

International Tax

Bangladesh Highlights

In Plain English



CASTRO
&CO
INTERNATIONAL



1701 Pennsylvania Ave NW, Suite 200
Washington, DC.
20006, USA

Phone : +1 202 792 6600
www.CastroAndCo.com

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 upon application to the Bangladesh Bank (central bank).

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:

Rates

Corporate income tax rate 25% - 45%

Branch tax rate 35%, plus a 20% tax on remitted profits

Capital gains tax rate 15%

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. Income accruing or arising directly or indirectly through or from a permanent establishment (PE) in Bangladesh will be deemed to accrue or arise in Bangladesh. A PE includes a place of business such as a branch, office, warehouse, etc., as well as a construction and supervision PE, and service PE without any threshold for the duration of the activities. Income from intangible property used in Bangladesh will be deemed to accrue or arise in Bangladesh.

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 generally may be deducted from gross income unless specifically disallowed. Disallowed expenses are taxed separately under the head “Income from business or profession” at the regular tax rate.

Salary expenses for an employee are not deductible when computing the employer's income if the employer fails to provide information regarding the employee's tax return filing.

Rate – Publicly traded companies generally are taxed at a rate of 25%. Banks, insurance companies, and financial institutions (except merchant banks) are taxed at a 40% rate, with a lower rate of 37.5% available if the company is publicly traded or received specific approval from the government in 2013. Mobile phone companies and cigarette and other tobacco manufacturing companies are taxed at a 45% rate. A 35% rate applies to all other companies (including branches of foreign companies).

Where a person employs or allows a non-Bangladeshi individual to work at its business or profession at any time during the income year without prior approval of the appropriate governmental authority, that 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 – There is no surtax.

Alternative minimum tax – A minimum tax is imposed at 0.6% on gross receipts from all sources for a company (other than manufacturers of cigarettes and other tobacco products, and mobile phone operators, for whom the applicable rates are 1% and 2%, respectively) 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 0.1% on gross receipts for an industrial undertaking engaged in manufacturing of goods for the first three income years from the commencement of commercial production.

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

Taxation of dividends – Dividends received from resident companies generally are taxed as income at a rate of 20%. Relief from multi-tier taxation of dividend income is granted both to resident and nonresident shareholders.

An additional 10% tax is levied on listed companies on the full amount of a stock dividend (interim or otherwise) declared or distributed in an income year if the stock dividend exceeds the amount of any cash dividend.

Listed companies also are subject to an additional 10% tax on the total amount transferred to retained earnings, reserves, or surplus where the amount transferred exceeds 70% of the net income after tax.

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.

Foreign tax relief – 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 – There is no participation exemption.

Holding company regime – There is no holding company regime.

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

Other – The transfer of shares in a nonresident company will be deemed a transfer of an asset situated in Bangladesh to the extent the value of the shares transferred is directly or indirectly attributable to the value of assets in Bangladesh.

A person responsible for effecting a share transfer may not do so until any capital gains tax due in respect of the transfer has been paid.

Compliance for corporations:

Tax year – The standard tax year is 1 July to 30 June, except for banks, insurance companies, and financial institutions, which may use the calendar year as their income year. The tax 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 the 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 and payment – 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. Filing a tax return is mandatory for a nonresident that has a PE in Bangladesh. Advance tax must be paid quarterly, and any remaining tax due must be paid before the income tax return is filed.

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 – Tax rulings are possible in certain cases.

Other – The employer must provide information relating to tax returns filed by employees to the tax authorities by 30 April of each income year. The company must file half-yearly withholding tax returns, as well as monthly withholding tax statements that report payments made to vendors and employees.

Individual taxation:

Rates		
Individual Income Tax Rate	Taxable Income	Rate
	Up to BDT 250,000	0%
	BDT 250,001 - BDT 650,000	10%
	BDT 650,001 - BDT 1,150,000	15%
	BDT 1,150,001 - BDT 1,750,000	20%
	BDT 1,750,001 - BDT 4,750,000	25%
	Over BDT 4,750,000	30%
Capital Gains Tax Rate	Applicable Individual Income Tax Rate/15%	

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 at least 365 days and during the income year he/she is present in Bangladesh for at least 90 days.

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

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.

The basic exemption for women and individuals above 65 years of age is BDT 300,000. The basic exemptions for individuals with disabilities and freedom fighters are BDT 400,000 and 425,000, respectively.

Rates – Individual income tax rates for residents are progressive from 0% to 30%, and nonresidents are taxed at a flat rate of 30%.

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 individual tax rate or 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.

Foreign tax relief – A resident individual may credit income tax paid on foreign-source income against his/her 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.

Compliance for individuals:

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

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

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. A nonresident individual without a fixed base in Bangladesh is not required to file a tax return. Advance tax is required to be paid quarterly, and any remaining tax due must be paid before the income tax return is filed.

An individual that has gross wealth exceeding BDT 2.5 million that owns an automobile or that has invested in a house or an apartment in a city corporation area is required to submit 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.

Other - Information relating to a tax return filed by an employee must be provided to the employer by 15 April each year.

Rulings – Tax rulings are possible in certain cases.

Withholding tax:

Rates				
Type of Payment	Residents*		Nonresidents**	
	Company	Individual	Company	Individual
Dividends	20%	10%	20%	30%
Interest	0%	0%	20%	20%
Royalties	10%/12%	10%/12%	20%	20%
Fees for Technical Services	10%/12%	10%/12%	20%	20%

* The withholding tax an e-TIN certificate to the payer.

** The withholding tax rate on payments to nonresidents may be reduced under a tax treaty or other provision of the domestic tax law, subject to the nonresident obtaining an upfront lower/nil dispensation certificate from the tax authorities.

Dividends – Dividends paid to a resident or nonresident company are subject to a 20% withholding tax. Dividends paid to resident and nonresident individuals are subject to withholding tax of 10% and 30%, respectively.

Interest – Interest paid to a nonresident company or individual is subject to a 20% withholding tax. There is no withholding tax on interest paid to residents.

Royalties – Royalties paid to a nonresident company or individual are subject to a 20% withholding tax. Royalties paid to residents are subject to a 10% withholding tax where the payment does not exceed BDT 2.5 million; otherwise, the rate is 12%.

Fees for technical services – Fees for management services, technical services, technical know-how, or technical assistance paid to a nonresident company or individual are subject to a 20% withholding tax. Such payments to residents not exceeding BDT 2.5 million are subject to a 10% withholding tax; otherwise, the rate is 12%.

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

Other – Rental income on plant and machinery paid to a nonresident is subject to a 15% withholding tax, as are payments made to a nonresident for digital marketing.

Payments made to a nonresident for conducting surveys in connection with coal, oil or gas exploration are subject to a 5.25% withholding tax.

Surveyors' fees etc. for general insurance purposes paid to nonresidents are subject

to a 20% withholding tax.

rate on payments to residents is increased by 50% where the payee does not furnish

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 cross-border 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. Transfer pricing reporting and compliance obligations also may apply to certain transactions between the taxpayer and a resident related party.

Interest deduction limitations – There are no rules limiting interest deductions.

Controlled foreign companies – There are no controlled foreign company rules.

Hybrids – There are no anti-hybrid rules. **Economic substance requirements** – There are economic substance requirement rules.

Disclosure requirements – From a transfer pricing perspective, all transactions with associated enterprises must be reported on an annual statement of international transactions, which is required to be filed with the annual income tax return.

Exit tax – Capital gains tax applies to certain transfers of Bangladeshi holdings by nonresidents.

General anti-avoidance rule – The tax authorities are empowered to scrutinize any arrangement between a resident and a nonresident if the arrangement produces for either party either no profits or profits that are less than the amount that ordinarily would be expected. In such cases, the tax authorities may determine the amount of income to have accrued from the arrangement.

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 lacks economic substance.

Value added tax:

Rates

Standard Rate	15%
Reduced Rate	0%/5%/7.5%/10%

Taxable transactions – VAT is levied on the supply of goods and the provision of services, and on the import of goods or services. Supplies of goods and services without consideration are valued at the fair market price.

Rates – The standard VAT rate is 15%, with certain exceptions for specified services. Exports are zero rated. Reduced rates of 5%, 7.5%, and 10% apply to certain goods and services. Local traders, including commercial importers, are liable to pay VAT at 5%.

Registration – VAT registration is mandatory for suppliers having turnover of more than BDT 8 million. Suppliers with turnover between BDT 2.4 million and BDT 8 million may opt for voluntary VAT registration or pay turnover tax at 3%. No registration under the VAT Act is required if annual turnover is less than BDT 2.4 million. VAT registration is mandatory for importers, exporters, all withholding entities, and suppliers dealing in goods subject to supplementary duty.

A centralized registration process may apply where supplies of similar types of goods and services are made from multiple business locations. Companies with no physical presence in Bangladesh must appoint a VAT agent.

Filing and payment – VAT returns must be filed and payments made online. 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.

One-third of the VAT amount must be deducted by the recipient when goods or services are subject to VAT at the standard rate of 15%. Authorized banks also are required to deduct VAT before remittances are made in the case of imports of certain services.

Other – The Value Added Tax and Supplementary Duty Act 2012 applies as from 1 July 2019. All rules, notices and statutory regulatory orders issued under the VAT Act 1991 are rescinded as from that date.

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security – There are no social security contributions imposed on employers or employees.

Payroll tax – There are no payroll taxes.

Capital duty – There is no capital duty.

Real property tax – There is no real property tax, but see “Stamp duty” below.

Transfer tax – There is no specific transfer tax, 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.

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

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 30 million, for individuals owning more than one automobile or for individuals owning residential property totaling more than 8,000 sq. ft. in a “city corporation area.”

Inheritance/estate tax – There is no inheritance or estate tax.

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

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

Tax authorities: National Board of Revenue

This communication contains general information only, and none of Castro & Co. International, its member firms or their related entities (collectively, “Codex International”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Castro & Co. International network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2020. For information, contact Castro & Co. International.