



Taxation of the mobile industry in Bangladesh

GSMA's recommendations on tax reforms to accelerate the digital economy

March 2022



About the GSMA

The GSMA is a global organisation unifying the mobile ecosystem to discover, develop and deliver innovation foundational to positive business environments and societal change. Our vision is to unlock the full power of connectivity so that people, industry, and society thrive. Representing mobile operators and organisations across the mobile ecosystem and adjacent industries, the GSMA delivers for its members across three broad pillars: Connectivity for Good, Industry Services and Solutions, and Outreach. This activity includes advancing policy, tackling today's biggest societal challenges, underpinning the technology and interoperability that make mobile work, and providing the world's largest platform to convene the mobile ecosystem at the MWC and M360 series of events.

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1. Background



Globally, more than 5 billion people are using mobile technology to access life-enhancing services such as digital health services, e-government platforms and digital education services. Mobile connectivity is an important driver of economic growth across all sectors. In Asia, the International Telecommunication Union (ITU) estimates that a 10% increase in mobile broadband penetration would yield a 0.51% to 2.43% increase in GDP per capita, with the highest impact found in developing countries.¹

A conducive regulatory environment, especially the tax framework, is required to accelerate countries' digital transformation and maximise the benefits of connectivity. This is particularly relevant as Bangladesh now faces the challenge of penetrating low-income groups to connect the unconnected.

This report presents the current state of mobile sector taxation in Bangladesh, leverages the GSMA's experience as a global industry body on policy best practices, and provides an update on the report submitted in 2021, with more recent data and statistics on the taxation burden affecting mobile operators. The report is also intended as the GSMA's contribution to the Bangladesh Financial Budget 2022 consultations.

1. ITU (2019). Economic contribution of broadband, digitization and ICT regulation: Econometric modelling for Asia-Pacific. https://www.itu.int/pub/D-PREF-EF.BDT_AP-2019

2. The state of mobile connectivity in Bangladesh

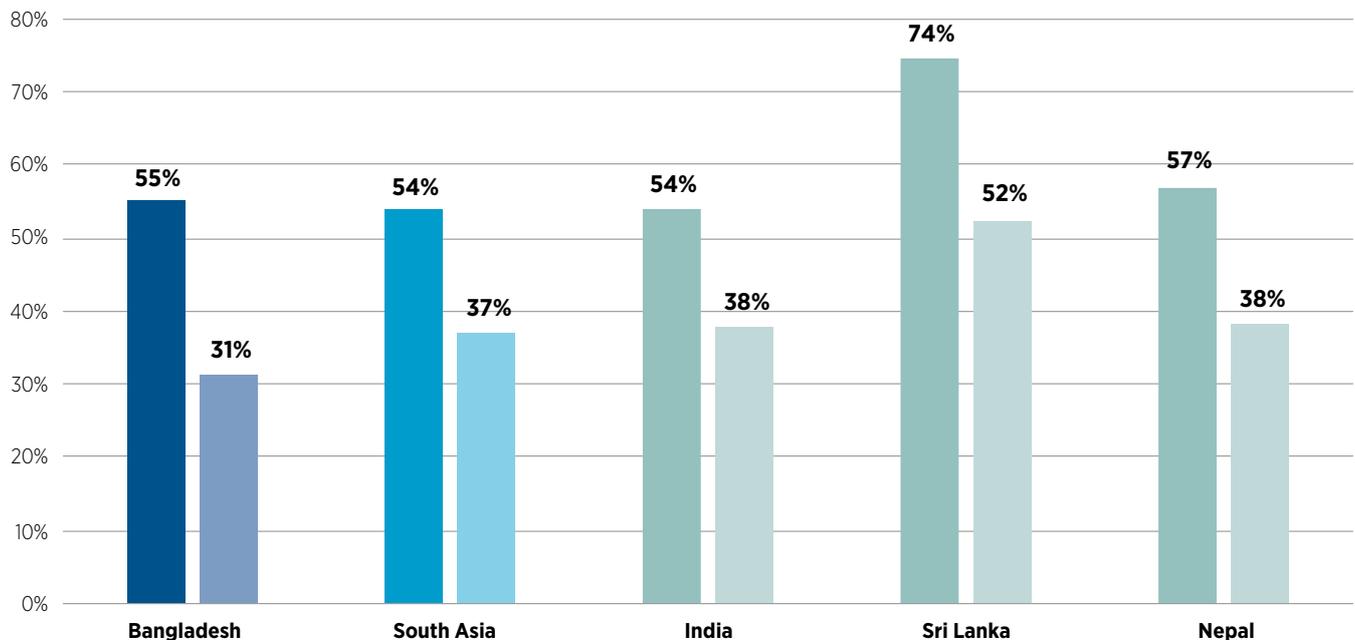
Despite the expansion of mobile coverage throughout the country and total mobile connections and mobile internet connections at 181 million and 124 million respectively², there remains a significant unconnected population in terms of unique subscribers. The GSMA estimates that about half of Bangladesh's population (55% unique-subscriber penetration) remains unconnected to a mobile network and only 31% population (unique penetration) are using mobile internet services. This is lower than the average in South Asia.

Reforming mobile taxation is key to accelerating digital inclusion, as a high tax burden on the mobile sector negatively impacts access and use of mobile technologies

and the industry's investment capacity to deliver the digital infrastructure required to achieve Vision 2041.³

FIGURE 1

PENETRATION OF UNIQUE MOBILE SUBSCRIBERS (LEFT) AND UNIQUE MOBILE INTERNET SUBSCRIBERS (RIGHT) IN 2021⁴



2. <http://old.btrc.gov.bd/content/mobile-phone-subscribers-bangladesh-december-2021> ; <http://old.btrc.gov.bd/content/internet-subscribers-bangladesh-december-2021>

3. <http://oldweb.lged.gov.bd/UploadedDocument/UnitPublication/1/1049/vision%202021-2041.pdf>

4. To calculate the number of unique mobile subscribers, it is assumed that each unique mobile subscriber owns 1.94 number of SIM cards/mobile connections.

3. Tax contribution of the mobile sector



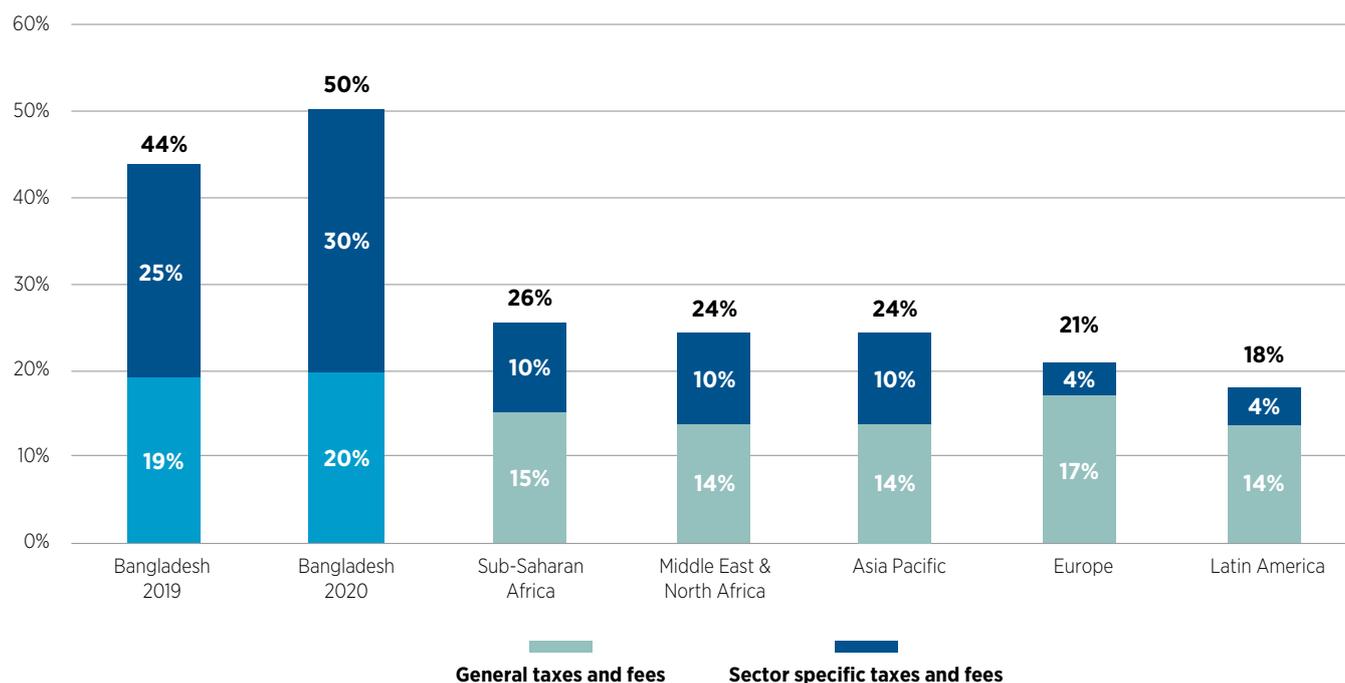
The tax contribution of the mobile sector in Bangladesh remains considerably higher than the average for Asia and other regional averages.

In 2020, the total tax contribution of the mobile sector, amounted to BDT 133 billion (\$1.6 billion)⁵, equivalent to 49.8% of mobile sector revenues. This is higher than in 2019, when the total tax contribution amounted to BDT 119 billion (\$1.4 billion) and represented about 44% of total sector revenue.

Furthermore, this is substantially higher than the Asia Pacific average (24%) and the global average (22%)⁶. When annualised one-off spectrum licence fees are taken into account, the total tax contribution of the mobile sector represents 53% of revenue (up from 49% in 2019).

FIGURE 2

TAXES AND FEES AS A PERCENTAGE OF MOBILE SECTOR REVENUES



The tax system on the mobile industry in Bangladesh continues to be complex, with various taxes and fees imposed on both mobile consumers and operators. While some are general taxes and fees applicable to all sectors of the economy, most are specific and discriminatory

to the mobile sector undermining the socio-economic contribution of the sector. Furthermore, for some general taxes such as the corporate tax and the minimum turnover tax, a specific and higher tax rate applies to the mobile sector.

5. Excluding one-off spectrum auction payments.

6. Based on the survey of 86 countries in 2019: https://www.gsma.com/publicpolicy/wp-content/uploads/2019/02/Rethinking-mobile-taxation-to-improve-connectivity_Feb19.pdf

The table below outlines the different taxes and regulatory fees imposed on mobile consumers and operators.

TABLE 1
KEY TAXES AND REGULATORY FEES PAID BY MOBILE CONSUMERS AND OPERATORS (2020-21)

Consumer taxes	
Value Added Tax (VAT)	
Voice, SMS, VAS, mobile apps, and others	15% on base tariff and SD (effective rate: 17.25%) ⁷
Data	5% on base tariff and SD (effective rate: 5.75%)
SIM card tax / Replacement tax	BDT 200 (\$2.4), per SIM card (applies to new SIM purchase, and when a mobile user replaces a SIM card due to migration from one operator to another, SIM card lost, technology upgrade and SIM card being damaged)
Supplementary Duty (SD)	
Supplementary duty (SD) on mobile services (Voice, Data, SMS, VAS, Mobile apps and others)	15% on base tariff
Other excise duties	
Surcharge on services purchased through mobile airtime (Voice, Data, SMS, VAS, Mobile apps and others)	1% on base tariff or service value
Revenue sharing of international outgoing calls	30% on retail tariff less the carrier charge
Customs duties	
Handsets	Smartphones: 25% [Total tax incidence: 57.31%]; Mobile handsets excluding smartphones : 10% on CIF value [Total tax incidence: 35.47%] ⁸
SIM cards	25% on cost, insurance and freight (CIF) value

7. The VAT effective tax rate is higher than the nominal rate due to the fact that the tax base includes the supplementary duty in addition to the base tariff value.

8. In addition to custom duties, imported mobile handsets are subject to other taxes: advance income tax (2%), advance trade VAT (5%), regulatory duty (0 – 3%) and VAT (15%). As a result, the total tax incidence on imported mobile handsets varies from 35% (mobile handsets excluding smartphones) to 57% (smartphones) as reported by Bangladesh customs. Source: National Board of Revenue - Bangladesh customs, duty calculator, visited on 16 March 2021.

TABLE 1 (Cont.)

KEY TAXES AND REGULATORY FEES PAID BY MOBILE CONSUMERS AND OPERATORS (2020-21)

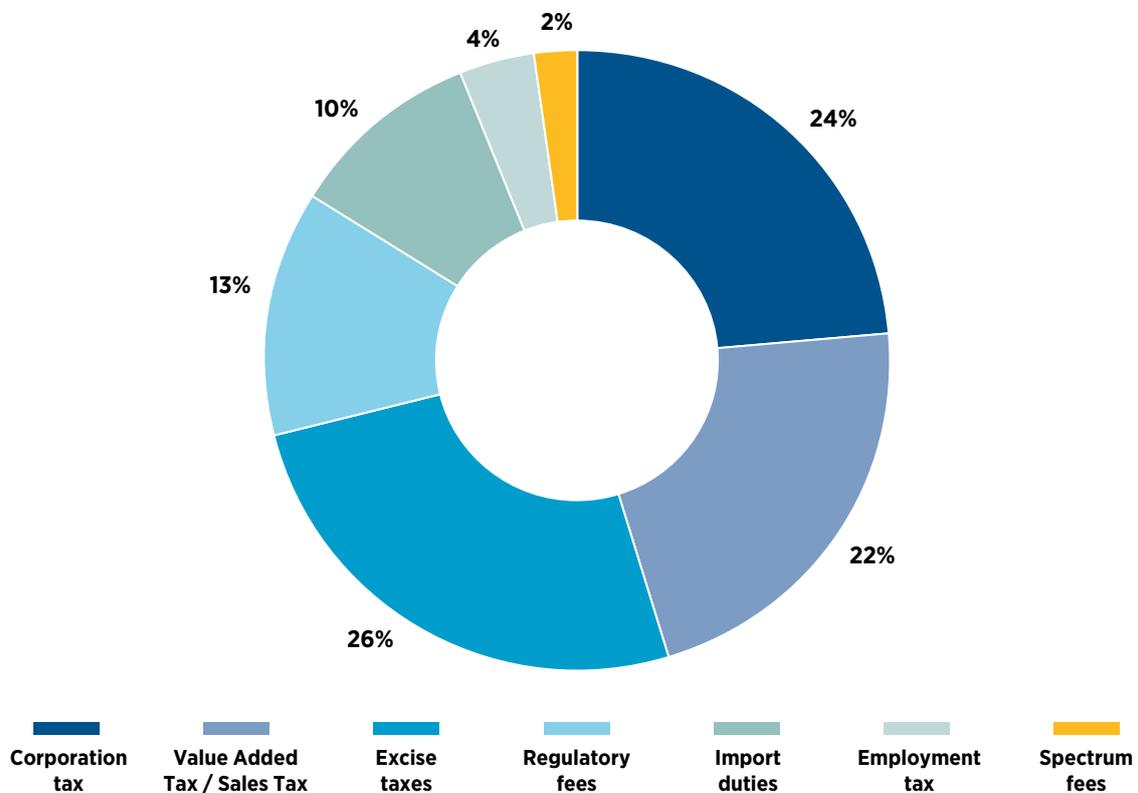
Operator taxes and regulatory fees	
Corporation taxes	
Corporate tax	45% (40% if publicly traded company) on profit before tax
Minimum turnover tax	2% on gross receipts
Regulatory fees	
Annual licence fee (2G, 3G, 4G)	BDT 50,000,000 (\$590,000) per license
One-off license acquisition fee (2G, 3G, 4G)	BDT 100,000,000 (\$1.2m) per license
Social Obligation Fund (universal service fund - USF)	1% on annual gross revenue
Revenue sharing with BTRC	5.5% on annual gross revenue
Spectrum fees	
One-off	Varies by auction
Annual	Formula based
VAT on spectrum and regulatory payments	7.5% of payment
Customs duties	
Network equipment	1 - 25% of CIF value, depending on equipment type
Employment taxes	
Workers profit participation	5% on net profit
Perquisite tax	45%/40% on amounts in excess of maximum perquisite limit of BDT 550,000 per employee per year
Other taxes	
Local taxes and fees (ex: display tax, tower tax, etc.)	Various rates
Withholding taxes	
Withholding tax	Various rates
Withholding VAT	Various rates

The Bangladesh mobile sector makes a large contribution in taxes and fees, in addition to its direct and indirect impact on the economy. The sector's tax and fee payments accounted for around 5% of total government tax revenue (up from 4.4% in 2019).

The largest contributions come from Corporate Tax and the Minimum Turnover Tax (24% of the total tax payments), VAT (22%) and excise duties on mobile services (26%).⁹ A significant share of corporation tax payments is due to the higher rates of corporate tax and minimum turnover tax applied to the mobile sector. General taxes and fees represent 39% of total tax payments, while sector-specific taxes and fees amount to 61% of all tax payments made by mobile operators to the government.

FIGURE 3

TAX CATEGORIES AS A PERCENTAGE OF OVERALL TAX REVENUES FROM THE MOBILE SECTOR



9. See table 1 above for the list of taxes included under each tax category.

4. Corporate Tax and Minimum Turnover Tax on mobile

The mobile sector in Bangladesh is subject to a higher corporate tax rate compared to other economic sectors and the average level applied in Asia.

Currently, the mobile sector is subject to the highest corporate tax rate for publicly traded (PT) and non-publicly traded (NPT) companies (40% and 45% of profit), compared to the general corporate tax rate of 22.5% and 30% of profit, respectively.

The rate of corporate tax applicable to mobile in Bangladesh is also the highest in the region, and well above the region's average.

FIGURE 4

CORPORATE TAX RATES ACROSS SECTORS IN BANGLADESH

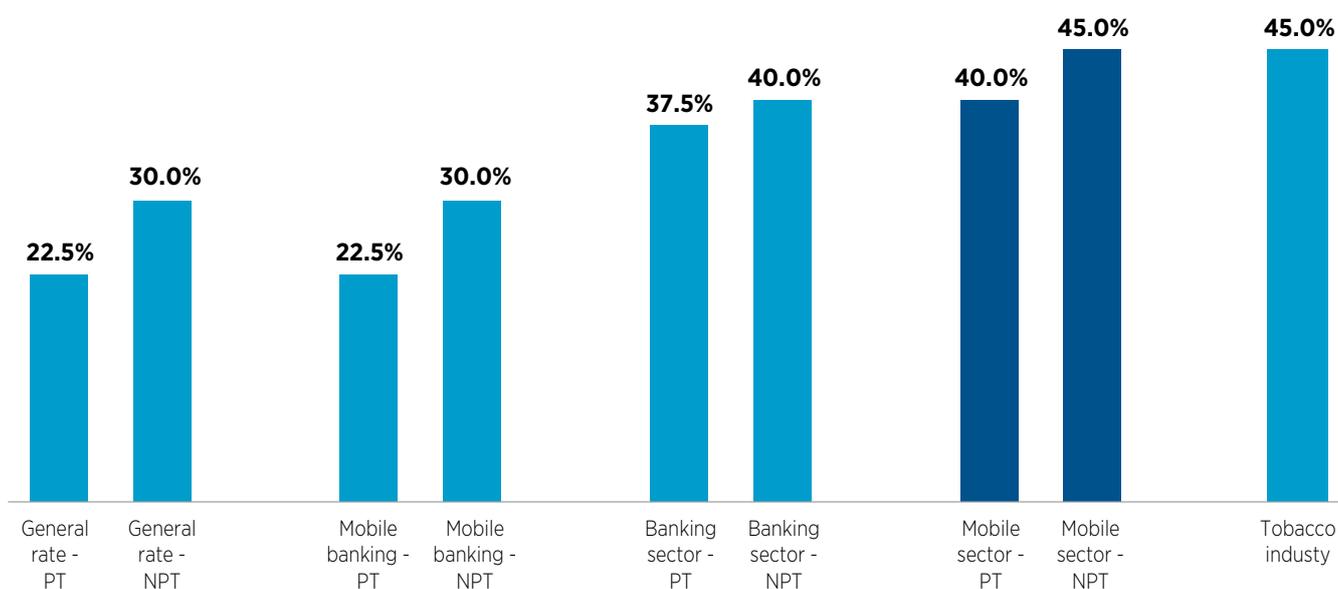
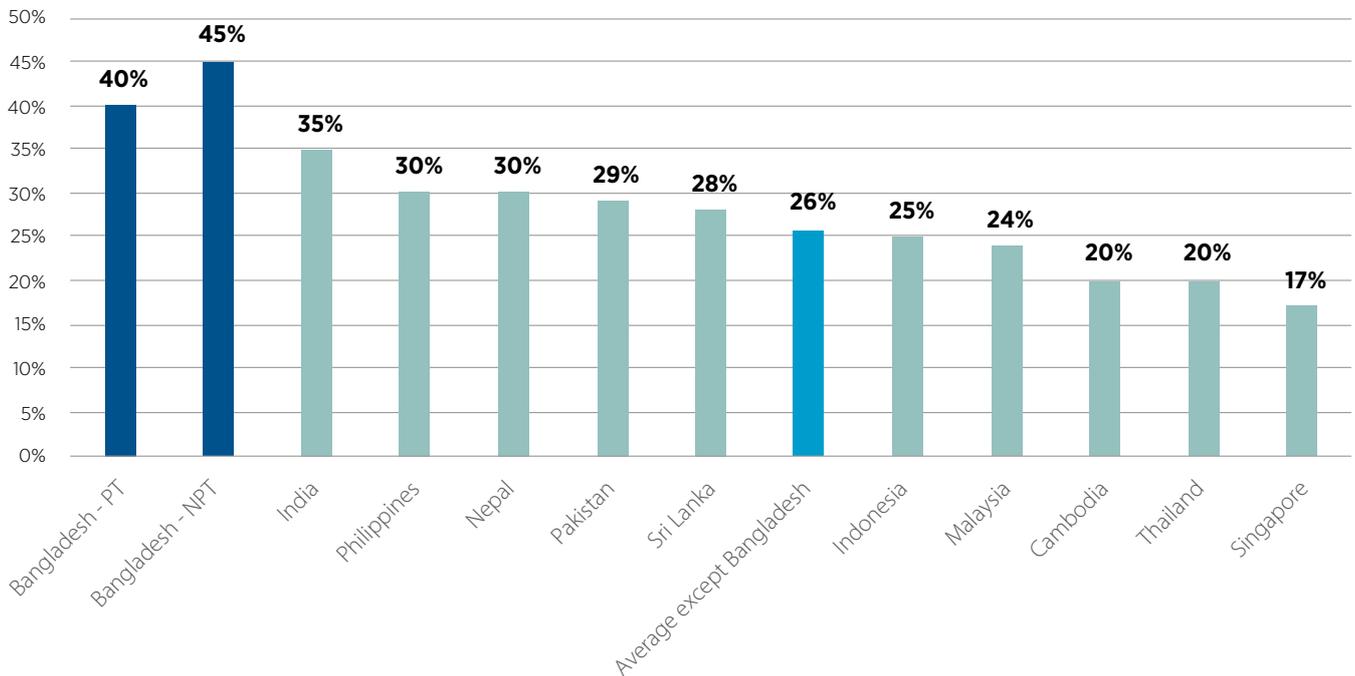


FIGURE 5

CORPORATE TAX RATES ON THE MOBILE SECTOR ACROSS COUNTRIES

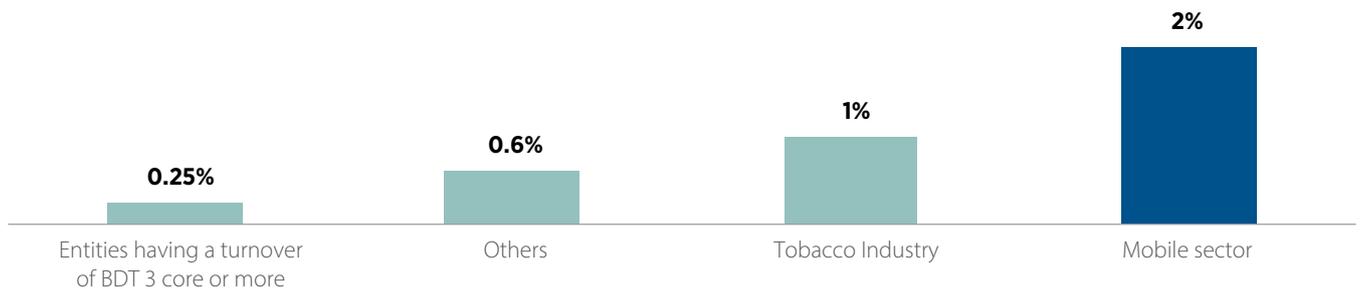


Furthermore, the mobile sector is also subject to the highest minimum turnover tax rate (2% of gross receipt) while among other sectors a rate between 0.25% to 1% applies – the lowest being 0.25% for entities having a turnover of BDT 3 crore or more. Recently, the Federation

of Bangladesh Chambers of Commerce and Industry (FBCCI), has recommended abolishing the minimum tax system applicable to all companies irrespective of profit and loss in the new Income Tax Act.¹⁰

FIGURE 6

MINIMUM TURNOVER RATES ACROSS SECTORS IN BANGLADESH



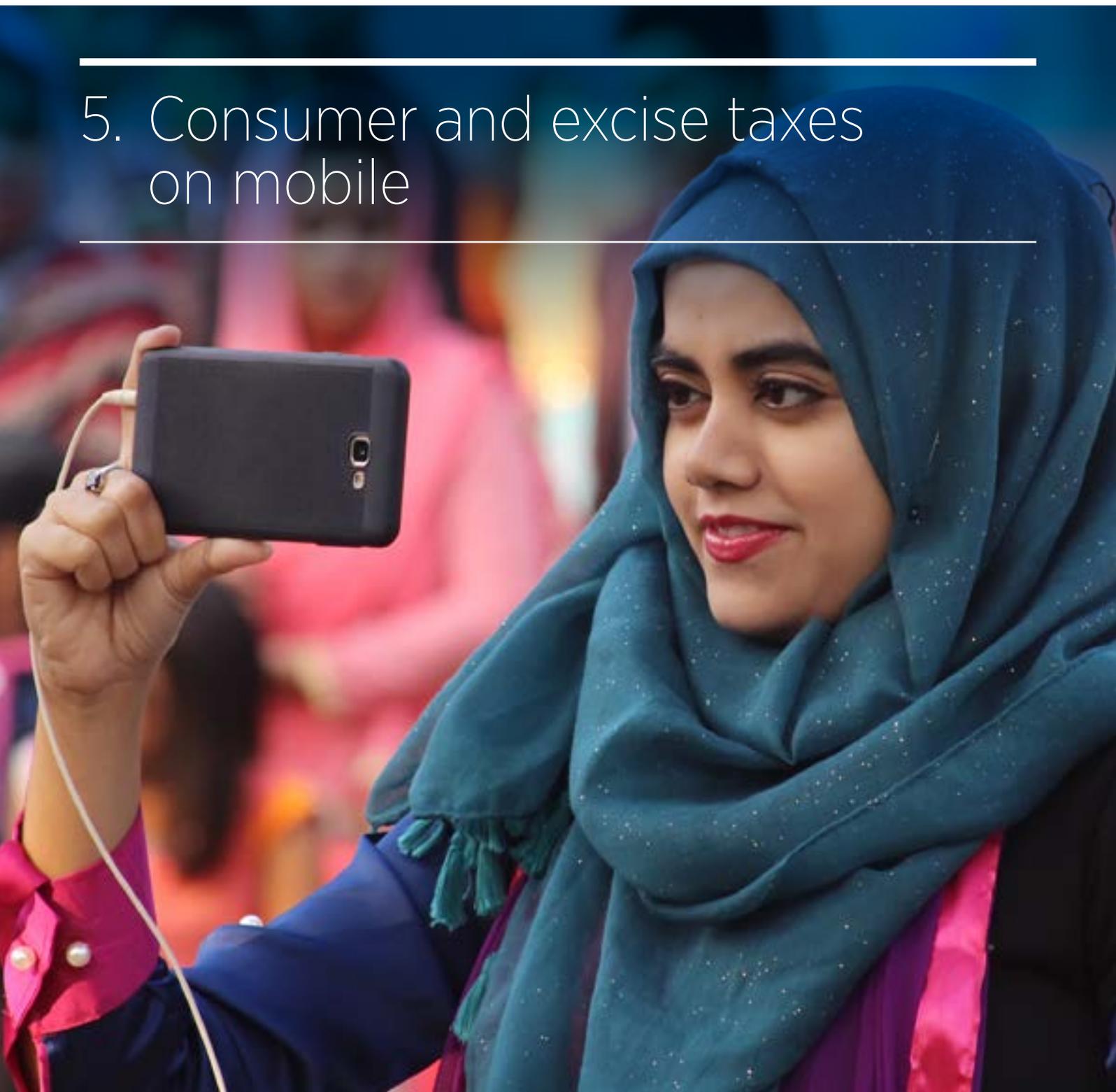
10. <https://www.prothomalo.com/business/economics/%E0%A6%A8%E0%A7%8D%E0%A6%AF%E0%A7%82%E0%A6%A8%E0%A6%A4%E0%A6%AE-%E0%A6%95%E0%A6%BO-%E0%A6%AC%E0%A6%BE%E0%A6%A4%E0%A6%BF%E0%A6%B2%E0%A7%87%E0%A6%BO-%E0%A6%A6%E0%A6%BE%E0%A6%AC%E0%A6%BF>



These sector-specific corporate tax and minimum turnover taxes apply in addition to other taxes and regulatory fees specific to the mobile sector, such as the revenue sharing fee (5.5% of revenue) and contribution to the Social Obligation Fund (1% of revenue), as well as high spectrum acquisition costs. In particular, the minimum turnover tax is paid on the entire revenue earned by MNOs, even if a percentage of that revenue has to be provided to other licensee in the ecosystem due to the fragmented nature of the licensing regime and a significant portion has to be paid to the regulatory authority. Under the circumstances, 2% minimum turnover tax is detrimental to the sustainable development of the mobile telecom sector.

The mobile industry is highly CAPEX and OPEX intensive due to continuous investment on network expansion and high O&M (Operation and Maintenance) cost in order to ensure network operation throughout the country. The high tax burden on mobile operators constrains their capacity to make investments to improve the telecommunication sector's competitiveness and for the country's digital transformation

5. Consumer and excise taxes on mobile



Mobile consumers face a high-level of sector-specific taxes in addition to general taxes. This creates additional barriers to digital inclusion, for low-income households in particular.

In order to access mobile services, consumers in Bangladesh must firstly pay the SIM tax of BDT 200 (\$2.4) per SIM card, plus various duties on imported devices (with total tax incidence up to 57% for smartphones). Subsequently, as a result of the supplementary duty (SD, 15%) and surcharge (SC, 1%), mobile consumers face sector-specific taxes on their mobile usage in addition

to VAT (5% for mobile data, 15% for voice, SMS and other mobile usage). This implies that the total effective tax rate is 33.25% on voice, SMS and others; and 21.75% on data.¹¹

Not many neighboring countries impose such sector-specific taxation on mobile services, and amongst those Bangladesh has the highest rates.

TABLE 2

CONSUMER TAXES ACROSS COUNTRIES

Country	VAT/Sales Tax	Telecom-specific Tax
Malaysia	6%	no telecom-specific tax
Indonesia	10%	no telecom-specific tax
Bangladesh	15% VAT for Voice, SMS, VAS, Mobile apps and others (Effective VAT 17.25%) 5% for data (Effective VAT-5.75%)	15% Supplementary Duty, 1% Surcharge + BDT 200 Ownership
Sri Lanka	9.08% effective VAT	15% TL (telecoms levy) for voice and 0% for Data, 2.04% effective cess
Cambodia	10% VAT	3% Special Tax on Tariff
India	18%	no telecom-specific tax
Thailand	7%	no telecom-specific tax
Philippines	12%	no telecom-specific tax

Removing sector-specific consumer taxes would accelerate digital inclusion by facilitating access and usage of mobile services. As the EY and GSMA study (2018) demonstrates, such a reduction of consumer taxes would generate higher

government tax revenue and GDP in the medium term. This would result from the expansion of the mobile sector and the induced growth in productivity.¹²

11. Total effective tax rate on voice, SMS and others (MMS, VAS services excluding data and any other fees paid services) (33.25%) = VAT (17.25% - effective rate) + SD (15%) + SC (1%). Total effective tax rate on data (21.75%) = VAT (5.75% - effective rate) + SD (15%) + SC (1%).

12. EY, GSMA (2018). Reforming mobile sector taxation in Bangladesh.

6. Tax reform priorities to accelerate the digital economy in Bangladesh



As the evidence collected shows, the mobile sector in Bangladesh is subject to a high and complex tax burden that can jeopardise progress towards digital transformation and inclusion. The mobile sector tax regime could be made more conducive to Bangladesh's transformation to a digital economy by:

i. Aligning mobile sector taxation levels with the rest of the economy

- Removing the minimum turnover tax as recommended by FBCCI, or reducing it from 2% to 0.5% initially and to 0.25% in a 2nd phase to align it with the rest of the economy
- Reducing the corporate tax for non-public mobile operators from 45% to 30% and for public mobile operators from 40% to 22.5%

ii. Reducing sector-specific taxes on mobile consumers

- Removing the SIM tax (BDT 200)
- Eliminating the supplementary duty (15%) and surcharge (1%) on mobile internet
- Removing the supplementary duty (15%) and surcharge (1%) on the purchase of non-telecom services using airtime to align with other purchase methods

iii. Streamlining the tax assessment mechanism

A simpler, more certain tax system would reduce the cost of tax collection for the revenue authority and the mobile sector. Furthermore, it would facilitate the attraction of investment for the realisation of the Digital Bangladesh agenda.

The current tax system does not allow amortisation of certain business expenses despite being recognised as allowable for amortisation by the International Financial Reporting Standards (IFRS). As a result, the mobile sector and other sectors of the economy are unable to benefit from such amortisation.

As per the provisions of Section 30(B) of the Income Tax Ordinance, regardless of whether the business makes a loss or profit, disallowed expenses must be considered separately as income and are subject to regular corporate tax (45% or 40%). This provision is not aligned with the principle of income tax. It increases the mobile sector tax burden and effective tax rate of the sector.

Hence, legitimate expenses should be allowed to treat as expenditure during tax assessment and in case of any disallowance no tax should be imposed treating the expenses as income.

In addition, we also recommend to consider following elements under taxation reform:

- Reforming aspects of the tax system generating uncertainty
- Reviewing the Alternative Dispute Resolution (ADR) mechanism
- Aligning the amortisation of intangible assets with International Financial Reporting Standards (IFRS)
- Ensuring effectiveness of Double Taxation Avoidance agreement (DTAA).
- Reconsidering Corporate Social Responsibility (CSR) expenses treated as allowable expenditure



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