

Setting up your Business in Bangladesh

Issues to consider



Bangladesh emerged as an independent and sovereign country in 1971 following a nine month war of liberation. It is one of the largest deltas of the world with a total area of 147,570 sq. km. With a unique communal harmony, Bangladesh has a population of about 152.51 million, making it one of the most densely populated countries of the world. The potential business sectors in Bangladesh are Agribusiness, Ceramics, Electronics, Frozen foods, Garments and textiles, ICT and Business services, Leather and leather goods, Light engineering, Power industry, Life science, Telecommunication, Health, Medical equipment, Automobile and Ship building.

However, there are a number of issues which you must consider when you are looking to set up your business in Bangladesh. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider while doing business in Bangladesh.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment of Branch or Liaison or Representative Office

To open or seek extension of a Branch or a Liaison or Representative Office of a foreign company, the company has to submit in prescribed form an Application to Board of Investment of Bangladesh along with the following documents:

- MOA and AOA of the Principal company;
- Certificate of Incorporation of Principal Company;
- Name and Nationalities of the Directors/Promoters of the Principal Company;
- Board resolution to open a Branch/Liaison/Representative Office in Bangladesh;
- Audited accounts of the concerned financial year;
- Proposed organogram of the office;
- List of activities of the proposed office;
- List of activities of Head office.

Limited Company:

Limited company by shares may either be a private limited company or public limited company. The natures of the companies are as follows:

Setting up your Business in Bangladesh

Issues to consider



Private Limited Company

- Restricts the rights to transfer the shares;
- Limits the number of its members to minimum 2 and maximum 50 excluding the persons employed in the company;
- Has at least 2 directors;
- Prohibits any invitation to the public to subscribe for the shares or debentures of the company and
- Entities to commence business from the date of its incorporation.

Public Limited Company

On the other hand, a public limited company:

- May issue invitation to the members of the public to subscribe to the shares and debentures of the company through a prospectus which complies with the requirements of the Companies Act 1994 and the Securities and Exchange Commission Act 1993 as amended from time to time;
- Has minimum 7 members, but there is no maximum limit;
- Has at least 3 directors and
- A private company may be converted into a public company.

Limited Liability Partnership:

- Members (partners) have limited liability;
- Filled in FORM-I: Statement containing the particulars of the firm for registration and
- Deed of agreement of Partnership.

How much Corporation Tax will the business pay?

Current (Assessment year 2015-2016) Corporation Tax rates in Bangladesh are:

<u>Category</u>	<u>Tax rate (%)</u>
Publicly traded company	25%
Non-publicly traded company	35%
Bank, Insurance & Financial Institution (if PTC)	40%
Bank, Insurance & Financial Institution (if Non-PTC)	42.5%
Merchant Bank	37.5%
Cigarette Manufacturing Company	45%
Mobile Phone Operator Company	45%
Dividend income of any company	20%

What if we make cross-border transactions between group companies?

Bangladesh follows internationally recognized **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. Arm's length price means a price in a transaction, the conditions (e.g. price, margin or profit split) of which do not differ from the conditions that would have prevailed in a comparable uncontrolled transactions between independent entities carried out under comparable circumstances. Transfer pricing regulation was incorporated in the Income Tax Ordinance, 1984 by the Finance Act, 2012. Chapter XIA (Section 107A to 107J) of the Income Tax Ordinance, 1984 contains the transfer pricing regulations. According to the provision of section 107J, provisions of chapter XIA will be applicable from the date notified in official Gazette. This notification is issued via notification no: 161-ain/aikor/2014 dated 26/06/2014, putting transfer pricing regulations into effect for transaction from 1st July, 2014.

According to the regulation transfer pricing will be applicable-

- On international transaction between associated enterprises;
- When either or both of the enterprises are non-resident.

International transactions means- transactions between associated enterprises, either or both of whom are non-residents, in the nature of-

- purchase
- sale
- lease of tangible property
- lease of intangible property e.g. trademarks, patents
- borrowing money
- any other transaction having a bearing on the profits, income, losses, assets, financial position or economic value of such enterprises.

The following method is to be applied for computation of "arm's length price"-

- a) Comparable uncontrolled price method
- b) Resale price method
- c) Cost plus method
- d) Profit split method
- e) Transaction net margin method
- f) Any other method

Setting up your Business in Bangladesh

Issues to consider



What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Bangladesh then they are subject to Bangladesh tax laws.

We would advise any new entrant to Bangladesh or person who spends time working in Bangladesh to take professional advice to determine whether they are Bangladeshi tax resident.

Current Personal Income Tax rates in Bangladesh are:

Individual are taxed as per the five tier taxation system as applicable to Bangladesh. However, these rates are same for every individual including Bangladeshi Non-residents, Hindu undivided family, NGO, Partnership firm, AOP and every other artificial judicial person. Current rates applicable for the assessment year 2015-16 are:

<u>Income tier</u>	<u>Tax rate (%)</u>
For first BDT 2,50,000	0%
Up to next BDT 4,00,000	10%
Up to next BDT 5,00,000	15%
Up to next BDT 6,00,000	20%
Up to next BDT 30,00,000	25%
On the balance	30%

Note:

The non-assessable income limit will be as follows:

For women and elderly citizens being more than 65 years of age	BDT 300,000
For disable persons	BDT 375,000

But, the minimum tax would be BDT 5,000 (in case of Dhaka & Chittagong city corporation)
Or, the minimum tax would be BDT 4,000 (in case of other city corporation)
Or, the minimum tax would be BDT 3,000 (in case of other than city corporation)

However, the rate of tax would be 30% (at maximum rate) if the individual assessed is classified as a non-resident foreigner (NRF).

Current Social Security Rates are:

Currently in Bangladesh no social security is provided by the Bangladesh Government.

What is Value Added Tax (VAT) and should the business be registered?

Value Added Tax (commonly known as VAT) is the tax on the value added by a tax payer.

In Bangladesh, VAT is still regulated by the Value Added Tax Act, 1991; Value Added Tax Rules, 1991; Finance Acts and various rules, regulations and notifications issued under the Act.

According to the provisions of the Value Added Tax Act 1991, three different types of taxes are charged:

1. Value Added Tax
Importers, Manufacturers and Service providers, having minimum annual turnover of BDT 80 lacs, have to pay 15% tax on their value addition.
2. Turnover Tax
Turnover tax @3% is leviable on those persons and organizations whose annual turnover amount is not more than BDT.80 lacs
3. Supplementary Duty
Luxurious, non essential and socially undesirable goods are subject to supplementary duties at different rates ranging from 10% to 500%

Can we provide Share option plans to our staff?

Share option plans are applicable for publicly listed companies in Bangladesh the number of which is less than 1% of the total number of companies. In Bangladesh, private companies cannot have any share option plans to anyone.

How else can we compensate our employees?

Bangladesh has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Provident fund, Gratuity, Pensions, Private medical insurance, life and disability cover are now commonplace benefits provided by many Bangladeshi employers to their workforce.

Flexible benefit packages are also gaining in popularity, giving employees options on how they wish to "spend" their benefits allowance; which can range from "purchasing" additional holiday entitlement to obtaining full family medical cover.

Kreston International

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Setting up your Business in Bangladesh Issues to consider



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