

IMF's discredited advices on VAT are not acceptable for Bangladesh Economy

Reviewing the current and recent economic situation it can be predicted that, Bangladesh economy is under pressure in regards of balance of payments. Due to the recession worldwide, this situation is predicted to be lengthened furthermore. As a result, probably government will need additional foreign currency to ensure the stability in the balance of payments, specially the balance of payments in export-import. Under that circumstances, to strengthen the reserve of foreign currency, government approached to IMF for 100 crore dollar in last March. IMF had placed some advices (actually these were mandatory conditions; sanction of that loan would depend on the implementation of those conditions. Bangladesh has accepted these conditions) against that 1 billion dollar loan application. Two important advices are contractionary monetary policy and modernization of VAT act (to expand VAT to all economic activities). In the last September an IMF mission came to Bangladesh and they had placed the condition of new VAT act implementation. We think that, these advices of IMF are not acceptable for Bangladesh economy.

1. Changes under the proposed VAT act

In the existing VAT act some essential goods, crafts industry, village level economic activities, agriculture and sub sectors of agriculture are being kept out of VAT. But according to the IMF prescribed new VAT act all these goods and items will be brought under VAT. Proposed VAT Act has given more administrative power to the VAT officers. This Act will empower the authority in taking any sort of legal action (arrest, instance inspection to any carrier & Transport, setting fine or penalties and seize the asset & properties etc) against VAT defaulter. Immunity to the VAT officials for their administrative roles has also been proposed. There will be no scope for legal action against VAT officials even if they do any wrong.

2. IMF prescribed VAT has not been able to bring positive results in developing countries.

IMF never advises on the effective way of revenue collection considering the socio-economic condition, rather IMF advises only for VAT. Though IMF talks about the improvement in revenue collection with VAT, data shows that VAT has been failed to ensure proper revenue collection in developing countries. 18 Sub Saharan countries had been practiced VAT to achieve the tax-GDP ratio of 15%-18%. Even after a decade, the achievement had not been made up to desired level (table 1).

3. VAT policy of IMF is discredited in developing countries, since it has increased cost of livelihoods.

Table 01: Tax-GDP ratio in Sub Saharan Africa

Country	Performance of Tax-GDP ratio (%)	
	1993	2008
Ethiopia	8.3	10.4
Ghana	16.9	19.9
Kenya	19.3	19.7
Malawi	15.6	16.9
Mozambique	18.2	14.5
Nigeria	2.3	3.9
Senegal	12.3	20.9

Source: "One size fits all" Christian aid report 2009

Though Europe and some other developed countries have achieved success with VAT, IMF has no credit for that. People of these countries are with high life standard and high purchase capacity and there are researches of the governments on the socio-economic impact of VAT, and it is being used on the basis of those researches. On the other hand, VAT policy for the developing countries is 'One size, fits for all'. Socio economic situation and the distribution related impact are not considered in VAT imposing, due to practicing discriminatory VAT policy cost of livelihood and poverty is increasing in developing countries. Christian Aid has conducted a research ("One size fits all", An impact study on VAT reform in Sub-Saharan Africa. Christian aid report 2009) on the impact of the IMF prescribed VAT policy on the African countries, they have found that, poor people are giving more VAT than the rich (Table 2). Income of poor people is decreasing while they are being forced to pay more VAT. From IMF's own research on the VAT reform practice of Philippine, it has been found that, VAT has reduced poor people's income by 2.5%.

Table 02: Incident of VAT on House Hold in South Africa

Annual HH income level ('000)	Total Vat paid	VAT paid as % of total tax	VAT paid as % of annual income
R18	1799	86	10
R30	2910	54	10
R75	6141	25	08
R140	10241	18	07

Source "One size fits all", Christian aid report 2009

3. Bolivia and Mozambique has come out of IMF since it is regressive.

According to IMF advices Bolivia and Mozambique implemented VAT in 1986. At the initial period revenue collection was being increased, after course of time, desired increased rate had been started to be decreased. In 2006, Bolivian government conducted a research to find out the actual problem behind that reduction in tax collection. That study found that, corruption was increased due to the scopes created by the complex VAT policy, and black economic activities had been raised highly, as a result tendency of VAT payment had been decreased. (IMF Tax Regressive, Issue25, Published by

Bretton Wood Project.org). That study also found that, since the VAT rate is same for all, riches were bearing 14% of total VAT, while poor people were bearing the 25%. After those findings, Bolivia has cancelled the IMF prescribed Vat practices.

5. Bangladesh has relatively higher VAT rate than other developing countries.

Currently the VAT rate of Bangladesh is between 2% to 15%. 15% flat rate has been proposed in the new Vat act, there are possibilities of increasing the VAT rate along with the area expansion of VAT. The VAT in Bangladesh imposed in import-export, selling, production and retail market is higher than other developing countries. In Singapore VAT rate is up to 5%, Thailand 7%, Indonesia, Myanmar, Lebanon, Vietnam and South Korea 10%, New Zealand 12% and Nepal 13%. All these countries keep essential goods out of VAT considering the poor, but the situation is completely different here in Bangladesh. Bangladesh government has proposed VAT for all the daily essential goods like rice, lentils, oil. According to the new VAT act, VAT will be expanded up to the upazila level and it will create negative impact on livelihood of middle class and poor people.

6. Those effective advices IMF always avoids.

IMF advices on VAT are not to increase revenue collection; rather the intention is to create market for the multinational companies to the developing countries by reducing the import taxes. To ensure that intention IMF never advises to increase revenue by imposing corporate taxes, and it never emphasizes on direct taxes. Developing countries is to practice complex VAT policy to go with IMF advices. Due to that, multinational companies get scope of corruption. It increases the size of black economy. During the post independence period Bangladesh's black money was 20%, and according to the last Bangladesh Bank report, the black money is now about 87% (Published excerpt, prothom alo, 16 October 2011)

7. Biased tax policy is increasing income disparity.

Though IMF advises to increase revenue collection by VAT, it doesn't advise Bangladesh on effective redistribution of that revenue for poverty reduction. The intention of IMF is in fact to maintain the Debt Sustainability Performance. We can see that, despite of the increased growth rate in revenue collection, government is failed to ensure allocation for the development sector, since a huge amount is being spent for the payment of interest. On the other hand, inequality in tax policy is creating disparity in income and resource distribution and thus the impact of poverty is being strengthened.

8. Government can consider the following in regards of tax policy and increasing revenue income.

A. Scope of direct tax should be expanded

We have mentioned earlier that, IMF never advises to expand the scope of the direct tax as a tool of increasing the revenue. The main reason behind this is IMF's intention, which is to create opportunity of money laundering for the multinational companies. Government should be careful on this matter. Industry and service sectors are major sectors of Bangladesh economy, cumulative contribution (about 80%) of these sectors to the economy is being increased, and these sources, especially the corporate tax can be main sources of direct tax.

If we look to the developed countries we will find that, large part of their revenue income comes from different direct taxes. The average contribution of direct tax to total revenue of these countries is about 70%-80%. In India it is 36% and in Sri Lanka it is 33.3%. On the other hand, In Bangladesh direct tax is only 26% of total revenue collection. We think that, it is being occurred due to the tax management according to the IMF advices. Complex tax management and unequal tax policy are increasing the black money in our economy; we can get additional 25000 taka per year by exploring that black money. This amount is three times higher than our foreign aid (these are loan in fact; 20-25% of revenue is spent for the interest payment of those foreign loan).

B. Reformation of tax department and eradication of corruption should get priority of the government

It is fact that, the revenue collection process is slow due to weak organizational structure, lack of staff and ineligible manpower. Government is being deprived form the desired revenue collection due to corruption. So reformation of tax system is not only the infrastructure development, besides that, skilled manpower generation and eradication of corruption is mandatory. According to a TIB study, the amount which the revenue officers have gained illegally during the last 35 years is about equal to the national budget for a year. We think that, revenue income can be increased by 20% to 25% by eradicating the corruption.

C. Strategy of Re-pricing and Re-prizing should be considered during VAT imposing

In Bangladesh poor people spend the large part of their income in maintaining livelihood, while the main sources of income of the riches are mainly the immoral profit avoiding taxes and most part of that income is spent for luxurious goods or items, which in term increases inflation. As a result the dual pressures of inflation and VAT or indirect taxes create burden for the poor. So we think that, poor should be made free of these burdens, government should act in this regards to ensure that. For that reason VAT should follow the Re-pricing policy i.e. poor people can maintain livelihood with low price. It should also follow the policy of Re-prizing i.e. collected revenue will be again invested for the welfare of the poor people.