



BAKER TILLY INTERNATIONAL

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COUNTRY

Doing Business in
Bangladesh

Preface

This guide has been prepared by Acnabin, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Bangladesh.

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income, and is represented by 138 firms in 104 countries and over 24,000 personnel worldwide. Its members are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be obtained from Acnabin or any of our independent member firms.

Doing Business in Bangladesh has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Bangladesh matters can be obtained from Acnabin; contact details can be found at the end of this guide.

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1 Fact Sheet

Geography

Location	North-east South Asia
Area	147,570km ²
Land boundaries	India to the north and west; India and Myanmar (Burma) to the east; the Bay of Bengal to the south
Coastline	12 nautical miles
Climate	Sub-tropical monsoon
Terrain	Mostly flat, fertile alluvial land
Time zone	GMT +6

People

Population	145 million
Ethnic groups	Mongoloids and Aryans
Religion	Islam 83.5%; Hindu 10.5%; Buddhist 0.6%; Christian 0.3%; others 0.3%
Language	95% Bangla; 5% other dialects. English is widely spoken

Government

Country name	The People's Republic of Bangladesh
Government type	Parliamentary
Capital	Dhaka
Administrative divisions	Dhaka, Chittagong, Khulna, Rajshahi, Sylhet
Political situation	Democratic

Economy

GDP – per capita	US\$390
GDP – real growth rate	6.65%
Labour force	61 million
Currency	Taka (BDT)

2 Business Entities and Accounting

2.1 Incorporation Options for Foreign Investors

- A 100% foreign-owned company in Bangladesh.
- A joint venture with a Bangladeshi company/investor.
- Establishing the company's place of business (liaison office) in Bangladesh.
- A branch or subsidiary of a foreign company in Bangladesh.
- Setting up a Bangladeshi company or participating in an existing Bangladeshi company.

2.2 Incorporating a Company in Bangladesh

Business in Bangladesh may be carried on by a company formed and incorporated locally by the Registrar of Joint Stock Companies and Firms (RJSC&F) under the provisions of the Companies Act 1994. Two types of company can be incorporated:

- Private limited company
- Public limited company.

2.2.1 Private limited company

Features of a private limited company include:

- The restriction on the right to transfer shares
- A minimum of two members and a maximum of 50, excluding persons employed in the company
- The prohibition of any invitation to the public to subscribe to company shares or debentures
- The entitlement to commence business from the date of incorporation
- A minimum of two directors.

2.2.2 Public limited company

The distinctive differences of a public limited company compared to a private company are:

- It may issue an invitation to members of the public to subscribe to company shares and debentures through a prospectus which complies with the requirements of the Companies Act 1994 and the Securities and Exchange Commission Act 1993

- It has a minimum of seven members, but there is no maximum limit
- It has a minimum of three directors.

2.3 Opening a Liaison/Representative or Branch Office

To open a liaison/representative or branch office of a foreign company, the company must submit to the Board of Investment (BOI):

- A prescribed application form, duly completed, signed and stamped
- Memorandum of Association (MOA) and Articles of Association (AOA) of the principal company
- Certificate of incorporation
- The name and nationalities of the directors/promoters of the principal company
- Board resolution to open a liaison/representative or branch office in Bangladesh
- Audited accounts for the last financial year
- A proposed organogram of the office
- A list of the proposed office's activities.

All documents must be attested by the Bangladesh Embassy/High Commission in the applicant's country of origin or Apex Chamber of Commerce of the country of origin.

A liaison office can not carry out business activities in Bangladesh.

A company, liaison office or branch office must obtain a trade licence from the city corporation or municipality.

2.4 Auditing

All businesses must maintain proper books of accounts in the local currency and have their accounts audited by qualified external auditors.

All companies must file an annual return with the RJSC&F within 21 days of the annual general meeting.

3 Finance and Investment

3.1 Exchange Control

The major aspects of exchange control include:

Convertibility of the Bangladesh Taka

The Taka is fully convertible for current account transactions. All current transactions may be conducted by individuals/firms through authorised dealers (banks) without prior permission of the central bank (Bangladesh Bank or BB)

Opening of a bank account by a foreign investor

A non-resident may open with any authorised dealer (AD) or branch thereof, a foreign currency (FC) account and a non-resident foreign currency deposit (NFCD) account with foreign exchange brought in from outside the country. A foreign investor may also open and operate a Taka account freely with any bank while they are a resident. A non-resident can open a non-resident investor's Taka account (NITA) with any AD in Bangladesh with foreign exchange remitted from abroad, or by transfer of funds from the non-resident investor's foreign currency account for portfolio investment in Bangladesh

Bringing in cash from abroad by a foreign investor

A foreigner may bring in foreign exchange in any form, including cash, without limit. However, for amounts in excess of US\$5,000 a declaration at the time of entry is required

Transfer of capital and capital gains

The repatriation of sale proceeds (including capital gains) of shares of companies listed on a stock exchange in Bangladesh may be made through an AD if such investment takes place through a NITA operation. Remittance of sale proceeds of shares of companies not listed on a stock exchange requires prior Bangladesh Bank permission

Transfer of profit and dividend accruing to a foreign investor

Post tax profit of branches and dividends of companies can be remitted through ADs.

3.2 Banking and Sources of Finance

3.2.1 Local borrowing

Banks may extend working capital loans or term loans in local currency to foreign controlled or foreign owned firms/companies (manufacturing or non-manufacturing) operating in Bangladesh. Banks are free to grant local currency loans to joint venture industries in an export processing zone (EPZ) up to the amount of short-term foreign currency loans obtained from abroad.

3.2.2 Borrowing abroad

Borrowing abroad in foreign currency requires prior BOI approval. Repayment of principal and interest may be made through ADs as per agreed terms. 100% foreign owned and joint venture units in EPZs may, however, obtain foreign currency loans from overseas banks and financial institutions without prior BOI or Bangladesh Bank approval. Joint ventures in EPZs can not, however, create a charge on their assets favouring non-residents.

3.3 Foreign Investment Incentives/Restrictions

Foreign investors are encouraged to invest in industrial enterprises, with the exception of a few reserved sectors, through numerous government incentives.

Protection of foreign investment from expropriation by the state is fully ensured. Moreover, full repatriation of capital invested from foreign sources is allowed. Similarly post-tax profits and dividends are allowed in full.

Foreigners are entitled to remit 50% of their salary and full repatriation of their savings and retirement benefits. There is avoidance of double taxation on the basis of bilateral agreements, tax exemption for foreign technicians in approved industries for a period of three years, exemption of capital gain arising out of the transfer of shares of public listed companies, a tax holiday for four to six years for certain industry sectors and physical infrastructure, concessionary import of capital machinery, and exemption from VAT and supplementary duty. Private sector power generation companies are allowed a 15-year tax holiday from the date of commercial production. For petroleum operations undertaken by a contractor entering into a production sharing contract (PSC) with the government, the contractor is protected against all present and future Bangladesh taxes, except where specially provided to the contrary. Export-oriented industries are allowed duty free import of capital machineries and facilities of a bonded warehouse.

There are additional benefits for industries set up in export promotion zones, including a ten-year tax holiday, duty free import of machinery, equipment and raw materials, complete exemption of dividend of foreigners for the tax holiday period, off-shore banking facilities and freedom from customs formalities. After the expiry of the tax holiday period, 50% of the profit of such industries attributable to export sales is exempt from income tax.

4 Employment Regulation and Social Security

4.1 Entry Visa and Work Permit Requirements

4.1.1 Entry visa

Bangladesh issues the following categories of business visas:

- Single entry for three months
- Multiple entry for three months
- Multiple entry for six months
- Multiple entry for one year.

An extension of each of the above is permitted.

4.1.2 Rules of landing permit (LP)/visa on arrival (VOA)

Foreign investors and business persons can avail LP/VOA from Zia International Airport (ZIA) for a maximum of 30 days under the following conditions:

- The period of LP/VOA can not be extended
- The LP/VOA applicant has an endorsement of US\$500 in their passport/in cash
- The applicant has a return air ticket
- The applicant utilises the same port for entry and departure.

4.1.3 Work permit requirement

A work permit for foreign nationals is a pre-requisite for employment in Bangladesh. Private sector industrial enterprises wishing to employ foreign nationals are required to apply in advance using the prescribed BOI form. For expatriate employment the following guidelines exist:

- Employment of foreign nationals is normally considered for jobs for which local experts/technicians are not available. Persons under 18 years of age are not eligible for employment
- A copy of the decision of the board of directors of the company for new employment/extension must be provided
- The number of foreign employees must not exceed 5% of the total employees, including top management personnel

- Initially, employment of any foreign national is considered for a term of two years which may be extended on the basis of merit of the case
- Necessary security clearance must be obtained from the Ministry of Home Affairs.

4.2 Hiring Local Employees

There is no restriction on the number of hired local employees. The minimum age for workers in Bangladesh is 16 years in factories and establishments. Dignity of labour is ensured in accordance with the principles enunciated in the ILO convention.

4.3 Trade Unions

In any industrial and commercial establishment, a trade union may be formed with 30% of the total number of workers employed. If there is more than one union in any establishment, a collective bargaining agent is determined by the Registrar of Trade Union through a secret ballot for a term of two years. Only the collective bargaining agent is authorised to raise industrial disputes and negotiate with the management.

4.4 Social Security System

Details of workers' wages, welfare and benefits, including Provident Fund and gratuity, protection of their rights, employers' liabilities etc, are provided in the Bangladesh Labour Act, 2006. Bangladesh missions in the foreign investor's/business person's country can be consulted on the above subject for detailed information.

5 Taxation

5.1 Corporate Tax

The rate of tax on listed companies is 30%; for others the rate is 40%. For banks, financial institutions and mobile phone operators the rate is 45%. The rate for listed companies is, however, 40% if they fail to declare at least a 10% dividend, or fail to distribute the declared dividend within 60 days of declaration. If a listed company declares a dividend of more than 20% and distributes it within 60 days of declaration, it receives a 10% rebate on the due income tax. If a mobile phone operator is converted into a publicly traded company by providing at least 10% share in the initial public offering, the tax rate is 35%. The rate of tax on inter-corporate dividends is 15%. The rate of corporate capital of gain tax is 15%, irrespective of the period of retention of the asset. Remittance of post-profit tax by branch companies is taxed at 15% as dividend.

5.2 Individual Taxation

The first BDT150,000 of total annual income is exempt. The balance is taxed at four rates of 10%, 15%, 20% and 25%; the minimum tax payable is BDT2,000.

Non-resident individuals except non-resident Bangladeshis are taxed at the maximum rate of 25%. If capital gain arises to a person other than a company on the disposal of an asset after five years of its acquisition, tax is payable at the rate of 15% of the capital gain, or at the rate applicable to the total income including the capital gain – whichever is lower. If, however, the capital gain arises on the disposal of the asset within five years of acquisition, tax is payable on the total income including the capital gain.

Citizenship is not related to residential status.

5.3 Principal Indirect Taxes

5.3.1 Customs duty

Customs duty has three tiers:

Basic raw materials	10%
Intermediate goods	15%
Finished goods	25%

The H.S. Code of a particular item can be ascertained from the First Schedule of the Custom Act, 1969.

Some goods can not be imported by the private sector because they are reserved for the government sector.

5.3.2 VAT

VAT is payable on production and specified services at 15% if the annual turnover is or above BDT2m. On imports, VAT is payable at the same rate of 15% irrespective of turnover. In respect of several services, VAT is imposed at truncated rates as fixed by the National Board of Revenue. If turnover of production and services is less than BDT2m, turnover tax is payable at 4%.

5.3.3 Supplementary duty

This duty is imposed on the production and import of non-essential, luxury, harmful and socially undesirable goods. Except for those exempted or where the rate is otherwise specified, the common rate is 20%. The rates on certain goods deemed harmful to the environment and ones health are much higher, varying from 60% to 350%.

5.3.4 Withholding tax

The system of withholding tax is there both for income tax and VAT in specified cases at fixed rates.

5.3.5 Other taxes that may affect foreign investors

5.3.5.1 *Import licence fee*

The import of all goods except those exempted, are subject to an import licence fee at 3%.

5.3.5.2 *Additional tax on transfer of immovable property*

If the property is situated within a municipality, city, or city corporation, the rate is 1% of the amount of value. If situated elsewhere, the rate is 0.5%.

5.3.5.3 *Stamp duty*

On the transfer of property: 5% on the value of consideration.

On the transfer of shares of a company: 1.5% on the value of consideration.

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