

Bangladesh enacts 2019-20 budget proposals

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Executive summary

The Bangladesh Government announced, on 13 June 2019, its budget for the fiscal year 2019-20 (the Budget), proposing several tax amendments. The proposals were enacted by the *Finance Act, 2019* (the Act) and became effective as of 1 July 2019.

This Alert summarizes the key amendments introduced by the Act.

Detailed discussion

Expansion of the residency determination

- ▶ A trust, a fund or any other entity may be treated as a resident of Bangladesh if its control and management of affairs are situated wholly in Bangladesh in that year.

Tax rates

- ▶ The minimum turnover tax rate imposed on annual sales is increased to 2% from 0.75% for mobile phone operator companies.
- ▶ The reduced tax rate of 12% (10% for green building certification¹) for readymade garments is extended until 30 June 2020.
- ▶ The reduced tax rate of 15% for the textile sector is extended until 30 June 2022.

Introduction of new taxes

- For listed companies, a 10% dividend distribution tax (DDT) is introduced on a stock dividend to promote a cash dividend distribution²
- Listed companies will be subject to a 10% accumulated earnings tax on the total amount transferred to retained earnings or any fund, reserve or surplus, if that amount exceeds 70% of net income after tax of the listed company.

Other provisions

- The definition of "royalty" with respect to a right, property or information has been clarified. For the purposes of determining whether a royalty is subject to tax in Bangladesh it is not necessary that:
 - The possession or control of the right, property or information is with the payor.
 - The right, property or information is used directly by the payor.
 - The location of the right, property or information is in Bangladesh.
- Further, the term "process" is clarified to include transmission by satellite, cable, optical fiber or by any other similar technology, whether or not such process is secret.
- If a distributing company received a dividend from another Bangladesh company that was already taxed in Bangladesh, a subsequent dividend distributed by the distributing company to a nonresident recipient is exempt from Bangladesh withholding tax.
- A company cannot transfer shares unless it pays capital gains tax arising from the transfer.
- Tax holiday³ periods for 21 industrial sectors and 17 physical infrastructure development sectors are extended through 30 June 2024.⁴
- The availability of tax holidays is extended to manufacturing sectors, including but not limited to agricultural machinery, furniture, plastic recycling, and mobile phone tower or tower sharing infrastructure.

Withholding tax

- The 7% withholding tax rate on invoices of contractors and suppliers is decreased to 5%.
- The Act eliminates the current exemption from withholding tax by a supplier on the purchase of direct materials that constitute the cost of sales or cost of goods sold of a trading company or a manufacturing company.

- Under the Act, an allowance for a tax credit against withholding tax imposed on payments to contractors and suppliers is extended.
- Separate and new withholding tax rates for various services are introduced.⁵

Filing obligations

- A nonresident with a permanent establishment in Bangladesh is required to file Bangladesh annual income tax returns.
- A tax office may issue a notice of income tax re-assessment to taxpayers within six years (increase from the current five years) from the end of the taxable year if income tax returns have been filed by the taxpayer for the taxable year.
- A mandatory requirement is imposed on buyers and sellers to furnish tax identification numbers in documents relating to the transfer of land, buildings or apartments valued at BDT100,000 (US\$1,183) or more.

Transfer pricing

- Companies are required to declare in the income tax returns whether they have any international transactions with related parties.
- Additional income arising from an arm's-length transfer pricing adjustment made by a transfer pricing officer is subject to the regular corporate tax.
- The methodology for computing the arm's-length price is clarified.
- The definition of a deemed international transaction is revised to cover situations in which a third party to the transaction is a Bangladesh resident.

Value Added Tax (VAT)

- A new VAT law, *VAT and Supplementary Duty Act, 2012* (New VAT Act), is implemented as of 1 July 2019 (EN). Key features of the New VAT Act are:
 - Option of reduced VAT rates (of 5%, 7.5% and 10%) are available for specified goods and services without input tax credits.
 - Nonresidents are liable for VAT on supplies made from or through a fixed place in Bangladesh.
 - The scope of VAT is expanded to include specified services provided by nonresidents without a fixed place of business in Bangladesh to non-VAT registered customers in Bangladesh. The nonresident is required to appoint a local VAT agent.

Endnotes

1. This applies to a factory of a readymade garment company that has an internationally recognized green building certification.
2. DDT applies if: (i) the amount of stock dividend declared or distributed exceeds the amount of cash dividend declared or distributed; or (ii) there is no declaration or distribution of any cash dividend.
3. Tax holiday means tax exemption granted to certain categories of taxpayers, provided that they satisfy the specified conditions.
4. For newly established industrial undertakings/physical infrastructure facilities set up between 1 July 2019 to 30 June 2024
5. This includes but is not limited to: courier services, packing and shifting services, wheeling charge for electricity transmission, media buying agency services, surveys for coal, oil or gas exploration, fees of surveyors of general insurance companies.

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EYG no. 003511-19Gbl

1508-1600216 NY
ED None

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