

Budget 2017-18

Implications For Entrepreneurs



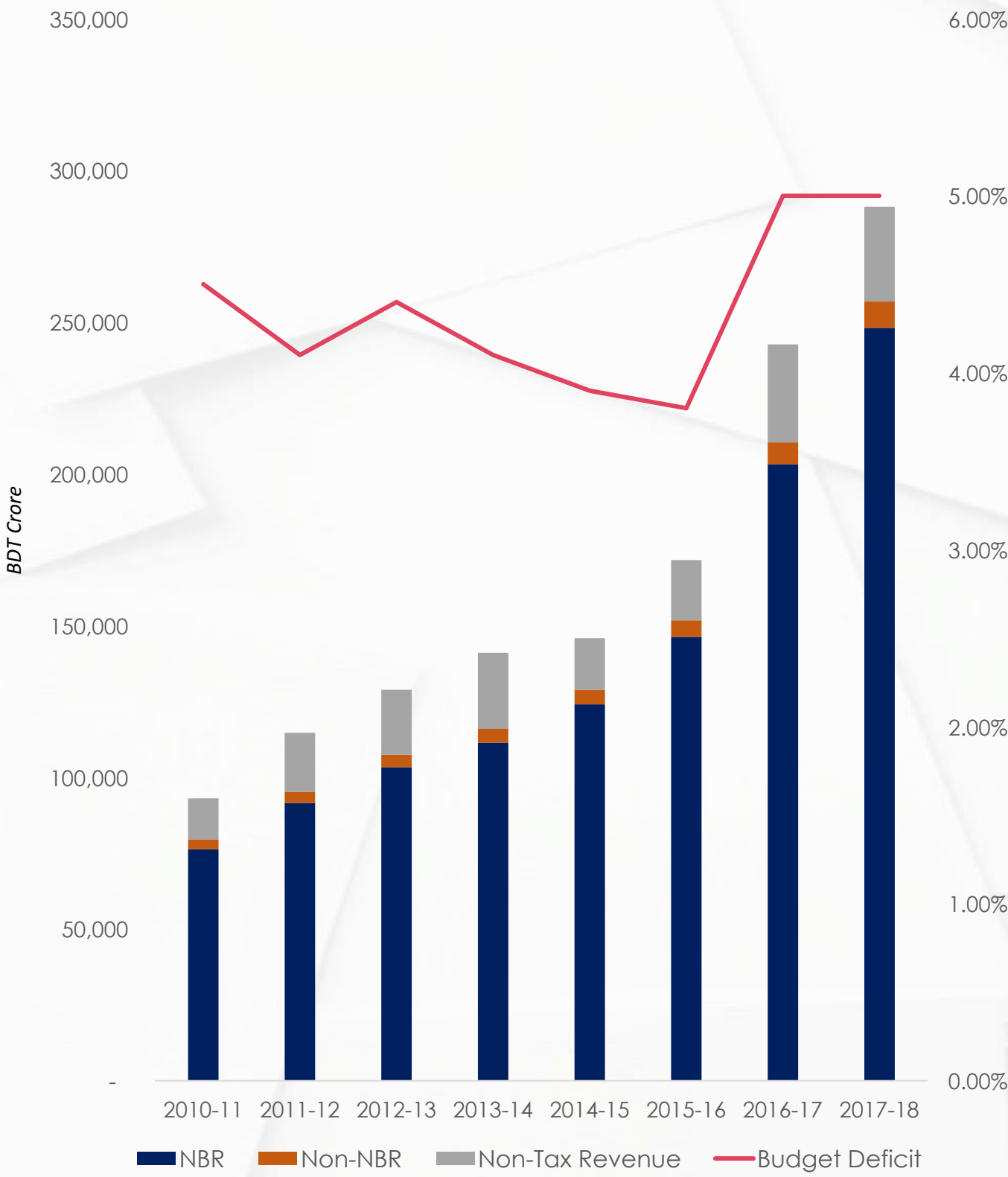
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Implications For Entrepreneurs

The FY2017-18 proposed budget has brought forth steep reactions from different quarters of the economy. Entrepreneurs from different sectors have been either positively or negatively impacted by changing government policies.

The proposed budget targets a revenue of BDT 2,87,991 crore against an estimated expenditure of BDT 4,00,266 crore, amounting to a 5% deficit of BDT 112,275 crore.

Revenue Streams In Budget



Source: Ministry of Finance

Implications For VAT

One of the key features of this budget is the proposed implementation of the new VAT Act, "Value Added Tax and Supplementary Duty Act, 2012" replacing the VAT Act of 1991. Enacted in 2012, some provisions of this act came into effect.

However, in the 2017-2018 budget opening speech, the finance minister declared to implement the VAT Act properly. Under this new Act, the Value Added Tax and Supplementary Duty Rules, 2016 has also been published in the Gazette and is in effect. Under this act, the following will be effective:

- 15% of VAT will be applicable on taxable supply of all goods, services and immovable property and will be unchanged over the next three years.
- VAT exemption for small entrepreneurs: firms with annual turnover of 36,00,000 are completely out of the scope of tax which was 30,00,000 according to the 1991 law. Also, the threshold for registration under VAT has been raised from BDT 80,00,000 to 15,000,000. Meaning, businesses having a total yearly turnover up to BDT 15,000,000 will need to pay 4 percent tax on their turnover which was previously for businesses having turnover of BDT 80,00,000 and more.
- VAT exemptions is given on:
 - 536 primary food items such as rice, lentils, fish, meat, vegetables, sugar, honey, puffed rice, maize, wheat, liquid milk, barley, salt etc. (same as before).
 - 93 items of life saving drugs (new).

Implications For VAT

- Public transport services, public health and medical services, education and training services.
- 404 items of the agriculture, livestock and fisheries sector (same as before).
- The following goods and services to be costlier:
 - Biscuits, hand-made cake, LP gas, newsprint, lubricating oil, ayurvedic unani and herbal medicines etc.
 - Higher rate of tax at 15% on some business sectors such as construction services, procurement providers, transport contractors, information technology enabled services (ITES) etc.
- Tariff based valuation, packaged VAT system and Trade VAT system abolished.
- VAT registered dealers and importers (irrespective of turnover), must obtain the nine-digit E-BIN. All registered dealers must upload online information of purchase and sale transactions exceeding BDT 200,000 .
- For continuous supply of electricity, gas, water etc., VAT has to be paid within 90 days from the date of issuance of invoice.

Digitization of VAT Services Introduced

Only 32,000 of 8,50,000 registered taxpayers pay VAT. The government wants to increase the number to 60,000 within two years. The government is optimistic that the newly introduced online payment system will make the process easier for taxpayers. Digitization of VAT services include online registration, payment of VAT and filing of return.

A centralized registration will cover all businesses across the country and movement of goods and services from one unit to another business unit will not be treated as taxable supply.

If an individual tax payer has gross wealth of BDT 2,500,000 at the end of the income year, he have to undergo mandatory filing of statement of assets and liabilities. (Threshold increased from BDT 2,000,000).

Mandatory filing of return of income by an employee holding an executive or management position in a business or profession, even if his or her income is below taxable limit.

The scope of the Tax Base has been widened to include the following situations necessary for furnishing an eTIN-

- Monthly basic salary of BDT 16,000 or more
- Applying for an export registration certificate
- Submitting a bill of entry for import into or export from Bangladesh
- Issuance of Trade License
- Applying for a loan exceeding BDT 500,000 from a bank or financial institution
- Obtaining or maintaining the distributorship or agency of a company
- Payment by a resident from a company for providing advisory or consultancy service, catering service, event management service, supply of manpower or security service
- For registration, change of ownership of any motor vehicle

Tax Exemptions

- The tax exemption limit for physically challenged taxpayers increased from BDT 375,000 to BDT 400,000.
- Tax to be withheld at 1.5% on payment made in relation to the promotion activities.
- Tax to be withheld at 0.25% when payments are made to distributors and the selling price is lower than retail price.
- Tax to be withheld at 15% when payments are made to non-residents for providing digital marketing services.
- Tax to be withheld on supply of imported goods if the tax is collected at source.
- The budget speech announces to promote women ICT freelancer and entrepreneurs.

Tax exemption Threshold	
Status	Threshold (in taka)
General Taxpayers	2,50,000
Women and senior citizen aged 65 years and above	300,000
Person with disability	400,000
Gazetted war-wounded freedom fighters	4,25,000
(a) General Tax Rate	
Total Income	Tax Rate
On first, Taka 2 lakh 50 thousand	Nil
On next, Taka 4 lakh	10 percent
On next, Taka 5 lakh	15 percent
On next, Taka 6 lakh	20 percent
On next, Taka 30 lakh	25 percent
On the balance of total income	30 percent
c) Special Tax Rate	
Income of non-resident	30 percent
Income of Co-operative Society.	15 percent
(a) Company Tax Rate	
Publicly Traded Company	25 percent
Non-publicly Traded Company	35 percent

Source: Budget Speech for 2017-18, Ministry of Finance

Excise Duty on Bank Transactions

Excise duty of bank deposits have been increased and the current and proposed rate are as follows:

Bank Balance (BDT)	Current excise duty (per account/ year)	Proposed rate of excise duty (per account/ year)
0 to 1,00,000	150	Nil
1,00,000-10,00,000	500	800
10,00,000-1,00,00,000	1,500	2,500
10,00,00,000-5,00,00,000	7,500	12,000
5,00,00,000 and above	15,000	25,000

Source: Budget Speech for 2017-18, Ministry of Finance

Business for Non-residents

Non-residents are not required to hold eTIN when submitting tender documents for the supply of goods, execution of a contract or service.

Domestic Industries Given Benefit

To promote local industries, duty & taxes on parts and raw materials required to assemble or manufacture Computer, Laptop, Tab and Cellular phone have been reduced. Tax exemption to information technology (IT) services are given such as software customization, website development and hosting, IT process outsourcing, digital data analytics, cyber security services etc.

Electronics	Ceramics	Battery Industry	LPG
VAT exemption to domestic manufacturers of refrigerators, freezers, air-conditioners extended up to 30 June, 2019.	Customs duty on raw materials such as imported talc, crude mica reduced. Supplementary duty on imported ceramic tiles reduced to 50% from 60%.	Customs duty for raw materials such as zinc callots, antimony are reduced contributing to lower import prices for them.	Import duty on empty LPG cylinders reduced to 5% from 10%. VAT exemption on LPG cylinder manufacturer extended up to 30 June, 2019. All machineries essential to establish LPG bottling plant have been given concession.

Items to be Costlier for Importing

Food Items	Solar Home System	Cellular Phones	Others
Imposition of 10% supplementary duty on pasta, lasagna, burger, sandwiches, pizza etc.	Imposition of 10% customers duty from 0% on solar modules and panels Decrease price of galvanic sales to promote production of solar panels domestically.	Increase of customs duty to 10% from 5% on import of cellular phones	Increase in supplementary duty by 5% on SIM cards, footwear, motorcar tyres, color television, detergent, paint and varnishes

Source: Budget Speech for 2017-18, Ministry of Finance

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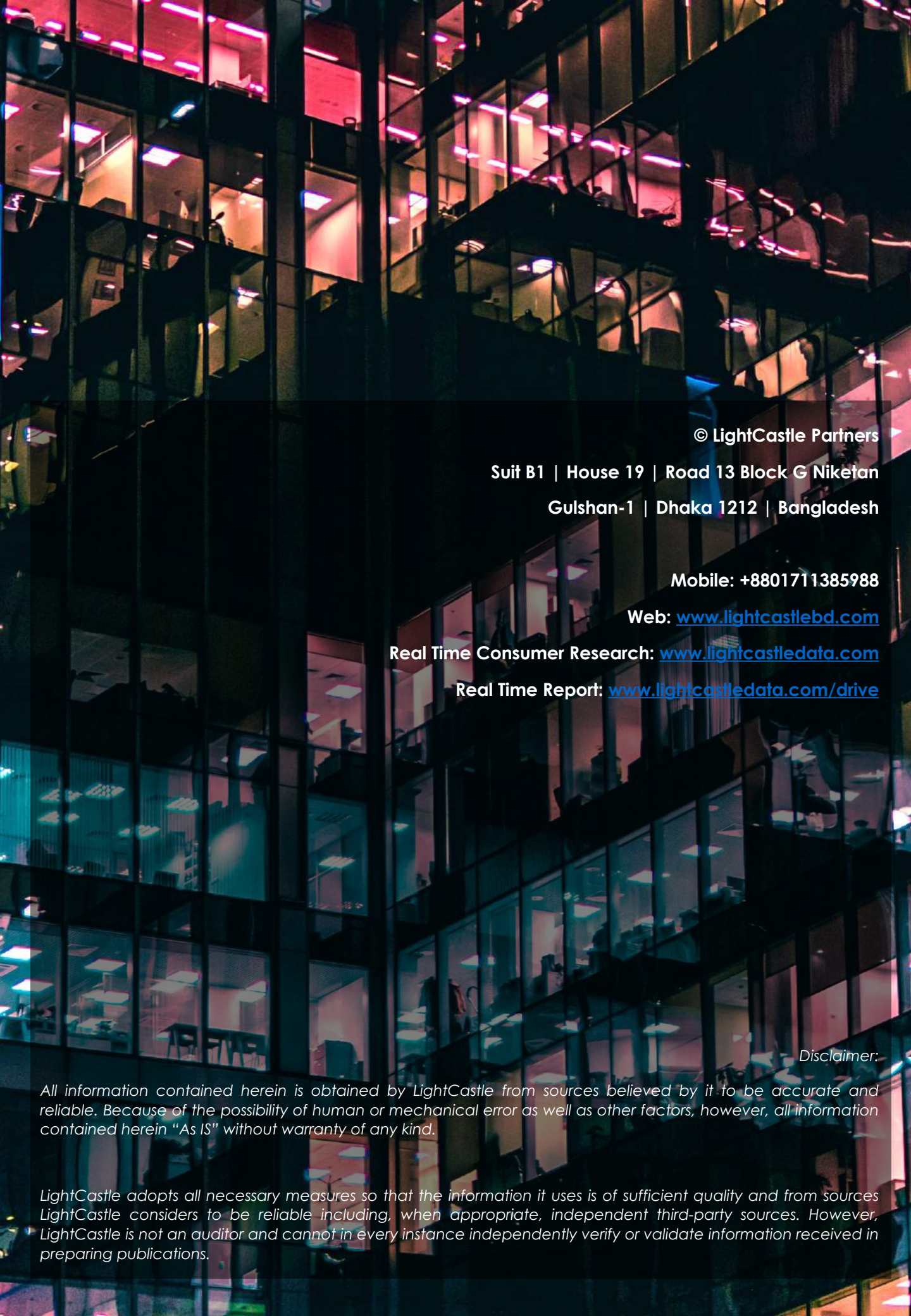
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