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**New VAT law is regressive to the poor.
Needs effective measure to stop
Black money and illicit flow.**

Objectives

- To understand Tax Justice, i.e. redistributive in nature
- To understand Progressive and Regressive taxation (VAT is regressive to the poor)
- To promote mass critical awareness and possible agreement on remedies on IFFs, shadow economy and its practices, especially among the policy makers of the country who have major role
- Draw recommendations for curbing IFFs and the size of black economy to enhance revenue mobilization



Understanding Tax Justice

- Redistributive in nature
- Higher dependence on indirect taxes rather than direct tax
- Investment in Public essential services (water & Sanitation, health, education, electricity)
- Reducing non-development expense (55% of budget) and increase development investment (34% of Budget)
- Implication of laws (for tax evasion, capital flight, black money etc)

Current Revenue Strategy of BD

- GDP of Bangladesh: Tk.19,61,017cr (FY 2016-17).
- National budget: Tk.3,40,605cr (17.4% of GDP).
Deficit budget : Tk.97,853cr (5% of GDP).
- Annual Development Program (ADP): Tk.1,10,700cr (5.6% of GDP and 32.5% of National budget).
- Revenue mobilization (NBR & Non-NBR): Tk.2,42,752cr (71% of Budget and 12% of GDP)
- By NBR: Tk.2,03,152cr (84% of total Revenue and 60% of Budget)
- Indirect Tax (65%) i.e. VAT and Duties
- Direct Tax (35%) i.e. Personal Income tax, tax on profit etc
- Heavily depends on Indirect tax where only VAT is 36% of total revenue.



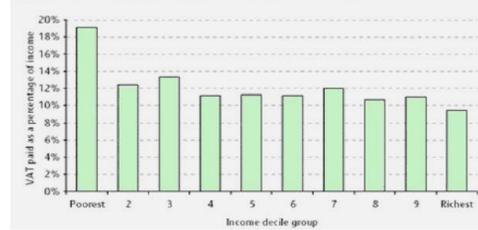
Why VAT is Regressive to the poor:

- Will be implement from 1st July, 2017
- New VAT Law: IMF prescription (About \$1b under ECF during 2012). This is 25% of total import tax of FY2012-13 (i.e. 3months import tax income)
- Uniform rate 15% in all aspect. (15% VAT will be on 4,816 products)
- Water, gas, electricity, cooking oil, sugar etc cost will be increased. At present 5%VAT is for gas and electricity bill. Under new law it will be 15%)
- Ultimate payer will be consumer. General people specially poor will be effected badly.
- Poor people savings will be declined.
- Income equality will be increased between Poor and Rich.
- Govt. has no control in market for price hike. Hardly to arrest Syndicate business.

VAT is Regressive

Institute of Fiscal Study, UK comments that VAT always interrupt the poor livelihood. The study found that the poor are paying double VAT than the rich based on the proportion of income earnings.

Figure 10.1. VAT paid as a percentage of net income



How to Increase Direct Tax:

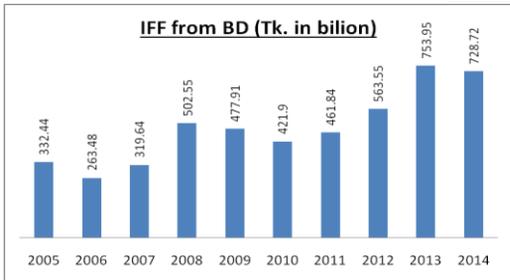
- Increase tax net (Tax payers: 10 lakh ; Return submitted: 8,15,894p in FY2015-16. Its less than 1% of BD population)
- No registered companies are 8,74,451nos. Return submit 31,997 (4%) in FY2015-16
- Arresting underground economy (Ave.48% of GDP. Almost 3times of Bud 2016-17)
- Tax evasion by MNCs, Business and Persons.
- Money plundered from Banks, Share market, Group of companies
- Loan defaulters

Evidence of IFFs in Bangladesh

GFI estimates from 2005-2014. (Report 2017)

- One of the major country out of 9 countries among total 25 Asian countries.
- From 2005-2014, IFF from Bangladesh stood Tk.6,069 billion in last 10y. Almost two times of annual budget. Average yearly IFF is Tk.60,868cr.
- During 2014 it is about Tk.728billion. More than VAT target of FY2016-17
- Ever highest IFFs happened in 2013 and amount is Tk.750 billion. 2/3 Padma bridge could be built by this amount.
- All are mostly black money and undisclosed money.

IFF from Bangladesh from 2005-2014 (GFI report 2017)



Source of Underground Economy

Dimensions of an underground economy	
Illegal economic activities	Legal but not reported in national accounts
Bribery, gambling, smuggling, drug dealing, black marketing, work done by illegal immigrants, corruption, manipulations in import, exploitation of loopholes of laws, tax evasion, 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.	Tax evasion , Tax avoidance, etc.

Bangladesh Bank, NBR and other analysis

- Every year an estimated of
- BDT 20,000crore through hoondi,
- BDT 10,000 to 16,000 crore through under invoicing and
- around BDT 5,000 crore through other different ways to illicit cross-border financial flows.
- As per monetary policy of BBank, one person is not illegible to send above US\$ 5,000 to any foreign country. Then how these money has been laundered ?



Money Plundered from Banks

- Since 2011 thousands crore of money has been plundered by the influential and the groups like Hall Mark, Destiny, UNI Pay, Bismillah group, Nurjahan group from different national and private banks even from share market.
- Source : Subsidy from Rental and quick rental, Fake LC and bank account open, Share market, Govt purchase etc.
- Tk.20,000 crore has been plundered from different Govt. banks (Sonali, Janata, Rupali, Agrani and BASIC Bank).
- Action could not taken due to political influential (Stated by Finance Minister)
- BB reserve US\$ 10.10 crore hacked from US Federal bank (Philippine:\$8.10crore, Srilanka:\$2.00 crore). BB officials are engaged in this process (Said, Finance Minister)

Money Plundered from different Banks

Name of Bank	Plundered amount from different Br.
Sonali Bank	Tk.10,000 crore (Tk.3,541 crore from a particular Br.)
BASIC Bank	Tk.4,368 crore
Rupali Bank	Tk.1,500 crore
Janata Bank	Tk.1,090 crore
Krishi Bank	Tk.621 crore
Agrani Bank	Tk.250 crore
Mercantile Bank	Tk.40 crore
Prime Bank	Tk.408 crore
IFIC Bank	Tk.350 crore
Jamuna Bank	Tk.164 crore
Shahjalal Islami Bank	Tk.148 crore
Primier Bank	Tk.63 crore

Source: Amader Budhbar, 19.08.2015

Malaysia My Second Home (MM2H)

- Since its inception in 2002, a total of **3493** BD citizens received this "Second Home" package until December 2016.

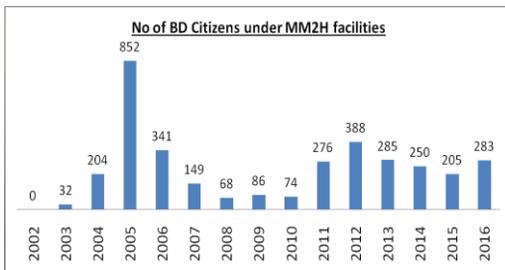
- More than BDT 10,000 crore has been transferred to Malaysia during the last ten years (Tk.6,000 crore for 2nd Home package and Tk.4,000 crore for Flat and Plot).

- BB observed that, money has been transferred through leakage of export-import, remittance and hoondi.

- Bangladesh is the 3rd largest country after China (1st) and Japan (2nd)

- Opportunities are available in Australia, Singapore, Switzerland, Canada and USA

Malaysia as My Second Home (Cont.)



Deposits in 'Swiss Bank Accounts'

■ Annual report "Banks in Switzerland 2014" published by central bank of Swiss (SNB), it is observed that when the illicit financial flows from developed countries to Switzerland is declining at a record low rate, in the same time it is skyrocketing from Bangladesh.

■ In a frequency of one year deposits in Swiss Banks, it has been increased up to 40.70% by Bangladeshis year-on-year in 2014

■ At the end of 2014 total of Swiss Franc 50.60crore (Tk.4,554 crore) deposited by Bangladeshis.



Deposits in 'Swiss Bank Accounts (Cont.)

Deposit by Bangladeshis in Swiss banks:			
Year	Swiss Frank (in Crore)	BDT (in Crore)	% of Increase
2014	50.60	4,554	40.7%
2013	37.19	3,237	69.7%
2012	22.89	1,908	47.3%
2011	15.23	1,295	-34.2%
2010	23.60	1,968	58.6%
2009	14.90	1,241	39.1%
2008	10.70	892	

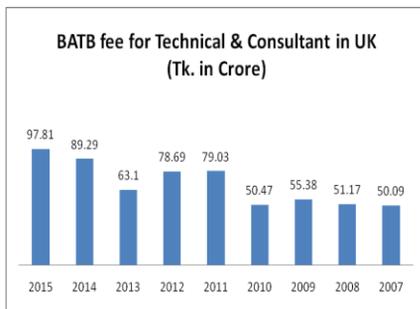
Source: "Banks in Switzerland 2014" by Swiss central bank (SNB)

MNCs Tax Evasion

- 04 phone operators (GP, BLink, Robi and Airtel) suppose to evaded taxes of about Tk 2billion by selling new SIM cards in the name of replacement from 2011 to 2015.
- 04 phone operators (GP, BLink, Robi and Airtel) evaded taxes of about Tk 31 billion by selling new SIM cards in the name of replacement from 2007 to 2011.
- British American Tobacco Bangladesh (BATB) evaded tax about Tk 19.24 billion by making false price declaration on two cigarette brands during 2009 to 2013.
- BATB also transferred Tk.615cr to BAT Investment Ltd (a UK based company) from 2007 to 2015 in the name of Technical and Consultant fee



MNCs Tax Evasion



Step taken by India Govt. in respect of IFFs and Black Money

A. Tax Collection from Cross-border Collection:

Under the Tax Information Agreement (TIEAs) India has collected INR1,170 billion in last 10years.

Year	Collected Tax by DIT, India
2002-03	INR.1,356 crore
2003-04	INR. 1,29 crore
2004-05	INR.4,418 crore
2005-06	INR.8,049 crore
2006-07	INR.9,147 crore
2007-08	INR.11,790 crore
2008-09	INR.15,740 crore
2009-10	INR.16,198 crore
2010-11	INR.21,509 crore
2011-12	INR.27,442 crore

Source: White paper on Black money, India 2012

Step taken by India government in respect of IFFs and Black Money (Cont)

B. Legislation on Black Money held Abroad

The key features of the law to tackle money stashed abroad:

- Punishment up to 10 years for concealment of income and assets and evasion of tax in relation to foreign assets.
- Offenders will not be permitted to approach the Settlement Commission.
- Penalty for such concealment of income and assets at the rate of 300%.
- Non-filing of return or filing of return with inadequate disclosure of foreign assets will be punishable of up to 7 years

Step taken by India government in respect of IFFs and Black Money (Cont)

C. Legislation on Domestic Black Money

- Property in false name will be treated as black money and will be forfeited.
- Personal identification number (PIN) is mandatory for any purchase or sale exceeding of \$2,000. No Cash transaction for above this amount.
- Demonetized of old 500 and 1000 Indian Rupee notes for arresting black money

Our Demands

- Each BD citizen or a Bangladeshi with dual citizenship who has asset and bank account in foreign countries will have to submit annual financial statement. Punitive measure should be taken in respect of concealment of information and tax evasion.
- White paper has to be published by scrutinizing the financial information who received citizenship in foreign countries including Malaysia illegally.
- Inter-country Agreement regarding transparency of financial transaction should be signed with different countries including Switzerland.
- Money transfer through hoondi should be stopped by keeping legal provision of punishment.

Our Demands (Cont.)

- Laws to be formulated to protect purchasing of "assets without representation" like India. For example:
 - Personal Identification Number (PIN) has to be used for purchasing over US\$ 2000 and cash transaction will no longer be accepted in such cases.
 - This type of assets will be forfeited, if unidentified.
- White Paper will have to be published on the money plundered through share market and national and private banks by the groups like Hall Mark, Bismillah and other influential.
- MNCs usually transfer the money to abroad by evading their real income through different way specially by over/under invoicing. Their income and investment should have to be properly audited and disclosed publicly.

Our Demands (Cont.)

- Disclose the functions and outcomes of Transfer pricing unit.
- White paper has to be published for Panama Papers for BD citizens.
- Truth commission policy should be established at all aspect.
- Confrontational politics has to be stopped for curbing capital flight and foreign remittance. Congenial atmosphere has to be established so that business men and others can get a sense of security for investing the money.
- To show zero tolerance to undisclosed money and apply the law more strictly on sources of black money.
- To ensure sprit of liberation war : Socialism, Democracy, Secularism
- To establish the "Public Service Commission" in order to stop/reduce unnecessary expenditure.



Thank You