

Withholding VAT
or
VAT Deduction at Source (VDS)

Withholding VAT – VAT Deduction at Source (VDS) Define

When a service receiver deducts its VAT paid on supply received is known as VAT Deduction at Source (VDS).

Withholding Features

- (a) Deducting applicable VAT by Supply Receiver during payment
- (b) It is called withholding because, consumer deduct tax and pay to treasury on behalf of registered person
- (c) It is called VDS because consumer is the real SOURCE of VAT and as a source they deduct VAT and pay to treasury.
- (d) Tax liability lies on registered person *ie* the Supplier
- (e) Withholding/VDS is the collection mechanism only
- (f) This process ease the collection mechanism

Adjustment of withholding VAT

(1) Adjustment for Registered WE

- ✓ will make a IA equals to the VAT withheld
- ✓ will pay before submission of return of the concerned tax period

(2) Adjustment for Registered supplier

- ✓ will make a DA equals to the VAT withheld
- ✓ adjustment to be done within next tax period from the concerned tax period of VDS
- ✓ Need to issue a combined tax invoice and withholding certificate in favor of WE for getting DA

Withholding Entities (WE)

Withholding entities are responsible to deduct VAT from their purchase payment. These are:

- ✓ Government Organization
- ✓ Semi- Government Organization
- ✓ Autonomous Body
- ✓ Non-Government Organization (NGO)
- ✓ Bank, Insurance and other financial institutions
- ✓ Educational Institutions
- ✓ Limited Company
- ✓ Firms having annual turnover more than 1 crore

Withholding Services

1. S002.00 – Decorators & Caterers (15%)
2. S003.10 – Motor Garage & workshop (7.5%)
3. S003.20 – Dockyard (7.5%)
4. S004.00 – Construction Firm (5.5%)
5. S007.00 – Advertising Firm (15%)
6. S008.10 – Printing Press (15%)
7. S009.00 – Auctioneer (15%)
8. S010.10 – Land Developer (3%)
9. S010.10 – Building Developer (3%)
10. S014.00 – Indenting Firm (15%)
11. S020.00 – Survey Firm (15%)
12. S021.00 – Plant & Capital Machinery renting firm (15%)

Withholding Services

13. S024.00 – Furniture Sales Center
 - Manufacturing - 6%
 - Trading – 4% (if invoice of manufacturing is there)
14. S028.00 – Courier & Express Mail Service (EMS) (15%)
15. S031.00 – Servicing of taxable goods (15%)
16. S032.00 – Consultancy & Supervisory Firm (15%)
17. S033.00 – Leasing Firm (Izaradar) (15%)
18. S034.00 – Audit and Accounting Firm (15%)
19. S037.00 – Procurement Provider (5%)
20. S040.00 – Security Service (15%)
21. S045.00 – Law Advisor (15%)
22. S048.00 – Transport Contractor
 - Petroleum Product (2.25%)
 - Other Product (5.5%)

Withholding Services

23. S049.00 – Rent-A-Car (15%)
24. S050.10 – Architect, Interior Designer, or Interior Decorator (15%)
25. S050.20 – Graphic Designer (15%)
26. S050.20 – Engineering Firm (15%)
27. S052.00 – Sound and Lighting system Rent (15%)
28. S053.00 – Board Meeting Attendee (15%)
29. S054.00 – Advertisement broadcasting through satellite channel (15%)
30. S058.00 – Chartered Plan or Helicopter (15%)
31. S060.00 – Buyer of Auctioned goods (4%)
32. S065.00 – Cleaning of floor, yard (15%)
33. S066.00 – Seller of Lottery Ticket (15%)

Withholding Services

- 34. S071.00 – Event Management Firm (15%)
- 35. S072.00 – Human Resource supply or management firm (15%)
- 36. S099.10 – Information Technology Enabled Service (4.5%)
- 37. S099.20 – Miscellaneous Service (15%)
- 38. S099.30 – Sponsorship Service (7.5%)

Special provision of Withholding

- ✓ Withholding Entities should not issue purchase order/work order/NOA to a non-registered supplier.
- ✓ Generally VDS is not applicable for other services not enlisted for VDS. But, if such a service provider provide services and not issue a valid VAT invoice, then Withholding entity should deduct 15% VAT.
- ✓ VAT is applicable on license fee and should be deducted by issuing authority.
- ✓ VAT should be deducted by bank during payment of import value of cross border transaction of service.
- ✓ VAT is not deductible against supply of manufacturer or trader using Mushak-11 invoice.

Procurement Provider

- ✓ It's a combination of multiple business.
- ✓ Small purchases like cash purchase against voucher, RFQ, Direct Purchase, etc. are also subject to VDS under the scope of procurement provider.
- ✓ Any goods or service exempt by Schedule of VATA1991 is not subject to VDS under the scope of procurement provider.
- ✓ Any other goods or service exempt by SRO or GO or SO are subject to VDS under the scope of this service
- ✓ Manufacturer should not be considered as Procurement Provider

Responsibility of the WE

- ✓ Calculate accurate amount of VAT for deduction. It could be VAT inclusive or VAT exclusive calculation.
- ✓ Deposit deducted money to Treasury within 15 days of deduction using TR-6 form
- ✓ Use proper Economic Code 1/1133/0000/0311
- ✓ Third 4-digits is the code of concern VAT Commissionerate where the WE located.
- ✓ The Commissionerate's code are: (1) Khulna - 0001, (2) Jessore - 0005, (3) LTU-VAT – 0006, (4) Dhaka (South) – 0010, (5) Dhaka (North) – 0015, (6) Sylhet – 0018, (7) Rajshahi – 0020, (8) Chittagong – 0025, (9) Dhaka (East) – 0030, (10) Dhaka (West) – 0035, (11) Comilla – 0040, (12) Rangpur – 0045.

Responsibility of the WE

- ✓ Fill TR-6 form properly. Write the name and BIN of supplier so that he can take credit.
- ✓ Issue withholding certificate to the supplier in [Mushak-12Kha](#) form within 5 working days of deposit to treasury.
- ✓ Send one copy of Mushak-12Kha with TR-6 to the Commissioner of the area where WE is located.
- ✓ Attach TR-6 with Mushak-12Kha form
- ✓ Preserve all documents for 6 years

Fine for failure

- ✓ Both supplier and WE are responsible for any failure
- ✓ Monthly 2% interest should be charged on unpaid VAT
- ✓ Commissioner may impose 25, 000/- personal penalty on responsible person(s)
- ✓ Penal section 37 of VAT Act, 1991 is applicable for any other irregularities.

What are the responsibilities of a business?

1. Get registered or enlisted or NOT
2. Receive Invoices of business purchases
3. Follow proper valuation method
4. Issue sale invoices
5. Follow standard accounting
6. Maintain books of accounts
7. Use BIN in all documents
8. Deduct withholding VAT
9. Pay VAT on time
10. Send VAT documents to Circle office
11. Preserve Documents for specified period
12. Submit Return on time
13. Assist VAT Audit
14. Inform VAT authority of changes to the business

What is the responsibility of an end-consumer?

- ✓ **Only 1 fundamental responsibility!!**

Ask shopper to give you a VAT invoice (Mushak-11) along with the goods or service you have bought.