

Tax Deduction at Source — *a pain point for Taxpayers*

TDS Sections in the Income Tax Act 2023, (Section 86-153)

Important ones are:

- 86. Income from employment
- 89. Contractors, suppliers, etc.
- 90. Mobile phone operator
- 104. Consultancy services.
- 106 Interest on securities.
- 107. Bangladesh Bank Bills
- 109. House rent.
- 110. Export proceeds.
- 111. Import value.
- 112. Cash subsidy on export
- 114. Purchase of power.
- 116. Transfer of property.
- 117. Dividend
- 120. Import value.
- 122. C&F agent
- 123 Real estate developer
- 129. Tobacco products.
- 131. Trade license.
- 135. Freight forwarding agents.
- 138. Motor Vehicle & Motor Vehicle owners(153)

Refundable Heads

- 86, 87, 93, 96-100, 103-105, 107, 109, 119, 129-139

Minimum Tax Provisions mentioned in Section – 163

- 88-92, 94-95, 100-102, 105, 106, 108 110-118, 120-129

Changes in Finance Ordinance 2025

About 26 changes have been included for TDS, which is 40% of total policy changes for Income Tax.

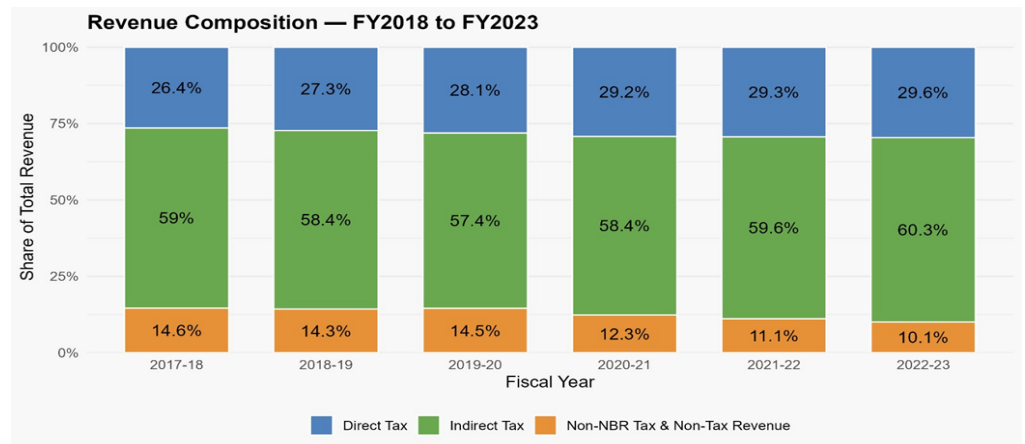
In the new TDS policy 8 industries are brought under minimum tax (TDS paid at import stage) while others can seek refund. These sectors are Cement, Ceramics, Iron and Iron-based products, Ferro alloy, Carbonated Beverage, Milk Powder, Aluminum, Pesticide.

Finance Related Bill, October 6, 2025

Section 106 (In case of securities, TDS rate increased from 10%-15%).

Tax Structure in Bangladesh

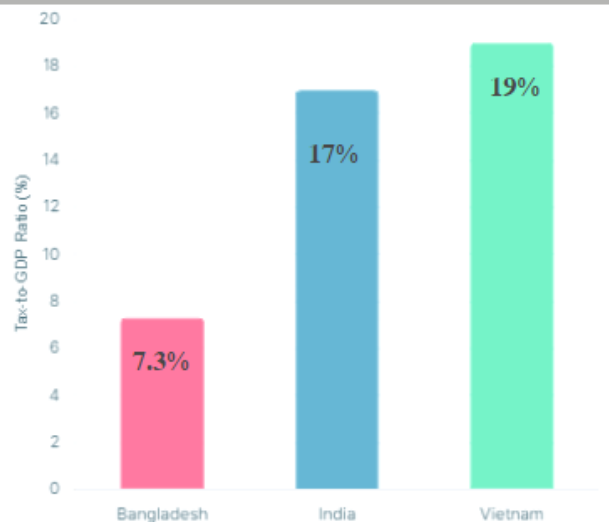
- Bangladesh's tax revenue mobilization and tax effort are among the lowest in the world. The revenue receipts consistently fell short of budget targets.
- Heavy dependence (52%-60%) on consumption-based taxes rather than income/profit-based taxes. VAT is one of the major sources of revenue, but a World Bank VAT gap analysis shows that there is potential to collect over three times more VAT if there were no policy and compliance gaps.
- Direct tax contributions remain relatively low and stagnant (26%–29%)
- A shift in revenue dependence from trade-related taxes toward domestic consumption-based taxation.
- Non-tax revenues as a share of GDP are lower than in comparable countries. The present tax collection scenario is as follows:



An Outlier in the region

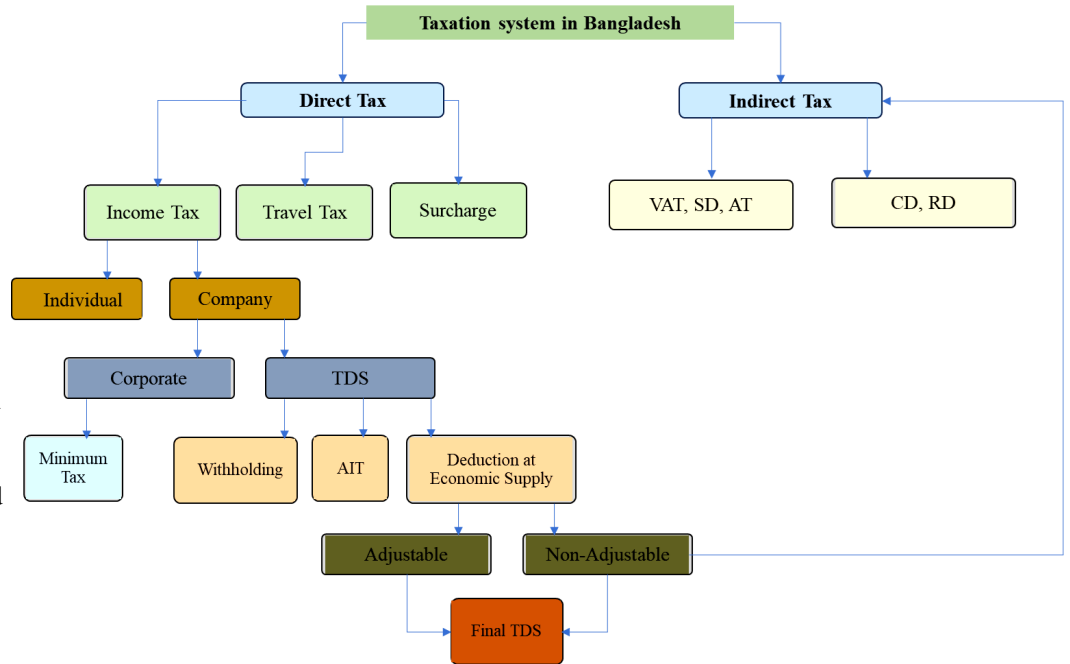
Despite a growing economy, Bangladesh's tax mobilization lags significantly behind its regional peers. The country's 7.3% tax-to-GDP ratio highlights an inefficient system overly reliant on high indirect taxes and punitive direct taxes on a narrow base of compliant businesses.

This gap not only limits public investment but also signals a structural issue where the tax burden is not distributed equitably, discouraging formalization and growth.



Tax deducted at source (TDS)

In Bangladesh, corporate tax-payers face a heavy tax burden due to high corporate tax rates and the inability to claim timely refunds on additional taxes deducted at source, which are often treated as final or minimum tax. As a result, many businesses show reluctance to file tax returns, leading to greater dependence on indirect taxes for revenue generation. This shift increases financial strain on businesses, especially SMEs, by reducing profitability and cash flow. The key concerns include TDS imposed on turnover irrespective of profit, limited scope for tax adjustments or refunds, and added pressure on working capital.



The Structural Imbalance

Tax Deducted at Source (TDS) is a revenue powerhouse for the National Board of Revenue (NBR), its implementation has created a critical disconnect between tax collection and economic fairness, evidenced by three stark figures:

80%+
of Income Tax from TDS:

TDS serves as the primary engine of direct tax collection in the country. Withholding part of TDS is by default treated as final tax.

<0.5%
of TDS is Ever Refunded:

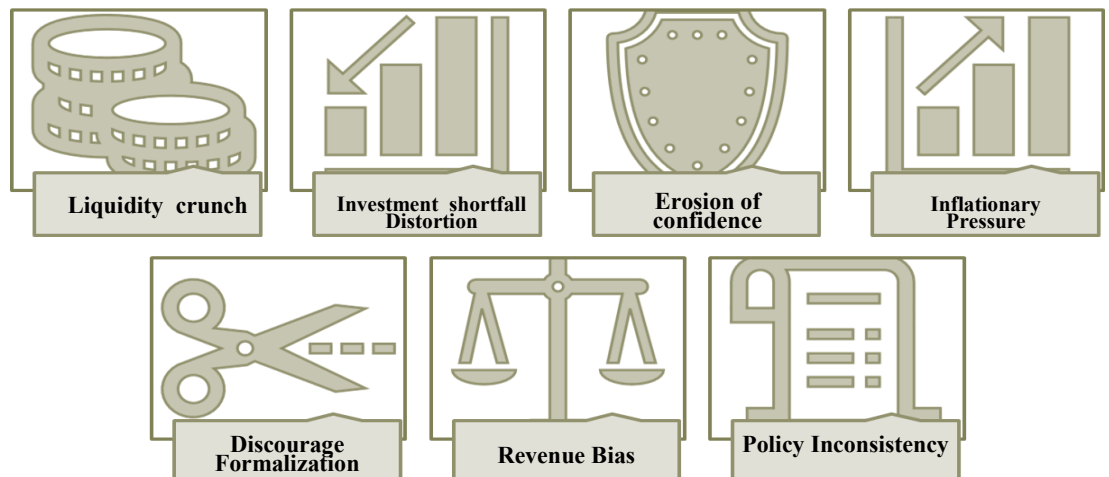
The system effectively traps overpaid taxes, treating TDS as a final, non-adjustable, it heats the final price of economic output.

70%
Policy Paradox:

Under 57 broad heads of collection 39 or 70%, of the heads are refundable by law, but the collection scenario states the wholesome collection was in its final status.

The Economic Consequences

TDS shifts from a compliance tool to a minimum tax on turnover, it triggers a cascade of negative economic impacts that harm businesses and consumers alike.



TDS Liabilities and Refund Scenario in Bangladesh

- TDS was about 87.40% (Tk. 93,271.43 crore of Tk. 1,06,722.41 crore) including Withholding Tax of the total income tax in FY23.
- The sub-heads under TDS are 111, which were 107 before 2020.
- The scope of TDS has been increasing over the years.
- TDS share in income tax revenue has raised to 87.40% from 84.6% which is incremental.
- Percentage of refund has decreased from 0.35% to 0.24% of total TDS collected.
- Maximum refund was given in FY2019 where the refund was 3.02% of TDS collection of that year.
- TDS becoming Final Discharge of Taxes due to Calibration in Law.



Illustration of High Effective Tax Rate

The **Effective Tax Rate** is almost double the announced CIT in most cases

Tax Incidence as % Profit

| | Case 1 (50% Import + 50% Local Supply) | Case 2 (100% Raw Material Import) | Case 3 (100% Local Supply) |
|-----|--|-----------------------------------|----------------------------|
| TTI | 52.5% | 67.5% | 37.5% |

H1= AIT @ Import Stage
H2= TDS @ Supply Stage
H= Total TDS = H1 + H2
F= Total CIT

TDS on Supply reduced to 5% instead of 7% in 2025-26

TTI Calculation Breakdown for case 1

| | Item Description | Effective Tax rate as % Revenue | Tax Incidence as % Profit |
|---------------------------------------|--|---------------------------------|---------------------------|
| $F = (D * F1)$ | CIT (@ 27.5%) on profit | 2.75 | 27.50 |
| $H1 = (B2 * F2)$ | AIT at the import stage (50% of purchase @ 5% AIT) | 1.50 | 15.00 |
| $H2 = (E * F3)$ | At the supply stage (on 20 taka wholesale Commission @ 5% TDS) | 1.00 | 10.00 |
| $H = H1 + H2$ | Tax at Source | 2.50 | 25.00 |
| Total Tax Incidence = $(F+H=F+H1+H2)$ | TTI | 5.25 | 52.50 |

In Case 1, total revenue amounts to 100, with total expenses of 90, including 50% for imported raw materials and 30% for other operating costs, resulting in a profit of Taka 10. The corporate income tax (CIT) rate is 27.5%, while advance income tax (AIT) of 5% is applied at the import stage and TDS of 5% at the supply stage. This structure indicates that a significant portion of taxes is collected in advance through AIT and TDS, regardless of profitability. Consequently, businesses face a higher effective tax (52.5% instead of 27.5%) burden and creates liquidity gap, as refunds or adjustments against these advance taxes are rarely available, particularly affecting cash flow and competitiveness.

Minimum Tax— a Clear Distortion in the Tax Policy

- The refund anomalies started as per ITA 2023; **Section – 163**: “notwithstanding anything contained in any other provisions of this Act, tax deducted or collected at source in accordance with the provisions shall be deemed to be the minimum tax of tax liability from that source”.
- TDS as Final Settlement: ITA 2023; **Section – 163** treats the TDS as final discharge of settlement.
- Limited Refund Options for TDS: There is a limited tax refund option for the TDS deducted under different sections (86-139) of ITA 2023.
- Complex Tax Policy dependent on a Number of Slabs
- Dependency on TDS acts as revenue bias to expand the actual income tax base or network. The income tax revenue collection is heavily dependent on TDS (including Withholding Tax under **Section – 64** of ITO 1984) which is 87.21% of total income tax revenue.

As maximum portion of TDS is not refunded, and treated as final discharge of Tax, this have been considered as minimum tax which is beyond **section 163**. The TDS providers perceives that they have paid income tax duly and do not submit yearly return. As a result of that a huge number of potential tax payers remains out of tax net. It can be considered as one of the cause of poor tax network yielding low tax-GDP ratio. Full automation is one the remedies for addressing the TDS and minimum tax issues.

Global Benchmarks: The Case for Automation

Comparative Insights: International evidence suggests that **time-bound, automated refund systems** significantly enhance compliance and reduce taxpayer grievances.

- **India’s “Instant Refund” mechanism**, under its e-filing system, processes refunds within **7 to 15 days** directly into pre-validated bank accounts.
- **Singapore’s IRAS system** offers refunds within **3 to 4 weeks** via digital integration with banking systems.
- **Vietnam** processes excess TDS claims within **two to three months**, maintaining transparency through electronic filing.

In contrast, Bangladesh’s refund process remains **manual, multi-tiered, and opaque**, often taking several months with no guaranteed timeline, despite legal provisions under **Sections 214–226 of ITA 2023** that theoretically allow for adjustment or refund.

The Path Forward: A 5-Point Reform Agenda

Modernizing the TDS regime requires a coordinated, technology-driven approach focused on fairness, transparency, and efficiency.

