

Tax & Value Added Tax—In View of Bangladesh

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Abstract

Most developing countries are increasingly focusing on domestic resource mobilization toward economic development. In this context, tax performance is of crucial importance, especially for a developing country, since it is the prime source for domestic resource mobilization. This article reviews the incidence of income taxation in Bangladesh tax system. The main purpose of the study is to determine how the burden of personal and corporation income taxes is allocated among taxpayers of different income groups. Bangladesh faces many problems in raising sufficient tax revenues to fund its economic and social development. To address this problem and to improve economic efficiency and growth, a major tax reform program was initiated in 1991 which centered on the introduction of a value-added tax (VAT) to replace a range of narrowly-based consumption taxes. This study works as a linkage between theory and practice on Value Added Tax. In this Article focus on the tax, Value added tax, tax in history, definition, collecting problem, advantage, and disadvantage.

Keywords: Tax; NBR; Value Added Tax; Social; Corporate; Economy; Government; Bangladesh.

1. Introduction

The term ‘tax’ has been derived from the French word ‘taxe’ and etymologically, the Latin word ‘taxare’ is related to the term ‘tax’ which means ‘to charge’.

‘Taxes are compulsory payment to govt. without expectations of direct return in benefit to the tax payer’. [P. E. Taylor]

‘A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not imposed as penalty for any legal offense’-[Dalton]^[1]

Tax means income tax payable under this ordinance and additional tax, excess profit tax, penalty, interest, fees or other charges liveable or payable under this ordinance. [sec.2(62) of the income tax ordinance, 1984]

To tax is to impose a financial charge or other levy upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law.

2. Classification of Tax in Bangladesh

2.1. Direct Tax

A direct tax is a form of tax is collected directly by the government from the persons who bear the tax burden. Taxable individuals file tax returns directly to the government. Examples of direct taxes are corporate taxes, income taxes, and transfer taxes.

2.2. Indirect Tax

An indirect tax is a form of tax collected by mediators who transfer the taxes to the government, and also perform functions associated with filing tax returns. The customers bear the final tax burden. Examples of indirect taxes are sales tax and value added tax (VAT).

There are other types of taxes, which may either be direct tax or indirect taxes, including capital gains tax, corporation tax, consumption tax, inheritance tax, property tax, excise duty, retirement tax, tariffs, wealth tax or net worth tax, toll tax, and poll tax.^[2]

3. History of Taxation

The history of income tax in the country dates back to 1860 when it was introduced in this country by the British ruler under the title Income Tax Act, 1860. Thereafter till today various types of changes and developments have taken the place.

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According to Article 152(1) of the Constitution of Bangladesh, taxation includes the imposition of any tax, rate, duty or impost, whether general, local or special, and tax shall be construed accordingly. Rate is a local tax imposed by local government omits residents or the property owners of the locality, a duty is a tax levied on commodity, and an impost is a tax imposed for an entry into a country. Under the provision of article 83 of the Constitution, "no tax shall be levied or collected except by or under the authority of an act of parliament"

3.1. 1860-1916

Under British rule, the General Income Tax in line with the English Act first introduced in the year 1860. It continued up to 1867 when it was withdrawn and suspended. In that year, however, it was reintroduced as the License Tax Act, 1867. In 1868 its name was changed as the Certificate Act, 1868. On 1st April, 1873 the income tax was withdrawn but reposed in 1877 under the title License Tax Act, 1877. Latter on the Income Tax Act, 1886 came into force with some amendment in the former Act.

3.2. 1916-1922

In 1916 the Income Tax Act, 1886 was amended further by the Income Tax (Amendment) Act, 1916 and a graduated scale of income tax was introduced for the first time. In 1918 the said Act was superseded by Income Tax Act of 1918 and distinction was made between '*Total*' and '*Taxable Income*'.

3.3. 1922-1947

In 1921 an All India Committee was formed and on the basis of its recontamination Income Tax Act 1922 was enacted. In 1935 the British Government appointed an Expert Committee and on the recommendation of the committee some amendments were made. In 1944 the provisions were made for '*Pay as You Earn*' Scheme and in 1945 distinction was made between '*Earned*' and '*Unearned Income*'.

3.4. 1947-1971

In 1947 the then Pakistan (*of which Bangladesh was its eastern wing*) after its independence adopted the Income Tax Act 1922. In June, 1958 Taxation Inquiry Committee was set up which submitted its report recommending simplification of the Act^[3]

3.5.1990-2018

Bangladesh's Tax Revenue was reported at 3.297 USD bn in Jun 2018. This records an increase from the previous number of 2.148 USD bn for May 2018. Bangladesh's Tax Revenue data is updated monthly, averaging 370.313 USD mn from July 1990 to Jun 2018, with 336 observations. The data reached an all-time high of 3.297 USD bn in Jun 2018 and a record low of 87.797 USD mn in Jul 1990. Bangladesh's Tax Revenue data remains active status in CEIC and is reported by CEIC Data. The data is categorized under World Trend

Plus's Global Economic Monitor – Table: Tax Revenue: USD: Asia. CEIC converts monthly Tax Revenue into USD. Bangladesh Bank provides Tax Revenue in local currency. Bangladesh Bank average market exchange rate is used for currency conversions. Tax Revenue covers Central Government only.

4. Installment of Collecting Income Tax in Bangladesh

Section 2(35) of the ITO, 1984 indicates income year as the period for which the total income of an assessed thereof January to December; and for other assesses July to June is calculated.

4.1. 30th September in case of non-companies and

4.2. 31st December in case of companies

5. Several Types of Assessment of Tax

5.1. Self-assessment

5.2. Spot assessment

5.3. Presumption assessment

5.4. Pre-audit based assessment ^[4]

6. Bangladesh Income Tax Rates

Bangladesh personal income tax rates for assessment year 2010 – 2011 is progressive up to 25%.

Bangladesh Income Tax Rates for individuals other than female taxpayers, senior taxpayers of 65 years and above and retarded taxpayers – Assessment Year 2010 – 2011

First	BDT	1,65,000	Nil
Next	BDT	2,75,000	10%
Next	BDT	3,25,000	15%
Next	BDT	3,75,000	20%
Rest Amount		25%	

Maximum tax for individual is taka 2,000 non-resident individual: 25% other than non-resident Bangladeshi on dividend income: 20% ^[5]

7. Problems for Collecting Income Tax

There are several problem collecting in income tax. Some vital problem is showing:

7.1. Pillars of Tax Protesters as well as Tax Resistance

Some of those attempting not to pay tax believe that they have uncovered interpretations of the law that show that they are not subject to being taxed: these individuals and groups are sometimes called tax protesters.

An unsuccessful tax protestor has been attempting openly to evade tax, while a successful one avoids tax. Tax resistance is the declared refusal to pay a tax for conscientious reasons (because the resister does not want to support the government or some of its activities). Tax resistors typically do not take the position that the tax laws are themselves illegal or do not apply to them (as tax protesters do) and they are more concerned with not paying for particular government policies that they oppose.

7.2. Responses to tax avoidance

Avoidance also reduces government revenue and brings the tax system into disrepute, so governments need to prevent tax avoidance or keep it within limits. The obvious way to do this is to frame tax rules so that there is no scope for avoidance. In practice, this has not proved achievable and has led to an ongoing battle between governments amending legislation and tax advisors' finding new scope for tax avoidance in the amended rules.

7.3. Tax evasion

By contrast, tax evasion is the general term for efforts by individuals, firms, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned; or overstating deductions)

7.4. Evasion value added tax

During the latter half of the twentieth century, Value Added Tax (VAT) has emerged as a modern form of consumption tax through the world. Producers who collect VAT from the consumers may evade tax by under-reporting the amount of sales.

7.5. Public opinion on tax avoidance

Tax avoidance may be considered to be the dodging of one's duties to society, or alternatively the right of every citizen to structure one's affairs in a manner allowed by law, to pay no more tax than what is required. Attitudes vary from approval through neutrality to outright hostility. Attitudes may vary depending on the steps taken in the avoidance scheme, or the perceived unfairness of the tax being avoided.

7.6. Corruption by tax officials

Corrupt tax officials cooperate with the tax payers who intend to evade taxes. When they detect an instance of evasion, they refrain from reporting in return for illegal gratification or bribe. Corruption by tax officials is a serious problem for the tax administration in a huge number of underdeveloped countries. ^[6]

8. Value Added Tax Features in Bangladesh

The main features of VAT in Bangladesh are as follows:

1. VAT is imposed on goods and services at import stage, manufacturing, wholesale and retails levels;
2. A uniform VAT rate of 15 percent is applicable for both goods and services;
3. 15 percent VAT is applicable for all business or industrial units with an annual turnover of Taka 2 million and above;
4. Turnover tax at the rate of 4 percent is livable where annual turnover is less than Taka 2 million;
5. VAT is applicable to all domestic products and services with some exemptions;
6. VAT is payable at the time of supply of goods and services;
7. Tax paid on inputs is creditable/adjustable against output tax;
8. Export is exempt;
9. Cottage industries (defined as a unit with an annual turnover of less than Taka 2 million and with a capital Machinery valued up to Taka 3, 00,000) are exempt from VAT;
10. Tax returns are to be submitted on monthly or quarterly or half yearly basis as notified by the Government;
11. Supplementary Duty (SD) is imposed at local and import stage under the VAT Act, 1991. ^[7]

9. Advantages of VAT

The introduction of VAT Concept was a spectacular fiscal phenomenon. Within a short period of time,

This tax has exploded from its rudimentary form to become the state-of-the-art tax on goods and services all around the globe. Today the VAT has come to be acclaimed more and more as the most efficient, broad-based and revenue-productive system of indirect taxation. In recent times VAT has been increasingly adopted by many developing countries around the world that share with Bangladesh the same policy objectives of development and socio-economic stability and are subject to the same constraints that may affect the efficiency of the tax administration. The advantages of Value Added Tax are as follows:

1. **Neutrality** The greatest advantage of the system is that it does not interfere in the choice of decision for purchases. This is because the system has anti-cascading effect. The system is neutral with regard to

choice of production techniques, as well as business organization. All other things remaining the same, the issue of tax liability does not vary the decision about the source of purchase.

2. **Certainty and Transparency:** The VAT is a system based simply on transactions. Thus there is no need to go through complicated definitions like sales, sales price, turnover of purchases and turnover of sales. The tax is also broad-based and applicable to all sales in business, thus there is little room for different interpretations. Similarly, due to the basic feature that it gives credit of tax paid on earlier stage, the buyer will always ask for invoice. Thus the scope of tax avoidance or evasion will be much less. The disputes will also be fewer. This system brings certainty to a great extent as the buyer knows, what tax component is. Thus, the system ensures transparency also.
3. **In Widespread Use** VAT is in use in well over sixty countries throughout the world. In its usual form, it is a transaction-based consumer tax applicable to both goods and services, with the invoice (on which the VAT liability may be shown separately) acting as the basic evidential document. It is neutral in effect, the tax
4. **Harmonized System of Taxation** VAT became popular because of its built-in advantage of harmonizing the tax structure. It leaves very small room for interpretation. Ideally under VAT, there should be only one basic rate. In any case, typically, VAT involves lowering the number of tax slabs/rates resulting in Reduction of litigation.
5. **Better Revenue Collection and Stability:** The Government will receive its due tax on the final Consumer/retail sale price. There will be a minimum possibility of revenue leakage, since the tax credit will be given only if the proof of tax paid at an earlier stage is produced. Another attribute of VAT is that it is an exceptionally stable and flexible source of government revenue. The stability of VAT as a revenue source stems from the fact that if consumption is less volatile the income system provides a flexible instrument of taxation, since it is collected on a current basis. The decision about revenue can also be taken correctly as variance in rate of tax has directed relation with revenue collection.
6. **Exports:** VAT frees exports from the burden of tax in that the tax paid on inputs can be identified and recovered by the exporter. Consequently, goods enter into international trade on an equal footing in this respect with those from other countries.
7. **VAT as an Aid to Tax Reform:** A full VAT paid on importations and extending throughout manufacturing, wholesale/distribution and retail businesses – and including services – provides a wide tax base and, depending on the state of the economy, a buoyant source of revenue.
8. **Planning Skills:** In order to produce good results, the introduction of a VAT, whether a full or partial

9. **Increased Administrative Capabilities:** The introduction of a VAT will require the drafting of new law and new regulations. For the administration, this will involve the setting up of new organizational structures, the designing of new procedures and forms, writing of new instructions, arranging for the provision of better Management information and statistics, etc. This gives the administration the opportunity to develop new skills and abilities which can subsequently be deployed right across the tax systems. A necessary feature of a VAT is the introduction of computer systems or the enhancement of those currently in operation.
10. **New Relationship with Taxpayers:** In some developing countries, contacts between the administration and the taxpayers are limited to routine control duties and to enforcement and audit activities. Introducing a new tax allows a fresh approach to be made. Publicity campaigns can be designed with a view to improving the taxpayer 's view of officialdom.
11. **Better Record keeping by the Business Community:** The control of VAT rests on the use of invoices and the keeping of records by the taxpayers. In this connection, much will depend on the level of turnover at which businesses are required to register for tax. If the level is set too low, the cost of adequate control may become excessive. Good publicity aimed at the education of taxpayers in the requirements of the tax will facilitate its administration and can lead, in time, to a general improvement in business procedures.
12. **Use of Unique Numeric Identifiers:** For a VAT it is essential that each business registered for the tax is identified by means of an identification unique number to that business. Where a suitable system of numbering already exists, it should be used for the VAT. Where it does not, a system of unique numbers (incorporating check digits) will have to be developed.
13. **Training:** An Essential Element of Progress in neglected areas in many administrations is training. Good training is expensive to design and carry into effect, but the rewards are great. Work is done better and complaints are fewer; there is greater flexibility in the use of staff whose morale and motivation are improved. As a result, costs are reduced. To introduce a new tax with any degree of success, staff at all levels must be well trained – from junior clerks to top management. This provides a further opportunity to improve on past performance. In the case of VAT, the experience is gained in such matters as reviewing and redesigning training organizations, obtaining accommodation where this is currently inadequate, obtaining modern training equipment, preparing new course material, examining and improving training methods. VAT simplifies tax administration and increases efficiency in resource allocation.

liability on sales (outputs) being offset by the tax paid on purchases (inputs). It thus avoids —cascading; tabbing paid again on goods which have already borne tax, which frequently occurs in the case of general sales taxes (—creditll) system, needs to be carefully planned. This requires the setting up of a team dedicated to the work and allows new skills to be developed, possibly with the assistance of consultants who have been involved in such projects in other countries.

10. Disadvantages of VAT

Despite having the above advantages, the VAT is not free from its limitations. No matter how well efficient and effective a system is developed but it has to face its part of limitation. The disadvantages of VAT are as follows:

1. **Price Effect of VAT on Retail Price:** A persistent criticism of the VAT form has been that since the tax is Payable on the final sale price, the VAT usually increases the price of the goods. However, there appears to be an intrinsic reason as to why should have any inflationary impact if it merely replaces the existing equal yield tax. It is possible that the final price under the VAT system may not be more than the price under the sales tax system. A survey of the price effect of introducing in more than 130 countries resulted in a conclusion that in more than 80% countries it did not alter the rate of inflation. It may also be pointed out that with the introduction of VAT; the tax impact of raw material is to be totally eliminated.
2. **The cost of Administration to the Country:** Another point which needs consideration is the question of the cost of administration to the Country. Because of the introduction of VAT, the administration cost to the country can increase significantly as the number of dealers to be administered will give up significantly. However, this increase is required to be evaluated against the likely gains under the VAT.
3. **Compliance cost to the Dealers:** It is argued that for compliance with the VAT provision, the accounting Cost will increase. The burden of this increase may not be commensurate with the benefit to traders and small firms. Therefore, there may not be a significant increase in the cost of the goods or services.
4. **Increase in Working Capital Requirement:** Another possible weak point in the introduction of VAT, which will have an adverse impact on it, is that, since the tax is to be imposed or paid at various stages and not on the last stage, it would increase the working capital requirements and the interest burden on the same.

5. Regressive Opponents of the VAT argue that the VAT, like another consumption based-revenue source, is inherently regressive. Those least able to pay to face the highest overall burdens. Because it is believed that the VAT is a broad-based tax levied on essential goods and as such must be regressive.
6. Other demerits of VAT system are- The VAT needs a formal economy where all economic units from Importers to retailers document their transactions and maintain accurate records. However, in developing countries, the informal economy covers substantial trading which is not documented and registered. Moreover, the low literacy rate may result in poor compliance of the VAT Act and Rules. Therefore, the VAT in such countries may fail to achieve its objectives. From the perspective of equity and justice, necessities and small units are exempted from the VAT. Although this reduces administration costs of the government and the burden of compliance on the small units. But such exemption narrows the tax base, ^[8]

11. Exemption of tax

- (1) The Government may, by notification in the official Gazette, subject to limits and conditions mentioned therein, exempt the import or supply of any goods or classes of goods or any services supplied from added value tax or, as the case may be, additional duties of customs chargeable under this Act.
- (2) The Board may, by special order, on statement of the reasons in each case, exempt the import or supply of any taxable goods or any taxable services supplied from added value tax or, as the case may be, additional duties of customs chargeable under this Act. ^[9]

12. NBR Offers VAT Exemption to Agricultural Products, Medical Services

National Board of Revenue (NBR) will offer value-added tax (VAT) exemption to agricultural products, medical services and life-saving drugs under the new VAT Act-2012. The government decided to keep them out of VAT so that the people can get some relief, the officials concerned said. The VAT law will not apply to small traders, they said, adding that they proposed lowering the proportion of VAT's annual transaction limits and turnover tax. They also said a large number of traders would be exempt from paying VAT if their proposal were accepted. As a result, the costs of products and services, made available by the traders will decrease, and consumers will be able to buy them at affordable prices. VAT will be waived for imported products such as rice, sugar, edible oil and other basic foods. Also, it will not apply to vaccine and public health services provided by government agencies and charitable organizations. Coronary stents, local software industry, implantable kidneys and immovable properties will be out of the VAT's purview. According to sources involved in the budget making process, as VAT is likely to be waived for edible oil at all stages from

supply to sales, consumers will be able to afford it at lower prices. VAT experts say as the new law applies to only certain sectors, the public might face even more difficulties. Terming their speculation incorrect, an NBR official said VAT exemption was offered to both public and private sectors as before, and the masses would face no problems. The NBR will receive around Taka 248, 000 crores as revenue in the next fiscal year, and of the revenue, Taka 91, 000 crores are likely to come from VAT. Currently, the VAT accumulation is around 36%, and the NBR's share of VAT 37%. The government is mulling over increasing the share to 40% from 37%, the official also said. ^[10]

13. Taxes Appellate Tribunal

A person shall not be appointed unless he-

- Is/was member of the NBR.
- Is/ was a commissioner of taxes.
- Is chartered accountant (CA) practiced professionally not less than eight years.
- Is coast & management Accountant (CMA) practiced professionally not less than eight years.
- Is income tax practitioner u/s 174(2)(f) for not less than 20 years.
- Is advocate practices for not less than 10 years.
- Is/was/has been a district judge.

14. Conclusion

VAT is not designed to correct inequities. It is a part of the overall tax system in the country and as such the impact of VAT should be considered in the context of the overall tax system. In fact, the tax system is not an efficient instrument for ensuring equity. In Bangladesh, VAT has been found to be moderately revenue augmenting during the first years of introduction. In terms of complexity of development, demand for human resources and the impact it will have on the society, will rank the implementation of VAT in Bangladesh as one of the most significant development projects ever undertaken in this country. The VAT avoids most of the negative features of the sales tax and excise taxes. It removes cascading, allowing the tax content of any product to be known with a greater degree of certainty and thus leading to better resource allocation decisions as the investment decisions can be taken independently of the tax policies. The self-policing and cross checking properties of VAT as well as its collection in stages leaves less incentive for evasion. There is no frequent

change in tax policies allowing investors to operate in a certain and stable tax environment. VAT simplifies tax administration and increases efficiency in resource allocation.

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