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Recent Developments in International Taxation

Bangladesh

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Major Bangladeshi tax developments in 2023–2024

In 2023, Bangladesh saw significant tax developments, with the introduction of the Income Tax Act 2023 on 1 July, replacing the previous Income Tax Ordinance 1984. This legislation marked a departure from the usual minimal changes brought about by finance acts in previous years. Additionally, in June 2023, the Finance Minister presented the national budget for the 2023–2024 fiscal year in Parliament. This budget is designed to address immediate challenges stemming from the Covid-19 pandemic and the ongoing Russia-Ukraine conflict, while also tackling medium-term issues.

Broadening the tax base amid economic growth

Bangladesh's economy grew at 5.82 per cent in fiscal year 2023–2024, up from 5.78 per cent the previous year, driven bythe robust service sector, which expanded by 5.8 per cent. The country's gross domestic product (GDP) size reached $459bn,with a slight increase in per capita income to $2,784. Bangladesh has demonstrated remarkable growth and development, supported by a demographic dividend, strong ready-made garment (RMG) exports, resilient remittance inflows and stable macroeconomic conditions. The nation has significantly reduced poverty, with extreme poverty falling to five per cent and moderate poverty to 30 per cent by 2022. Human development indicators, including reductions in infant mortality and stunting, as well as increasedliteracy rates and access to electricity, have shown substantial improvement. Bangladesh is on track to graduate from the United Nations' Least Developed Countries list by 2026. Although industrialproduction growth has slowed, and growth forecasts have been revised downward by the International Monetary Fund (IMF) and World Bank (WB), overall economic progress remains impressive. As a result of such growth, the number of registered income tax payers in Bangladesh crossed the ten million mark for the first time, indicating a strengthening of the direct tax base. The number of Taxpayer's Identification Number(TIN) holders reached nearly 9.72 million in the individual category, with significant increases also seen among companies and firms. Efforts by tax authorities, initiatives to facilitate tax returnsubmissions and extended deadlines have contributed to this growth.

Changes introduced in the new act

The government has issued new rules for filing income tax returns, detailing the required documents for each category of income and the format for reporting income, expenses, assets, liabilities and investments. These guidelines outline mandatory provisions, specifying who must disclose asset and liability information, including assets located outside the country, for resident citizens of Bangladesh. Furthermore, the government has introduced new rules for withholding tax, detailing the rates for various categories, such as services provided by residents and non-residents, contractors and importers. These rules also specify the format for reporting withholding tax, payroll tax and employee proof of submission of return (PSR) information. Significant changes include replacing the previous section 108 return for annual salary and payroll tax information with Schedule F, the section 108A return for proof of submission with Schedule G, and Rule 21 for monthly salary information with Schedule C. Additionally, a new schedule for reporting dividend and interest income has been included. The rules also provide guidelines for deductions and the deposition of withholding taxes.

In addition to the new Income Tax Act introduced on 1 July 2023, several amendments, improvements and clarifications were made throughout the year via various (Statutory Regulatory Orders (SROs) and rules. Notably, if a Bangladeshi university, college or research institute receives a research grant from institutions or organisations outside Bangladesh, such grants willnot be included as part of their taxable income. This incentivises and supports academic and research institutions in their efforts to secure international funding for innovation and development.

Additionally, any tax withheld from capital gains when transferring immovable property will be considered as final tax for individual taxpayers. Similarly, any tax withheld on gains from savings deposits, fixed deposits and similar instruments will also be treated as final tax for individuals. These measures simplify the tax process and provide clarity, benefiting taxpayers byreducing their administrative burden and ensuring a straightforward taxation method.

The Income Tax Act 2023 also introduced a significant reduction in the tax rate for private companies operating provident funds for their employees, lowering it from the previous rate of 30 per cent to 15 per cent. This reduction represents a positive step towards easing the financial burden on private sector employers and encouraging the provision of provident funds, thereby supporting employees' long-term financial security.

Moreover, income from provident funds for government employees continues to be tax-free. This consistent tax-free status for government employee provident funds reflects the government's commitment to ensuring robust social security measures for its workforce. Together, these provisions highlight the government's efforts to balance support across both private and public sectors, promoting overall financial wellbeing for all employees.

The Bangladesh National Board of Revenue (NBR) has announced a series of tax incentives aimed at boosting exports and enhancing the financial sector, as outlined in several notifications. According to Notification SRO No 44 issued on 4 March 2024, exporters will benefit from significant tax relief, including a 50 per cent income tax exemption for individuals exporting goods, a reduced tax rate of 12 per cent for companies exporting goods and a further reduced rate of ten per cent for companies exporting from Leadership in Energy and Environmental Design (LEED) certified factories. To qualify, exporters must possess a valid TIN and comply with the Income Tax Act 2023. However, any exporter fined for environmental regulation violations will be taxed at the standard rate for that year. These benefits will remain in effect until 30 June 2028.

Furthermore, the NBR has introduced incentives to stimulate the financial sector. Notification SRO No 49, dated 13 March 2024, provides a reduced tax rate of 15 per cent on income from mutual fund management fees for asset management companies until fiscal year 2026–2027. Notification SRO No 50, also dated 13 March 2024, lowers the source tax on exports of leather and leather products from 1.0 per cent to 0.5 per cent, effective until 30 June 2025. Furthermore, Notification SRO No 100, issued on 22 April 2024, grants an indefinite tax exemption on interest or profit received from offshore banking units (OBUs) by any depositor or non-resident lender.

Online tax return submissions

The government has also revamped the tax deposition system, transitioning from a manual challan process to an automated system utilising electronic tax deducted at source (E-TDS) challans and automated challans (A-challans). This modernisation facilitates electronic payment (e-payment) through online banking and over-the-counter transactions. The new system aims to streamline the tax payment process, making it more efficient and accessible for taxpayers and tax authorities. By leveraging digital technology, taxpayers and tax authorities can now enjoy a more convenient and faster method for fulfilling their tax obligations, reducing the likelihood oferrors and simplifying compliance. The new income tax act in Bangladesh has simplified the online tax return submission process, allowing taxpayers to receive acknowledgment slips and tax certificates instantly. This has increased interest in online submissions. The NBR has strengthened its digital platform, with plans to enable online returns for company taxpayers within six months. The act mandates the submission of income tax returnacknowledgment slips for 43 types of services.

Tax official's sentiment

Top tax officials have expressed concern over some provisions in the new income tax law, noting that it reduces their discretionary power, which could affect enforcement. Transitioning to a new tax regime often faces such challenges, as seen in India and Bangladesh's VAT Act 2019. More amendments may be needed to make the law more taxpayer-friendly.

Amendments to tax law

The number of electronic TIN (e-TIN) holders has reached 9.4 million. The government is addressing concerns about the new tax law by amending certain provisions, such as those related to source tax on deposits, savings certificates, exporters' cash incentives and turnover taxes on beverages. Effortsare underway to lower recently increased land and flat registration taxes. The NBR is making theseadjustments to ease the implementation of the new law and address concerns about higher taxes and enforcement complexities.

Revenue collection strategies and major reforms

To boost revenue collection, the NBR is focusing on digitaltransformation, expanding the tax net and enhancing administrative capacity. These efforts aim to simplify tax payments and improve transparency, ultimately increasing revenue from domestic sources. The government has implemented major reforms, including the VAT and Supplementary Duty Act 2012 and the new Customs Act, aimed at boosting revenue collection and simplifying processes. Automation measures like online registration, return submission and electronic payment systems have been introduced, enhancing efficiency and transparency. The Automated Invoice Portal and A-Challan system further streamline processes, ensuring timely deposits and reducing discrepancies, thus promoting fiscal integrity.

Technological advancements in tax administration

The Medium-Term Macroeconomic Policy Statement highlighted significant advancements in tax administration and VAT collection. Individual taxpayers can now submit returns online, while the NBR has introduced the e-TDS environment for seamless income tax processing. The implementation of electronic fiscal devices (EFD) aims to curb VAT evasion, with over 9,000 machines installed and plans to scale up to 60,000 in the first phase. Mandatory use of NBR-prescribed VAT software ensures transparency in record-keeping, even for internet-based companies. The NBR's risk management system aims to minimise physical examinations of import consignments, with a Central Risk Management Unit established for Customs. The automation of thebonded warehousing system enhances transparency, while a time release study will identify customs clearance bottlenecks. Moreover, return submission is now mandatory for all TIN holders, contributing to broadening the taxpayer base.

Conclusion

In 2023, Bangladesh witnessed significant tax reforms, including the introduction of the Income Tax Act 2023 and the unveiling of the national budget for 2023–2024. Despite global uncertainty, Bangladesh's economy continued to grow, driven by sectors like services, and supported by robust exports and remittance inflows. Notably, the number of registered income tax payers exceeded ten million for the first time, signalling a strengthening tax base. With sustained focus on fiscal management and reforms, Bangladesh is on track to achieve its developmental goals, including graduation from the UN's Least Developed Countries list by 2026.