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Budget FY23: Focus on tax reforms

Tax base widening primary objective

- **Subsidies, tax reforms and external side key highlights:** FY23 budget will feature a size of BDT6,871bn (+14% YoY; 15.2% of GDP), with an expected deficit of 5.5% of GDP. The GDP growth target stands at 7.5% (+25bps YoY). Key highlights include higher subsidies (+23.8% YoY; 1.9% of GDP) on the expenditure side and widening tax base along with lower tax burdens on the revenue side. Other highlights include a focus towards FX earners - exporters, import substitution and capital repatriation schemes. Within the listed universe, tobacco, telecommunications, consumer electronics and automobiles are the key winners.

- **BATBC, GP and SINGERBD are the key winners in our coverage:** With increases in cigarette prices with no increase in tax rates, take rates for tobacco players are likely to improve. For telecommunications and consumer electronics, the key wins stem from lower revenue sharing/tax burdens.

- **Carrot and stick approach to taxation:** The broad taxation theme appears to be an effort to increase the tax base along with a reduction in tax burden. Most of the measures are targeted at making tax evasion more difficult. Measures include Document Verification Systems (came pre budget), mandatory tax filing for key purchases/registrations etc. On the carrot side, taxes have been slashed in vast majority of the cases; with the key highlight being a 2.5ppts cut in corporate tax rate for listed companies (with >10% in free float).

- **FX position appears to be a focal point:** Within the tax cut bracket, the primary winners appear to be exporters and companies focusing on import substitution. Tax rates on luxury imports such as premium vehicles have been hiked further. Along with that, a capital repatriation scheme has been introduced where undisclosed wealth abroad can be returned/whitened by paying a one-time tax of 7-10%; the 2.5% incentive on remittances will continue as well. In general, this appears to be a response to the external side pressures the country has been facing recently.

- **Debt monetization could be on the cards:** With 43% of the deficit expected to come from bank borrowing, we expect the central bank to continue its debt monetization efforts which have picked up in recent months. This appears to be an effort to offset the impact of USD sale to commercial banks which drain BDT liquidity from the money market.

Research Analysts

Waseem Khan, CFA
+8801700769515
waseem@edgeamc.com

Rahma Mirza
+8801758343332
rahma@edgeamc.com

Budget breakdown

Table 1: Budget Breakdown

	Actual 2020-21	Revised 2021-22	% of GDP 2021-22	Budget 2022-23	% of GDP 2022-23	Growth compared to FY22 revised 2022-23
BDT bn						
Total Tax Revenue	**3,287**	**3,890**	***9.8%***	**4,330**	***9.7%***	***11.3%***
NBR Tax	2,639	3,300	*8.3%*	3,700	*8.3%*	*12.1%*
Non-NBR Tax	59	160	*0.4%*	180	*0.4%*	*12.5%*
Non-Tax Receipt	589	430	*1.1%*	450	*1.0%*	*4.7%*
Total Expenditure	**4,602**	**5,935**	***14.9%***	**6,781**	***15.2%***	***14.2%***
Non-Development Expenditure	2,659	3,406	*8.6%*	3,732	*8.4%*	*9.6%*
Development Expenditure	1,695	2,219	*5.6%*	2,596	*5.8%*	*17.0%*
ADP	1,605	2,100	*5.3%*	2,460	*5.5%*	*17.2%*
Other Expenditure	248	310	*0.8%*	452	*1.0%*	*45.9%*
Fiscal Balance	**(1,315)**	**(2,045)**	***-5.1%***	**(2,451)**	***-5.5%***	***19.8%***
Financing						
External Source	481	802	*2.0%*	983	*2.2%*	*22.5%*
Domestic Source	826	1,243	*3.1%*	1,463	*3.3%*	*17.7%*
Banking Source	327	873	*2.2%*	1,063	*2.4%*	*21.8%*
GDP	**35,302**	**39,765**	***100.0%***	**44,500**	***100.0%***	***11.9%***

Source: Budget Speech FY23

Figure 1: Original Budget Expenditure FY20-FY23

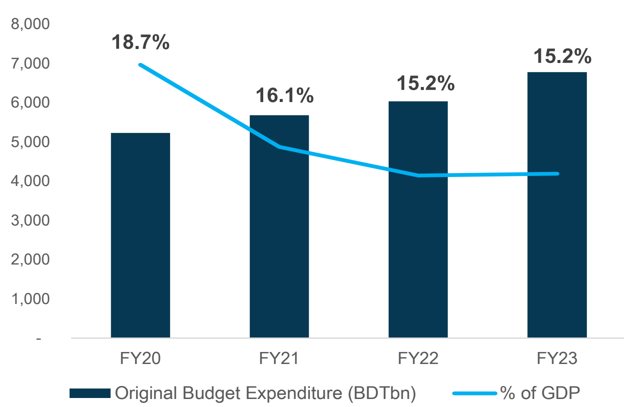


Figure 2 : Segment Wise Budget Allocation

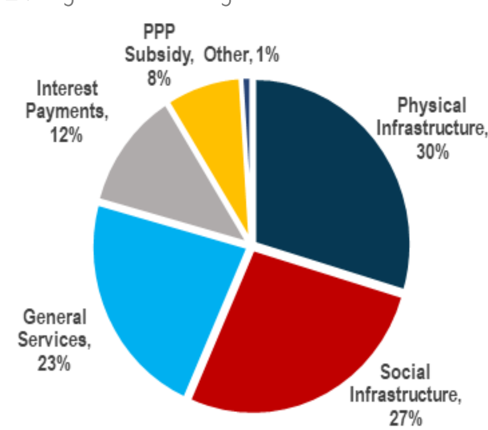


Figure 3: Budget Deficit

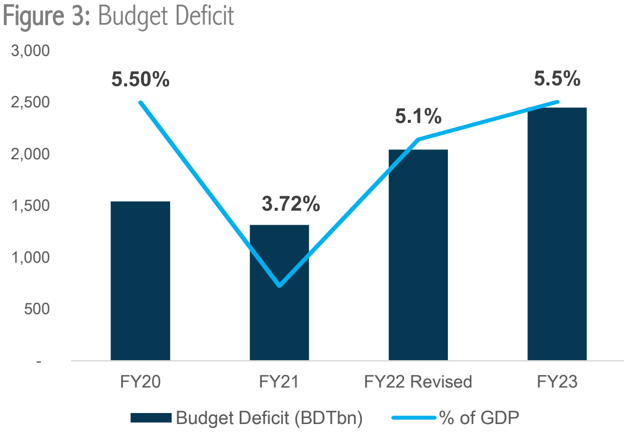
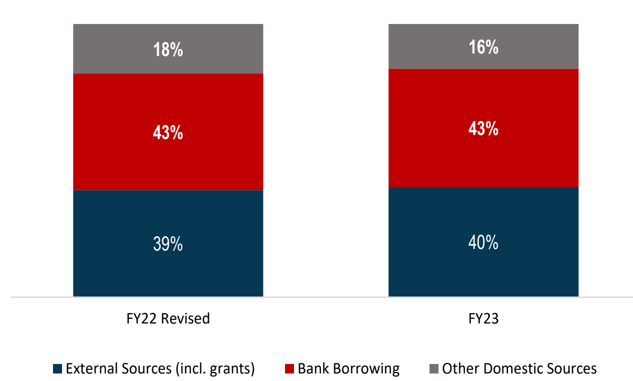


Figure 4: Deficit Financing Breakdown



Source: Budget Speech FY23

Coverage Rundown

- **BATBC:** BATBC is the key winner with FY23 budget as prices of cigarettes across all segments saw a hike without a corresponding hike in supplementary duty rates. This is likely to boost BATBC's take rate and by extension margins.

Table 2: Overview of cigarette prices and duty

Segment	FY22 Price (BDT)	FY23 Price (BDT)	*% cng*	SD
Low	39	40	*2.6%*	Unchanged from 57%
Medium	63	65	*3.2%*	
High	102	111	*8.8%*	Unchanged from 65%
Premium Segment	135	142	*5.2%*	

Source: Budget Speech FY23

- **GP:** VAT exemption on revenue sharing to BTRC against 4G mobile services provided.

- **SINGERBD:** The government seems to be incentivizing local production of home appliances and the budget included i) Continuation of existing exemption facilities on imported and local purchase of raw material and equipment till June 30, 2023, and ii) Extension of existing VAT exemption facility for production of compressors of refrigerators and freezers till June 30, 2025. On the negative side, full exemption of VAT will be withdrawn at the local manufacturing stage of refrigerators and freezers and 5% VAT will be imposed.

- **BRACBANK:** One of the conditions for enjoying lower corporate tax rate included in this budget requires all transactions above BDT1.2mn to be made through bank transfers (which includes MFS). This will likely be a win for bKash and the company may see a surge in digital money and transaction volume. Additionally, service charge on cash-out and send money has been proposed to be kept out of tax deduction at source.

- **Automobiles:** The key win is a continuation of the 20-year tax exemption that was initiated last year. Apart from that, premium imported vehicles are set to cost more due to higher tax brackets, which should help local producers as well.

Taxation policy targets wider base

Bangladesh has historically suffered from a low tax-to-GDP ratio (<8%). This was primarily because policy makers never made any concerted effort at increasing tax base or tackling tax evasion. In most cases, higher tax targets were being met via indirect taxes or higher tax incidence on the tax paying base. However, this time around, it appears the policy makers are finally changing gears to address this issue.

Broadly, the changes in tax policy boil down to increasing the tax base (by making evasion more difficult) and reducing tax charges. While lower taxes have been a theme in the last few budget as well, the steps taken for reducing tax evasion are considerably more this time around.

As per budget documents, Bangladesh has a middle income population of 40mn, while tax payer base currently stands at 7.5mn. Policy makers think this delta is primarily explained by tax evasion and the target for this budget is to push the tax payer base number to 10mn.

Highlights include:

- Mandatory tax filing criteria for individuals has been extended. Now almost all individuals doing large ticket transactions/purchases will be forced to file tax returns.
- Document Verification System will be used for corporate tax filing, which ensures financial statements submitted to tax officials, banks and company internals are the same.
- 250bps reduction in corporate tax rate for listed companies (to 20%) and non-listed companies (to 27.5%). For listed with more than 10% free float
- 12% corporate tax rate for all export oriented industries and 10% for green industries. Previously RMG was the only export sector enjoying this rate, while other sectors were taxed at the corporate tax rate. Textile manufacturers will enjoy 15% corporate tax rate till June 30, 2025 (was set to retire in 2022).
- Higher tax rebates for investments in eligible securities (for individuals).

Table 2: Overview of changes in corporate tax rates

Company Type	Existing Rates	Proposed Rates	Rate if Condition is not met
Publicly Traded Company (issued shares more than 10% of paid up capital)	**22.5%**	**20.0%**	22.5%
Publicly Traded Company (issued shares less than 10% of paid up capital)	22.5%	22.5%	25.0%
Non-listed Companies	**30.0%**	**27.5%**	30.0%
One Person Companies	**25.0%**	**22.5%**	25.0%

Source: Budget Speech FY23

*Condition: All receipts and income must be transacted through bank transfer and all expense and investment over BDT 1.2mn must be made through bank transfer (Includes MFS).

FX earners continue to be a focal point

The external side pressures seen recently has possibly pushed policy makers towards a more conservative external side approach. Beyond letting the currency depreciate, incentives introduced this year target exporters and import substitution via lower taxes.

Moreover, a one-off “money whitening scheme” will be introduced, allowing undisclosed wealth from abroad to be returned at a one-time tax fee of 7-10% (varies depending on type of asset).

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