

# EY Tax Alert

**The parliament of Bangladesh has repealed the Income Tax Ordinance, 1984 and enacted new Income Tax Act, 2023 effective from 22 June 2023**

EY Alerts cover significant tax news, developments and changes in legislation that affect Indian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor.

## Executive summary

This Tax Alert briefly explains the provisions introduced by Income Tax Act, 2023 enacted by the parliament of the People's Republic of Bangladesh which widens the scope of taxation, establishment of fiscal discipline and other incidental matters.

This act is a replacement of the Income Tax Ordinance, 1984 with extended areas of tax net with opportunities to taxpayers such as tax holiday for newly established industry and infrastructure development in order to attract foreign direct investment in Bangladesh.

New provisions relating to deregistration of Taxpayers' Identification Number (TIN), refund of excess tax payment and Withholder Identification Number (WIN) have been introduced in the new act.

► **Effective date:**

The Income Tax Act, 2023 has been published as on 22 June 2023 with immediate effect. As such, the publishing date is considered as effective date.

► **Individual's exempted income threshold:**

Exempted income threshold for Individual taxpayers has been increased by BDT 50k, i.e., from BDT 0.3m to BDT 0.35m for male and from BDT .35m to BDT 0.4m for female taxpayers. In case of physically challenged and third gender taxpayers, the exempted limit is BDT 0.475m. Furthermore, parents with physically challenged child will enjoy income exemption limited by additional BDT 50k.

► **Individual investment rebate:**

As per the new act, the maximum investment tax credit limit is BDT 1m. Furthermore, the act has extended the limit of Deposit Pension Scheme (DPS) up to BDT 0.12m from BDT 60k and reduced the limit of government securities, mutual fund, ETFs or mutual investment scheme unit certificates u at BDT 0.5m which previously had no limit.

► **Surcharge for individual taxpayer:**

Individual taxpayer with net worth up to BDT 40m (previously BDT 30m) is exempted from surcharge. Furthermore, if the taxpayer has income from tobacco business, additional surcharged at the rate of 2.5% will be imposed.

► **Environmental surcharge:**

The rate of the surcharge is based on the capacity of engine of motor car started from BDT 25k to maximum BDT 0.35m per additional car. This surcharge cannot be set off with other tax or refund.

► **Corporate tax rate:**

Tax rates for companies have been kept unchanged with the conditions as before, i.e., rate shall be 2.5% higher if all incomes are not received through bank transfer as well as every single transaction for above Tk. 0.5m and annual expense & investment over Tk. 3.6m are not done through bank transfer.

► **Tax on income from exports:**

Tax rate for export-oriented companies is 12% (10% for LEED certified factory) and 50% of export income will be exempted for individual taxpayers till 2028.

► **Income from employment:**

Individual taxpayers shall enjoy 1/3<sup>rd</sup> of salary income or 0.45m whichever is lower as exempted income. If the taxpayer receives any medical expense for heart, eye, liver or cancer treatment and conveyance, travel, or daily allowance for performing official duty, the amount shall be excluded from the taxable income.

Conveyance facility provided by employer is to be included in taxable income at Tk 10K per month if the engine capacity is up to 2,500 CC, however, 20K per month if capacity above 2,500CC. Provision with respect to rent free accommodation has also been changed and now the taxable value shall be Annual value or Annual value reduced by concessional rent paid.

► **Income from rent:**

Income from rent shall be computed as before. In case of vacancy, landlord shall inform DCT within 30 days and no repair& maintenance expense will be allowable in case of receiving service charge from tenant. No expense shall be allowable if TDS is not deducted appropriately where applicable.

► **Income from agriculture:**

Provisions relating to the agriculture income remains almost same as previous. No expenses will be allowed where TDS is not deducted appropriately where applicable.

► **Income from business:**

Income shall be categorized into business income and special business income. Special business income includes revenue from disposal of property, compensation, export quota, unpaid interest & trading liability over 03 years, bad debt recovery etc.

► **Inadmissible expenses:**

Expenses shall be disallowed in the following cases and be taxed separately at normal rates:

- Salary and rent paid in cash
- Payment for raw materials over BDT0.5k and other expenses over BDT 50k in cash
- Perquisite over BDT 1m.
- Royalty, license fee, technical fees etc. exceeding 10% of net business profit
- Head office or intra-group expenses exceeding 10% of net profit from business
- Entertainment more than 4% for first Tk. 1m income and 2% on rest of income
- Foreign travel expenses over 0.5% of business turnover
- Promotion expenses excluding advertisement over 0.50% of disclosed turnover
- Payment to any un-recognised fund
- Impairment loss and liabilities which are not specifically determined ~ provisions etc.

► **Tax on special business income and disallowed expenses:**

Tax rate shall be regular on special business income and disallowed expenses. No adjustment, loss set off or allowance is permitted.

#### ► Income from capital gain:

Capital gain will be determined by Value of consideration on transfer of capital assets or fair market value, whichever is higher as reduced by the cost of acquisition and related direct expenses. However, no expense will be allowed where TDS is not deducted appropriately wherever applicable. Transfer of land shall also be subject to capital gains tax in the new law.

#### ► Income from financial property:

Income from financial property includes interest, gains and discount of government or government approved securities as well as securities & debenture issued by company, interest or profit from bank deposits, financial product or scheme and dividend. However, capital gains from the transfer of financial assets will not be part of income from financial property.

#### ► Income from other sources:

Regular source includes Royalty, technical fees, and income from transfer of right to use of an intangible asset, cash incentives and any other income not classified in any income head.

Special areas include winning lottery, capital received in cash from company, loan taken through non-banking channel, 50% of excess amount for purchasing motor car if it exceeds 10% of its capital and accumulated profit, unexplained credit, any advance, loan, gift received over BDT 0.5m through non-banking channel etc.

#### ► Exclusion from income:

- Pension from govt. pension fund
- Approved gratuity up to Tk. 25m
- Income derived from Zero Coupon Bond
- Interest on investment up to Tk. 0.5m in pensioners' savings certificate
- Rewards from the government
- Income of mutual fund, Alternative Investment Fund, Real Estate Investment Trust, Exchange Traded Fund
- Income of some ICT services up to June 2024
- Export of handicrafts up to June 2024
- Income from wage earners development bond, premium and investment bond in US Dollar, Pound Starling, and Euro, etc.

#### ► Depreciation & Amortisation:

Depreciation rate has been changed on certain items which are as:

- Initial depreciation: 10% on newly constructed buildings and 25% on newly installed machineries or plants.
- Accelerated depreciation on machineries and plants: 50%, 30%, 20% on machineries and plants used in new industrial undertakings over 03 years.
- Amortisation: 20% of license fee, preliminary expense, software & computer application made in BD; 10% on R&D, imported software & computer application.

#### ► Loss set off & carry forward:

Loss from capital gain, business, speculative business, and tobacco business can be set off only against the income of respective heads and loss can be carried forward for 06 successive years.

#### ► Tax Deducted at Source (TDS) rate

Changes in tax deducted at sources are:

- Tax deducted at source rate is 10% (previous 5%) on receipt from Workers Profit Participation Fund (WPPF),
- 5% (previous 4%) on advertisement,
- 15% (previous 10%) on fees of surveyors of general insurance company.
- 10% in case of supply of any kind of tobacco products.

In case of failure to furnish 'the proof of submission of return' or any money is not received by bank transfer, tax rate will go up by 50% of the applicable rate.

#### ► Compliance on tax deducted at source/Withholding tax:

Withholder Identification Number (WIN) is required for every withholding entity. The deducted tax by the withholding entity should be deposited within 02 weeks of following month where tax is deducted in July to May, within 07 days where tax is deducted at 1<sup>st</sup> to 20<sup>th</sup> days of June and within next day of deduction at the rest of days of June. The mode of payment shall be through A-challan or E- payment. Every withholding entity shall issue tax deduction certificate within 02 weeks of the following month.

Withholding tax return need to submit within 15<sup>th</sup> days of next month. However, tax authority may extend time for 15 days for submission of the WHT return. Previously, information regarding salary and information regarding submitting tax return by employees were required to be submitted separately however, now those should be submitted along with the monthly WHT return in September and in April respectively.

#### ► Proof of submitting return (PSR) of income:

For 43 specified services, PSR is mandatorily required. The key services are: obtaining loan over Tk. 2m, opening post office saving accounts & purchasing saving certification over Tk. 0.5m; fixed deposit over Tk. 1m; opening bank account by trust, fund, foundation, NGO, Microcredit Org, Co-operative society; purchasing land, building exceeding Tk. 1m in City Corporation, Municipality & Cantonment board area; Trade license, IRC, ERC, Drug, Fire, Environmental, BSTI; obtaining credit card; selling of goods, services using digital platforms.

#### ► Instalment of advance tax:

If taxable income of an income year exceeds BDT 0.6m then advance tax is required to be deposit through 04 equal instalments on quarterly basis.

► **Minimum Tax:** Minimum tax on gross receipt is applicable at following rates:

Individual (annual turnover exceeds Tk. 30m)/Firm/AoP (annual turnover exceeds Tk. 5m)/ Company	0.60% of total gross receipt
Tobacco manufacturers	3%
Carbonated beverage	5%
Mobile phone operator	2%
Individual manufacturing cigarette	0.25%
New manufacturing industry (First 03 years)	0.10%

However, tax deducted at source is considered as minimum tax, i.e., tax deducted at source shall not be adjusted, set off, and carry forward.

► **Submission of annual return of income:**

All taxpayers shall mandatorily submit the return under self-assessment scheme. However, companies except banks, NBFIs, insurance as well as person leaving Bangladesh may submit the return under normal scheme. All return should be submitted within the Tax Day. No provision for time extension for submitting the return of income.

► **Requirement of audited financial statements:**

Firms, Association of Person (AoP), Fund, Long Term Contract having turnover exceeding BDT 30m and every company shall submit audited financial statements along with the return of income.

► **Refund of excess payment of tax:**

Excess payment of tax shall be paid to bank account of the taxpayer through electronic transfer within 60 days from the closing the processing of return of income.

► **Repealing of e-TIN:**

The provision of repealing e-TIN has been enacted in the new act. Now the person who has no requirement of submitting the return of income may apply for deregistration of e-TIN.

► **Long term contract and method of accounting:**

Long term contract means contract for manufacturing, infrastructure, or construction over 06 month. Revenue shall be determined through output or input method as per accounting standards. Expense shall be determined by comparing between estimated cost at beginning of the contract and actual cost of the contract.

► **Tax holiday:**

The new act has extended the tax holiday period up to 10 years for newly established industry and physical infrastructure subject to certain conditions.

► **Double taxation credit:**

Tax paid by the assessee in foreign country will be allowed to get credit of such tax if there is double taxation agreement. If there is no double taxation agreement, tax paid in foreign country may be credited subject to satisfaction of Deputy Commissioner of Tax (DCT)

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