

Improving Tax Compliance in Bangladesh: A Study of Value-Added Tax (VAT)

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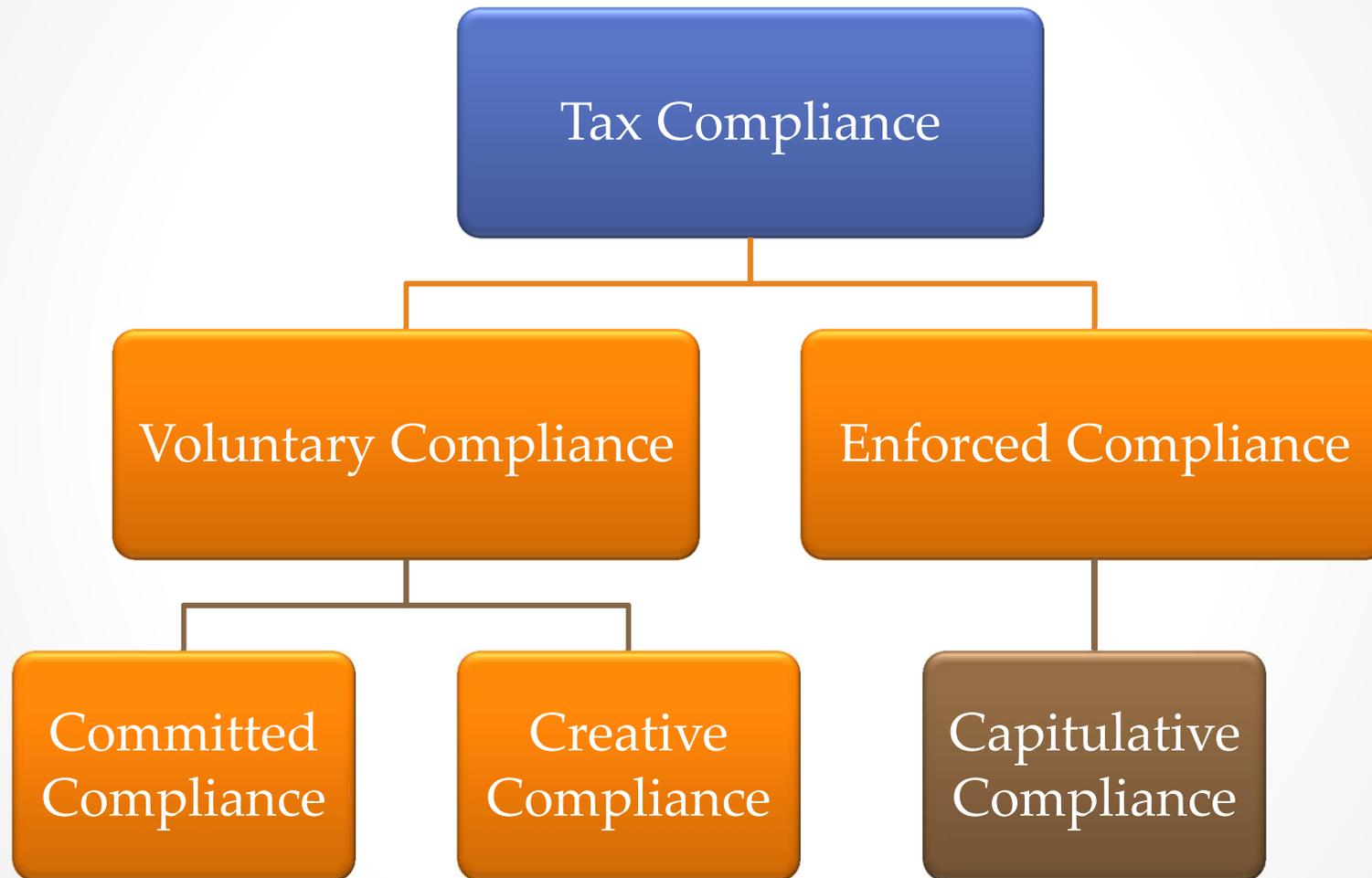
1. Background of the Study

- Tax-GDP ratio in Bangladesh is very low (10.6%) when compared with her South Asian neighbours.
- In Bangladesh, VAT contributes more than 50 per cent of total tax revenue.
- If Bangladesh could increase its VAT productivity from 0.22 per cent of GDP to the average level of other low income countries (0,34 per cent of GDP), VAT could increase government revenue by 1.8 per cent of GDP (IMF, 2011).
- The Sixth Five Year Plan of Bangladesh projects an increase in the revenue to GDP ratio by 3.7 percentage points to 14.6 per cent of GDP by FY 2015.

2. Tax Compliance

- Tax compliance refers to the extent to which a taxpayer meets the following four obligations:
 - Registration in the system;
 - Timely filing of tax returns;
 - Reporting of complete and accurate information;
and
 - Payment of taxation obligations on time.

3. Dimensions of Tax Compliance



4. VAT Compliance

Compliance Rate of VAT Registered Firms in Bangladesh

Category	BIN Registration	Monthly Return Filing	Compliance Rate (%)
Importers	125572 (14.35%)	7534 (7.45%)	6.00
Exporters	37106 (4.24%)	9107 (9.00%)	24.54
Manufacturers	46488 (5.31%)	10734 (10.61%)	23.09
Trade	272923 (31.19%)	37465 (37.03%)	13.73
Service Renderers	392899 (44.90%)	36323 (35.91%)	9.24
Total	874988 (100%)	101163 (100%)	11.56

VAT Indicators for Bangladesh and Comparator Country Groups

Country/ Country Groups	Standard VAT Rate	VAT Revenue (% of GDP)	VAT Productivity
Bangladesh	15.0	3.3	0.22
Low income countries	16.4	5.5	0.34
Lower middle income countries	17.4	6.6	0.38
Upper middle income countries	17.3	6.6	0.38
High income countries	17.1	6.7	0.39

Source: IMF 2011

5. Optimizing VAT Compliance



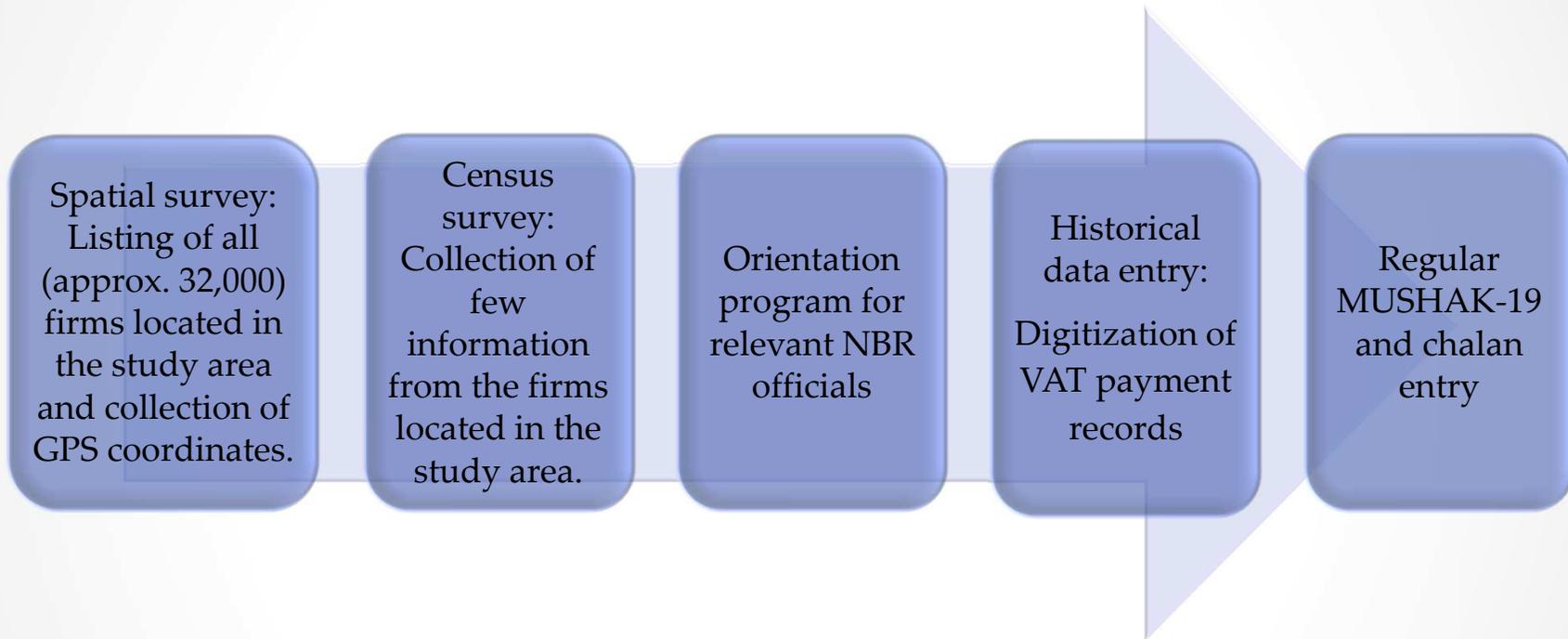
Salient Features of VAT and Supplementary Duty Act, 2012

- **Broad tax base**
- **Single registration for each taxpayer**
- **Actual transaction value for taxation**
- **No price approval is required**
- **Taxed inputs are creditable**
- **Simplified VAT refund system**
- **Automated tax system**
-

6. Taxpayer Recognition Program to Increase VAT Compliance: An IGC-NBR Collaboration

- A collaborative agreement on randomized controlled trial program titled 'Social Recognition to Increase VAT Revenue: A Pilot Project in Bangladesh' was formalized in April 2011
- Yale University based research organization *Innovations for Poverty Action (IPA)* is conducting the field activities at 6 VAT circles of Dhaka city.
- Objective is to test if social incentives are more effective:
 - Recognizing firms for their VAT compliance among local group of peers → public knowledge
 - Enable firm owners to be recognized as supporting public goods among peers → changing shift norms: taxpayer status over private returns
 - Also, provide individual/group based rewards that are easily displayable.

Progress of the Program



Digitization of Tax Data

- A software named PMT has been developed to enter VAT 19 form along with challans.
- So far, data from January 2012 to June 2013 have been entered and continuing.

VAT 19 template in PMT software

M/S MONSOON RAIN

ID: 2025 VAT-19

People's Republic of Bangladesh Government
National Board of Revenue
VAT Return Form
[Section 24(1)]

Tax Period: month Year
Sep 2012 Business Information Number (BIN): 9121036619

Name: M/S MONSOON RAIN
Address: RAPA PLAZA, DHANMONDI 27, DHAKA Telephone:
Activity Code:
zeroreturn: No Area Code:

Information on Sales

	Sale Price	Supplementary Duty	VAT
1 Net Sale of taxable good/service/good and service	100,000.00	1,500.00	
2 Sale of Zero rate good or service (export)			
3 Net Sale of tax exempted good/service			

CORRECTION

	Sale Price	Supplementary Duty	VAT
Correct Line 1	100,000.00		1,500.00

Cancel Correction

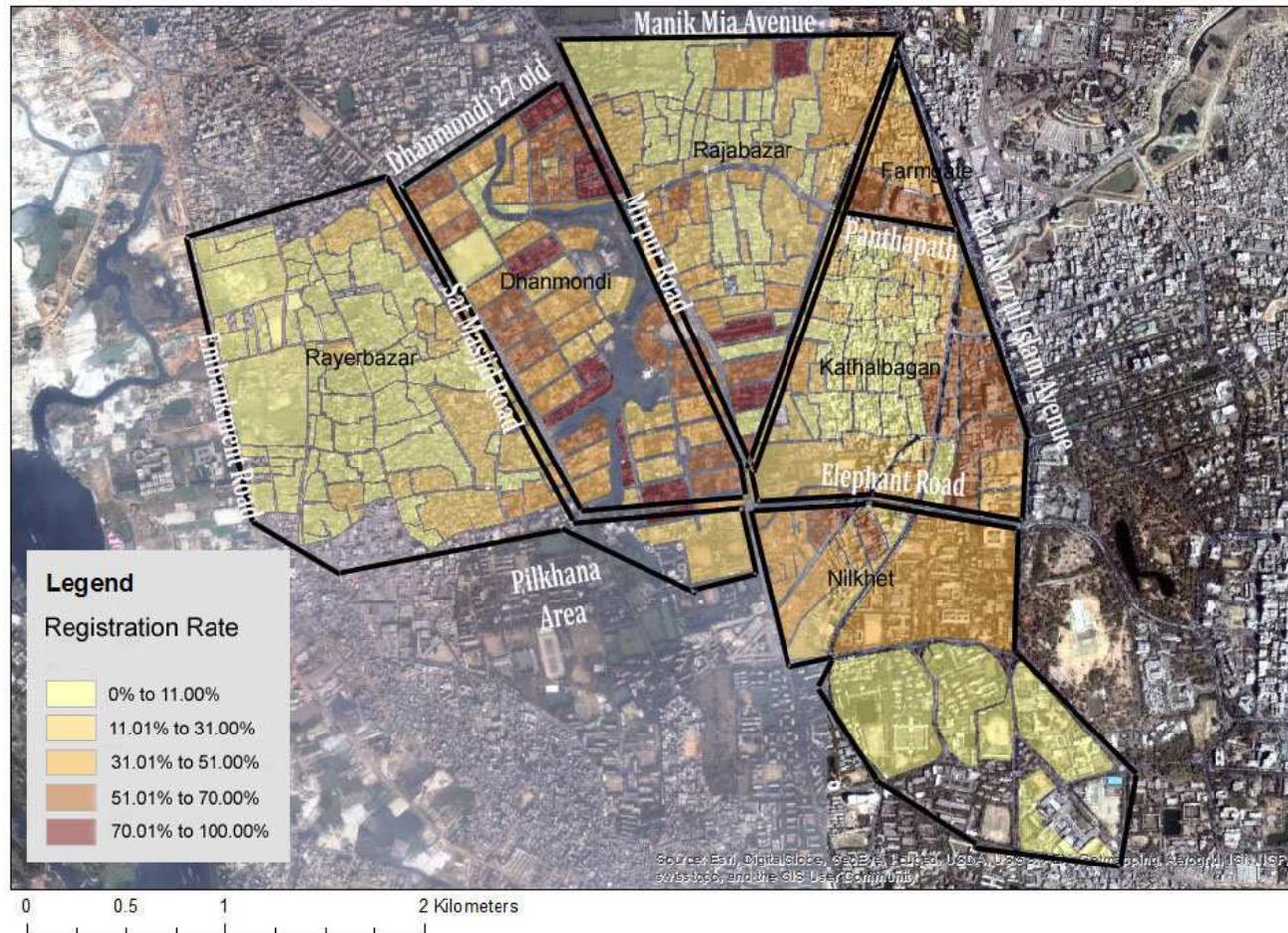
Accounts

Accounts	Amount	Notes on Lines 4 to 6
4 Total tax to be paid (SD + VAT From Row 1)	1,500.00	
5 Other Adjustments (to be paid)	1,000.00	

Record: 1 of 1 Unfiltered Search

Registration Rates in the study area

- The results of the digitized registration and payment information (January 2012–August 2012) show that 35 per cent of the firms in the project area are registered and 8 per cent of all firms pay either package VAT or regular VAT.



Some results from payment data and survey data

Table 1: Summary Statistics on Registration and Payment

Registered (%)	34.65
Package (%)	2.763
Average payment for package payers (Tk.)	5,770
Regular (%)	5.622
Average payment for regular payers (Tk.)	33,800

Table 2: Package Payers

% of total firms	2.6
% of registered firms	7.6
% of package firms with turnover 60 lakh +	30.3
% of package firms with turnover 150 lakh +	21.6

Table 3: Firm Attitudes

	% Agree
Most firms know their own turnover	43.7
Most firms know what is exempt	38.4
Most firms truthful about taxes	24.3
Gov't interferes too much	37.8
Paying tax is a duty	97.6
Tax revenue is used for good	29.5

Thank You