

## A quick guide to Input Tax Credit in Bangladesh



Maximize VAT savings with Input Tax Credit

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## 1. What is an Input Tax Credit?

Input Tax Credit refers to the mechanism provided in the Value Added Tax and Supplementary Duty Act, 2012 (hereinafter referred to as “the VAT and SD Act, 2012”) which allows VAT-registered entities to claim credit for input VAT paid on goods and services used as inputs against the output VAT on taxable supplies provided through economic activities.

Proper documentation and compliance with regulatory requirements are essential for businesses to effectively utilize Input Tax Credit and optimize their tax liability.

## 2. Who is eligible for Input Tax Credit?

The manufacturers or suppliers who charge VAT at the standard VAT rate i.e., 15%, or subject to zero rate VAT, are eligible to claim input tax credit. The manufacturers or suppliers, who are subject to VAT rates other than the standard and zero rates, may opt to pay VAT at the standard VAT rate and claim input tax credit on eligible purchases.

*Input tax credit is only allowed for supplies of goods or services subject to the standard VAT rate and zero rate.*

## 3. What is the deadline for claiming Input Tax Credit?

The eligible VAT-registered entities must claim input tax credit through VAT Return in the same month when input is received or within the following four months. The eligible VAT-registered entities are not allowed to claim input tax credit or make decreasing adjustments beyond the stipulated timeframe through amendment of the VAT return.



## 4. What is Input tax?

Input tax means VAT paid (except advance tax) on goods and services imported as inputs and on goods and services procured as inputs from local sources.

## 5. What is Input?

Input tax credit is not eligible in respect of procurement of all goods and services. Section 2(18ka) of the VAT and SD Act, 2012, defines Input as raw materials, laboratory re-agent, laboratory equipment, laboratory accessories, all kinds of fuel, packing materials, services, equipment and spare parts. However, the following goods and services would not be considered as input:

- ✚ Labor, land, building, office equipment or fixture, building or infrastructure construction, modernization, replacement, expansion, reconstruction, and repair & maintenance.
- ✚ All kinds of furniture, office supplies, stationery, refrigerator and freezer, air-conditioner, fan, lights, purchase and repair of generator.
- ✚ Interior design, architectural planning and design.
- ✚ Purchase, rent, and lease of vehicles.
- ✚ Travel, Entertainment, Development, and Welfare of Employees and related goods and services.



- ✚ Rent of place and establishment.

Additionally, procurement of goods and services intended for sale, exchange, or transfer as part of business operations by an entity specified in Paragraph 03 of the Third Schedule of the VAT and SD Act, 2012 shall be considered as Input.

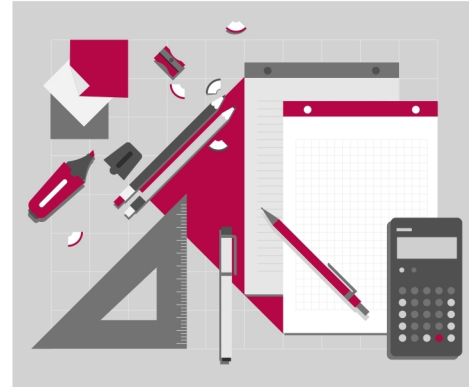
*Input tax credit will not be available for goods or services that do not fall within the definition of Input. Plant and machinery are part of inputs. Hence, VAT paid on the procurement of plant and machinery are eligible for input tax credit.*

## 6. What are the restrictions and conditions attached to Input Tax Credit?

Input tax credit is allowed subject to the restrictions and conditions as provided in Section 46 of the VAT and SD Act, 2012.

- ✚ Input must be used to manufacture taxable goods or provide taxable services.
- ✚ All input must be declared in the Input-Output Coefficient (i.e., VAT Form 4.3) by the manufacturer or suppliers of goods.
- ✚ A revised Input-Output Coefficient must be submitted if the total input cost or sales price changes by more than 7.5%.
- ✚ Input tax credit must be claimed through VAT Return in the same month when input is received or within the next four months.
- ✚ Payment must be made through a banking channel or mobile banking for supply beyond BDT 1,00,000.
- ✚ VAT liability on the import of services must be disclosed as output VAT in the VAT Return.
- ✚ The procurement of goods and services must be recorded in the statutory purchase register.
- ✚ The tax invoice must contain the name, address, and BIN of both the buyer and seller.
- ✚ No input credit can be claimed for Supplementary Duty and Turnover Tax.
- ✚ Goods must be supplied at a price higher than the cost of input.

- ✚ The supplier must have the custody and possession of goods, except for a contract manufacturing.



## 7. Input Tax Credit is not allowed in the following cases

- ✚ Acquisition or import relates to a passenger vehicle, or its spare parts or for the repair and maintenance services of such vehicle: **provided that** input tax credit may be allowed when dealing in vehicles, renting them out or supplying transportation services are included in the economic activities of any person and the vehicle is acquired for that purpose.
- ✚ Acquisition or import relates to entertainment or is used to provide entertainment: **provided that** input tax credit may be allowed when provision of entertainment relates to any person's economic activities and the entertainment is provided in the normal course of his economic activities.
- ✚ Acquisition relates to a person's membership or right of entry in a club, association, or society, of a sporting, social, or recreational nature.
- ✚ Acquisition relates to the cost of transportation services exceeding 80%.





## 8. What is the documentation required for Input Tax Credit?

The suppliers or manufacturers must preserve the following documents in support of input tax credit:

- ✚ In case of import, bill of entry.
- ✚ In case of local procurement, VAT invoice i.e. VAT Form 6.3/Mushak 6.3.
- ✚ Copy of treasury challan for payment of VAT against import of services.
- ✚ Input Output Coefficient must be filed.
- ✚ Invoices issued by authorized entities for services like gas, water, electricity, banking, insurance, port, and telephone as these are regarded as VAT invoices for claiming input tax credit.
- ✚ Additionally, invoices issued by banks, mobile banking companies, or digital banking gateways for payments made towards electricity bills will also be considered as VAT invoices for claiming input tax credit.

## 9. What is a partial Input Tax Credit?

Where the eligible VAT-registered entities provide goods or services in a combination of standard rate or zero rate and reduced rate, specified rate, or exempted items, input tax credit can only be claimed proportionally for the supplies made at standard rate and zero rate.

Entities will claim input tax credit during a tax period in accordance with Section 46 of the VAT and SD Act, 2012. After the end of the tax period, they must make an increasing adjustment to exclude input tax credit availed on supplies under reduced rates, specified rates, or exempted items in the VAT return for the relevant tax period.

## 10. Cancellation of Input Tax Credit availed on unused or unusable material

The eligible VAT-registered entities are required to reverse the input tax credit availed on unused or unusable materials by passing an increasing adjustment in the VAT Return.

### 10.1. Procedures for disposal of unused or unusable materials

The suppliers or manufacturers must apply to the Divisional Officer in VAT Form 4.4 seeking approval for the disposal of such materials. Once approval is obtained, they must make an increasing adjustment in the subsequent tax period to reverse the input tax credit availed on those unused/unusable materials.

## 11. Cancellation of Input Tax Credit availed on materials used in the manufacturing or production of goods that were damaged or destroyed in an accident

The eligible VAT-registered entities are required to revise the input tax credit either in full or proportion by passing an increasing adjustment in the VAT Return if any goods manufactured, produced, or stocked for supply are damaged or destroyed by accident making those un-suppliable.

### 11.1 Procedures for disposal of goods damaged or destroyed in an accident

The suppliers or manufacturers must apply to the Divisional Officer in VAT Form 4.5 within two days of the incident seeking approval for the disposal of such goods. The Divisional Officer will inspect and assess the condition of damaged goods. If the damaged goods can still be partially or fully supplied at a lower price, he will determine a reasonable price and output VAT payable thereon. Upon receiving instructions from the Divisional Officer, the suppliers or manufacturers must make an increasing adjustment in the subsequent VAT Return to revise the input tax credit already availed on materials used in the manufacturing or production of those goods. If the goods are completely damaged, the adjustment must be made in full for input tax credit already availed while for other cases on a proportionate basis.



## 12. Analysis of VAT benefits

Recently, the NBR has increased the reduced VAT rate for 43 goods and services to the standard VAT rate. Earlier, the suppliers or manufacturers of those 43 goods and services (since they charged VAT at rates lower than 15%) couldn't claim input tax credit on their purchases. This means they end up passing the full VAT cost onto customers. Considering their upgrade to the standard VAT rate, they will be able to claim VAT credit on the purchases. This could reduce their overall costs, allowing them to lower prices in the long run.

### 12.1 Current Situation (VAT at 7.5%, No Input Tax Credit)

- ✚ An entity buys materials for **BDT 1,000** and pays **15% VAT** on them, which is **BDT 150**.
- ✚ It sells goods for **BDT 2,000** (before VAT).
- ✚ VAT on sales at 7.5% is **BDT 150**.
- ✚ The entity cannot subtract the VAT paid on materials, so it adds the full VAT to the customer's price.

**Total Price to Customer:** BDT 2,150 (i.e. 2,000+150).

### 12.2 New Situation (VAT at 15%, Input Tax Credit Allowed)

- ✚ The entity still buys materials for **BDT 1,000** and pays the same **BDT 150** VAT.
- ✚ It sells goods for **BDT 2,000** (before VAT).
- ✚ VAT on sales at 15% is **BDT 300**.
- ✚ Since the input tax credit is allowed, the entity takes credit for the VAT already paid (**BDT 150**) on purchases.

**Net VAT paid:** BDT 150 (i.e. 300 -150)

**Total Price to Customer:** BDT 2,150 (i.e. 2,000+150)

### 12.3 How it reduces prices

In the second case, the entity pays less VAT to the government because of the input tax credit. This allows the entity to lower prices if it wants to. For example, if the entity decides to pass on half of the savings to the customer. The new price would be BDT 2,075 (i.e. 2,000+75).

### 13. Requirements

The suppliers or Manufacturers must comply with the provisions of the VAT and SD Act, 2012, and properly maintain books and records as required under the VAT and SD Act, 2012.

**For expert guidance on VAT compliance and Input Tax Credit claims, consulting a professional Chartered Accountancy (CA) firm can help businesses navigate the complexities of the tax framework while ensuring full regulatory adherence.**



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