

**International Bar Association Annual Conference 2023**

**Recent Developments in International Taxation**

**Bangladesh**

**A H M Belal Chowdhury**

*FM ASSOCIATES, DHAKA*

[b.chowdhury@fma.com.bd](mailto:b.chowdhury@fma.com.bd)

## **Major Bangladeshi tax Developments in 2023**

On 1<sup>st</sup> July 2023, a new legislation called the "Income Tax Act 2023" was introduced, replacing the previous Income Tax Ordinance 1984, which speaks in itself the changes which has been brought as in previous years any and all changes were minimal and generally brought by the Finance Acts.

In June of 2023, the Finance Minister presented the national budget for the 2023-24 fiscal year in parliament which is equipped to tackle the present geopolitical and geo-economic conditions post Covid pandemic and the also the consequences of the ongoing Russia-Ukraine conflict.

Given the global and domestic circumstances, the recent annual budget aims to address immediate challenges and tackle medium-term issues.

### **Changes brought by the new Act**

The recently enacted Income Tax Act of 2023 is poised to generate considerable attention in the days ahead. This comprehensive reform marks the first significant revision since the implementation of the Income Tax Ordinance in 1984. Individuals, companies, and even start-ups will encounter numerous modifications as a result. While certain regulations will be clear-cut, others may allow for various interpretations, requiring a gradual consensus to be reached over time.

The new Act has made the tax regime more investment friendly by implementing certain measures like reducing the number of withholding tax returns from 29 returns per annum to 12 returns per annum to be submitted on a monthly basis. Furtherance, the new act also lists out the tax deductible expenses in a single chapter in the Act which was scattered in different provisions as well as supplementary regulatory orders under the previous Ordinance. The new Act also widens the cap on the tax deductible expenses as well as including several other heads under the coverage of tax deductible expenses. Another welcoming change is the inclusion of IFRS and IAS in the Act specifically IAS 37, IFRS 16 etc.

In Addition, the act contains provisions as to automation of the return filing, assessment procedure as well as the Appeal procedure.

From a personal tax return perspective, tax exemption on salary has undergone a significant change under the new provisions. Previously, three separate exemptions existed for medical allowance (up to Tk 120,000), house rent allowance (up to Tk 300,000), and conveyance allowance (up to Tk 30,000). These exemptions have now been consolidated into a single tax exemption of up to Tk 450,000. The maximum exemption amount is determined by taking the lesser of Tk 450,000 or one-third of the annual salary. Any remaining amount after deducting this exemption will be considered as taxable income.

Additionally, the tax slabs have been slightly adjusted. Previously, the first tax slab with a zero percent tax rate was applicable for income ranging from Tk 0 to Tk 300,000. Under the new regulations, this threshold has been raised to Tk 0-350,000. As a result, individuals can expect a reduction in their annual tax liability by approximately Tk 2,500-12,500, assuming all other factors remain the same. Moreover, women, the elderly, and gazetted freedom fighters have even higher zero percent tax slabs, leading to further tax savings for these specific groups.

The government has implemented a significant change by introducing a limit of Tk 500,000 for investments in government savings certificates and other government securities that qualify for tax credits. Mutual funds now have an investment limit of Tk 500,000, allowing a maximum rebate of Tk 75,000 from open-ended mutual funds. The rebate benefit for Deposit Pension Scheme (DPS) has been doubled, with an investment limit of Tk 120,000 and a rebate of Tk 18,000. It is worth noting that while mutual funds have an investment limit, there is no investment ceiling for stocks of listed companies. This allows investors to potentially receive higher rebates by directly investing in well-performing stocks in the market. Multiple sources of rebates can be combined until reaching the overall limit of Tk 1 million. Other avenues for tax rebates include insurance premiums and provident funds. In the case of life insurance, the rebate amount is either equal to the premium paid during the year or 10 percent of the insured amount, whichever is lower.

A tax surcharge is applied based on total tax liability, not as a percentage of total assets. The surcharge percentage is determined by an individual's net asset value, with the net asset limit for surcharge now raised to Tk 4 crore. In terms of cars, the Advance Income Tax (AIT) remains unchanged, but there is a new environmental surcharge for multiple car owners. This surcharge matches the AIT and is imposed on the car(s) with the highest cubic capacity (CC). An equivalent measure, CC-KW, has also been introduced for electric cars.

According to the new legislation, educational institutions, Samities, trade and commerce associations, foundations, and non-government organizations will be categorized as companies. Regardless of their registration under the Companies Act, Societies Act, or Partnership Act, all entities, excluding individuals, will be treated as companies.

As per the new regulation, income tax officers cannot fix income tax as per his/her wish and income tax will be determined according to the formula prescribed by law.

### **Conclusion**

The initial response to the new tax code is expected to be mixed. However, over time, as uncertainties are addressed and resolved, a consensus will emerge, allowing for a fair evaluation of its effectiveness in achieving its intended objectives. By being patient and adaptable, we can successfully navigate these changes and optimize our tax planning strategies.