



Impress Capital Limited



Budget FY2020-21 in a Nutshell

Bangladesh

Date: 5th July, 2020

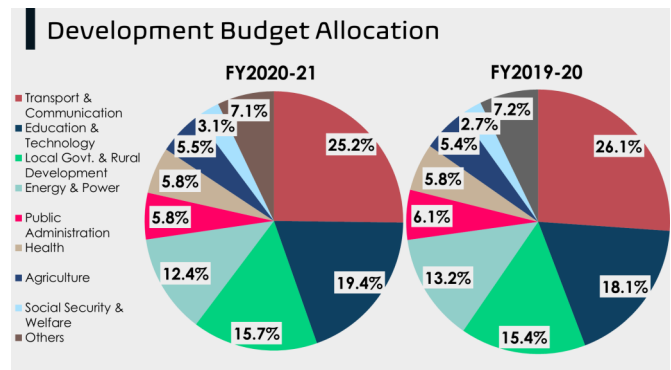
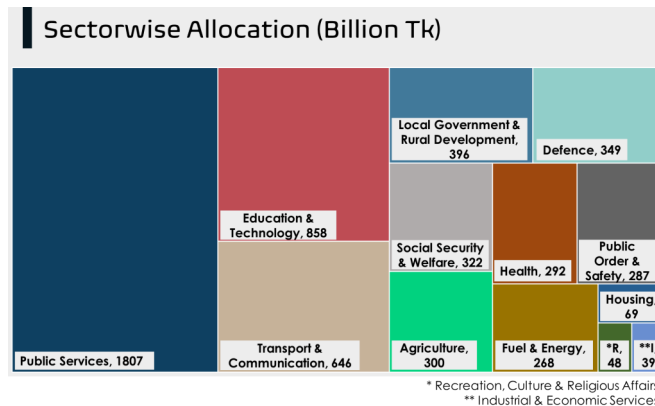
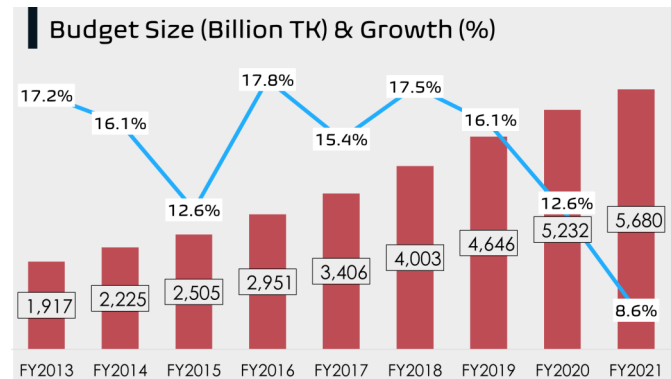
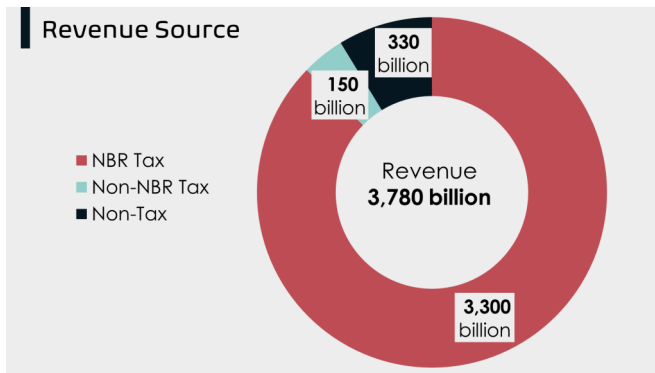
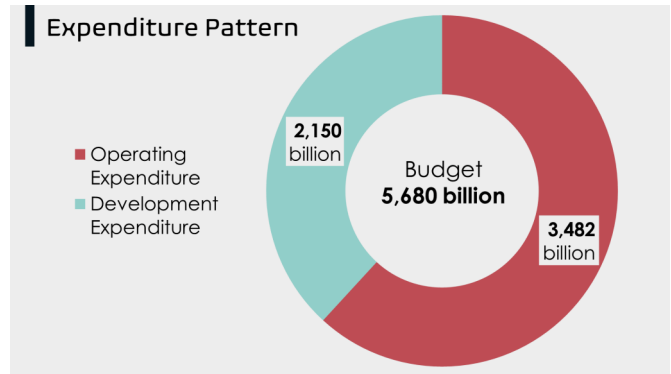
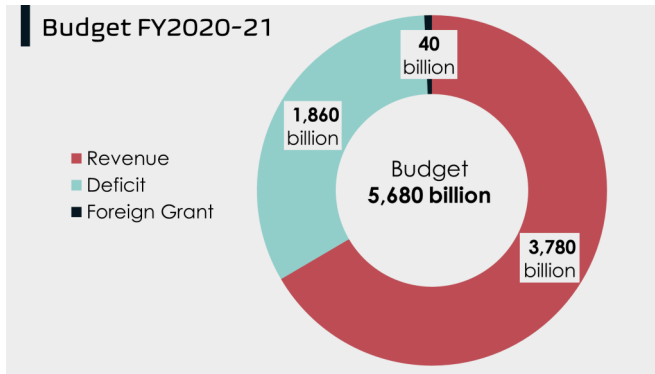
Snapshots

Budget Size
Tk 5.68 tn

Budget Growth
8.56%

Operating Expenditure
Tk 3.48 tn

Development Expenditure
Tk 2.15 tn

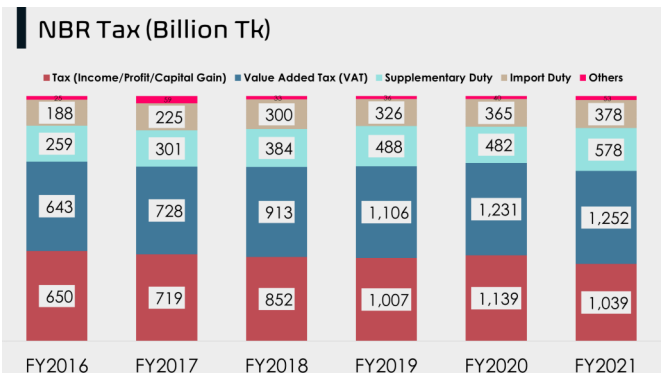
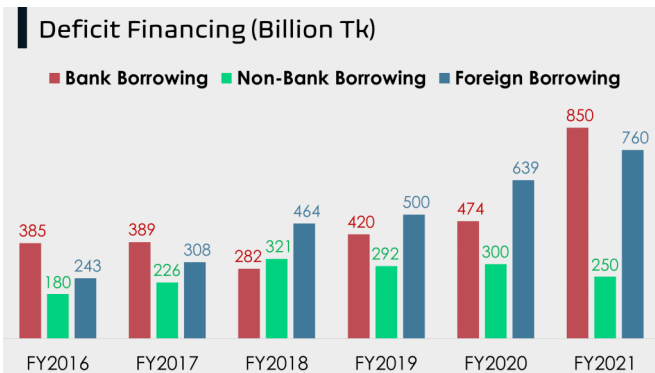
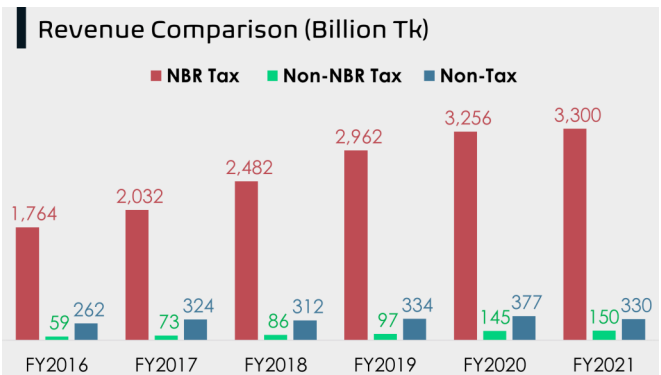
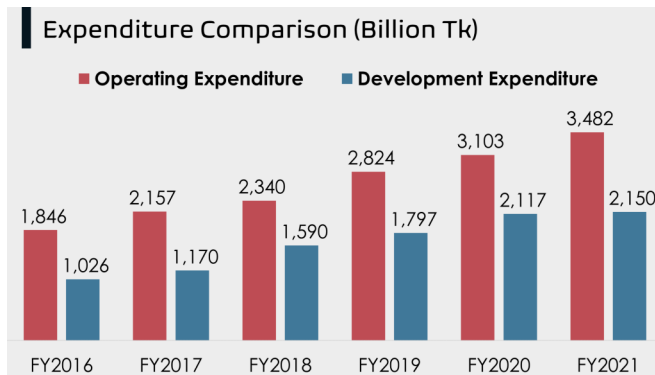
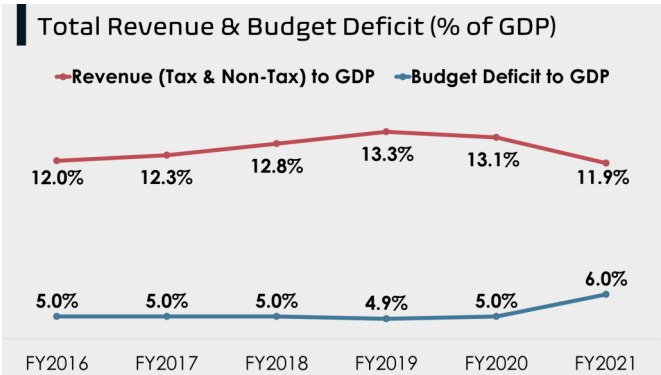
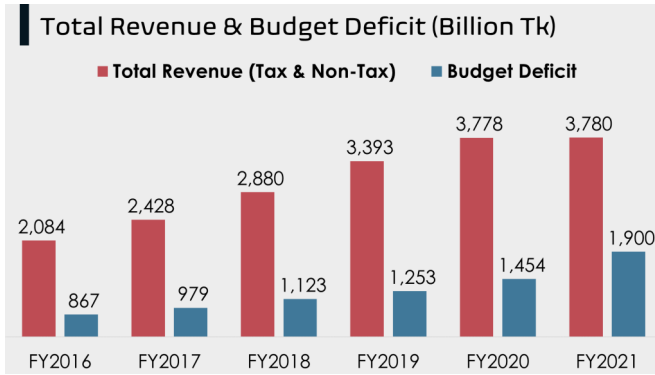


Revenue
Tk 3.78 tn

Budget Deficit
Tk 1.9 tn

Revenue to GDP
11.92%

Budget Deficit to GDP
5.99%



Provisions to have impact on Investors

Individual taxpayers between July 1, 2020 and June 30, 2021 will be allowed to

- disclose any type of undisclosed property (such as land, flat) by paying a certain tax per square foot;
- declare undisclosed cash, bank deposits, savings certificates, shares, bonds or any other securities by paying a **10%** tax;
- invest money in the capital market by paying **10%** tax on the value of the investment

No authority, including the income tax authority, can raise any question on such declaration. However, the investment will subject to **1 year** lock-in period. The lock-in period was proposed to be 3 years initially.

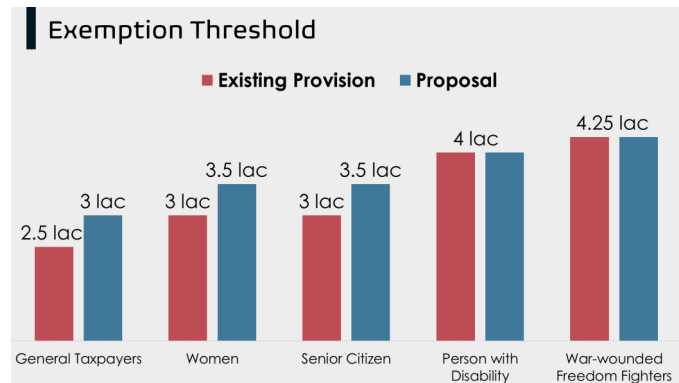
To increase transactions of bonds in the capital market and facilitate the flourishing of a strong bond market in the country following proposals have been made.

Existing provision	Proposal
Upfront tax at a rate of 5.0% on profit, coupon or interest of debt securities or bond as per Income Tax ordinance, 1984, section 51.	Abolition of existing provision and introduction of Tax Deducted at Source (TDS) at the time of payment of interest and discount on bonds.
.05% tax at source on per transaction amount of secondary market trading as per income tax law.	Abolition of existing provision and introduction of the provision of deducting withholding tax on the lump sum amount of commission fixed by the Securities and Exchange Commission (SEC)

- There will be no source tax on individual income from zero-coupon bond. But, initially it was proposed to be 5%. Tax on income of banks, financial institutions and insurance companies from this bond is unchanged.

Income Tax & Tax Savings

In the budget declaration, new thresholds for income tax exemption have been set. The thresholds will be unchanged for Person with Disability and War-wounded Freedom Fighters. Exemption threshold is 300,000 Tk for general taxpayers and 350,000 Tk for women and Senior Citizen. Below table shows tax rates at different income slabs.



Existing provision		Proposal	
On First: 250,000	0%	On First: 300,000	0%
On Next: 400,000	10%	On Next: 100,000	5%
On Next: 500,000	15%	On Next: 300,000	10%
On Next: 600,000	20%	On Next: 400,000	15%
On Next: 3,000,000	25%	On Next: 500,000	20%
On Remaining Balance	30%	On Remaining Balance	25%

Investment Rebate

Taxable income	Eligible Investment (Actual investment or 25% of taxable income or 1.5 crore whichever is lower)	Applicable rebate rate	Tax without eligible investment	Tax with eligible investment	Tax Savings (in amount)	Tax Savings (in %)
400,000	100,000	15%	40,000	25,000	15,000	38%
900,000	225,000	15%	115,000	81,250	33,750	29%
1,500,000	375,000	15%	235,000	178,750	56,250	24%
4,500,000	1,125,000	10%	985,000	872,500	112,500	11%
10,000,000	2,500,000	10%	2,635,000	2,385,000	250,000	9%
50,000,000	12,500,000	10%	14,635,000	13,385,000	1,250,000	9%
100,000,000	15,000,000	10%	29,635,000	28,135,000	1,500,000	5%
500,000,000	15,000,000	10%	149,635,000	148,135,000	1,500,000	1%

Sectoral Impact

Pharmaceutical and Healthcare: VAT exemption on COVID-19 medicines and Test kits, PPE, Surgical Mask and sanitizers at the import, manufacturing and trading.

- Listed companies- Square, Beximco, Beacon, Acme, ACI, and Renata, and non-listed Incepta, General, Opsonin, Eskayef , JMI, Orion Health, Veritas, Popular and Radiant have got the approval for the drug's commercial production from the DGDA. This duty exemption will provide some protection of the companies' margin amid raw material price hike.
- Beximco produced Remdesivir in the country for COVID-19 treatment. It is considered the world's first generic drug for COVID-19. We expect this prompt response to COVID-19 will boost the acceptance of Bangladeshi pharmaceutical companies in the developed countries.
- Square, ACI, Reckitt Benckiser and Marico is be benefitted due to duty exemption for all kinds of hand sanitizer raw materials.
- The VAT exemption on budget announcement on test kits of Covid-19 on the import, manufacturing and trading stages and also reduced import duty on essential raw materials for locally produced Autoclave machines used for sterilizing medical instruments.

Telecommunication Sector: Voice and Data getting costlier

- Supplementary duty increased from 10% to **15%** on the services provided through mobile phone SIM/RIM card, this would increase price of voice, data, SMS and other mobile phone services. For having BDT 100 worth of voice services customers have to pay **BDT 32.25** instead of BDT 27.50, while it is **BDT 21.75** instead of BDT 16.50 for data services.
- Voice revenue of the mobile network operators' has already been negatively affected by the COVID-19. Moreover, SD increase may deteriorate the situation, where Over The Top calls may appear as significant threat. Previously, it is has been observed that customers take two or three quarters to get used to with increased price as their purchasing power also increased during that time but the situation is completely different, COVID-19 has affected the purchasing power of the customer and only left them with no other choice other than adjusting the consumption pattern.
- Local mobile manufacturers will continue to enjoy existing VAT exemption and mobile assembler will enjoy **5%** VAT for one more year. This will encourage global handset makers to establish manufacturing plant in Bangladesh and existing producers and assemblers to scale up.

Key taxes on mobile consumers, 2020-21

	Existing	Proposed
Voice		
Value-added tax (VAT)	15.0%	Same
Supplementary duty	10.0%	15.0%
Surcharge	1.0%	Same
Data		
Value-added tax (VAT)	5.0%	Same
Supplementary duty	10.0%	15.0%
Surcharge	1.0%	Same
Customs duty on network equipment	5 - 25%	Same
SIM tax (BDT)	200 Tk	Same

Tobacco: Distress in quantity demand may offset margin improvement

- Supplementary duty is unchanged for all segments except for the lower slab cigarette. For the lower slab, supplementary duty is increased by **2%** which is not enough to offset the price hike of **4.07%**. Besides, health surcharge, corporate tax, and export duty on unmanufactured tobacco are also unchanged. So, the margins are expected to improve as changes in VAT, SD, and HSC is not enough to offset the proposed price hike.
- The reduction of the gap between the price of cigarettes and handmade bidi is expected to reduce the propensity of switching from cigarettes consumption to bidi consumption and to trigger the opposite to some extent.
- The COVID-19 laid financial distress is expected to increase the price elasticity of demand which may have negative impact on the quantity demand and may trigger switching to lower slab cigarettes.

	Price (Per 10 sticks; BDT)			Supplementary Duty		
	Existing	Proposed	Latest change	Existing	Proposed	Status
Cigarettes						
Premium	123	128	4.07%	65%	65%	Unchanged
High	93	97	4.30%	65%	65%	Unchanged
Medium	63	63	0.00%	65%	65%	Unchanged
Low	37	39	4.07%	55%	57%	Increased
Bidi						
<i>Non-filter bidi</i>						
25 Sticks	14	18	28.6%	30%	30%	Unchanged
12 Sticks	6.72	9	33.9%	30%	30%	Unchanged
8 Sticks	4.48	6	33.9%	30%	30%	Unchanged
<i>Filter bidi</i>						
20 Sticks	17	19	11.8%	40%	40%	Unchanged
10 Sticks	8.5	10	17.6%	40%	40%	Unchanged

	Existing	Proposed	Status
VAT	15%	15%	Unchanged
Health Surcharge on EBT	2.50%	2.50%	Unchanged
Corporate tax (Cigarette Manufacturer) on EBT	45%	45%	Unchanged
Export Duty on unmanufactured tobacco	0%	0%	Unchanged

Banks, NBFI, and Insurance: Crowding out effect will be intensified which may lengthen the economic recovery process

- Excise duty on bank accounts with balance exceeding Tk. 10 lakh increased but the propensity to choose banking channel as way of saving is expected to be less affected due to lack of better alternative channel.
- Individual taxpayers will be allowed to, between July 1, 2020 and June 30, 2021, declare undisclosed cash, bank deposits, savings certificates, shares, bonds or any other securities by paying a 10% tax. Among the channels where such declaration is allowed, banking channel may seem more comfortable, less conditional, and less risky to the investors. So, Bank deposit and NSC sales are expected to be positively impacted due to this provision.
- Corporate tax for listed financial institution, non-listed financial institutions, newly established FI's (till the 3 years since inception; deadline of off-loading share in stock market can be extended by the regulatory authority), and merchant banks are unchanged at 37.5%, 40%, 37.5%, and 37.5% respectively.
- About 44.7% of the Tk 1900 billion total deficit in the proposed budget is targeted to be borrowed from the domestic banks. The targeted Tk. 849.8 billion bank borrowing is 79.4% and 3.1% higher than the budgeted amount and revised amount, respectively, for FY 2020.
- Crowding out effect is expected to be intensified due to such bank borrowing target as COVID-19 laid economic distress has already been having negative impact on the deposit level of the banks and banks are preferring to invest in govt securities considering risk-return tradeoff. However, recent reduction of REPO rate, contraction of CRR, increment of ADR, extension of repo period, and reduction of the maximum limit of investment through single postal savings account may contribute to the feasibility of such target to some extent.

	Existing	Proposed
Balance exceeds Tk. 1 lakh	BDT 0	BDT 0
Balance exceeds Tk. 1 lakh but does not exceed Tk. 5 lakh	BDT 150	BDT 1500
Balance exceeds Tk. 5 lakh but does not exceed Tk. 10 lakh	BDT 500	BDT 500
Balance exceeds Tk. 10 lakh but does not exceed Tk. 1 crore	BDT 2,500	BDT 3,500
Balance exceeds Tk. 1 crore but does not exceed Tk. 5 crore	BDT 12,000	BDT 15,000
Balance exceeds Tk. 5 crore	BDT 25,000	BDT 40,000

Footwear and Tannery

- Reduction of the imported raw materials, used by the footwear manufacturers, is expected to have positive impact on margins reducing the cost of manufacturing.
- The cost to preserve rawhide is going to increase with the increase in the duty on industrial salt. Ultimately, this will increase the cost of footwear manufacturers.

	Existing	Proposed
Custom duty on textile fabrics laminated with PVC,	25%	15%
Custom duty on textile fabrics laminated with Polyurethane	25%	15%
Duty on sodium sulfate/disodium sulfate	Proposed to Increase (rate : not specified)	
Duty on the import of Printed Knitted or Crocheted Fabrics	20%	0%

Consumer sector: Necessities have been prioritized at the cost of discretionary items

- Reduction of the TDS on essential items will help controlling inflation to some extent. Besides, the cost of raw materials to the bakery items (i.e. biscuits) manufacturers will be reduced.
- Local production of mustered oil is encouraged through the exemption from VAT and local production of onion is encouraged by imposing **5% custom duty** on the bulk import of onion.
- 5% custom duty on Soyabean oil cake and 10% custom duty on Soya Protein Concentrate have been exempted which will reduce the cost of feed in dairy, poultry, and fisheries industries.
- Cost of local production of hair oil will be reduced to some extent due to reduction of the duty on import of paraffin wax from 25% to **15%**.
- **5%** increment of the SD on locally manufactured cosmetics is going to have negative impact on the margin of local cosmetics producers
- SD on the manufacturing of refrigerator, freezer and equivalent products is proposed to increase to **30%** from existing 20%. This is going to have significant impact on the profitability of the manufacturers' margin if the price cannot be revised due to stiff competition.
- On the other hand, local compressor manufacturers are going to be benefitted as custom duty on the import of raw materials is proposed to reduce from 10% to **1%**.
- Price of furniture are expected to increase as VAT on the showroom stage of furniture increased from 5% to **7.5%**.

	Existing	Proposed
Food and allied		
TDS on the local supply of rice, atta, potato, sugar, and other essential items	5%	2%
VAT on potato flakes (using local potato) and maize starch manufacturing	15%	5%
Custom duty on bulk import of onion	0%	5%
VAT Local production of mustard oil	15%	Exempted
Poultry/Dairy/Fisheries		
Customs Duty on Soyabean oil cake	5%	0%
Customs Duty on Soya Protein Concentrate	10%	0%
Consumer goods		
Custom duty on import of paraffin wax (raw material for hair oil)	25%	15%
SD on locally manufactured cosmetics	5%	10%
Consumer durables		
VAT at the showroom stage of the furniture sector	5%	7.5%
SD on the manufacturing of refrigerator, freezer and equivalent products	20%	30%
Duty on the import of Lubricating/cutting oil /anti-rust preparations containing petroleum or bituminous mineral oils and artificial graphite	10%	1%

Textile and RMG: Getting some breathing space in tough time

- The budget has proposed to continue all kind of support, including cash incentives, to the RMG as it is the principal export sector of the country. An additional **1% export incentive** is being provided to all categories of RMG exports is proposed continue for another year.
- SRO providing this special tax rate expires on 30th June 2020, budget has proposed the continuation of special tax rate of **10%** for the RMG factories having green building certification and **12%** for factories without such certification for another two years.
- Reduction of withholding tax on all sorts of export proceeds including that of RMG at **0.5%** instead of the existing rate of 1% through the amendment of income tax ordinance. The irony is, it is an increase from 0.25% currently applicable withholding tax, which was imposed through an SRO in October, 2019.
- To encourage local textile industries, VAT on all kinds of synthetic yarn to be fixed at **BDT 6/kg** which was 5% previously and reduction of VAT on all kinds of Cotton Yarn to BDT3/kg from BDT4/kg.
- Reduction of CD on import of RFID tag and Industrial racking system to **15%** from 25% and cutting table to **1%** from 10%.

Fuel And Power: Lube-blending and LNG & CNG related businesses going to be benefited

- Reducing custom duty from 10% to **5%** on base oil import in petroleum products processing or blending industry.
- Concessionary tax benefits on several new raw materials and rationalize existing tax benefits for LPG Cylinder and Auto Tank Industry.
- Withdraw the exemption benefit on the import of furnace oil to discourage the installation of furnace oil-based power plants. It has no impact on IPPs as BPDB bears the cost of furnace oil for IPPs as energy payment.

Transportation: Car registration and chartered Air travel getting costlier

- The budget has proposed to increase supplementary duty from 10% to **15%** for all kinds of services rendered by BRTA for car and jeep registration and related services, from 25% to **30%** for chartered aircrafts and helicopters.
- Automobile manufacturer and assemblers continue to enjoy existing benefits.
- Owning car, jeep and microbus to be costlier

No.	Type and Engine capacity	Existing amount of tax (BDT)	Proposed amount of tax (BDT)
1	A Car/jeep; not exceeding 1500cc	15,000	25,000
2	A Car/jeep exceeding 1500cc but not exceeding 2000cc	30,000	50,000
3	A Car/jeep exceeding 2000cc but not exceeding 2500cc	50,000	75,000
4	A Car/jeep exceeding 2500cc but not exceeding 3000cc	75,000	100,000
5	A Car/jeep exceeding 3000cc but not exceeding 3500cc	100,000	125,000
6	A Car/jeep exceeding 3500cc	125,000	200,000
7	Microbus	20,000	30,000

Construction materials: Cement: Extra burden for already troubled industry. Steel: Local sourcing of raw materials is favored while RD has been increased on raw material import

- In comparison to the 2nd half of FY'20, the cost of cement production is expected to increase as the adjustable AIT on distress in demand and industry-wide price war, it would be difficult for the cement manufacturers to preserve the margin by increasing the price.
- Reduced TDS will favor the local backward linkage of the industry while the increased RD duty will offset the benefit to some extent imported raw materials (i.e. Clinker, Limestone) is increased to **4%**.

	Existing	Proposed
Cement		
AIT on imported raw materials (i.e. Clinker, Limestone)	3% (revised in Jan; earlier 5%)	4%
Custom duty on mortar and concretes	10%	5%
Custom duty on prepared additives for cements, mortars or concretes	5%	10%
Steel		
TDS on locally sourced M.S. scarp supply	5%	0.5%
Regulatory duty on Ferro-Manganese, Ferro-Silicon, Ferro-Silico-Manganese	10%	15%

Ceramic Sector: Newly imposed SD to Impact Negatively

- Imposition of Supplementary duty at the rate of **10%** has been proposed on Ceramic Sink, Basin, etc. at the manufacturing stage.

Real Estate: May get a boost from whitening undisclosed money

- Individual taxpayers will be allowed to disclose any type of undisclosed house property including land, building, flat, and apartment between July 1, 2020 and June 30, 2021 on paying tax at a particular rate.
- According to an insider, prices of real estate largely remain stagnant due to COVID-19, while cost slightly increased, this may lure some people to invest some undisclosed money in this sector. If that happens, then construction material sector will also be positively affected because of spillover effect.

Miscellaneous

- **Animal Food:** The budget has proposed to continue the existing tax exemptions, and extend such exemptions to two new raw materials: Soya bean oil cake (**RD-5%**) and Soya protein concentrate (**CD-10%**). This will reduce the import cost of raw materials of poultry feed. Besides, it also proposes to increase the existing duty rate on the import of cuts and offal of chicken to provide protection to local poultry sector and reduce the rate of TDS on the

import of raw material for poultry feed to 2% from the existing rate of 5%.

- **IT:** Imposed **5%** VAT on domestic production of loaded & unloaded Printed Circuit Board (PCB) and Router.
- **Paint: Exempted** from the existing **3%** regulatory duty on raw materials such as ethylene/propylene, ethylene glycol, and terephthalic acid to manufacture resin in the economic zone. Contrarily, Customs duty is increased from 5% to **25%** for glues or adhesives.
- **Agriculture machinery-** To support the local agricultural machinery manufacturing industry, the VAT is exempted and CD on imported raw materials and parts is reduced significantly. The cost of local production of agriculture machineries will reduce considerably.

Custom duty on agriculture machinery	Existing	Proposed
Roller Chain used on Agricultural Machinery	10%	1%
Ball Bearings Used on Agricultural Machinery	10%	1%
M.S Sheet (1mm-3mm)	10%	1%
Gear Boxes and parts thereof	10%	1%
Steering	10%	1%
Tire used on agricultural Machinery	5%	1%
Tube used on agricultural Machinery	5%	1%
Wheel Parts (Rim) used on agricultural Machinery	10%	1%
Blower for grain dryer	10%	1%
Coated Electrodes of base metal	10%	1%

Other major changes in the passed budget

- Businesses appealing against tax claims have to deposit 20% of disputed VAT amount while filing appeal before commissioners of the respective fields. No additional deposit is required for going NBR VAT Appellate Tribunal. Previously, it was 10% for filing appeal to commissioners and another 10% for filing appeal to tribunal. However, 10% deposit for appealing to high court have been kept unchanged.
- Provision of claiming tax rebates continues on the value of inputs purchased and adjusting the money with total payable VAT within two months of the purchase of raw materials.
- Tax has been imposed on promotional expenditure exceeding 0.5% of the turnover of business organizations. This may increase the effective tax rate for the companies from 6% to 36% depending on a profit base range of 5% to 30%.
- VAT on non-AC hotels retained at 7.5% (it was initially proposed 15%).
- Tax rate for non-residents is 30%. Maximum tax rate for individual taxpayers has been reduced to 25% from 30%.

IMPORTANT DISCLOSURES

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Prepared By

RESEARCH, IMPRESS CAPITAL LIMITED

Contact: research@impresscapital.com

Impress Capital Limited

Evergreen Plaza (1st Floor), 260/B,
Tejgaon I/A, Dhaka 1208, Bangladesh.

Phone: +880 2 9830776

E-mail: info@impresscapital.com

Website: www.impresscapital.com