

Review of mobile taxes and fees in Bangladesh

Recommendations to accelerate digital transformation

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GSMA

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This report was produced by GSMA's Digital Infrastructure Policy & Regulation team as a contribution to the review of mobile taxation policy in Bangladesh, and we accept no responsibility for any other use that might be made of it. We thank members and colleagues who contributed to this report.

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1. Introduction



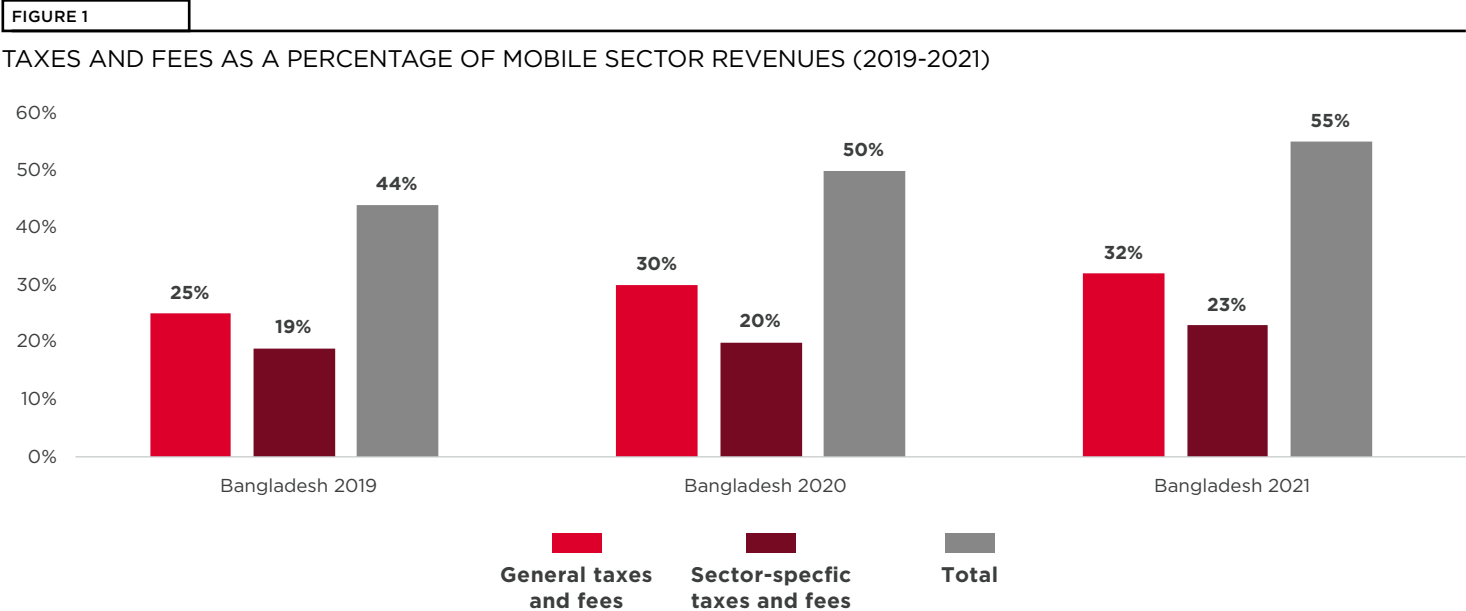
The mobile industry in Bangladesh makes a significant economic and social contribution. It plays an important role in driving digital transformation in the country and the mobile technology will be critical in achieving the vision of “Smart Bangladesh” by 2041. However, the tax contribution of the mobile sector is significantly higher compared to similar markets in the region and severely limits the capacity of the mobile industry to invest in the network which, in turn, impedes the realisation of Smart Bangladesh..

This report presents an overview of the mobile sector taxation in Bangladesh for the year 2021. Further, leveraging the GSMA’s experience as a global industry body on policy best practices, the report outlines key recommendations on tax reform, which the policymakers in Bangladesh could consider to balance the objectives of raising government revenues from the mobile sector while minimising unintended consequences of taxation on digital development in the country.

2. Tax contribution of the mobile sector



In 2021, the total tax contribution of the mobile sector amounted to BDT 155 billion, equivalent to 55% of mobile sector revenues. This is 11pp higher than in 2019 when the total tax payments represented 44% of the total mobile sector revenues and 5pp higher than in 2020 when the total tax contribution amounted to BDT 133 billion comprising about 49.8% of the total sector revenue (see figure 1). It is worth mentioning that one-off spectrum fees are not considered in the calculation of total tax payments, which means that the actual pay out could be even higher.

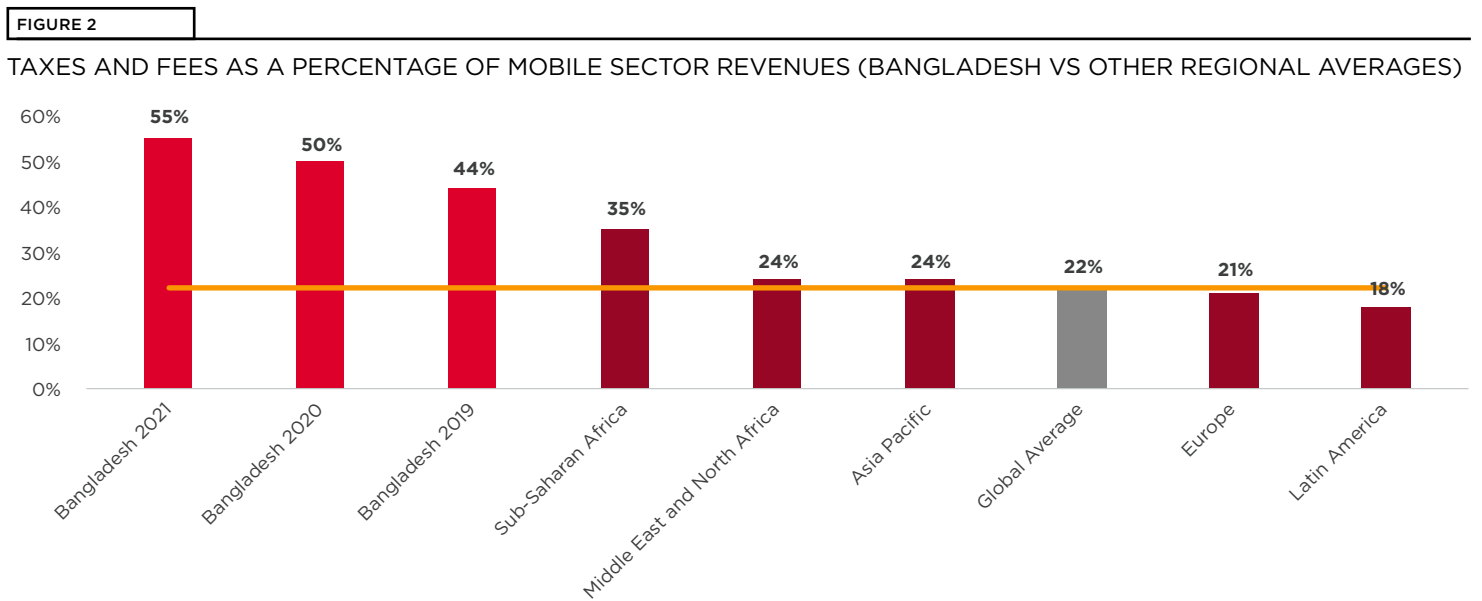


Source: GSMA Analysis and Operators data (2021)



In 2021, the mobile industry in Bangladesh made a large contribution in taxes and fees relative to its size in the economy (measured by market revenues as a proportion of GDP): The mobile sector contributed 5% of the total government revenues while it represented

only 1% of the economy¹. Furthermore, when compared internationally, the tax contribution of the mobile sector in Bangladesh remains considerably higher than other regional averages, and the global average (see figure 2).



Source: Operators data (2021) and GSMA Report- Rethinking the mobile taxation to improve connectivity (2019)

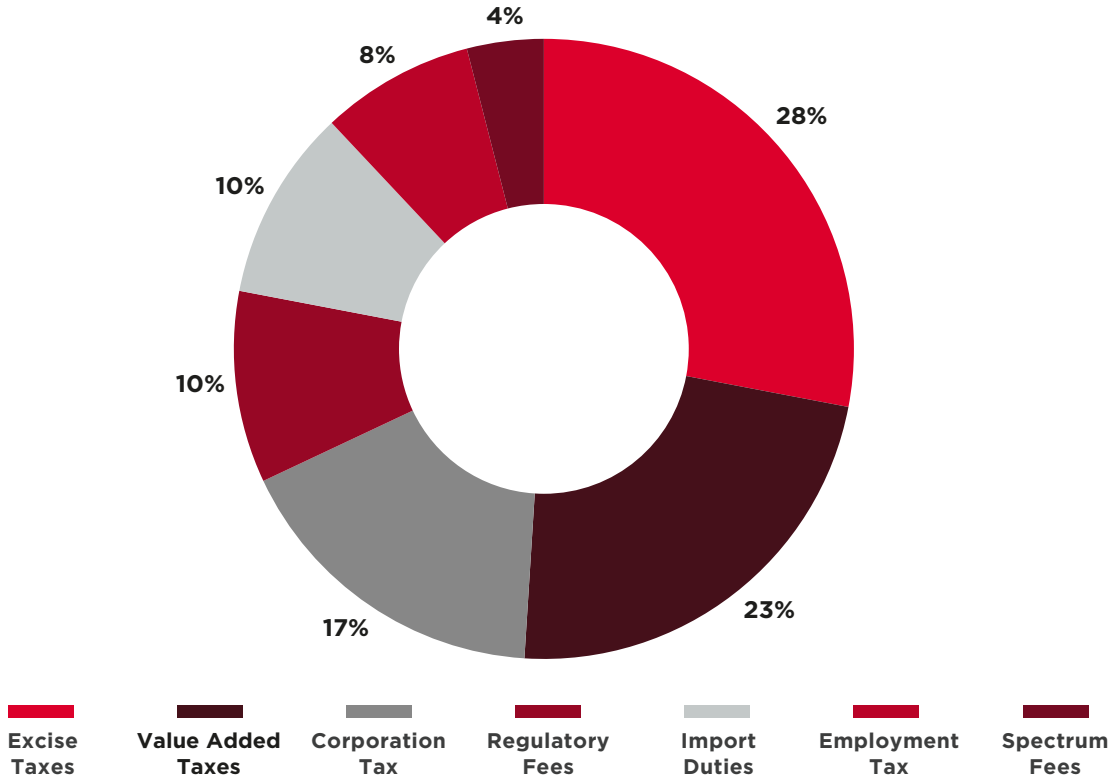
1. World Economic Outlook Database and operators data on total mobile sector tax payments (2021)

The high tax burden on the mobile sector in Bangladesh is mainly driven by sector-specific taxes and fees. As shown in figure 3, the sector-specific taxes namely excise taxes (28%), regulatory fees (10%),

and spectrum fees (4%)² amount to 42% of the total tax and fee payments. General taxes represent the remaining 58% of all tax payments made by mobile operators to the government.

FIGURE 3

TAX PAYMENTS SPLIT BY TYPE OF TAX AND FEE, BANGLADESH (2021)



Source: GSMA Analysis and Operators data (2021)

Mobile operators undertake significant investments to deliver and improve mobile services by expanding and upgrading mobile networks. Sustainable positive cash flow is the cheapest and sometimes the only form of financing available to support these investments. High tax payments reduce this

cash flow, restricting the amount that operators can further invest in infrastructure. Thus, maintaining a stable and balanced tax system will be necessary for Bangladesh to support sizable investments in the digital infrastructure.

2. This excludes spectrum auction payments.

3. Mobile tax rates in Bangladesh: Regional comparison



Mobile operators and consumers in Bangladesh are subject to a substantial tax burden, increasingly driven by sector-specific taxes and fees. The tax rates applied to the mobile sector are significantly higher than those in other countries in the APAC region. This section of the report provides a regional comparison of the corporate and consumer taxes applied to the mobile sector in Bangladesh.

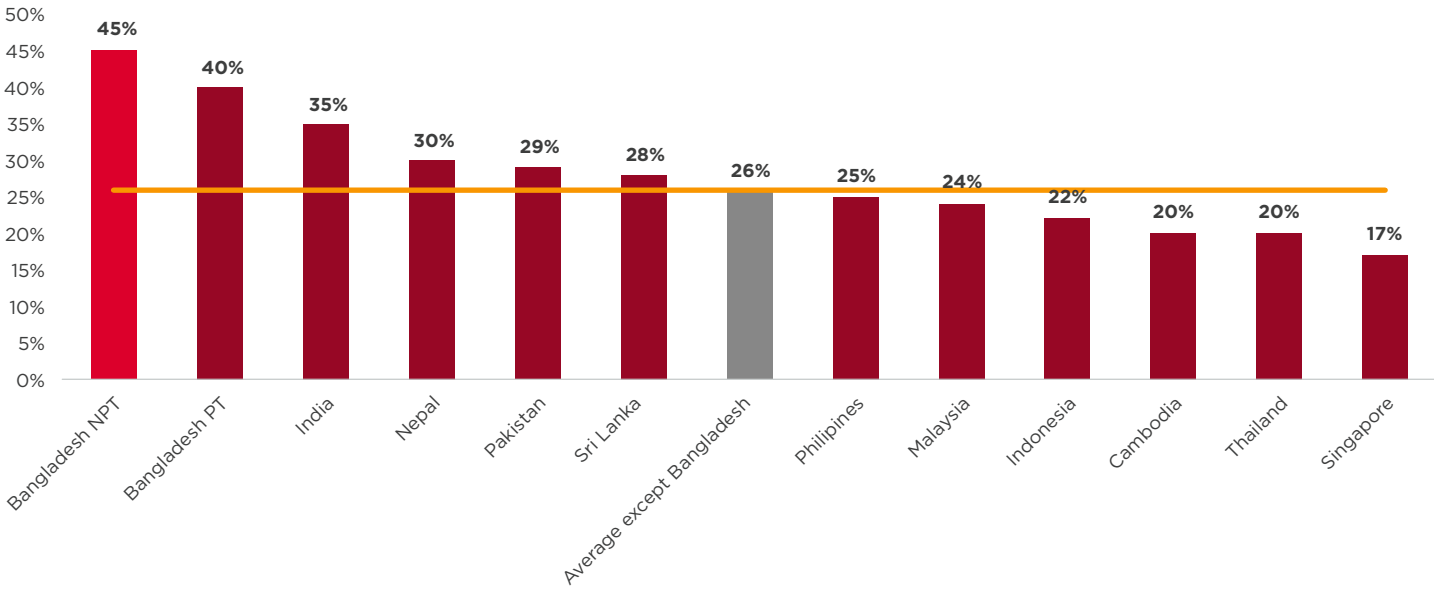
Mobile operator taxes and fees

The tax system applied to the mobile sector in Bangladesh continues to be complex with mobile operators subject to various taxes and fees³. 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 development of the mobile sector.

The corporate tax rate imposed on the mobile operators in Bangladesh is not regionally competitive. When compared to other countries, the rate of corporate tax rate applicable to the mobile sector is the highest in the region, and well above the region's average (see figure 4).

FIGURE 4

CORPORATE TAX RATES ON THE MOBILE SECTOR ACROSS THE COUNTRIES

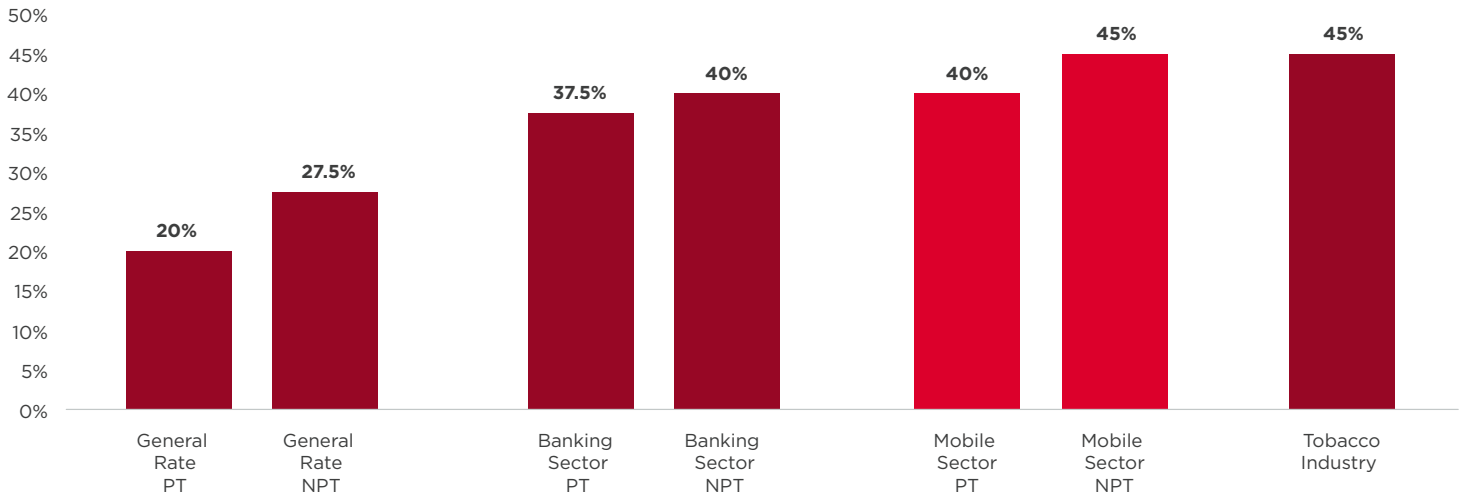


3. Please refer to table 1 in the annex, which outlines the different taxes and regulatory fees; operators pay in Bangladesh.

Moreover, the mobile sector in Bangladesh is discriminated against even when it comes to the application of general taxes as mobile sector is subject to a higher corporate tax rate compared to other economic sectors. As can be seen in figure 5, currently, the mobile sector in Bangladesh is subject to the highest corporate tax rate for publicly traded (PT) and

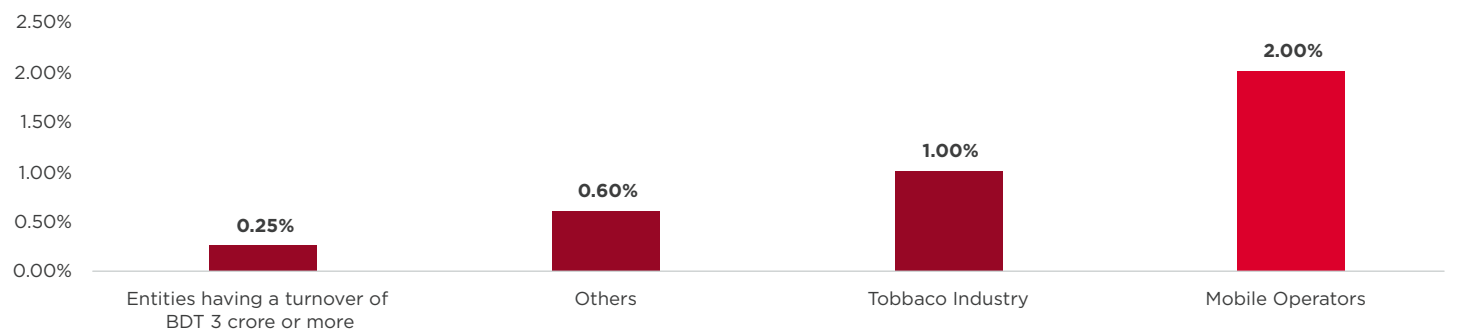
non-publicly traded (NPT) companies (40% and 45% of profit), compared to the general corporate tax rate of 20% and 27.5% of profit, respectively. It is worth noting that the mobile sector despite its significant positive externalities receives the same tax treatment as the tobacco industry having contrasted impacts on society.

FIGURE 5
CORPORATE TAX RATES ACROSS SECTORS IN BANGLADESH



Furthermore, the mobile sector is also subject to the highest minimum turnover tax rate (2% of gross receipts) while among other sectors, a rate between 0.25% to 1% applies.

FIGURE 6
CROSS-SECTOR COMPARISON OF MINIMUM TURNOVER TAX RATES



Source: GSMA Mobile Connectivity Index and GSMA Tax Database.

4. Table 2 in the annex, provides the list of the mobile consumer taxes in Bangladesh.



Mobile consumer taxes

Mobile consumers in Bangladesh also bear a high tax burden by paying general and sector-specific taxes. The combined sector-specific tax rate on mobile services in Bangladesh is one of the highest in the APAC region. After accounting for the effective VAT

rate (17.25%), supplementary duty (15%) and surcharge (1%), mobile consumers in Bangladesh bear a combined usage tax of 33.25% on mobile services. Not many countries in the region impose such sector-specific taxation on mobile services (see Table 1).

TABLE 1

CONSUMER TAXES ACROSS COUNTRIES (2022)

Country	VAT/Sales Tax	Mobile sector-specific tax
Malaysia	11%	6%
Bangladesh	17.25%	15% Supplementary Duty+1% Surcharge + BDT 200 Ownership
Sri Lanka	12%	26.41% for voice and DTH and 8.36% for data
Nepal	13%	13%
India	18%	No sector-specific tax
Indonesia	11%	No sector-specific tax
Thailand	7%	No sector-specific tax
Singapore	8%	No sector-specific tax
Philippines	12%	No sector-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) demonstrated, 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.⁵

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

4. Tax reform priorities to accelerate the digital transformation in Bangladesh



As the evidence presented in the report shows, the mobile sector in Bangladesh is subject to a significantly high and complex tax burden. These taxes constrain both the supply side (investment into the network) and the demand side (consumer uptake of mobile services) and can jeopardise progress toward digital transformation and inclusion.

The mobile sector tax regime could be made more conducive to the realisation of Smart Bangladesh by:

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

- **Removing the minimum turnover tax 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 the mobile sector to the general rate, i.e., for non-publicly traded mobile operators from 45% to 27.5% and for publicly traded mobile operators from 40% to 20%.**

2. 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 surcharge (1%) on the purchase of non-telecom services using airtime to align with other purchase methods.**

3. Streamlining the tax assessment mechanism

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

Annex

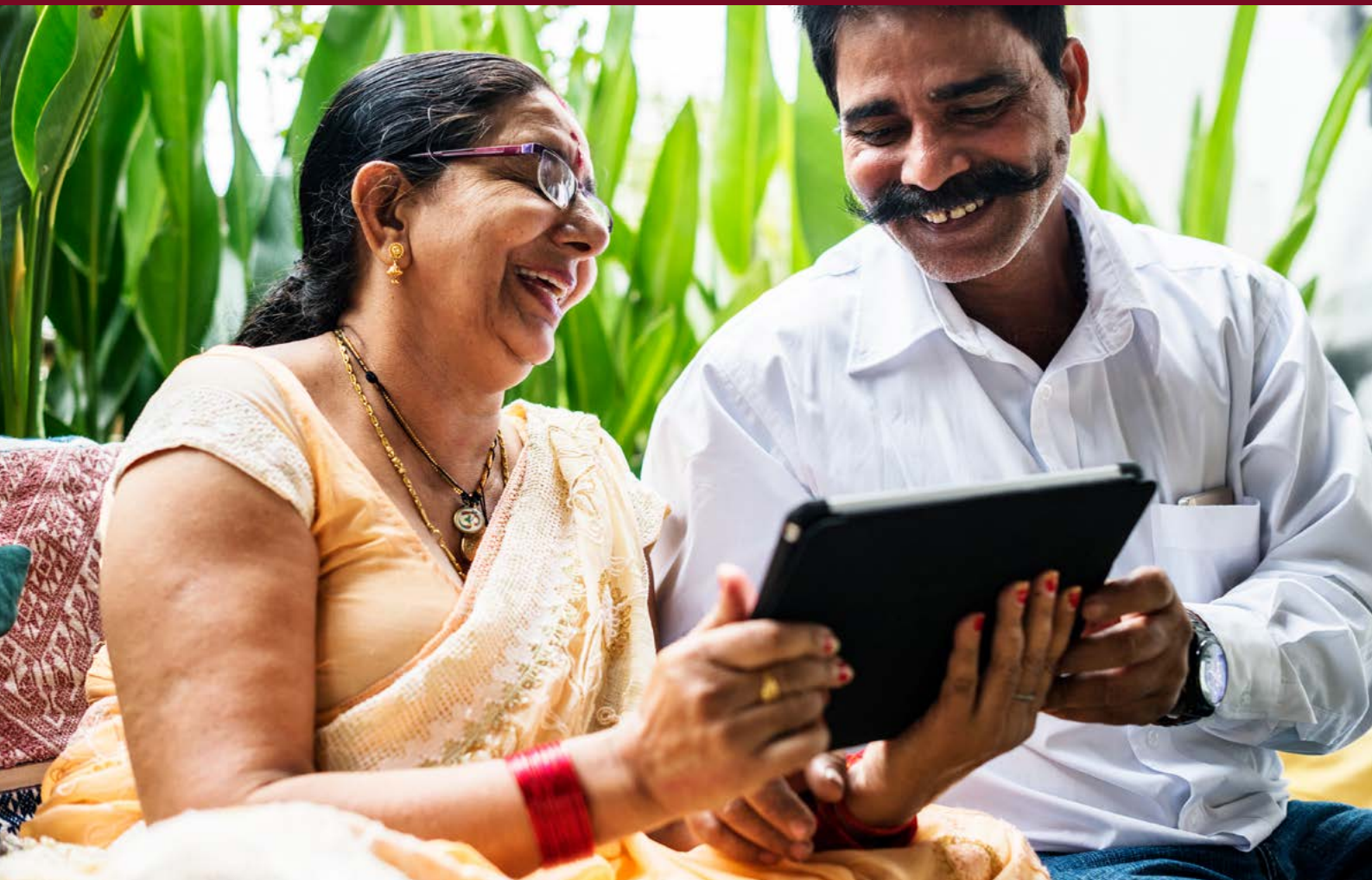


TABLE 2

OPERATOR TAXES AND FEES IN BANGLADESH

VAT/Sales Tax	Mobile sector-specific tax
Corporate taxes	
Corporate tax	45% (40% if a publicly traded company) on profit before tax
Minimum turnover tax	2% on gross receipts
Regulatory fees	
Annual license 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	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 the spectrum and regulatory payments	7.5% of payment
Custom duties	
Network equipment	1 - 25% of CIF value, depending on the Equipment type
Employment Taxes	
Workers profit participation fund	5% on net profit
Perquisite tax	45%/40% on amounts more than the maximum perquisite limit of BDT 1 million per employee per year
Withholding taxes	
Withholding tax	Various rates
Withholding VAT	Various rates
Other taxes	
Local taxes and fees (ex: display tax, tower tax, etc.)	Various rates

TABLE 3

CONSUMER TAXES ON MOBILE SERVICES IN BANGLADESH

Value Added Tax	Custom Duties	Excise Duties
Voice, SMS, VAS, mobile apps, and others: 15% on base tariff and SD (effective rate: 17.25%) ⁶	SIM cards: 25% on Cost, Insurance, and Freight (CIF) value	Supplementary Duty: 15% on base tariff
Data: 15% on base tariff and SD	Railway Development Levy (RDL): 2% on CIF value	Surcharge on services purchased through mobile airtime: 1% on base tariff or service value.
SIM card Tax/Replacement Tax: BDT 200 (\$2.4), per SIM card (applies to new SIM purchases, and when a mobile user replaces a SIM card due to migration from one operator to another, SIM card loss, technology upgrade, and SIM card being damaged)	Smartphones: 25% [Total tax incidence: 58.6%] ⁷	Revenue sharing of international outgoing calls: 30% on retail tariff less the carrier charge

6. The VAT effective tax rate is higher than the nominal rate because the tax base includes the supplementary duty in addition to the base tariff value.

7. In addition to customs duties, imported mobile handsets are subject to other taxes: advance income tax (5%), advance tax (5%), regulatory duty (3%), and VAT (15%). As a result, the total tax incidence on imported mobile handsets is 58.6% as reported by Bangladesh customs. Source: National Board of Revenue - Bangladesh customs, duty calculator, visited on 21 March 2023.





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