Star BUSINESS

Businesses decry turnover tax hike

Chambers say it punishes compliant firms and goes against sound tax policy

TAXES FIRMS WILL PAY

TYPES	FY26 Reduced rate*	FY26 Normal rate	FY27 & FY28 Reduced rate*	FY27 & FY28 Normal rate
Listed companies that issue shares over 10% of paid-up capital	20	22.5	20	22.5
Non-listed companies	25	27.5	NA	27.5

*** Condition:** *All income and receipts, and every single transaction exceeding Tk* **500,000** *or annual total expenses or investments exceeding Tk* **3,600,000** *must be made through bank transfers*

TURNOVER TAX

Govt proposes raising turnover tax to **1%** from existing **0.6%**

BUSINESSES AND TAX ANALYSTS SAY

- *Raising turnover tax is unfair and unsustainable*
- *It will exert immense pressure on businesses already struggling*
- *SMEs will bear the brunt of the increased turnover tax*
- *Many businesses may face severe financial strain or collapse*

> **If a business makes a profit, tax should apply only to the taxable income, not to revenue or any other fund. This provision should be withdrawn.**
>
> MCCI says

MD ASADUZ ZAMAN

The interim government's proposal to raise the turnover tax from 0.6 percent to 1 percent from the next fiscal year has sparked an outcry among business leaders, who said the measure could deal a fresh blow to firms already struggling to stay afloat.

While presenting the budget for the fiscal year 2025-26 on Monday, Finance Adviser Salehuddin Ahmed announced that the turnover tax for all business taxpayers would be set at 1 percent.

It will apply regardless of whether a company turns a profit or not. However, mobile phone operators, tobacco manufacturers and carbonated beverage producers will not fall under this rule.

Turnover tax, often referred to as minimum tax, is levied on a company's total sales rather than its profits. For example, if a firm records Tk 100 in sales but ends the year in the red, it must still pay Tk 1 in tax.

The tax raise has drawn criticism not only from business chambers but also from tax analysts, who say it could cripple struggling and marginal enterprises.

In response, revenue officials said businesses were provided with numerous facilities earlier. But now the authorities are in a rush to mobilise more resources amid the International Monetary Fund's (IMF) push under its ongoing $4.7 billion loan package.

"A minimum tax levied on turnover is contrary to sound tax policy," the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI), said in its budget reaction.

MCCI voiced disappointment over the finance bill, saying that turnover tax could be raised as high as 3 percent for some sectors, without any corresponding reduction in the corporate tax rate.

"If a business makes a profit, tax should apply only to the taxable income, not to revenue or any other fund. This provision should be withdrawn," the MCCI said.

The Dhaka Chamber of Commerce and Industry (DCCI) also voiced concern.

"The government has proposed the provision when businesses, especially those in the SME sector, are already under immense pressure," DCCI President Taskeen Ahmed said yesterday.

"For the past two and a half years, we have endured relentless shocks from currency devaluation and the post-Covid slowdown to a prolonged domestic crisis," he said.

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Corruption pervasive across the country

Special assistant to CA says

STAR BUSINESS REPORT

Corruption remains a pervasive challenge across the country, undermining the effective implementation of the national budget, Anisuzzaman Chowdhury, special assistant to the chief adviser, said at a post-budget discussion yesterday.

"There is no place in Bangladesh where corruption has not occurred," Chowdhury said at a post-budget discussion organised by the American Chamber of Commerce in Bangladesh (AmCham) at Sheraton Dhaka in Banani.

He noted that while the proposed budget sets ambitious goals, corruption and inefficiency in public spending remain major obstacles.

"The problem is not allocation, but how the money is spent," he said.

Chowdhury highlighted the government's growing reliance on domestic borrowing, saying that borrowing itself is not harmful if used productively and transparently.

He also stressed the need for institutional reforms, better policy coordination, and stronger oversight.

"Public funds are often misused or directed to the wrong projects, undermining development efforts year after year," he warned.

M Masrur Reaz, chairman and CEO of Policy Exchange Bangladesh, termed several targets in the proposed budget as "overly ambitious," particularly the goal of raising private investment to 24.3 percent of GDP amid domestic demand shortfalls, energy constraints, and political uncertainty.

"Achieving that would require major improvements in imports, forex stability, and inflation control," he said.

He also labelled the 6.5 percent inflation target as "unrealistic."

Additionally, Reaz expressed concern over the "tax-heavy" nature of the budget, noting that it disproportionately burdens small and medium enterprises.

He criticised the rise in corporate tax for non-listed firms, urging instead to widen the gap by reducing rates for listed companies.

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Chambers warn budget may hurt business, investment

STAR BUSINESS REPORT

Just a day after the interim government proposed the national budget and tax measures for fiscal year 2025-26, leading business chambers expressed significant concern that several measures could potentially impede business growth and affect investment.

In a statement yesterday, the Metropolitan Chamber of Commerce and Industry (MCCI) said it is deeply concerned about the current investment climate.

It said the government has set a borrowing target of Tk 104,000 crore from the banking system, which is 5 percent higher than the revised budget for FY25.

"In doing so, the government may face two significant risks. First, increased borrowing from the banking sector could cause a crowding-out effect, reducing the availability of funds for private sector investors," it said.

> **MCCI said government's increased borrowing from banks could cause a crowding-out effect, reducing availability of funds for private sector**

"Second, borrowing from the central bank could increase inflationary pressure, affecting consumers or the public. Therefore, the MCCI stresses the need for a proper balance between these two options. Additionally, there should be a provision for restructuring the banking sector to ensure strategic financial management."

With both public and private investment on the decline, the oldest chamber in Bangladesh said investment has dropped to its lowest point in the past 10 years, hitting 29.38 percent of the country's gross domestic product in FY25.

"This stagnation in investment has led to reduced employment opportunities and an increase in the number of people living in poverty. A weakening investment environment, exacerbated by factors such as official complexities and inadequate infrastructure, has intensified the economic crisis."

The MCCI said preparing the budget was a bold undertaking in the face of several challenges, including shrinking export markets due to rising inflation, sluggish investment trends, high bank lending rates, ongoing global conflicts, and Bangladesh's upcoming graduation from the list of least developed countries (LDCs) in 2026.

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Inflation to drop below 7% within September

Governor says

STAR BUSINESS REPORT

Bangladesh Bank Governor Ahsan H Mansur expressed hope that inflation would come down to below 7 percent by August or September this year.

The inflation rate stood at 9.05 percent in May, down from 9.17 percent a month earlier, according to the latest data from the Bangladesh Bureau of Statistics (BBS).

Ahsan H Mansur

However, it has stayed above 9 percent for the past 27 consecutive months.

"We are hopeful that the availability of foreign exchange -- which is a key driver of our economy -- will remain stable and we are maintaining a tight monetary policy," the central bank governor said during a post-budget press conference organised by the finance ministry at the Osmani Memorial Auditorium in the capital yesterday.

To tackle inflationary pressures, the central bank has hiked the policy rate several times, which now stands at 10 percent.

However, Mansur added that they would

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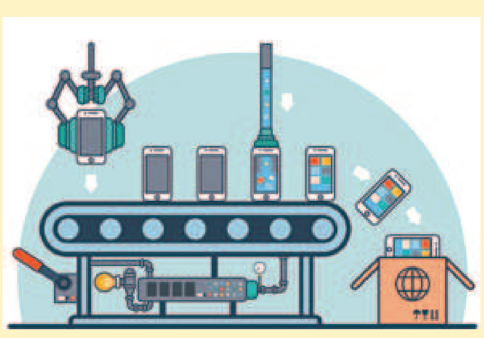

VAT hike deals fresh blow to local handset industry

MAHMUDUL HASAN

Bangladesh's mobile phone manufacturing industry, once hailed as a potential pillar of the country's digital ambitions, is bracing for a fresh blow after the interim government proposed a hike in value-added tax (VAT) at the production stage in the national budget for fiscal year 2025-26.

The move has sparked concerns among industry leaders, who warn it will drive up consumer prices, stall local production, and accelerate the growth of the grey market -- exacerbating the industry's woes.

Under the new structure, the VAT on handsets made entirely from locally produced components was raised from 2 percent to 4 percent.

For handsets assembled with at least two locally manufactured parts, the VAT has been raised from 5 percent to 7.5 percent.

Meanwhile, handsets fully assembled from imported components will now face a 10 percent VAT, up from 7.5 percent.

"Both consumers and manufacturers will be hurt by this move," Jakaria Shahid, a leader of the Mobile Phone Industry Owners' Association of Bangladesh (MPIOAB), told The Daily Star.

"Although we don't pass the entire burden onto customers, some of the effects inevitably trickle down onto them."

Alongside higher prices, he warned that smartphone penetration may be reduced and both the country's digital expansion goals and its "Made in Bangladesh" ambitions

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Exports in May highest in 23 months

STAR BUSINESS REPORT

Bangladesh recorded $4.73 billion in exports in May, the highest in at least 23 months, owing to increased shipments of manufactured commodities, especially apparel, ahead of the Eid-ul-Azha festival to be celebrated on Saturday.

Exports grew 11.45 percent in May this fiscal year (2024-25) from $4.25 billion in the same month the previous year, according to data from the Export Promotion Bureau (EPB) yesterday.

Garments, which account for more than 80 percent of export receipts, recorded a year-on-year growth of nearly 12 percent to $3.91 billion in May of this fiscal year (FY) 2024-25.

The shipment of apparel, comprising knitwear and woven garments, was the highest in 35 months, according to data compiled by the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Exports of major manufacturing items, namely leather and leather goods, jute and jute goods, and non-leather footwear, also increased last month. Agricultural product shipments, however, fell.

Overall exports in the July-May period of FY25 grew 10 percent year-on-year to $44.94 billion, a development that is helping the country gradually come out of economic stress.

The surging inflow of remittances provided further impetus to the recovery, although Bangladesh recorded a 3.97 percent economic growth in FY25, the lowest since the Covid-19 pandemic year, due to a slowdown in the agricultural and services sectors.

Mahmud Hasan Khan, president-elect of the BGMEA, said the situation regarding work orders was good.

"This is why exports showed better performance. Also, some work orders that were suspended were reinstated recently. Those factors had a positive impact on the earnings from exports," he said.

"If the 37 percent tariff announced by the Trump administration as part of its reciprocal tariff move on dozens of countries, including Bangladesh, is not properly negotiated and this rate continues, exports will be affected," he added.

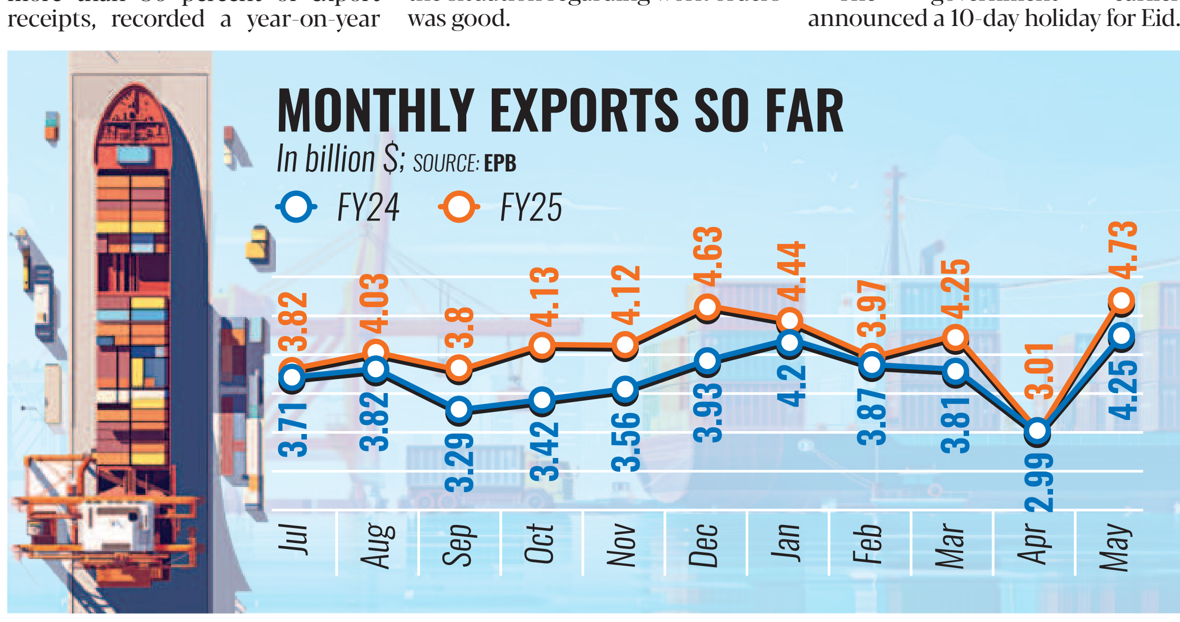
"But if the tariff can be reduced from the proposed 37 percent, Bangladesh's exports will continue to grow," Khan said.

He also said the export earnings from the garment sector would have been much better had there been no gas crisis last month.

Total garment exports rose 10 percent year-on-year to $36.55 billion in the July-May period of FY25.

Mohiuddin Rubel, additional managing director of Denim Expert Ltd, attributed the spike to advance shipments ahead of Eid-ul-Azha, the second biggest religious festival in the country.

The government earlier announced a 10-day holiday for Eid.



The EPB data showed exports of leather and leather goods, the second-largest export earner after garments, climbed 35 percent year-on-year in May, while non-leather footwear exports shot up 21 percent in the same month.

During the July-May period of FY25, leather and leather goods exports crossed the $1 billion mark, posting a 12.55 percent year-on-year growth.

Non-leather or artificial footwear clocked roughly half a billion in exports in the 11 months of the fiscal year ending this month.

Budget targets chocolate, lipstick

STAR BUSINESS REPORT

If you're planning to import cheap lipstick into Bangladesh anytime soon, think again. The country's interim government, in its latest budget, has quietly declared war on undervalued imports with a series of oddly specific tweaks to customs rules. Among the victims: chocolate bars, lipsticks, eye shadow, and -- wait for it -- inflatable toys.

The changes, buried in the budget document, read like a shopping list for a middle-class household. Minimum taxable values for imported chocolates have more than doubled -- from $4 to $10 per kilogramme. Lipstick? Now $40/kg, up from $20. And that cheap inflatable unicorn your kid's been begging for? Add 14 percent to the price tag, thanks to a new floor of $4 per unit (up from $3.50).

Is it about fighting under-invoicing -- a favourite pastime of importers everywhere? It could be a soft nudge against importers of luxury chocolates or toy laser lights.

The problem? Bangladesh's affluent urbanites accustomed to imported treats and toys won't stop buying. They'll just pay more. This won't kill demand but make birthdays slightly more expensive.

There's a bigger picture. These tweaks are part of a broader scramble to offset losses coming from duty cuts elsewhere. But instead of sweeping reforms, the

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