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Tax hike to weigh on compliant businesses: FICCI

STAR BUSINESS REPORT

The Foreign Investors' Chamber of Commerce and Industry (FICCI) yesterday termed reform measures in the proposed national budget "positive" but warned that implementation of certain tax measures may lead to unintended burdens on industries and individuals.

The FICCI, which represents around 210 member companies from 35 countries, expressed concern over an increase in the tax burden on compliant individuals and businesses.

The chamber said that under the revised tax slabs, salaried individuals earning between Tk 70,000 and Tk 100,000 per month may face a 50 percent-60 percent higher tax burden.

Meanwhile, those earning between Tk 120,000 and Tk 175,000 may experience an increase of 20 percent-30 percent, it said.

"This could significantly reduce disposable income for the fixed-income group, affecting consumption and quality of life," said FICCI President Zaved Akhtar at a post-budget press meet at the chamber.

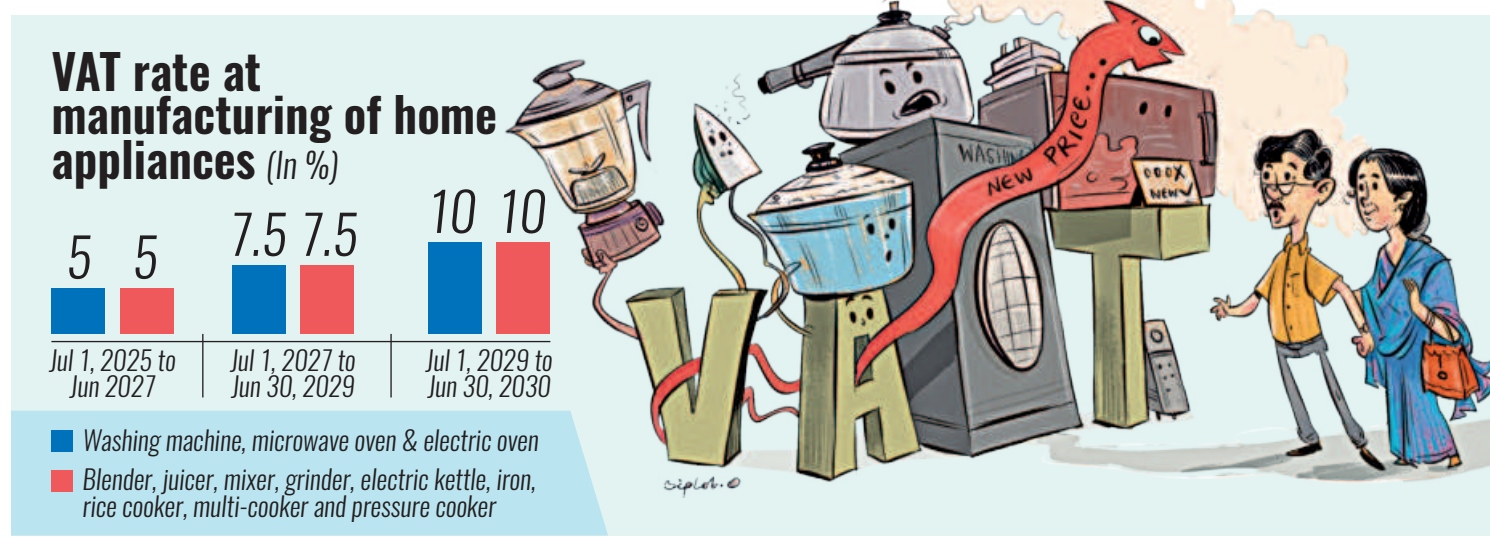
Finance Adviser Salehuddin Ahmed unveiled a Tk 7,90,000 crore national budget on June 2, which is one percent lower than the proposed budget of the outgoing fiscal year 2024-25.

The FICCI said the increase in minimum tax—from 0.6 percent to 1 percent for companies and from 0.25 percent to 1 percent for individuals—would adversely impact small and medium enterprises, loss-making companies, and inflation-stricken individuals.

"For instance, a company earning no taxable income will still be liable to pay a 1 percent tax on turnover, creating further strain on struggling entities," it said.

Another point of concern is the imposition of a "discriminatory" 27.5 percent corporate tax rate on listed companies with less than 10 percent

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Home appliances to cost more as VAT relief ends

Manufacturers say everyday essentials are being treated as luxury goods

JAGARAN CHAKMA

Consumers are likely to pay more for a range of home appliances, from rice cookers and clothing irons to air conditioners (ACs), as the government phases out value-added tax (VAT) exemptions on locally manufactured electronics.

The government will gradually withdraw the existing VAT exemption at the production stage for several household appliances, such as washing machines, microwave ovens, blenders, juicers, and rice and pressure cookers, starting from the fiscal year 2025-26.

A 5 percent VAT will be applied to these items until June 30, 2027. The rate will rise to 7.5 percent on July 1, 2027, and reach 10 percent from July 1, 2029, remaining in place until June 30, 2030, according to two separate notifications issued by the NBR on May 27.

However, for refrigerators, freezers, ACs, and compressors, the exemption will end altogether, with a flat 15 percent VAT to be imposed from the next fiscal year.

This may push the prices of these

appliances up, as these items currently enjoy a reduced 7.5 percent VAT, which will expire on June 30.

"We have not continued the reduced VAT rate for ACs and refrigerators because the producers enjoyed the benefits for nearly a decade," said a senior NBR official.

Explaining the phased approach for other items, he said, "We have adopted a phase-out policy so that businesses can prepare themselves."

He also mentioned that preferential treatment for home appliances will cease entirely by July 1, 2031.

Industry insiders say nearly a dozen local firms manufacture electronics to meet the local demand of the \$8 billion home appliance market. Locally made products dominate the market due to their affordable prices compared with imported goods.

"The proposed VAT on electronic home appliances will likely lead to an immediate price increase of these essential consumer durables," said Tanvir Rahman, chief business officer of Walton AC, a leading local electronics conglomerate.

In a move to take some pressure off manufacturers, Finance Adviser Salehuddin Ahmed, in his budget speech on June 2, proposed scrapping the 10 percent supplementary duty on imported raw materials, such as compressors used in cooling appliances. The waiver would remain in effect until June 30, 2028.

Still, Rahman argued that VAT at the production stage offers little comfort to local manufacturers, who are already burdened with additional cost pressures.

He pointed out that prices have been rising for the past two years due to the depreciation of the local currency against the dollar. "Manufacturers will be forced to adjust prices to absorb the added tax burden, which will inevitably increase overhead costs and pass the impact onto end users," he said.

Rahman also questioned the government's logic in treating these items as luxury goods.

"In reality, they have become essential household items for most families. The VAT will only make it harder for the average consumer to afford

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Tax measures to further strain businesses

Experts say

STAR BUSINESS REPORT

The government's latest tax measures are likely to put further strain on businesses, as tax burdens have increased even though economic recovery remains sluggish, experts warned yesterday.

"When companies have to pay a 1 percent turnover tax despite making no profit, they essentially have to pay from their capital," said Snehashish Barua, managing director of SMAC Advisory Services Ltd.

At a time when businesses are already struggling, if the capital begins to shrink, the company will not survive, he said.

"If the company doesn't survive, neither will employment be generated, nor will the government receive any revenue," he warned.

The tax on individual businesspeople has increased by 300 percent—from 0.25 percent to 1 percent. Since many individuals operate through companies, some of their tax burden will inevitably shift to the company, he said.

Barua was speaking at a press conference on the proposed national budget for fiscal year 2025-26, organised by the Institute of Chartered Accountants of Bangladesh (ICAB) at its head office in Dhaka.

He said listed companies with less than 10 percent of their shares in the stock market would now face a corporate tax rate of 27.25 percent, up from 22.5 percent.

This poses a legal problem. The law should be amended with provisions to benefit companies that offload 10 percent of their shares through follow-on public offerings (FPOs), repeat public offerings, or rights issues, he said.

He said that although the government has taken some measures to reduce the effective tax rate, the statutory tax rate has increased, and source deductions remain unchanged. Consequently, businesses will see little benefit, said Barua.

On top of that, the increase in personal income tax has employees worried, as their take-home income will decline, he said.

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Bank branches across Dhaka witnessed a rush of customers yesterday, the last working day before Eid-ul-Azha holiday, as clients formed long queues to withdraw cash. The photo was taken at Sonali Bank's Motijheel branch.

PHOTO: MD MEHEDI HASAN

Trade deficit narrows 2.6% in July-April

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The country's trade deficit narrowed by 2.60 percent in the first ten months of the current fiscal year compared to the same period a year ago, thanks to a rise in export earnings coupled with subdued imports.

During the July-April period of fiscal year (FY) 2024-25, the trade gap was \$18.22 billion, down from \$18.70 billion in the corresponding period of FY24, according to the latest data from the central bank.

Export earnings increased by 8.6 percent year-on-year to \$36.56 billion in the first ten months of this fiscal year.

On the other hand, import costs rose by only 4.6 percent year-on-year to \$54.79 billion from the same period a year ago, central bank data showed.

Industry insiders said that slower import growth compared to export growth helped narrow the trade gap slightly.

They said that slow import growth is not a positive sign for the economy in the long run, as it indicates a sluggish business environment, a slowing economy, and lacklustre investments.

During the July to April period of the current fiscal year, the settlement of letters of credit (LCs) for capital machinery fell by 25.56 percent to \$1.70 billion, indicating a dull

business environment.

Another major development in the balance of payments is the country's current account balance. The deficit in the current account balance narrowed in the first ten months of this fiscal year.

From July to April of FY25, the current account balance deficit stood at \$1.39 billion, down from \$6.02 billion in the same period of the last fiscal year, BB data showed.

Bankers credited the growing remittance trend for reducing the current account balance deficit.

A significant development is that the financial account is in positive territory.

The financial account, a component of the balance of payments, records claims on or liabilities to non-residents concerning financial assets. It includes components such as direct investment, portfolio investment, and reserve assets, broken down by sector.

The financial account in the first ten months of FY25 stood at \$1.96 billion, down from \$2.25 billion in the same period of the last fiscal year, data showed.

The balance of payments (BoP) data show that foreign direct investment (FDI) dropped by 29 percent year-on-year.

The country received \$910 million in the first ten months of FY25, down from \$1.27 billion in the same period last year.

Banks see cash withdrawal surge for Eid

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Bank branches in Dhaka experienced a massive surge in cash withdrawals and other banking transactions yesterday, the last working day before a 10-day Eid-ul-Azha holiday.

Despite the availability of digital banking services and ATM booths, clients formed long queues in front of bank counters to withdraw cash.

Bank officials said transactions increased by 25 percent compared to regular working days.

Eid-ul-Azha, the second-biggest religious festival for Muslims in Bangladesh after Eid-ul-Fitr, will be celebrated on June 7.

Banks will remain closed during the government-declared holidays until June 14.

However, branches of scheduled banks in industrial areas will remain open on June 5, 11, and 12 to facilitate the payment of wages and bonuses to garment workers and export-import activities.

"I want to withdraw a large amount of money to buy cattle. That's why I came to the branch instead of using ATM booths," said Razibul Islam, who was standing in a queue at the Motijheel branch of state-run Sonali Bank.

"Sometimes, technical problems arise at ATM booths during the Eid holidays, so I preferred withdrawing a large amount of cash from the branch all at once," he added.

During visits to bank branches in Motijheel and Paltan in the morning, long queues were seen at cash counters.

Many people also visited banks to collect

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Baggage rules for gold tightened

MOHAMMAD SUMAN and SUKANTA HALDER

The government has introduced stricter regulations on the import of gold bars and ornaments under newly updated baggage rules while offering some leniency in other areas.

The revised rules, issued on Tuesday, impose annual limits on the quantity of gold that passengers can import and increase applicable duties.

Under the previous rules, passengers returning from abroad could bring in one gold bar weighing up to 117 grammes or 234 grammes of silver per trip.

However, there was no limit on the number of trips.

Under the new regulations, passengers can bring in the same amount, but only once per year, subject to a duty of Tk 5,000 per bhori (11.66 grammes).

Previously, the duty was Tk 4,000 per bhori. This means a 10-bhori gold bar will now incur a duty of Tk 50,000, up from Tk 40,000 under the former system.



Imports of gold jewellery have been similarly restricted.

Passengers could previously bring in up to 100 grammes of gold ornaments or 200 grammes of silver jewellery without paying any duties, but this duty-free benefit has now been limited to once per year.

Move will heighten dependence on informal market: BAJUS

Anwar Hossain, spokesperson of the Bangladesh Jewellers Association, told The Daily Star yesterday that they had made several proposals during the budget discussions to further formalise the sector.

But only this one issue was picked from those suggestions. As a result, businessmen are now quite concerned, he said, adding that this single decision has increased the possibility of the industry becoming even more informal.

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