

Black Money in Bangladesh

What, how and Remedies

1. Black Money and Bangladesh Perspective

Black money indicates the accumulation of income which is not figured in the account book. It is the aggregated income which are taxable but not reported to the tax authority. That's why it can be termed as hidden money. As a result 'black money' can not legally take part in the declared and formal business transaction in the economy. It is, therefore, mainly used for kind of unauthorised and unchallenged transactions or in posh living which, in turn, causes high rise to black market operation. The other terms for this kind of economic activities are informal, irregular, underground, hidden, unofficial, dual, unrecorded, untaxed and unmeasured economy. It is also called Shadow Economy.

Per cent of shadow economy in Bangladesh in comparison to the national economy

Fiscal Year	%
2000-01	35.7
2001-02	35.5
2002-03	35.6
2003-04	35.7
2004-05	36.0
2005-06	36.7
2007-08	37.0

Source: Professor Frederik Schneider, "Shadow Economies All Over the World: New Estimates for 162 Countries from 1999-2007"

Professor Frederik Schneider mentioned in his study report "Shadow Economies All Over the World: New Estimates for 162 Countries from 1999-2007" that, shadow economy is mounting in different countries due to their weakness of tax administration and policy structure and thus numerous persons and companies have gone beyond the formal economy. According to the report the table above reflects the percentage of shadow economy in national economy of Bangladesh.

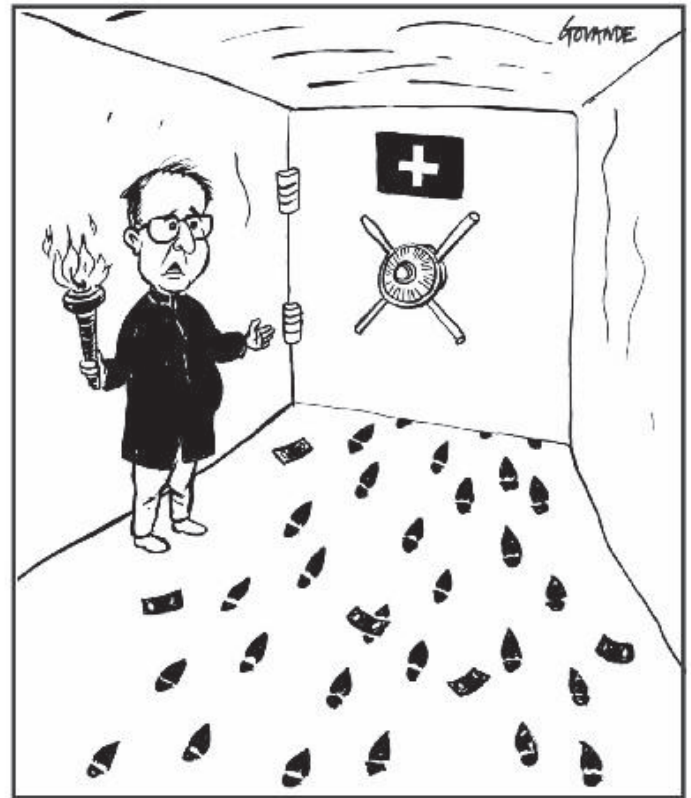
Finance Minister of Bangladesh earlier said that, during 2011 the size of shadow economy was minimum 48% and maximum 84% of

Direct tax payers are few

The population of our country is about 150 million where the number of direct registered taxpayers is only 02 million even they don't pay their tax regularly. According to NBR (National Board of Revenue), only 0.8 million people are paying their tax on a regular basis.

Type of Taxpayers	Number of Taxpayers	%
Corporate	61,998	2.98
Other Taxpayers	778,750	37.53
Minimum Taxpayers	390,964	18.83
Only Tax File Holder	843,548	40.66
Total Tax Payer	2,075,260	100

Source: NBR Annual Report 2011



Oh NO! Dead end!

We'll have to call off the search ...

<http://www1.sulekha.com/mstore/govande/albums/default/ Cartoon-Black%20Money%20Trail.jpg>

the country's GDP. Considering the maximum rate, the shadow economy of 2011 stands \$7,684 billion while it was \$6,620 billion in previous year, 2010. According to the report of Washington-based Global Financial Integrity (GFI), in 2012, a total of \$14.059 billion had been siphoned off Bangladesh within 10 years since 2001 through trade mis-invoicing, corruption, bribery and tax evasion. Out of this money, \$10.597 billion [almost 75%] was transferred through under- and over-invoicing of exported and imported goods.

Transparency International Bangladesh (TIB) shows that if the underground economy could bring under the tax authority, then it would collect a sum of BDT 210.00 billion (US\$ 2.69 billion) as an additional revenue during the fiscal year 2009-10 which could be 34% more than the collected revenue and also could be the 3% extra GDP of that year. Corruption is the fundamental element for generating black money and most of this money either transferred to the tax heaven countries through illicit capital flight or invested in illegal business or in luxury consumption.

UNESCAP has said in their report (August, 2014) titled "Economic and Social Survey of Asia and the Pacific 2014" that considering the institutional infrastructure and socio-economic development the Tax-GDP ratio should be 18% where at present it is 10.5%. This is

how Bangladesh is being deprived of at least one-third of the targeted revenue as additional collection and that amount is US\$10.64 billion (BDT 830 billion). It is the highest tax gap (more than 7.5%) percentage in the Asian countries. The tax gaps of other Asian countries are in Thailand-2%, Pakistan-1.8%, Nepal-0.9%, Malaysia-1.3%, Japan-2%, Indonesia-4.7% and China-1.8%. The present GDP of Bangladesh is US\$140 billion.

2. How it is generated

Shadow economy normally could be generated both from legal (but not reported in national accounts) and illegal activities (includes crime, dishonest and rules violating business, even drugs and arms etc.). Below is a short description of the activities.

Dimensions of underground economy i.e. Black Money

Legal but not reported in national accounts

Tax evasion (unreported income from self employment, wages, salaries, assets accumulated from the work related to legal service and goods) and Tax avoidance (employee discounts and fringe benefits) etc. are the examples of legal but not formally declared for the account of the concerned authority.

Illegal economic activities

Bribery, gambling, smuggling, extortion, drug dealing, black marketing, work done by illegal immigrants, corruption, price manipulations in import, exploitation of loopholes of laws, tax evasion, information hiding in land & building registration, extraordinary professional fee, adulterate food production and sales, not refund the bank loan, illegal arms business, loss of govt. companies, domestic and international tender agreement, govt. purchase, money laundering & hundi business, terrorism activates, housing business, tax free vehicles by MPs etc.

Some other of factors are:

- Large number of taxpayers maintains no formal accounts;
- Large number of non-banking transactions (cash transaction /exchange/trade) are made even in big amounts;
- Miss-pricing in the invoices in respect of goods and asset;
- Illegal income remained unreported;
- Enormous national election cost by the candidates;
- Donation to the political parties;
- Transfer of fund to foreign countries;
- Inequality of income;
- Weak execution and complicated of laws with loopholes.

3. Effects of Black Money

Black money is one of the major obstructions in terms of revenue mobilization in Bangladesh. For the development expenditures of the country almost regularly face a budget deficit and has to depend on foreign aids and loans.

Black money is destructive for a number of reasons. It causes lavish expenditure and unequal consumptions that affects not only the market, it also affects the society. In the market it creates shortage of commodities, inflationary rise of prices and other unhealthy financial speculations. But these events have some social consequences. It creates unhealth competition, increases inequality and violates human rights.

This may also create disincentive for honest taxpayers. Currently black money holders pay a tax of 10 percent to whiten money, if they invest in the stock market and infrastructure bonds. An honest taxpayer, on the other hand, pays 25 percent tax. This not only

reduces their 'after-tax' income but also attributes to further income inequality.

Since 1976, all successive governments have provided opportunities for whitening black money. One sector is the housing estate business and there is a link between the underground economy and the housing sector. It should be noted that whenever a huge amount of money is poured into a certain sector, it artificially increases its prices. In recent years the sharp price rising in the housing assets could show the presence of an 'asset bubble'. In the same way the stock market is another territory where the scope of whitening money is given. A possibility remains that it can lead to an artificial inflation here as black money holders would invest and leave the market as soon as their investment with profit is withdrawn.

4. How to minimize Black Money

Black money is kept in different forms and shapes. It is not easy to classify them in clear language. Some common forms of preserving black money are: Bank account and fixed deposits, Real estate business, Stock and shares, Savings investments, Investment in foreign countries, Cash, Gold, Jewelry, Under values of assets etc.

The first and foremost action point is to end corruption at all level and to strengthen the weak public institution and their mechanism to do it. Public audit system should be strengthened and the tax loopholes should be identified and stopped. And that particularly requires a strong political will. The political parties have been ruled the country so far, hardly showed this through the steps taken and policies are designed.

In order to strengthen NBR, a set of dedicated and skilled tax personnel should be appointed and need to be well equipped with IT and other institutional apparatus to be able to access the information they need to.

Government as well as the public institution involved in tackling the black money issue should show zero tolerance to undisclosed money and apply the law more strictly on sources of black money.

Need to minimize the tax gaps of Tax-GDP ratio and it will come true only when the direct tax collection is increased. Monetary information exchange agreement among and between countries should be conducted and executed.

Need to strengthen the state bank of the country i.e. Bangladesh Bank and pother institutions for arresting illicit capital flight towards the tax heaven countries.



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