

EY Tax Alert

New VAT law in Bangladesh likely to be implemented from 1 July 2019

Tax Alerts cover significant tax news, developments and changes in legislation that affect businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor.

Executive summary

This alert gives an update on proposed implementation of new Value Added Tax (VAT) law in Bangladesh and summarizes some of the key changes proposed.

The new VAT law is proposed to be implemented in Bangladesh from 1 July 2019. It will replace VAT Act, 1991 which had many anomalies and led to tax cascading.

The new VAT Act was approved by the Parliament in 2012 and date of implementation of the same was earlier notified as 1 July 2017. However, the said implementation was deferred.

The Government of Bangladesh (government) has now revived the discussion for implementation of new VAT law with certain amendments, for which discussion with trade and industry has been initiated.

Besides expanding the ambit of VAT and multiple rate structure, the new VAT law in Bangladesh would change various VAT concepts including valuation, input tax credits, refund and taxability of services provided by non-residents.

Also, the online returns and reporting compliances shall replace the earlier compliance mechanism.

Background

- ▶ Presently, VAT levy in Bangladesh is governed by the Value Added Tax Act, 1991 and its related Rules.
- ▶ Government had proposed to replace the existing VAT legislation by a new reformed legislation and in this regard, a new 'VAT & Supplementary Duty Act 2012' was passed by the Bangladesh Parliament in 2012.
- ▶ Corresponding new VAT & Supplementary Duty Rules were released in 2016.
- ▶ Date of implementation for the new VAT law was earlier notified as 1 July 2017. However, the said implementation was withdrawn and deferred due to opposition from business community and other challenges.

Recent Update

- ▶ Government has revived the discussion for implementation of new VAT law and indicated that the new VAT law would be made effective from 1st July 2019 (i.e., from beginning of next financial year in Bangladesh)
- ▶ The government has now initiated discussion with trade and industry associations for their suggestions on amendments required in the VAT law of 2012 and tax rates therein.
- ▶ In terms of provisions of the new VAT Act, single VAT rate of 15% has been prescribed for all goods and services.
- ▶ However, in recent discussion between business community and officials of National Board of Revenue (NBR - apex body for tax administration in Bangladesh), it has been principally agreed that in place of single VAT rate of 15%, the new VAT law will have multiple tax rates.
- ▶ Multiple VAT rates agreed are 5%, 7.5%, 10% and 15% - categorization of Goods and Services under such tax brackets would be determined in coming days.

Key changes

- ▶ Besides supply of goods and services, ambit of new VAT law is expanded to cover transactions in immovable property.
- ▶ Scope of VAT is also expanded to services provided by Non-residents not having presence in Bangladesh, if certain specified services (including electronic services) are provided by such non-residents to customers in Bangladesh.
- ▶ Introduction of new concept of appointment of local VAT agent in Bangladesh by non-residents not having place of business in Bangladesh, for carrying out compliances under new VAT.
- ▶ Provisions related to place of provision of services have been introduced.

- ▶ Tax Credit provisions are rationalized under the new VAT law - i.e., various credit restrictions are pruned and further interplay between VAT withholding and input tax credit rationalized.
- ▶ Existing modes of valuation [Price declaration, Tariff, RSP based value] to be replaced by taxability based on transaction value for each supply.
- ▶ Taxation on import of goods to change as Advance Tax (AT) @3% to replace Advance Trade VAT (ATV) @5% on goods import - Further, AT to be levied on all import of goods as against ATV, which is currently imposed only on import of trading goods.
- ▶ Online returns and reporting compliances shall replace the earlier compliance mechanism.

Comments

The new VAT law is one of the most significant indirect tax reform in Bangladesh and is likely to impact every business.

Considering the implementation date of 1 July 2019, it may be critical for businesses to:

- ▶ study the impact of the new law on their various business operations and contractual arrangements including key function like procurement, marketing, sales, finance & accounts.
- ▶ engage with the government to represent their sector for addressing various issues including the tax rates for goods and services.
- ▶ review and upgrade their IT systems to meet compliance and reporting requirements of the new law.
- ▶ educate and train internal and external stakeholders in the new tax regime.

EY shall shortly release the sector-wise impact of new VAT law in the country.

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