Who Will Bell the Cat?
Revenue Mobilization and MNC's Tax Evasion in Bangladesh

The weakness of tax administration in Bangladesh is a poor tax collection management. The largest part of the underground economic activities is the tax hiding or evasion by the Multi National Companies (MNC). The capital flight of MNCs occurs through transfer pricing or shifting the money to their head offices, sister concerns or to the tax heavens. No exclusive research or study so far in Bangladesh showed what amount of money has been evaded by the MNCs out of the payable taxes. Proper and prerogative initiatives by the government to pull in those taxes being evaded by the MNCs could increase the ratio of direct taxes in the total composition of the national revenue which, in turn, could release the pressure on the mass people for indirect taxes. To be mentioned that, 75% of the total revenue is presently collected as the indirect tax where VAT (Value Added Tax) is one of the major sources and the easiest tool for internal revenue mobilization.

Different researches by Bangladesh Bank and other economists mention that, the size of the underground economy in Bangladesh has been about 48% to 84% of total GDP. Government failed to collect taxes from these underground activities that eventually could raise the revenue and as a result development expenditures cause budget deficit and loan. On the other hand, overall production as well as employment opportunities could be increased if the underground economy including the tax evasion of the MNC is effectively controlled by the government. It could increase the amount of direct taxes that eventually could help in the budget deficit and could reduce the internal and external debt.

Profit Shifting by MNCs and Financial Secrecy Index-2013 by TJN

More than 200 Multinational companies (MNCs) have been working in Bangladesh and allegedly evading the due taxes and ultimately the country is losing a huge amount of revenue every year. Several studies conducted by international organizations showed that Bangladesh loses around US$ 2 billion every year because of the tax evasion and profit shifting by the MNCs who evade taxes through the abuse of transfer pricing or mispricing in different ways including capital flight, transfer of dividend and profit to its permanent establishments including over and under-invoicing in transactions of goods and services within their associated enterprises. Transfer pricing occurs when a company transfers tangible or intangible output to its subsidiary companies or in which it has substantial interests in any form. Incidents of transfer pricing and capital flight are most frequent when exchange rates are unstable. It is often most intense during periods of currency depreciation or just after an exchange rate crisis. Some of the companies, even persons do transfer their profits or fund to the tax heaven for more financial benefits like high interest from so called investments.

UK based research organization Tax Justice Network (TJN) has launched its Financial Secrecy Index (FSI)-2013 on 7th November 2013 focusing how 82 jurisdictions in the world are keeping secrecy of financial transactions from different countries. This index is a tool for understanding the global financial secrecy, tax havens or secrecy jurisdictions, and illicit financial flows from poor and developing countries to OECD (Organization for Economic Cooperation Development) countries, which break down the global economic strength of these countries and boosting them as net creditors to the world.

http://www.trabw.be/wordpress/category/cartoons/

Financial Secrecy Index (FSI) and Financial Transparency (FT) statistics of the major tax haven countries are given below.

Country	FSI Index (%)	Financial transparency
Switzerland	78%	22%
UK	40%	60%
Cayman Island (UK)	70%	30%
British Virgin Island	66%	34%
Singapore	70%	30%
USA	58%	42%
Jersey (UK)	75%	25%
Malaysia (Labuan)	80%	20%
Canada	54%	46%
Austria	64%	36%
UAE (Dubai)	79%	21%
Japan	61%	39%

Ref: TJN, FSI-2013 report

The table reflects that the percentage of FSI is quite high but the FT is comparatively low in developed countries especially the OECD ones. The FSI-2013 report said that an estimated $21 to $32 trillion of private financial wealth is located, untaxed or lightly taxed, in secrecy jurisdictions around the world. Illicit cross-border financial flows are being added up to an estimated $1-1.6 trillion each year.

Since the 1970s African countries alone are estimated to have lost over $1 trillion in capital flight, dwarfing their current external debts of 'just' $190 billion and making Africa a major net creditor in the world. But those assets are in the hands of a few wealthy people, protected by offshore secrecy, while the broad African populations shoulder the debts.

The report also mentioned that a global industry has developed involving the world's biggest banks, law practices and accounting firms who not only provide secretive offshore structures to their tax and law-dodging clients, but also aggressively market them. The secrecy world creates a criminogenic hothouse for multiple evils including fraud, tax evasion and aggressive tax avoidance, escape from financial regulations, misappropriation, insider dealing, bribery, money laundering, and plenty more. The MNCs and the rich are playing the vital role for creating this secrecy world.

Tax Evasion by MNCs in Bangladesh

A) About US$403 million tax evaded by four mobile phone operators in Bangladesh

Bangladesh Telecommunication Regulatory Commission (BTRC) said in their investigation report that the top four mobile phone operatorsin Bangladesh evaded taxes of about US$ 403.00 million (BDT 31 billion) by selling new SIM cards in the name of replacement [*The daily Banik Barta, 08/01/2014*]. The report mentioned:

- Grameen Phone (major share by Telenor of Norway) evaded US$203 million (BDT 15.62 billion) what was due against their selling new SIM, but actually they hid the cost by showing SIM replacement. According to the information of NBR, Grameen sold a total of 13,458,354 new SIM but showed as SIM replacement during 2007 to 2011 and evaded 35% tax and 15% VAT.
- Banglalink (Major share by Orascom of Egypt) evaded US$ 99 million (BDT 7.62 billion) of taxes in the same way by hiding 2,758,000 new connection selling from June 2009 to March 2011.
- Robi (major share by Singtel of SIngapore) evaded US$ 84 million (BDT 6.47 billion) of taxes by selling 5,261,541 new SIM from March 2007 to June 2011.
- Airtel (major share by Airtel of India) hid 558,783 new connection sale and evaded tax of US$ 5 million (BDT 390 million) from January 2010 to June 2011.

Generally a customer is provided a new SIM without tax when it is replaced for a lost one. But tax is applicable on a new connection. But Grameen phone, Robi, Banglalink, Airtel provided old but unused connections to new customers. As a result the number of customers is increased but no tax was required to pay.

B) British American Tobacco Bangladesh (BATB) evaded tax of about US$ 250.00 million

According to the Ministry of Finance, BATB evaded tax about US$ 250.00 million (BDT 19.24 billion) by making false price declaration on their two brands i.e. Bristle and Pilot cigarette during 2009 to 2013. The company declared their medium level raw materials including tobacco, paper and others as low-level brand in order to evade tax. Even BATB hid the production cost and evaded huge amount of taxes. [*Banik Barta, 09/01/2014*]

C) Frequent tax evasion by Grameen Phone

The tax administration has found frequent evidences of tax evasion against Grameen Phone in importing telecommunication equipment. The company imported equipments of high DHS code but declared them in the customs as of low DHS code. As a result injunction has been imposed against Grameen phone recently on clearing their imported equipments.

1. It is known that, Grameen Phone (GP) imported equipments of "DC ventilation system mobile industry" under HS code 8414.59.20 (tax 3% and ATV 4%) and paid the due tax accordingly. But those equipments found later should have been under the code 8414. 59.90 (tax 25% + 5% + 15% + other taxes). So, GP evaded tax of US$ 165.58 thousand (BDT 12.7 million). *[Banik Barta, 16-01-2014]*

2. During 2012, GP imported equipments called "Hardware for base station controller 6900" and cleared the consignment accordingly. But it is found later that those equipments were declared as very low taxed telegraphic switching apparatus. Through this fraud declaration in HS code GP had evaded tax of US$ 228.57 thousand (BDT 17.6 million).

In the same year GP imported equipments of "Transmitting and receiving apparatus" and accordingly they cleared the consignment from the customs. But it is investigated later that those were declared as low taxed equipments and paid only US$ 201.30 thousand (BDT 15.5 million) as tax. But it is found in the audit that the real tax would be US$ 933.77 thousand (BDT 71.9 million). *[Banik Barta, 05-01-2014]*

Recommendations for preventing tax evasion and illicit capital flight

- An effective transfer pricing law is needed for preventing tax evasion, profit shifting and money laundering by the MNCs.
- Bilateral suo moto information exchange agreements between countries should be improved.
- Accountability and punishment provisions for the accounting audit farms.
- Reviewing the existing information discloser law so that the MNCs are to disclose their income & expenditure, tax payment, profit and asset transferring etc.
- Effective measures are taken in respect of collection and distribution of information.
- Strengthening government's internal audit system.
- To show zero tolerance to undisclosed money by companies.
- Strengthen NBR and deploy skilled manpower in order to deal the international tax effectively.
- Necessary steps should be taken for preventing corruption at NBR.
- Necessary access to the company's bank account and relevant software by the tax people.
- Reviewing of different lax loopholes so that opportunists cannot misuse the law for their interest.
- Need more study on tax evasion and profit shifting by MNCs and to find the way outs of dealing with the big multinational economies.

Conclusion

It is generally believed that the problem of tax evasion especially by MNCs began in Bangladesh since the telecom sector opened up in the very early nineties. Speculations are widespread about the government's poor supervision and lack of awareness to the financial schemes of these companies. Not to isolate the telecom sector, there exists a grey area in the operating practices and procedures followed by many renowned multinationals since long, to which the government has no clue, and the companies are also not obliged by any strong legal bindings to account for. It is encouraged that The National Board of Revenue (NBR) is going to introduce law on the transfer pricing from next FY 2014-15 for preventing tax evasion and capital flight by MNCs and the provision of transfer pricing has been included in to the Finance Bill-2012. Though belated, the NBR has decided to create a tax policy pool consisting of a panel of 70-80 taxmen to cope with the best practices in international taxation and prevent tax evasion by multinational companies. Hopefully it will bring the desired discipline and transparency in the overall operational practices of transfer pricing and also curb the flight of capital.

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