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Govt offers tax breaks to develop semiconductor sector

JAGARAN CHAKMA

The government has announced a series of tax incentives for semiconductor and chip-related activities in a bid to develop a domestic ecosystem for the high-tech industry and create skilled jobs.

In his budget speech for FY2026-27 on Thursday, Finance Minister Amir Khosru Mahmud Chowdhury proposed exempting regulatory duty, supplementary duty, value added tax (VAT) and advance tax on raw materials used in semiconductor or chip design, testing and packaging until June 30, 2031. A 1 percent import duty will still apply on such imports.

The proposal is a part of a broader effort to strengthen the country's capacity in advanced technologies and diversify its export base.

The finance minister said Bangladesh produces a large number of engineering graduates each year, and that many Bangladeshi professionals already work in the global semiconductor industry.

He said the government has proposed the incentives for the sector "to harness their talent, create high-skilled employment and promote export-oriented growth".

The budget also set out plans to establish specialist laboratories for artificial intelligence (AI), semiconductors, robotics, machine learning and big data analytics.

It also outlined initiatives to strengthen national capacity in space research, semiconductor technology, and earthquake and seismographic research.

The government pledged continued support for researchers through the Science and Technology Fellowship Trust, saying investment in research and innovation would be critical to developing new technologies and preparing young people for the demands of the Fourth Industrial Revolution.

Industry stakeholders welcomed the move, saying the incentives could help attract investment in chip design, testing and packaging services, areas where Bangladesh already has a modest presence.

MA Jabbar, president of the Bangladesh Semiconductor Industry Association (BSIA), welcomed the proposed incentives, saying the industry had long engaged with policymakers to secure support.

"We have 21 member companies already invested in the local semiconductor sector," he said. "We met officials from the National Board of Revenue and later the finance minister to explain the need for policy support."

According to Jabbar, the country has strong potential to develop a skilled semiconductor workforce, particularly in chip design and related services.

"So far, we have trained around 1,200 semiconductor engineers and expect to develop another 3,000 within the next two years," he said.

While the country has yet to enter semiconductor manufacturing, local firms have established a foothold in chip design, a key segment of the global semiconductor value chain.

"Our current focus is design. We are also working to establish testing laboratories to gradually move towards manufacturing," Jabbar said.

He noted that the expanding global semiconductor market ... sustained support could generate high-skilled jobs, boost exports and attract foreign investment. "There is considerable potential for foreign direct investment in this industry. But first, we must build the ecosystem and strengthen the sector domestically."

In a statement, BSIA welcomed the fiscal and policy support for the semiconductor sector, saying it formally recognises activities such as IC design, electronic design automation (EDA), outsourced semiconductor assembly and testing (OSAT), packaging and fabrication within customs, tariff and VAT frameworks.

The association said exemptions from customs duty, regulatory duty, supplementary duty, VAT and advance tax on eligible inputs would lower costs, help attract investment, create skilled jobs and strengthen the country's position in the global semiconductor and deep tech industries.

Syed Almas Kabir, president of the Bangladesh Association of Software and Information Services (BASIS), described the incentives as a strategic step towards high-value technology manufacturing.

"The incentives are timely and aligned with global industry trends. However, their success will depend not only on tax benefits but also on the ability to develop skilled talent, strengthen infrastructure and foster industry-academia collaboration," he said.

According to Kabir, the tax relief for chip design, testing and packaging aligns policy support with the growing engineering talent base. "The real impact will come when these measures are backed by investment in advanced laboratories, stronger university-industry partnerships and a dedicated VLSI talent pipeline," he added.

He said countries such as Vietnam and Malaysia built successful semiconductor industries by developing complete ecosystems rather than relying solely on incentives.

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He said the government has proposed the incentives for the sector "to harness their talent, create high-skilled employment and promote export-oriented growth".

The budget also set out plans to establish specialist laboratories for artificial intelligence (AI), science and technology Fellowship Trust, saying investment in research and innovation would be critical to developing new technologies and preparing young people for the demands of the Fourth Industrial Revolution.

GOVT OFFERS

Tax exemptions until 2031

1% import duty retained

LOCAL INDUSTRY

1,200 engineers already trained

3,000 more engineers targeted

AI, semiconductor labs planned

GOALS

Create high-skilled jobs

Attract foreign investment

AI-assisted infographic

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"Our current focus is design. We are also working to establish testing laboratories to gradually move towards manufacturing," Jabbar said.

He noted that the expanding global semiconductor market presents opportunities for countries able to supply skilled talent and specialised services.

"If we are to capture a share of this market, policy support must continue. The incentives announced in the budget are a positive step," he said.

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Kabir also highlighted the potential role of the Bangladeshi diaspora, many of whom work at leading global companies including TSMC, Intel, Qualcomm, NVIDIA, AMD and Synopsys. A structured programme to engage these professionals, he said, could significantly accelerate the country's semiconductor capabilities.

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Textile millers alarmed by budget proposal

MONIRA MUNNI

Primary textile millers have expressed deep concern over a proposed budget measure to abolish the minimum value-addition requirement for exports produced from duty-free imported raw materials.

They warned that the move could weaken domestic backward-linkage industries, increase import dependence and even force some factories to shut down.

The concern stems from a proposal in the national budget for FY2026-27 to remove the existing 30 per cent value-addition requirement for exporting goods manufactured from duty-free raw materials imported against bank guarantees without a bond licence.

The government has also proposed extending the facility to 10 new sectors in addition to the existing eight industries - including readymade garments, leather goods and plastics - allowing them to import raw materials against bank guarantees without obtaining a bond licence.

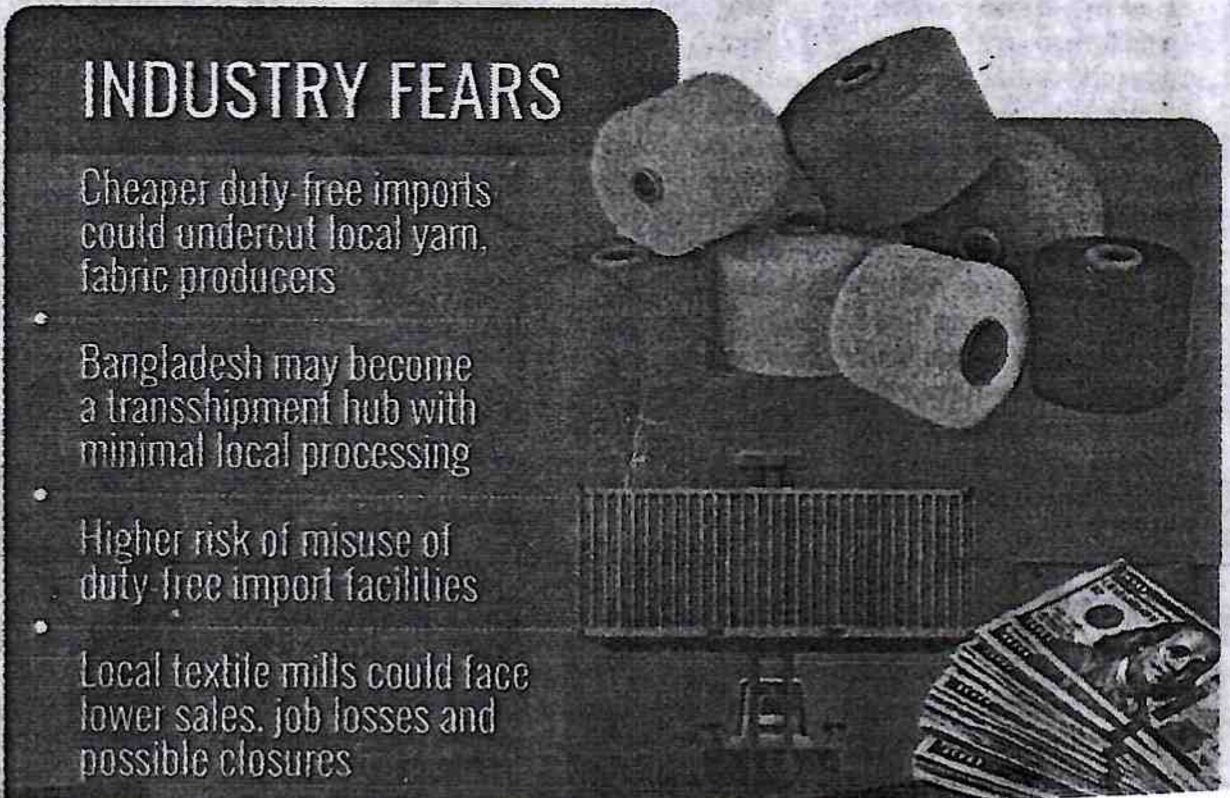
The measure has been proposed as part of efforts to expand export-oriented industries and diversify the country's export basket.

However, textile millers argue that the proposal could have unintended consequences for local backward-linkage industries, particularly the spinning, weaving and textile sectors that supply the garment industry.

They claim the facility would create uneven competition by allowing duty-free imported raw materials to flood the market, making it difficult for local producers to compete.

Industry leaders said the government could consider extending the facility to selected emerging sectors to support export diversification, but warned against applying it broadly, particularly to the readymade garment sector, the country's largest export earner.

They also argued that the proposal runs counter to the country's export-import policy, which requires a minimum level of value addition, and could complicate Bangladesh's efforts to secure preferential market access after graduating from Least Developed Country (LDC) status.



Speaking to the Financial Express, Md Salehud Zaman Khan, Managing Director of NZ Tex Group, described the proposal as a "suicidal decision" if implemented in its current form.

Explaining his concerns, he said exporters could theoretically import raw materials worth Tk100 and re-export products worth only Tk101, as there would be no minimum value-addition requirement.

"We are not against duty-free imports through bank guarantees, but there must be a value-addition threshold. There can be debate over whether it should be 25 per cent or 30 per cent, but some minimum requirement must remain," said Mr Khan, a former vice-president of the Bangladesh Textile Mills Association (BTMA).

He warned that Bangladesh could effectively become a transshipment route for foreign goods, creating risks related to rules of origin.

"Products made in China or elsewhere could simply be relabelled as 'Made in Bangladesh' with minimal processing," he said.

Value addition represents the country's net export earnings and should remain a key policy consideration, he argued.

Mr Khan further noted that after LDC graduation Bangladesh will no longer automatically enjoy duty-free market access in major export destinations such as the European Union, the United Kingdom, the United States, Japan and other markets.

To maintain preferential access under future trade arrangements, he said, Bangladesh would need to increase value addition in key export sectors to more than 40-50 per cent.

Industry insiders said the Ministry of Commerce has already begun discussions with trading partners, including the European Union, the United Kingdom and Japan, on Free Trade Agreements (FTAs), Comprehensive Economic Partnership Agreements (CEPAs) and other bilateral and multilateral trade arrangements aimed at preserving market access after graduation.

They noted that many of these negotiations place significant emphasis on value-addition requirements and rules of origin.

According to industry sources, double-stage transformation requirements under Product Specific Rules (PSRs) are expected to become increasingly important, while obtaining GSP+ benefits from the European Union would require at least 40 per cent value addition.

They added that current duty-free access to markets such as Australia and Canada already requires a minimum value-addition threshold of 50 per cent.

The issue of double-stage transformation has also featured prominently in recent trade negotiations concerning continued preferential access for Bangladeshi exports, they said.

Khorshed Alam, Chairman of Little Star Spinning Mills Ltd, alleged that the proposed measure could further increase misuse of duty-free import facilities at a time when the domestic market is already saturated with imported raw materials brought in under bonded arrangements.

He claimed local spinning mills are struggling to sell yarn and fabric because they cannot compete with imported alternatives.

According to Mr Alam, domestic spinners previously supplied textile inputs worth around US$12 billion annually to the local market, but that figure has now fallen to between US$7.5 billion and US$8.0 billion.

He alleged that the remaining demand - worth around US$4 billion - is being met through imports brought in under bonded facilities.

"If the value-addition requirement is abolished, our sales will decline further and many mills may face closure," said Mr Alam, who is also a BTMA director.

When asked for his assessment, Policy Exchange Bangladesh Chairman M Masrur Reaz described the proposal as "a development in the wrong direction".

Given Bangladesh's upcoming LDC graduation and ongoing negotiations over GSP+ facilities with the European Union, he said the country should focus on strengthening backward-linkage industries rather than encouraging greater reliance on imports. "Bangladesh needs to enhance its domestic industrial base and backward-linkage capacity to improve export competitiveness. This policy risks undermining that objective by encouraging imports," he said.

In an immediate reaction to the budget, BTMA President Showkat Aziz Russell urged the government to retain the value-addition requirement, taking into account the competitive challenges Bangladesh will face after LDC graduation.

He warned that removing the existing 30 per cent value-addition obligation for imports made under bank guarantees could pose serious risks to domestic industries and create opportunities for misuse of the facility.

"The withdrawal of the existing 30 per cent value-addition requirement on raw material imports through bank guarantees may pose a risk to local industry and there is a danger of abuse," he said.

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Tax framework shift in FY27

NSC investors, exporters may face higher liabilities

DOULOT AKTER MALA

A structural shift in the tax collection system is likely to increase tax liabilities for national savings certificate (NSC) investors and exporters from July 1, 2026, despite no significant increase in withholding tax rates.

The proposed Finance Bill 2026 introduces a fundamental change by treating taxes deducted at source on certain incomes as advance tax rather than final tax.

Currently, taxpayers enjoy concessionary tax treatment on income earned from savings certificates and export cash incentives.

Such income is generally not added to their other taxable income, and the tax deducted at source is considered the final settlement of tax liability.

Under the proposed framework, however, the deducted tax will be treated as advance tax, requiring taxpayers to include the income in their total taxable earnings and pay tax according to applicable rates for individuals and companies.

NEW TAX TREATMENT FROM FY27

KEY CHANGES

TDS WILL NO LONGER BE FINAL TAX FOR

- National savings tools
- Export cash incentives

- TDS will be treated as advance tax
- Income must be added to total taxable income
- Final tax payable will depend on applicable tax rates

NATIONAL SAVINGS CERTIFICATES

CURRENT SYSTEM

- 10% TDS
- No additional tax liability
- Interest income excluded from total taxable income

EXPORT CASH INCENTIVES

CURRENT SYSTEM

Source tax treated as final tax

ESTIMATED ADDITIONAL TAX BURDEN FROM FY'27

Exporter type	Corporate tax rate (%)	Possible additional tax
Green garment factories	10	**+5%** points
Others	12	**+7%** points

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The government has proposed reducing the source tax on export cash incentives from the next fiscal year. While the move appears to provide relief, exporters may ultimately face higher tax liabilities because of the change in tax treatment.

For NSC investors, the budget proposes three major changes.

First, investors will no longer be eligible for investment tax rebates if they encash savings certificates before maturity.

Second, profits earned from savings certificates by taxpayers who have other sources of income will be taxed at regular income tax rates rather than the existing concessionary rate of 10 per cent.

Third, the tax deducted at source on savings certificate interest will no longer be treated as final tax.

At present, NSC investors are not required to pay any additional tax on interest income once the 10 per cent tax is deducted at source.

From July 1, however, taxpayers with other income sources will have to include such interest earnings in their total income and pay tax at the applicable slab rates.

Taxpayers whose only income comes from savings instruments will continue to enjoy the reduced 10 per cent tax rate and may claim refunds if excess tax has been deducted at source, says a senior tax official.

Tax expert Lutful Hadee, an accounting professional, says the government could keep the investment rebate unchanged as it is an instrument of the government's borrowing.

He, however, welcomes the restructuring of the collection method as justified.

"The government is not altering the deduction rate; they are changing the tax framework. This effectively shifts Sanchayapatra from a tax-sheltered haven into a progressive investment, meaning higher-income earners will face a larger tax bill on their savings interest," tax expert Snehasis Barua wrote in a LinkedIn post.

The removal of the final tax provision for exporters is also expected to have significant implications.

For green garment factories that enjoy a 10 per cent corporate tax rate, exporters may have to pay an additional 5 percentage points in taxes either through adjustment of advance income tax (AIT) or at the time of filing returns.

For other exporters subject to a 12 per cent corporate tax rate, the additional tax burden could reach 7 percentage points.

As a result, exporters may face higher overall tax liabilities, although they could benefit from a temporary cash flow advantage due to the lower withholding rate.

Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) President Mohammad Hatem says taxes on export cash incentives already create cash flow challenges because exporters receive the incentives after a lengthy and cumbersome approval process.

"If tax liabilities increase because of the change in the collection method, exporters will face additional difficulties," he said.

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