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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

### **Making a strong comeback from the COVID-19 pandemic**

Bangladesh stepped into its 50<sup>th</sup> year at the end of 2021 calendar year. The country has set its sights on becoming a higher, middle income country by 2031 and a developed country by 2041. It is on track to graduate from the UN's Least Developed Countries (LDC) list in 2026.

The COVID-19 pandemic constrained economic activities and reversed some of the gains achieved in the last decade, however Bangladesh made a strong economic recovery through strong business leadership and political will. As per Reuters, 83.1% of the population has been inoculated as at June, 2022.

### **Population**

Bangladesh is the eighth most populous country in the world with 167.1 million inhabitants (January 2022). The population density in Bangladesh is 1,265 per square kilometre, with 39.4 % of the population in urban areas. The median age is 28.3 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 324.2 billion (2020)

GDP per capita: USD 1,961.1 (2020)

GDP growth rate: 3.5% (2020)

Inflation: 5.5% (2021)

### **Main sectors of the economy**

The economy of Bangladesh is a developing market economy. According to the World Bank Development Indicators Bangladesh is the 41<sup>st</sup> largest economy country in the world. It's the 38th largest country in the world in nominal terms, and 30th largest country by purchasing power parity.

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. Bangladesh reached a record level of Foreign Direct Investment inflow in 2018 at \$3.16 billion topping the list in South Asia.

### **Exports**

During the period July 2021 to April 2022, total export was worth of USD43.34 billion a 35% increase over the same period last year. The biggest export from Bangladesh is ready made garments which accounts for 80% of national exports and is the second largest exporter 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.

### **Focus on digitalisation**

Bangladesh has identified ICT as an important future economic driver of growth for the country and has taken concrete steps to boost the industry.

The digital economy is a growing force in Bangladesh. Investment in digital infrastructure continues to increase, with 112 million active internet subscribers – the second largest internet user population in Asia-Pacific – and mobile internet penetration is 31.5% of the population.

### **Strategic position of Bangladesh**

Bangladesh once written off, is now hailed as a South Asian Miracle as its economy has been one of the top performers in Asia over the past decade, averaging an annual growth of more than 6%, and has clocked around 8% consistently over the past few years.

Being at the intersection between South Asia and South East Asia, with close proximity 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.

Bangladesh largest port in Chittagong as a major maritime hub within the region. The first deep seaport of the country is being built at Matarbari area in Chittagong Division. When completed the port will strengthen the port logistics capacity thereby contributing to acceleration of logistics with neighbouring countries.

## 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).

### 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 offers generous opportunities for investment under its liberalised Industrial Policy and export-oriented, private sector growth strategy including tax exemption, capital/profit/dividend expatriation, infrastructural support etc. 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. Recently more clarification of the formation and operation of a one-person limited liability company has been circulated.

The key regulatory bodies are Registrar of Joint Stock Companies and Firms, Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Investment Development Authority (BIDA), Bangladesh Export Processing Zone Authority (BEPZA), Bangladesh Economic Zone Authority (BEZA), National Bureau of Revenue (NBR), Bangladesh Bank (central 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 are required to have their fiscal year from July to June every year except bank, non-banking financial institutions and insurance companies

which generally follow the financial year from January to December.

However, 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 independently 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 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 enjoy full tax exemption up to June 2024. They include:

- Software development
- Software or application customisation
- Nationwide Telecommunication Transmission Network (NTTN);
- Digital animation development;
- Website development;
- Web site services;
- Web listing;
- IT process outsourcing;
- Website hosting;
- Digital graphics design;
- Digital data entry and processing;
- Digital data analytics;
- Geographic Information Services (GIS);
- IT support and software maintenance service;
- Software test lab services;
- Call centre service;
- Overseas medical transcription;
- Search engine optimisation services;
- Document conversion, imaging and digital archiving;
- Robotics process outsourcing; and
- Cyber security services;

- Cloud service;
- System Integration;
- 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; petro-chemicals; 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**

Bangladesh offers strong incentives to start-ups with annual turnovers of less than USD 11.7m. Benefits include relaxed statutory reporting, extended carry forward loss opportunity, reduced minimum tax etc.

## **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: 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%

#### Mobile financial services (MFS):

Publicly traded companies: 37.5%

Non-publicly traded companies: 40%

One-person limited company: 22.5%

Artificial judicial person: 27.5%

Tobacco product manufacturers: 45%

Minimum tax payable: 0.25% on gross receipt.

#### 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%

Cooperative society: 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 (Non-Bangladeshi): 30%

Tax deducted at source for supply of goods are mandatory at different slabs ranging from 3% to 7%.

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.

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. To qualify for input VAT credit standard rate of VAT must be followed.

VAT deducted at source (VDS) 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.

The turnover tax rate is 4%.

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.

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**

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 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 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:

#### Accounting member

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