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## **Doing Business in Bangladesh**

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# Doing business in Bangladesh

**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

*Amid challenging global economic conditions, Bangladesh has tightened its monetary policy to effectively address key macroeconomic challenges, including high inflation and low foreign currency reserves. This strategic approach aims to stabilize the economy and lay the foundation for sustainable growth.*

The Asian Development Bank (ADB) projects that Bangladesh's economic condition in 2024 will improve compared to the previous year. They forecast a GDP growth rate of 6.1% for the fiscal year 2024, which is 0.3% higher than the 5.8% growth achieved in FY2023. This anticipated growth is largely attributed to the continued expansion of Bangladesh's traditional low-end garment exports. Exporters are increasingly using domestic yarn and fabric due to the ongoing foreign currency crisis, which has helped sustain and potentially boost the garment sector's performance.

Public investment is set to rise, driven by the continuation of key mega infrastructure projects in the energy and railway sectors. These initiatives aim to enhance the country's infrastructure and stimulate economic growth. As uncertainties gradually diminish, private investment is also expected to increase. The reduction in economic and political uncertainty will boost investor confidence, encouraging more significant private sector contributions to the economy. This combined effort in public and private investment is anticipated to create a more robust economic environment, fostering sustainable growth and development.

## Population

As of June 2024, Bangladesh ranks as the eighth most populous country globally, with a population of approximately 172.9 million people. The population density is estimated at 1,329 individuals per square kilometre, with 40.9% residing in urban areas. The median age is 27.1 years, and the population experiences a growth rate of 1.01%. The fertility rate stands at 1.92 children per woman, while the average life expectancy is 73.98 years.

## Government

Bangladesh is a republic with a non-executive president. Most members of parliament are elected through nationwide election held every five years. The balance is 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 455 billion (2024)

GDP per capita: USD 2,646 (2024)

GDP growth rate: 5.8% (2023); 6.1% (2024 forecast)

Inflation: 9.72% (June, 2024)

## Main sectors of the economy

The economy of Bangladesh has experienced significant growth and transformation over the past few decades, establishing itself as one of the fastest-growing economies in the world. This growth is driven by several key sectors such as agriculture and textile industries each contributing uniquely to the country's economic landscape.

The economy of Bangladesh is a developing market economy. According to the World Bank Development Indicators Bangladesh is the 34th largest economy in the world and it is projected to become the ninth largest consumer market in world by 2030, overtaking United Kingdom and Germany.

Dhaka and Chittagong are the principal financial centres of the country. The financial sector of Bangladesh is the second largest sector in the subcontinent.

## Exports

Bangladesh's exports fell in April of 2024 because of slowing shipments of garments and a continuous downturn in the other major sectors. According to data released by the Export Promotion Bureau, exports worth \$3.91 billion worth of items were shipped in April, down by nearly 1% from \$3.95 billion a

year ago. However, shipments rose 3.93 percent year-on-year to \$47.47 billion in the July-April period of 2023-24 fiscal year.

Moreover, exports of readymade garments, which typically account for 85 percent of the total receipts, grew 4.97 percent year-on-year to \$40.49 billion in the 10 months to April this year thanks to buoyancy in knitwear demand. Growth of woven garment exports remained almost flat while other major exporting sectors such as leather and leather products, jute and jute goods, home textile, frozen and live fish, registered a fall in shipments.

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

#### **Focus on digitalisation and new tech**

Bangladesh has been making significant strides in digital adoption in recent years, and it is expected to continue to do so in 2024 — the wind of digitalisation will sway the direction of governance, education, health, and judiciary.

The government of Bangladesh has been actively pursuing the digitalisation of all government portals, such as passport applications and visa applications. The government has also been implementing digital governance to drive the 'Smart Bangladesh' engine forward.

The astounding quadrupling of the country's GDP per capita and improvement in service delivery (demonstrated by a savings of \$11.22 billion and 9.26 billion workdays by citizens) during this time have been greatly facilitated by digital adoption in all departments of the government and almost every sphere of the society.

In the education sector, the effective implementation of AI has been identified as a priority. This will help to improve the quality of education and make it more accessible to students across the country. The government has also been working to digitise the education system, which will help to improve the quality of education and make it more accessible

to students across the country. Digital Bangladesh played a key role in ensuring service continuity in healthcare during Covid-19 lockdowns. The government has been working to digitise the healthcare system, which will help to improve the quality of healthcare and make it more accessible to people across the country. The government has been working to digitise the judiciary system, which will help to improve the efficiency of the system and make it more accessible to people across the country.

#### **Strategic position of Bangladesh**

Bangladesh, previously dismissed, has now emerged as a remarkable success story in South Asia, garnering recognition as the "South Asian Miracle" due to its impressive economic performance over the past decade.

Situated at the crossroads of South Asia and Southeast Asia, with close proximity to regional powerhouses India and China, Bangladesh has experienced a significant influx of investments from both nations. In terms of geopolitics, Bangladesh holds a pivotal position in China's ambitious One Belt One Road (OBOR) initiative, which aims to enhance interconnectivity in the region. Notably, Bangladesh is a key participant in the proposed Bangladesh-China-India-Myanmar corridor (BCIM), one of the six corridors within the OBOR framework. As a result, Bangladesh has transformed into a crucial player in the region.

Numerous ambitious mega projects are currently underway in Bangladesh, poised to make a substantial impact on the country's economy and overall development. Among these projects are the metro rail system, Matarbari Deep Sea Port, Rupsha Rail Bridge, Bangabandhu Railway Bridge, and the Padma Rail Link. Each of these initiatives holds immense potential for transforming key sectors and driving progress in Bangladesh.

Bangladesh's first metro rail was launched in December 2022. This metro rail has alleviated traffic congestion in Dhaka and enhanced the quality of life for its residents. Additional routes are

currently under construction and will become operational soon.

The Rooppur Nuclear Power Plant, a 2.4 GW project, is being constructed in Bangladesh. As the country's first nuclear power plant, it is expected to have its first unit operational in 2024. When fully completed, it is anticipated to fulfil 15% of the nation's electricity demand.

#### **Setting up a business**

In accordance with the current legislation, foreign individuals or companies can engage in business activities in Bangladesh through either an incorporated or unincorporated entity or branch. Except for specific industries subject to restrictions, there are generally no limitations on foreign investment in terms of equity participation, property investment, or participation in the capital market.

Foreign entities that prefer not to establish a formal presence in Bangladesh have the option to operate through a branch office, representation office, or liaison office. These entities serve as cost centres, representing the principal companies and carrying out activities on their behalf. It's important to note that unless authorized by the Bangladesh Investment Development Authority (BIDA), these offices are not allowed to generate local revenue.

#### **Business vehicles**

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

#### **Incentives and Protection for foreign investment**

Bangladesh presents favourable investment prospects through its liberalized Industrial Policy and export-oriented growth strategy, which includes incentives such as tax exemptions, the ability to repatriate capital, profits, and

dividends, and infrastructural support. Moreover, the Foreign Private Investment (Promotion and Protection) Act of 1980 ensures protection against expropriation, providing additional reassurance to foreign investors.

#### **Process of how to set up a business**

In Bangladesh, various legal entities are available for investors to conduct business, with the private limited liability company being the most prevalent option. Recently, there has been additional guidance issued regarding the establishment and operations of a one-person limited liability company.

The primary regulatory bodies overseeing business activities in Bangladesh include the Registrar of Joint Stock Companies and Firms, the Bangladesh Securities and Exchange Commission (BSEC), the Bangladesh Investment Development Authority (BIDA), the Bangladesh Export Processing Zone Authority (BEPZA), the Bangladesh Economic Zone Authority (BEZA), the National Bureau of Revenue (NBR), and the central bank, Bangladesh Bank.

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

- Trade License
- Business Identification Number
- 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 in Bangladesh typically follow a fiscal year from July to June, except for banks, non-banking financial institutions, and insurance companies that generally align with the calendar year from January to December.

However, the tax authorities do permit subsidiaries of parent companies based

outside Bangladesh to adopt a different financial year if necessary.

#### **Accounting and auditing**

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

The Institute of Chartered Accountants of Bangladesh (ICAB) has implemented the Document Verification System (DVS) to improve auditing quality and transparency. Under DVS, all practicing chartered accountants in Bangladesh are required to register and generate a Document Verification Code (DVC) for each endorsed audit report. The DVC is included in the report and shared with regulatory bodies like the National Board of Revenue (NBR) for enhanced accountability and credibility. This standardized verification process facilitates regulatory oversight and access to audit-related information.

Bangladesh has adopted International Financial Reporting Standards (IFRS), hence all financial statements are prepared in line with IFRS. The Financial Reporting Council (FRC) is responsible for promoting high quality financial reporting and auditing in Bangladesh.

#### **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 independently 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 Enabled Serviced (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.

Bangladesh government has introduced the concept of "Made in Bangladesh" Under this scheme government sanctions tax exemption for 10 years for specific industries which include local manufactured three or four-wheelers automobiles, home and kitchen appliances such as washing machine, blender, microwave oven, electric swing machine, induction cooker, kitchen & kitchen knife.

Tax authorities offer extensive economic benefits and tax reliefs for selected sectors. Investment in Export Processing Zone (EPZ) and Economic Zones (EZ) 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 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, IT Enabled Services (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.

ITES that enjoy full tax exemption up to June 2027 are:

- Software development
- Software or application customisation
- AI-based solution development
- Blockchain based solution development
- Data science
- Digital animation development;
- Website development;
- Web site services;

- Web listing;
- Digital graphics design;
- Digital data entry and processing;
- Digital data analytics;
- Geographic information services;
- IT support and software maintenance service;
- Software test lab services;
- Call centre service;
- Document conversion, imaging and digital archiving;
- Robotics process outsourcing; and
- Cyber security services;
- e-learning platform and e-book publications;
- Mobile application development services; and
- IT Freelancing.

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; 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.

The 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.

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.

#### **Promoting start-ups**

In order to foster the growth and visibility of budding tech entrepreneurs, the government has launched a "start-up sandbox" program. This initiative seeks to establish an enabling environment where these entrepreneurs can fully realize their potential and navigate the early stages of their ventures more smoothly. The start-up sandbox offers a supportive and regulated framework that empowers new tech start-ups to experiment, innovate, and refine their ideas seamlessly.

## **Taxation**

Income taxes in Bangladesh are 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: 20% - 22.5%  
Non-publicly traded companies: 25% - 27.5%

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

Publicly traded: 37.5%  
Non-publicly traded: 40%

##### Merchant bank: 37.5%

##### Mobile phone operators:

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

One-person limited company: 20% - 22.5%

Trust, fund, association of persons and other taxable entities: 25% - 27.5%

Tobacco product manufacturers: 45%

Minimum tax payable: 0.25% on gross receipt.

##### Reduced rates:

Private universities and colleges: 15%

Cooperative society: 20%  
Approved gratuity fund, pension fund, superannuation fund, and recognized provident fund: 15%

#### Capital gain tax rates:

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

#### 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 (Non-Bangladeshi): 30%

Tax deducted at source for supply of goods not specified any other areas 5%

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 off 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 15<sup>th</sup> day of the seventh month following the end of the income year. In cases where the 15<sup>th</sup> falls before 15<sup>th</sup> of September then return has to be filed on the 15<sup>th</sup> 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.

The standard VAT rate is 15%.  
Businesses are entitled to claim input VAT credit. To qualify for input VAT credit standard rate of VAT must be followed.

VAT deducted at source is applicable for certain services as determined by the tax authority. Major part of supplies attracts VDS at 5% named as “Procurement Providers”. Other truncated rates 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.

VAT Return is to be submitted by 15 day of the following month for each calendar year. Further limited companies are required to submit annual financial statements to Commissioner within 6 months from the end of the financial year.

#### **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.

Proof of submission of return (PSR) required in certain cases which has been made mandatory for 38 kinds of services. Minimum tax is set at BDT 2,000 per year.

Personal tax returns are to be filed by 30<sup>th</sup> November each year.

#### **Transfer pricing**

Bangladesh adopted Transfer Pricing Rules for the determination of arm's length price which is monitored by the National Board of Revenue (NBR). Every person who has entered into any international transaction exceeding USD 357,000 is required to furnish an additional report from a Chartered Accountant with the annual return.

#### **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. The EPZ Workers Association and Industrial Relations Act 2010 applies to the companies situated within the EPZs. The International Labour Organisation Conventions are also applicable in the country.

### 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

Bangladesh inaugurated a universal pension scheme aimed at covering all citizens aged 18 and above. The scheme includes four different plans: Progoti for private sector employees, Surokkha for self-employed individuals, Somota for low-income population, and Probash for expatriate Bangladeshis. Pensioners will receive benefits for life. In the event of a depositor's death before the age of 75, the nominee will receive the monthly pension until the original depositor would have turned 75.

Provident Fund (PF) is widely favoured as an investment option in Bangladesh, involving contributions from both employers and employees into a shared fund. This fund is then invested for the welfare of the employees. Although participation in the PF is not obligatory, if three-fourths of the workers in an organization request the establishment of a PF, the employer is required to form

the fund within six months of receiving the application.

Gratuity payments to departing employees is obligatory, with a minimum of 30 days' salary (based on the last received salary) for each completed year of service. If an employee has served for more than 10 years, the gratuity amount increases to 45 days' salary (based on the last received salary).

Companies that meet any of the following conditions are required to implement the Workers Profit Participation Fund (WPPF):

- If the paid-up capital on the last day of the accounting year is equal to or exceeds USD 85,000, or
- If the value of the company's permanent assets on the last day of the accounting year is equal to or exceeds USD 170,000.

These companies must allocate 5% of their profits to a trust fund. The fund is established for the benefit of all employees who have been employed by the company for a minimum of nine months. However, owners, partners, or directors are not eligible to participate in the WPPF.

Group insurance is mandatory for entities employing a minimum of 100 permanent workers. However, there are exceptions for certain sectors where alternative welfare funds have been created.

Bangladesh is making significant progress towards implementing a universal pension plan scheduled to be launched in June 2024. The scheme aims to include citizens between the ages of 18 and 50 as its primary participants.

### Maternity benefits

The Bangladesh Labour Act, 2006 (amended in 2013) provides for a minimum of 4 months of paid maternity leave for working mothers. The leave is to be taken in two equal parts, 8 weeks before and 8 weeks after the expected date of childbirth.

### 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 for forty eight hours a week maximum. A worker can work for 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

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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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