Resin duty hike poses new challenge for plastic industry

STAR BUSINESS REPORT

The hike in import duties on plastic resins in the proposed national budget for the fiscal year 2026-27 will create fresh challenges for Bangladesh's plastic industry, raising production costs and affecting a wide range of downstream sectors, industry insiders say.

The government has proposed doubling the import duty on two key plastic raw materials -- PVC (polyvinyl chloride) and PET (polyethylene terephthalate) resins -- from 5 percent to 10 percent.

Stakeholders warn that the move will significantly increase production costs in the plastic, beverage, electrical, electronics, packaging, construction and automobile sectors, with the burden ultimately being passed on to consumers.

PVC resin, one of the most important raw materials used in Bangladesh's plastic industry, is widely used in the production of pipes, fittings, water tanks, household products, flooring materials, electrical wire and cable insulation, synthetic leather, and shoe soles.

PET resin, meanwhile, is extensively used to manufacture beverage and food bottles, containers, packaging materials and various industrial products.

Considering their widespread use, the impact of the duty hike on these two materials will extend beyond the plastic industry, affecting the construction, packaging, electricity, healthcare, electronics and automobile industries.

Bangladesh's annual demand for PVC resin is around 5 lakh tonnes, while demand for PET resin stands at approximately 3.5 lakh tonnes, bringing total annual demand to about 8.5 lakh tonnes.

In contrast, local production capacity stands at only about 1.5 lakh tonnes for PVC resin and 1 lakh tonnes for PET resin.

Consequently, around 70 percent of the country's resin demand is met through imports, making the industry highly dependent on foreign supplies.

Given this reliance, higher import duties will directly raise production costs.

The plastic industry is currently growing at an annual rate of 8-10 percent, driven by low production costs, competitive labour costs, easy access to raw materials and rising domestic demand.

More than 5,000 plastic manufacturing enterprises operate in Bangladesh, around 98 percent of which are small and medium-sized enterprises (SMEs). Several large companies, including Pran-RFL Group, Bengal Plastics, Akij Plastics, National Polymer, Anwar Group and ACI Limited, play leading roles in the sector.

Capital gains tax

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Industry insiders fear the new tax may discourage formal transactions, encourage asset concealment, and create difficulties for people needing to sell gold during financial emergencies.

INDUSTRY OPPOSITION

Enamul Haque Khan, president of the Bangladesh Jewellers' Association, has called the proposed capital gains tax on gold "illogical and unacceptable" for the industry.

"We are already preparing a response and will announce a protest programme seeking its withdrawal," he said.

He argued that gold should not be treated like a regular financial asset for taxation, saying, "Gold is usually kept as gold, not converted into cash. Globally, it is measured by weight, not value."

Khan warned that traders may become reluctant to sell gold if the tax is imposed.

Comparing the proposal with VAT, he said that while VAT compliance has improved over time, adding or replacing taxes with a capital gains tax would not bring major benefits and would instead make the tax system more complicated.

He also said the measure could discourage formal transactions, reduce transparency, and create unintended effects in the gold market.

Using a train analogy, he said the sector must work as a single system, adding, "All parts need to function together. If policies are applied partially, the system will not run smoothly."

INCENTIVES FOR THE JEWELLERY SECTOR

Despite the proposed tax, the jewellery sector has also received budget incentives expected to support business growth.

The finance minister has proposed replacing the existing 5 percent VAT with a fixed VAT of Tk 2,500 per bhori of gold.

The government has also proposed reducing the tax deducted at source on purchases of gold, silver, jewellery, precious stones, diamonds and platinum from 5 percent to 0.5 percent.

Under this proposal, any individual or business buying these items will have to deduct 0.5 percent tax at source from the seller at the time of purchase.

However, Khan said these incentives would have little impact if the government proceeds with the 15 percent capital gains tax.

NBR DEFENDS PROPOSAL

Officials of the National Board of Revenue have rejected the industry's criticism, with a senior official saying, "We have included the provision in line with global standards."

On club memberships, the official said the rule would apply to registered clubs mainly used by higher-income groups.

The finance minister has also proposed a 10 percent tax deducted at source on fees for joining, renewing, transferring or changing club memberships.

What are the govt's key

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CUSTOMS PROCEDURES TO BE SIMPLIFIED

Several reforms target customs administration and bonded warehouse facilities.

The government plans to extend bond facilities beyond the readymade garments sector to other export-oriented industries. Annual bond audits for compliant garment exporters may be withdrawn, while bond validity periods in some sectors will be extended.

Ten sectors, including motorcycles, speedboats, fish processing, handicrafts, diversified jute products and sanitary products, may be allowed to import raw materials against bank guarantees without obtaining bond licences.

Authorities also plan to reduce customs paperwork, expand self-assessment facilities and allow accredited private laboratories to conduct product testing alongside government facilities to reduce port congestion and delays.

EASIER PROFIT REPATRIATION

To improve investor confidence, the government intends to simplify rules governing profit repatriation and capital transfers.

Applications related to the repatriation of profits from foreign investments will be processed within 30 days. Requirements for share transfers and capital repatriation in unlisted companies will be eased, while certain transactions will no longer require prior approval from Bangladesh Bank.

The reform package also proposes simplifying foreign trade payments, expanding digital lending and cashless transactions, and easing regulatory requirements for banking services.

CAPITAL MARKET AND CONSTRUCTION APPROVALS

The government plans to streamline IPO approvals through digital platforms, reduce documentation requirements and review the possibility of direct listing for eligible companies.

Measures are also proposed to expand the corporate bond market and strengthen participation by institutional investors.

Construction, environmental and fire-safety approvals will be integrated into a single online platform. A risk-based approval system will be introduced so that low-risk projects receive faster clearances while higher-risk projects continue to undergo detailed scrutiny.

HIGH-LEVEL TASK FORCE

The government says a high-level task force will oversee implementation of the deregulation programme. A dedicated website will also be launched to track progress and allow businesses to report delays or irregularities in service delivery.

Commenting on the government's deregulation initiatives, M Masrur Reaz, chairman and CEO of Policy Exchange Bangladesh, said the new government appears to be treating deregulation as a key reform tool for creating a more business-friendly environment.

He welcomed the approach, noting that Bangladesh's business environment is burdened by unnecessary and outdated regulations, as well as red tape arising from weak regulatory enforcement.

Reaz said deregulation-driven reforms could involve removing redundant rules, simplifying existing regulations and allowing greater self-regulation by industry bodies such as the Bangladesh Garment Manufacturers and Exporters Association.

Such measures, he said, would reduce the time, cost and procedural burden of regulatory compliance for businesses, making government services faster, easier and more competitive.Bangladesh Chamber of Industries President Anwar-ul-Alam Chowdhury Parvez also welcomed several of the proposed measures, but questioned whether they could deliver results without deeper structural reforms.

Manufacturers remain more concerned about uninterrupted gas supply and a stable banking sector than fiscal incentives, he said.

Persistent energy shortages, rising non-performing loans, weak investor confidence and the absence of a clear roadmap for banking reforms continue to weigh on business sentiment, he noted, adding that success would ultimately depend on implementation capacity and institutional reforms.

NBR seeks to raise taxes

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If the provision is removed, the bank would have to pay tax at 37.5 percent on the same dividend income.

Banks currently make up the bulk of institutional investors in the stock market and are therefore likely to be the hardest hit by the measure.

Moreover, with treasury bond yields remaining attractive, banks and other institutions may choose risk-free government securities over stock market investments.

Edge Asset Management CEO Ali Imam said dividend income represented a distribution of profits paid from earnings that had already been taxed.

"Therefore, imposing an additional tax on dividend income is illogical in itself, as the underlying profits have already been taxed. Increasing the tax rate further amplifies the negative impact, effectively creating a double burden on investment returns," he added.

Iftekhar Alam, president of Bangladesh Merchant Bankers Association (BMBA), said investors could shift their funds if returns on other securities are higher.

However, he said the country lacks sufficient investment vehicles.

Alam said there has been positive sentiment in the market since the new commission took office recently and expressed hope that investors would remain in the stock market.

Saiful Islam, president of the DSE Brokers Association (DBA), urged the authorities to retain the tax benefits currently available to stock market investors for at least another couple of years, as the market is undergoing a transformation and rebuilding.

BUDGET OTHERWISE WINS MARKET APPRECIATION

In his budget speech, Finance Minister Amir Khosru Mahmud Chowdhury said the government would work to reduce the private sector's excessive dependence on bank financing and make the IPO process time-bound and digital.

According to a budget analysis by Sheltech Brokerage Ltd, these steps would strengthen the role of the capital market within the financial system, resulting in greater market depth and improved liquidity.

It says the digital IPO process would reduce approval times, lower compliance costs, increase the attractiveness of listing and potentially expand the IPO pipeline.

The budget also outlines plans to modernise market infrastructure by gradually shifting from the existing T+2 settlement cycle to T+0 settlements. Non-Resident Investors' Taka Accounts (NITA) accounts would also be simplified.

Sheltech Brokerage said these measures could facilitate foreign investment inflows and improve liquidity, although they might also increase market volatility.

Meanwhile, the Dhaka Stock Exchange (DSE) welcomed the national budget, saying the measures would help develop the country's capital market and create a more investment-friendly environment.

In a statement issued on budget day, DSE Chairman Mominul Islam expressed gratitude to the government for prioritising the restoration of investor confidence, strengthening market governance and addressing long-standing concerns of market stakeholders, saying these steps reflected a strong commitment to the sustainable development of the capital market.

He said the proposed measures to improve coordination among regulatory agencies and institutions linked to the capital market would enhance efficiency, transparency and accountability, helping build a stronger and more integrated market infrastructure.

Budget

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The FBCCI added that the government should, as far as possible, rely on low-cost foreign funding to meet its expenditure needs.

It noted that the government will face challenges in raising funds to pay Tk 1.05 lakh crore in bank loan interest and Tk 22,500 crore in interest on foreign borrowing.

High inflation, a low tax-to-GDP ratio, a large volume of defaulted loans, pressure from external debt and an unstable geopolitical situation could also make budget implementation difficult.

To address these challenges, the FBCCI suggested prioritising the operationalisation of investment-friendly economic zones, diversifying exports and markets, developing human resources in the IT sector, reducing the cost of doing business, strengthening the capital market, and ensuring quality and accountability in implementing the Annual Development Programme.

The FBCCI said the government's plan to sign trade agreements with major trading partners and introduce necessary customs rules is positive, as Bangladesh is set to graduate from the least developed countries (LDC) category to a developing nation in November this year.

It also welcomed the proposal for zero duty on imports for the renewable energy sector and the introduction of a Tk 60,000 crore stimulus package for the private sector.

The trade body said simplifying online VAT return submission, shifting to quarterly returns, enabling online income tax filing and payments, and introducing a national single window will help attract both domestic and foreign investment.

The FBCCI welcomed the proposal to set the corporate tax rate for five years, but said it would have been better if it could be reduced further to 2.5 percent.

It also appreciated treating source tax as advance income tax, but said the minimum tax should be reduced to 0.5 percent from 1 percent.

The trade body further welcomed the proposal to reduce source tax on imports of 60 essential commodities, including rice, wheat, potato, onion, garlic, salt, sugar and edible oil, from 5 percent to 4 percent.

BGMEA

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The proposal to maintain tax policy consistency for at least five years and gradually reduce reliance on statutory regulatory orders through the introduction of a risk-based audit system is expected to strengthen investor confidence and encourage fresh investment, it added.

BGMEA appreciated several measures aimed at improving revenue administration and reducing compliance burdens.

These include the introduction of an automated and faceless tax refund system, treatment of withholding tax as advance tax rather than minimum tax, and simplified tax procedures. Such reforms are likely to improve transparency and ease cash-flow pressures for businesses.

It said mandatory online-based single-window services, issuance of licenses within seven days and company registration within 48 hours are expected to reduce bureaucratic hurdles and lower the cost of doing business.

The association also welcomed initiatives to facilitate profit repatriation and expedite work permits for foreign professionals.