

Increase direct tax in revenue collection; impose punishment tax on black money We are ready to pay additional tax for self-reliant development planning

1. Devastated economy and the Political Budget.

According to economics, our economy is now facing triangular crises. Internal production system is mostly devastated due to the continuous price hike of the oil in international market and the world recession. Though government is claiming a so-called control over the price by providing subsidies, continuous price hike of fuel has created uncontrollable inflation to our economy and this is making various troubles to the lifestyle of the poor day by day. Political instability is making these conditions more miserable. Due to the world recession there is clear bad smelling of deficit in export, as a result there are prediction of deficit in the balance of payment due to crises in foreign reserve. Under these circumstances, to keep the balance of payment in a desired shape, government has received a loan of USD 1 billion from IMF with tough conditions. Even after so much crises and aggressive initiatives the Finance Minister claimed that, economics is going fine. Though there are some problems with the inflation and liquidity crises in the banks our economy is going on track. We are trying to solve the problems by taking some specific measures. As a part of those measures, the Finance Minister is planning the budget for the year of 2012-13. So far, we have learned that, the budget is going to of an amount of 190000 crores taka. There will be an Annual Development Plan of taka 55000 crores and target of revenue collection will be 110000 crore taka.

It is true that, resource mobilization for budget planning is very important. Government is trying on that and Government has given emphasize on revenue collection. In the vision 2021 government realize that, in future 35% of GDP have to be invested to eradicate poverty. Now the question is, from where the government will get the huge amount investment? There are two options, foreign aid or loan and revenue collection. Rich countries have already reduced their foreign aid due to their recession; aid from these countries will be reduced further. That is why; the government has to rely mainly on its internal resources rather than foreign sources.

Government has to take plan to implement development plan from by mobilizing its own resources. Though there are signs of improvement in revenue collection in terms of amount, there are no sign of improvement in terms of quality, especially there is no such desirable progress in the main sector of revenue collection, the direct tax. As a result, government is looking for new strategies to increase indirect taxes. But the question is how much this strategy will do?

2. It is not possible to increase revenue collection by rely on the indirect taxes.

In Bangladesh contribution of the direct taxes is very low against the indirect taxes; it is one of the major weaknesses of the revenue system of this country. Success of our revenue collection depends on the indirect taxes like VAT and excise taxes. Bangladesh collects 70% of its total revenue from the sources of indirect taxes. On the other hand, contribution of the direct taxes like income tax, corporate tax to the revenue is only 20-25%. During the financial year of 1991-92 the contribution of the direct taxes to the revenue was 18%, during the last two decades, in spite of industrialization and boom of commercialization the collection of direct taxes has not been progressed in a desired level. In the projection of revenue collection for the year of 2012-13, the proposed direct taxes are only 27164 crores taka, which is only 29.56% of total projected revenue. If we analyze the revenue collection skill of other developing countries like

Financial Year	Sector wise contribution to the Revenue	
	ration on%	
	Direct tax	Indirect tax
1991-1992	18%	82%
1994-1995	14%	86%
2000-2001	18%	82%
2004-2005	17.9%	82.1%

According to the Revenue Board, in Bangladesh total

number if Tax Identification Number (TIN) holder is about 4 million, of them only 9 laces (.9 million) giving taxes regularly. A recent report of Bangladesh Bank shows that, at present there are 22321 millionaires, but number of person paying tax of more than 1 lac taka is only 1000, in fact one third of the TIN holders are paying taxe4s regularly. Why this discrepancy? Because the number of the fake TIN holders and amount of black money is increasing day by day, lack of desired services to the tax payers, lack of confidence about the utilization of the taxes, complex tax law and collection system, nexus of the tax quibblers and tax officials, lack of proper punishment against the corrupted revenue officials, lack of automation and e-governance, lack of awareness among the citizens, lack of good governance and coordination among the respective departments.

3. New VAT law, tax areas will be increased, small entrepreneurs will be under pressure

Bangladesh is revising its current VAT policy and a new VAT law is going to be implemented according to the IMF prescription. According to the source of the Revenue Board, a bill on new VAT law will be brought during the next budget session of the national parliament. It will be implanted from 2015. According to the IMF prescription, Bangladesh government is going to make 31 changes in the current VAT law, which main goal is to expand the area of Vat and to collect extended target of revenue collection.

There are probabilities of expansion of VAT amount along with the VAT area. At present the VAT rate is 2%-15%. There is VAT at the production, sell, import and export level, which is higher compared to other countries. In Singapore VAT rate is 5%, Thailand 7%, Indonesia, Myanmar, Lebanon, Vietnam and South Korea 10%, New Zealand 12% and Nepal 13%. But in the new VAT law a common 15% VAT for all goods is being proposed. Almost in all countries VAT is imposed in the daily essentials goods considering its impact on the poor, but in Bangladesh the scenario is adverse. Bangladesh government has imposed VAT on essentials including rice, lentil and oil.

The new VAT law intents to expand even to the retail economic activities. It will bring rural activities, especially small entrepreneurs and their production under VAT, as a result their cost will be increased and it will be hard to survive for them against strong competition.

4. Black money and undisclosed economic activities are a major hindrance to the revenue collection

There are many reasons behind the weak base of the direct tax's contribution to the revenue of Bangladesh. Underground economy is a major hindrance on this regard. There is no study from the Government to identify the actual size of the black money or the underground economy. Some external studies says that, 37% of the GDP is running by the underground economy or undisclosed economy (Kabir Hossain, New Orlince University). As a result profit or income related with these activities are not coming within the total revenue collection. A TIB study says that, if the underground economy can be brought under regular revenue collection process, in 2009-2010 additional amount of 21000 crores taka could be added to the normal revenue, which was 34% of the total revenue collection and 3% of the total GDP of the year. Government had rather given opportunity to those black money owners to whitening that

IMF's condition and its impact on Bangladesh economy	
IMF's Condition	Impact on economy
Automatic price adjustment of fuel	Production cost and price increase, local investment will be hampered, import will be increased.
Import liberalization	Import of unnecessary goods increased, stress on the balance of payment and increase load of loan stress
Removal of ceiling on Bank Loan.	Some Bank syndicate have already been established, small savers will be affected, investment will be reduced and price will be increased due to high interest rate,
VAT expansion	Common VAT is discriminatory, it will create burden for the poor, small entrepreneurs will face problems

money by paying a nominal tax. It is one kind of corruption of the revenue system, and it provokes irregularities in the financial system and which in terms promoting the underground economy to be expanded in more. By giving this type of opportunity continuously, illicit income is being provoked. Government is providing this

opportunity in the name of investment in industry or business; in fact it is not clear on how much money has been actually invested.

5. Corruption of the Revenue system reduces government revenue collection

The complex tax and toll law gives an illicit scope for the tax collectors and tax payers. For which desired growth in revenue collection. Government tax officials get scope of abuse their power due to complexities in tax assessment and taxation of import and export; on the other hand tax payers also find illicit scopes using those complexities.

Individuals and companies have been voiding taxes regularly.

6. Our recommendations to increase internal resources Revenue

A. Reform of the Revenue department and should get the priority of the Government.

The progress of revenue collection is slow due to structural weakness, lack of proper manpower of the revenue department. On the other hand corruption creates hindrance to the utilization of the existing strength. So, reform of the revenue body is not only to infrastructural development or ensuring skilled manpower, along with that, government has to take steps to eradicate corruption also. A TIB report on transparency and accountability of revenue department shows that, the amount that the corrupt staff of the revenue board is equal to an amount of total one year budget of Bangladesh (TIB 2011). We believe that, by eradicating corruption revenue collection can be increased up to 20-25%.

B. Area of direct tax should be expanded

A recent report of Bangladesh Bank shows that, about 1000 millionaire among total 22321 in Bangladesh pay an annual tax of 100000 taka. It can give a sign of how much tax voiding is going on and what a huge amount it is. So, adding face in revenue collection can rein the tax voiding tendencies. In Bangladesh contribution of the direct tax in the total revenue is very low (22.6%), in India it is 33%, sri Lanka 31.3% and in many developed countries it is up to 70%. So, to increase the revenue collection the areas of the direct taxes have to be expanded.

C. Punishment taxes should be imposed to the black money.

37% of the GDP is run by the underground economy or undisclosed economy due to the corruption. The amount of black money is increasing day by day and it is a hindrance to the economic growth. the definition of black money can be given in two ways. One is the income occurred by bribe-corruption or any other illegal means and the other type is the income or amount of money which is shown or disclosed for paying taxes. We think that, the second type of money can be given moral support to make these white by giving proper taxes. By bringing these money under tax can give strength in revenue growth. But present strategies of the government in fact will discourage tax payers, because regular tax payer give 25% tax, while a black money holder can legalize by paying only 10% tax. So, a punishment tax has to be imposed in whitening black money, it will increase revenue and will help to reduce the tendencies of tax voiding.

D. Administrative cost should be reduced

The European countries are facing economic recession; developments of these countries are facing troubles due to those recessions. To face the situation Greek government has declared to reduce administrative cost by 20-30%, implementation of that decision has already been started. The newly elected French president has curtailed his cabinet and reduced their salary by 10-20%, he has advised his cabinet members to use train rather than official cars. In Bangladesh the administrative coast is being increased day by day even though we are facing a regular budget deficit. In every year revenue income is being increased, but we have been failed to allocate adequate fund for the annual development due to high rising administrative cost. Due to the budget deficit we are continuously depending on foreign aids and loans and the burden of loan is being increased, which is not desirable. So to ensure adequate allocation for the annual development plan, the administrative cost has to be reduced. The recommendation of Public expenditure Review Commission of the last government is to be followed on this regard.

E. VAT should be imposed considering the Re-pricing and re-Prizing strategy

It is really a fact for Bangladesh that, a large part of our population spends the most of their income to meet their daily needs. On the other hand, the rich classes spend their income which is mainly gained buy corruption or other illicit

measures for luxury which in terms increase the inflation. Inflation and VAT or any other indirect taxes affect mainly the poor. So, we believe that, the burden of the poor should be removed and government should play its role to make the poor free from all the impact of negative economic stress and to improve their

lifestyle. To ensure that, government should implement VAT considering Re-pricing i.e. poor will be able to live with a minimum cost while rich will pay more taxes. Re-pricing should be considered i.e. collected revenue will be reinvested for the development of the poor.

Organizers

ARPON, Bangladesh Bhomi Hin Somity (BBS), Bangladesh Krishok Federation (BKF), Bangladesh Krishani Sova (BKS), Coastal Development Partnership (CDP), Development Center Initiative(DCI), Eventful Bangladesh Society (EBS), Equity and Justice Working Group Bangladesh (EquityBD), Jatio Sromik Jot (JSJ), Manus Manusar Janno (MMJ), Media Foundation for Trade and Development (MFTD), Online Knowledge Society, PRADIP, Prothikrit, SDO, Surakha and Agrogoty Foundation, VOICE,

Secretariat

EquityBd, House# 13/3, Road # 2, Shymoly, Dhaka 1207 | Phone: 8125181/8154673
E-mail info@equitybd.org, Web: www.equitybd.org