production.

The minimum tax applicable to taxpayers that have income from any source that is exempt or is subject to tax at a reduced rate is calculated based on a prescribed method.

**Foreign tax credit** – A resident entity may credit income tax paid on foreign-source income against its Bangladesh tax liability. The amount of the credit is the lesser of the income tax paid abroad or the Bangladesh tax payable on the foreign-source income.

**Participation exemption** – No

**Holding company regime** – No

**Incentives** – Incentives are available for certain income, such as income from a physical infrastructure facility set up in Bangladesh, from the business of information technology-enabled services, from exports of handicrafts and from industries established in an export promotion zone, subject to compliance with certain requirements. Area-based tax incentives are available to industrial undertakings set up in specified regions.

#### Withholding tax:

**Dividends** – Dividends paid to a nonresident company are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

**Interest** – Interest paid to a nonresident is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

**Royalties** – Royalties paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

**Technical service fees** – Management service fees and technical service, technical know-how or technical assistance fees paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

**Branch remittance tax** – The remittance of profits abroad by a branch of a foreign company is subject to a branch profits tax of 20%.

**Other** – Rental income on plant and machinery paid to a nonresident is subject to a withholding tax of 15%.

Payments made to a nonresident for digital marketing are subject to a withholding tax of 15%.

Withholding tax returns must be filed on half-yearly basis, on 31 January and 31 July.

#### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – No, see “Stamp duty,” below

**Social security** – Not mandatory

**Stamp duty** – Financial instruments, real property and other specified transactions in Bangladesh attract stamp duties that are levied under the Stamp Act, 1899.

**Transfer tax** – There is no specific transfer tax in Bangladesh, but transfers of immovable property are subject to stamp duty and registration fees, in addition to business income or capital gains tax (as the case may be), local government tax, advance income tax, etc. under local tax laws.

**Other** – Gifts, grants or leases of immovable property must be registered with the authorities.

#### Anti-avoidance rules:

**Transfer pricing** – OECD-type transfer pricing provisions apply. The definition of “associated enterprise” extends beyond a shareholding or management relationship, as it includes some deeming clauses. A taxpayer that engages in international transactions exceeding BDT 30 million is required to maintain documentation and to provide a certificate (in a prescribed format) from a chartered accountant or a cost and management accountant that sets out the details of related party transactions, as well as the methods used to determine an arm’s length price, provided a notice for filing the certificate is received from the National Board of Revenue/tax authorities.

**Thin capitalization** – No

**Controlled foreign companies** – No

**Disclosure requirements** – No

**Other** – Under the substance-over-form principle, the tax authorities may recharacterize a transaction that was entered into to avoid tax or where the transaction does not have substance, or may disregard a transaction that has no economic substance.

#### Compliance for corporations:

**Tax year** – The uniform tax year to be followed is 1 July to 30 June. Exceptions apply for banks, insurance companies or financial institutions, which may use the calendar year as their income year. The revenue authorities may allow a different financial year for a company that is a subsidiary or holding company of a parent company incorporated outside Bangladesh or a branch or liaison office if such foreign company is required to follow a different financial year for the purpose of consolidation of its accounts with the parent company.

**Consolidated returns** – Consolidated returns are not permitted; each entity must file a separate return.

**Filing requirements** – The tax return must be filed on or before the “tax day,” i.e. by the 15th day of the seventh month following the end of the income year, or by 15 September following the end of the income year where the 15th day of the seventh month falls before 15 September.

**Penalties** – Penalties are imposed for late filing, failure to file a return or failure to pay tax; concealment of income; failure to maintain proper records; and failure to provide required documents or data.

**Rulings** – No

#### Personal taxation:

**Basis** – Residents are taxed on worldwide income; nonresidents are taxed only on Bangladesh-source income.

**Residence** – An individual is resident for tax purposes if he/she is present in Bangladesh for more than 182 days in the income year, or if during the preceding four years he/she was present in Bangladesh for a total of at least 365 days and during the income year he/she is present in Bangladesh for at least 90 days.

**Filing status** – Joint returns are not permitted; each individual must file a separate return.

**Taxable income** – Taxable income is divided into “heads” of income, which include income from employment, income from the exercise of a profession, income from property, agriculture income, interest on securities, capital gains and other income.

**Capital gains** – Capital gains are one of the heads of income and generally are taxed at the applicable personal income tax rate. Gains from the sale of an asset that has been held for more than five years are taxed at the lesser of the applicable personal tax rate or the normal rate (15%).

**Deductions and allowances** – Various personal allowances are granted. Deductions are possible where expenses are incurred in deriving taxable income.

An investment allowance is available, capped at: (i) the actual investment made; (ii) 25% of total income (less income that is exempt or subject to tax at a reduced rate); or (iii) BDT 15 million, whichever is the lowest.

**Rates** – Personal income tax rates are progressive from 10% to 30%, and nonresidents are taxed at a flat rate of 30%.

#### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Financial instruments, real property and other specified transactions in Bangladesh attract stamp duties that are levied under the Stamp Act, 1899.

**Capital acquisitions tax** – No

**Real property tax** – No, see “Stamp duty,” above

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – A surcharge is levied based on total net worth at varying rates, on a progressive basis, with a minimum surcharge of BDT 3,000 for individuals having a minimum net wealth exceeding BDT 22.5 million.

**Social security** – Not mandatory

#### Compliance for individuals:

**Tax year** – The assessment year is a period of 12 months commencing on 1 July of each year.

**Filing and payment** – Individuals must file a tax return on or before the “tax day,” i.e. by 30 November following the financial year, unless an extension is obtained.

Every individual that has gross wealth exceeding BDT 2.5 million that owns a motor car or that has made an investment in a property that is a house or an apartment in the city corporation area is required to file a “statement of assets, liabilities and life style” along with the tax return.

**Penalties** – Penalties are imposed for late filing, failure to file a return or failure to pay tax; concealment of income; failure to maintain proper records; and failure to provide required documents or data.

#### Value added tax:

**Taxable transactions** – VAT is levied on the supply of goods and the provision of services, and on the import of goods or services.

A new VAT act and rules (the Value Added Tax and Supplementary Duty Act 2012 and the Value Added Tax and Supplementary Duty Rules 2016) were planned to be introduced with effect from 1 July 2017, but were deferred by the Bangladesh government, so the current VAT act and rules will prevail until the new VAT act and rules enter into force.

**Rates** – The standard rate is 15%, with certain exceptions (truncated rates) for supplies of services.

A turnover tax, at a rate of 3%, is applicable for unregistered persons, i.e. persons with turnover less than BDT 8 million.

**Registration** – VAT registration is required if annual turnover is BDT 8 million or more or if the taxpayer is

engaged in the import and export business. Registration is optional for taxpayers with turnover under BDT 8 million.

**Filing and payment** – VAT generally is payable in advance. VAT withheld must be deposited within 15 days of the deduction. The VAT return must be filed monthly, within 15 calendar days from the beginning of the following month.

**Source of tax law:** Income Tax Ordinance 1984; Income

Tax Rules, 1984; Value Added Tax Act and Rules 1991, Customs Act 1969; Finance Act 2017

**Tax treaties:** Bangladesh has concluded more than 30 tax treaties.

**Tax authorities:** National Board of Revenue

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