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Doing Business in Bangladesh

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MSI's guide on Doing Business in Bangladesh provides current information about the financial, regulatory and legal considerations that could affect business dealings within Bangladesh. For further assistance please contact our MSI member firm in Bangladesh.

Country overview

Population

Bangladesh is the eighth most populous country in the world with 161.36 million inhabitants (2018). The population density in Bangladesh is 1,265 per square kilometre. The median age is 27.6 years.

Government

Bangladesh is a republic with a non-executive president.

The majority of members of parliament are elected through nationwide election held every five years. The balance are reserved for women.

Executive power lies with the prime minister, who heads a council of ministers (the cabinet), and whose advice is necessary for all presidential acts. The head of state is the President who is elected by the national parliament for a five-year term. Though the presidency is a largely ceremonial role, the president appoints members of the cabinet and the judiciary and reserves the power to dissolve parliament.

Languages

The predominant language of Bangladesh is Bengali (also known as Bangla).

English is also often used in different fields such as official communication, education.

Currency

The national currency of Bangladesh is Bangladeshi Taka (BDT).

Economic summary

GDP: USD 250 billion
Income per capital: USD1,909/-

GDP growth rate: 8.13%
Inflation: 5.46%

Main sectors of the economy

The economy of Bangladesh is a developing market economy. According to the World Bank Development Indicators Bangladesh is the 50th-largest economy country in the world. It's the 39th largest country in the world in nominal terms, and 29th largest country by purchasing power parity. In the first quarter of 2019, Bangladesh's was the world's seventh fastest growing economy country with a rate of 7.3% real GDP annual growth.

Dhaka and Chittagong are the principal financial centres of the country. The financial sector of Bangladesh is the second largest sector in the subcontinent. Bangladesh is one of the world's fastest growing economic country. A record level of Foreign Direct Investment \$3.16 billion was made into the country- topping the list in South Asia.

Exports

During the fiscal year 2018-19, total export was worth of \$40.53 billion. The biggest export from Bangladesh is readymade garments which accounts for 80% of national exports and is the second largest export in the world. Other export offerings are leather and leather goods, pharmaceuticals, chemical products, ceramics, bicycles, jute, ICT

and outsourcing, agricultural products, frozen fish and seafood.

Main export partners are the European Union, the United States, Japan, Canada, India, Australia and China.

Strategic position of Bangladesh

Bangladesh is widely considered to be the newest "Asian tiger". The economy has been one of the top performers in Asia over the past decade, averaging annual growth of more than 6%, and has clocked around 8% consistently over the past few years.

Located close to regional giants India and China, Bangladesh has seen an influx of investment from both countries. Geopolitically Bangladesh holds an important position in China's One Belt One Road (OBOR) interconnection ambitions in the region. Bangladesh is part of the proposed Bangladesh-China-India-Myanmar corridor (BCIM), one of the six corridors of OBOR. This has turned Bangladesh to a very important player in the region.

China has already pledged USD 13.6 billion through trade agreements and investment in addition to the USD 20 billion in loans. These funds have been earmarked for mega projects and large infrastructures. The implementation of OBOR will turn Bangladesh largest port in Chittagong as a major maritime hub within the region.

Setting up a business

Under prevailing law, a foreign individual or company may operate in Bangladesh through an incorporated or unincorporated entity or branch. There is generally no restriction on foreign

investment in equity participation, investment in property, or investment in the capital market.

Foreign entities who do not wish to be registered within Bangladesh may opt to operate through a branch office, representation office or liaison office. These entities are cost centres working on behalf of principle companies. They are not permitted to generate revenue locally unless authorised by Bangladesh Investment Development Authority (BIDA).

Legal types of business entities

- Branch/Liaison office
- Sole proprietorship
- Partnership
- One person limited company
- Private limited liability company
- Public limited liability company
- Cooperative
- Foundation
- Association of persons

Protection for foreign investment

The Foreign Private Investment (Promotion and Protection) Act, 1980 guarantees protection against expropriation.

Process of how to set up a business

As listed above there are several legal entities through which investors can do business in Bangladesh. The most common being private limited liability company.

The key regulatory bodies are Registrar of Joint Stock Companies and Firms, Bangladesh Investment Development Authority and National Bureau of Revenue.

Depending on the nature of business the following registration/licenses are required:

- Trade License
- Electronic tax identification number
- VAT registration certificate
- Import registration certificate
- Export registration certificate
- Membership of trade body
- Fire certificate
- Environmental clearance certificate

Other industry specific registrations may be required.

Financial year of taxes and financial accounts

Businesses are required to have their fiscal year from July to June every year. Exceptions have been made for banks, financial institutions, and other entities through the approval from tax authorities.

Tax authorities allow different financial year for subsidiaries of parent companies located outside Bangladesh.

Accounting and auditing

Every company must have its annual financial statements audited. This is irrespective of size, nature or turnover. Only independent practicing chartered accountants can be appointed as statutory auditors.

Bangladesh has adopted International Financial Reporting Standards (IFRS), hence all financial statements are prepared in line with IFRS.

Corporate governance

In June 2018, Bangladesh Securities and Exchange Commission (BSEC) issued a new set of directives called "Corporate Governance Code" making it mandatory for listed companies to comply with the new code.

Hence a separate audit is required for public listed companies to ensure compliance with the Corporate Governance Code. Only independent practicing chartered accountants, chartered cost and management

accountants, and chartered secretaries can conduct this audit.

Economic and fiscal incentives

Bangladeshi government offers export subsidy in the form of cash assistance aimed towards specific export oriented industries. These industries include textile, agro products, Information Technology Enables Services (ITES), leather, jute products, consumer electronics, electronic home and kitchen appliances, ship, frozen shrimp, furniture, halal meat, charcoal etc.

50 per cent exemption is offered on income derived from export business.

Tax authorities offer extensive economic benefits and tax reliefs for selected sectors. Investment in Special Economic Zones attract tax exemptions ranging from 100% to 20% over time. Foreign technicians appointed in such industries are offered 50% tax exemption.

There are currently government sponsored 28 high tech parks spread all across Bangladesh and 5 more are in development. The business parks have been earmarked for investment into the following export oriented sectors: information technology, software technology, bio-technology renewables, green technology, hardware, ITES, and R&D related industry. Businesses setup in one of these parks attract tax exemptions ranging from 100% to 20% over a specific period of time.

Partial tax exemption is offered to newly established 'industrial undertakings'. These undertakings include businesses engaged in, or in the production of active pharmaceutical ingredients and radio pharmaceuticals; agriculture machineries; automatic bricks; automobile; barrier contraceptive and rubber latex; basic components of electronics (e.g. resistor, capacitor, transistor, integrated circuit, multilayer PCB etc.); bi-cycle including parts thereof; bio-fertilizer; biotechnology based agro products; boiler including parts and equipment thereof; compressor including parts thereof; computer hardware; furniture and home appliances (blender, rice cooker,

microwave oven, electric oven, washing machine, induction cooker, water filter etc.); insecticides or pesticides; leather and leather goods; LED TV; locally produced fruits and vegetables processing; mobile phone; petrochemicals; pharmaceuticals; plastic recycling; textile machinery; tissue grafting; toy manufacturing; tyre manufacturing.

Partial tax exemption is also extended to qualifying physical infrastructure facilities. These facilities include deep sea port; elevated expressway; export processing zone; flyover; gas pipe line; Hi-tech park; Information and communication technology village or software technology zone; information technology park; large water treatment plant and supply through pipe line; Liquefied Natural Gas terminal and transmission line; mobile phone tower or tower sharing infrastructure; mono-rail; rapid transit; renewable energy (e.g. solar energy plant, windmill); sea or river port; toll road or bridge; underground rail and waste treatment plant. The income exceptions range from 90% in the first and second years to 10% in the tenth year of operation.

Bangladeshi government has been promoting Public Private Partnership (PPP) in priority sectors. These priority sectors include large infrastructural projects like airports, sea ports, flyovers, tunnels, subway, monorail, bus depots and terminal, bridges etc. These PPP projects enjoys 100% tax exemption for 10 years from date of commercial operation.

Bangladesh has quite a few Export Processing Zones (EPZs). Export oriented businesses within the premises of these EPZs enjoys exemption ranging from 100% to 25% over time.

Private sector power generation companies both coal and non-coal fuelled are offered various tax exemptions.

Companies are entitled to claim 10% tax rebate on their CSR expenditures on fulfilling certain conditions.

Taxation

Income taxes in Bangladesh is administered under the Income Tax Ordinance 1984 and the Income Tax Rules 1984, as well as notifications made under the Ordinance. The Finance Ministry administers and executes tax laws and regulation through the National Bureau of Revenue.

All registered companies both local and foreign are treated as residents in Bangladesh for taxation purposes, which means tax is levied on the entity's worldwide income after allowing for deductions.

All documented business expenses including amortization, limited amount of entertainment expenses, and distribution of samples are treated as allowable deductions.

Double Taxation Avoidance Agreements (DTTA)

Bangladesh has penned DTTAs with the following countries: Belgium, Canada, China, Denmark, France, Germany, India, Indonesia, Italy, Japan, Kingdom of Bahrain, Kingdom of Saudi Arabia, Malaysia, Mauritius, Myanmar, Norway, Oman (income from airline business only), Pakistan, Philippines, Poland, Republic of Belarus, Republic of Korea, Romania, Singapore, Sri Lanka, Sweden, Switzerland, Thailand, The Netherlands, Turkey, United Arab Emirates, United Kingdom, United States of America and Vietnam.

Corporate income tax

General corporate tax rates:

Publicly traded companies: 25%
Non-publicly traded companies: 35%

Bank, insurance and financing companies (not merchant bank):

Publicly traded: 40%
Non-publicly traded: 42.5%

Merchant bank: 37.5%

Mobile phone operators

Publicly traded companies: 40%
Non-publicly traded companies: 45%.

Tobacco product manufacturers: 45%

Minimum tax payable: 0.60% on gross turnover.

Reduced rates:

Jute manufacturers: 10%
Textile industries: 15%
Knit wear and woven garments: 12%
Knit wear and woven garments with green building certification: 10%
Private universities and colleges: 15%

Capital gain tax rates:

General: 15%
Capital gain from sale of shares traded in stock exchanges: 10%
Sponsor shareholder/shareholder directors: 5%

Tax on dividend/remittance:

Dividend payable to a company: 20%
Resident/non-resident Bangladeshi individual: 10% / 15% (for those without E-TIN)
Non-resident individual: 30%

The rate of deduction of tax at source from the remittance of dividends to foreign investors is calculated after factoring the conditions laid out in the applicable DTTA.

Losses

Losses can be carried forward for a maximum of six years. Capital losses can be set offset against capital gains for a maximum period of six years. Unrealised tax depreciation can be carried forward indefinitely.

Advance tax

Advance taxes are required to be paid in four instalments throughout the year if estimated income crosses USD 7,230/-.

Tax returns

Companies have to file their tax return by the 15th day of the seventh month following the end of the income year. In cases where the 15th falls before 15th of September then return has to be files on the 15th of September.

Value Added Tax (VAT)

VAT is applicable on goods and services at import, manufacturing, supply, and trading stages.

Options of unit registration and central registration are available depending on nature of operations of businesses.

Business with annual turnover in excess of USD 60,000/- (approx.) are required to be registered for turnover tax, and businesses with annual turnover exceeding USD 357,000/- (approx.) are required to be registered for VAT.

The standard VAT rate is 15%. Businesses are entitled to claim input VAT credit. The turnover tax rate is 4%.

Except for a few specified categories traders are subjected to 5% VAT. Truncated rate range from 2% to 10% for specific goods and services. VAT at 0% is applicable for specific activities such as export, deemed export, temporarily imported goods, etc. To qualify for input VAT credit standard rate of VAT must be followed.

Supplementary duty

Supplementary duty is a single tier tariff is imposed on luxury and non-essential goods and services. Imported goods meant for export, and zero-rated goods or services does not attract supplementary duty.

Personal Income tax

Total taxable income is the total income earned from all sources except exempted income. The sources are employment income, rental income, investment income, income from agricultural sources, business income, capital gain and other sources. Deductions are available for each of the category of income. Calculation of personal income tax is dependent on a person's residency status. Bangladesh-resident individuals are taxed on their worldwide income, whereas non-residents are taxed on income generated in Bangladesh.

Individuals achieve resident status if they reside in Bangladesh for a period of 182 days or above in the relevant year or 90 days or more in the relevant tax year and a period of 365 days or more during the preceding four years.

Personal tax returns are to be filed by 30th November each year.

Registration procedures

Individuals and companies are electronically registered with the tax authorities. Separate unique Tax Identification Number (TIN) and Business Identification numbers (BIN) are issued.

Withholding taxes

In order to ensure smooth tax collection certain entities have been empowered to withhold tax and VAT at source on behalf of the tax authorities. Return of withholding tax are required to be filed twice a year along with supporting documentation.

Customs Duty

Bangladesh levies customs duty on imports using the Harmonised Tariff System for tariff classification.

HR/ Labour Law

Employment law

Employment and contractual relationship between employer and employee is primarily governed by Bangladesh Labour Act 2006 and Bangladesh Labour Rules 2015. These laws cover areas such as employment terms, welfare and benefits, minimum age, working hours, leave, remuneration, welfare, compensation for injury, trade union, dispute resolution, legal procedures, penalties and so on.

Visa and work permits

For any non-resident to work in Bangladesh work permit is a prerequisite. The number of expatriate employees cannot exceed 1:20 ratio for industrial enterprises and 1:5 for commercial enterprises. Moreover, foreign investors must bring in a minimum of USD 50,000/- as inward remittance in order to recruit foreign nationals.

Social Security

Companies satisfying the criteria set out in the Bangladesh Labour Act 2006 (as amended in 2013) must pay 5% of their profits into a Workers Profit Participation Fund (WPPF). The fund is constituted for all employees who has been with the

establishment for a minimum of nine months. Owners, partners or directors cannot be participate in WPPF. Provident Fund (PF) is very popular mode of investment in Bangladesh where both employer and employee contribute to a common pool of fund which is invested for the benefit of employees. PF is not mandatory, however if three-fourths of workers of an organization make an application to the employer for the formation of PF then it is mandatory to form the fund within 6 months of receiving the application.

Minimum Wage

There is no regulatory body for the regulation of wages in the private sector. However, the government through circulation may fix minimum wages in certain sectors. In 2018 the minimum gross monthly minimum wage in the RMG industry was set at USD 96.

Working hours and leave

An adult can work for eight hours a day, forty eight hours a week maximum. A worker can work or a maximum of ten hours a days, subject to receiving overtime for the additional hours. Overtime is twice the hourly rate. Total working hours of a worker cannot exceed 60 hours a week, and on average 56 hours per week in a year.

Special provisions have been kept for female workers. Without prior consent a female worker cannot be made to work between 10:00 PM (22:00 hours) to 06:00 AM (06:00 hours).

Weekly holidays are stipulated as follows:

Shop, commercial establishment or industrial establishment: 1.5 days per week

Factory: 1 day per week

Road transport service: 24 consecutive hours each working week.

Workers working in shops, commercial establishments or industrial establishments are entitled to one day for every 18 days of work. Workers are entitled to 10 days of casual leave and 14 days of sick leave with full wages in a calendar year. 11 days are reserved as festival holidays.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Bangladesh should seek professional advice from our member firms before making any business or investment decision.

Contact our member firm in Bangladesh to discuss your requirements:

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