



An Evaluation of the Tax System in Bangladesh

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Presentation Outline

- ❑ Salient Features of Bangladesh's Current Tax System, Trends in Growth and Revenue Structure
- ❑ VAT System of Bangladesh: Performance, Recent/Past Reforms, Revenue Potential, structural and administrative deficiencies, and alleviating measures
- ❑ Discussions on personal and corporate income tax systems have been covered in this study, but not discussed in detail in in this presentation due to time constraint.
- ❑ Finally the presentation assess the scope for further reforms that the authorities may consider in order to gain more buoyancy in revenue generation

Introduction: Salient Features of Bangladesh's Current Tax System

Notwithstanding the various fiscal reforms of the recent past, Bangladesh Tax system continues to suffer from a number of major weaknesses:

- Low Level of Revenue Mobilisation
- Regressive Nature of Taxation (especially VAT)
- High Tax Incidence
- Low Tax Base
- High Degree of Tax Evasion
- Limited Administrative Capacity
- Resource Constraints (Human and Logistics)
- Cumbersome Legal Procedures

Growth Trends and Revenue Structure of Bangladesh

- ❑ Over the past years total revenue and tax receipts as % of GDP have increased – from 6.5% and 5.5% respectively in FY1982 to 10.9% and 9.0% respectively in FY2010.
- ❑ Tax receipts roughly generate four-fifth of total revenue.
- ❑ Average annual growth of total tax revenue for the FY1982-91 period was 13.8%; it came down to 11.8% during FY1992-01. However, the average annual growth picked up between FY2002-10 to 14.2%.

Table 1: Bangladesh: Revenue Performance

Fiscal Year	Revenue as % of GDP	Tax Revenue as % of GDP
1982	6.48	5.47
1992	8.21	6.61
2002	9.48	7.80
2010	10.9	9.0

- ❑ The recent buoyancy in revenue that also led to higher tax to GDP ratio of domestic based taxes relative to international trade based taxes, is also attributable to various reforms undertaken on the domestic tax front.

Growth Trends and Revenue Structure of Bangladesh (Cont'd..)

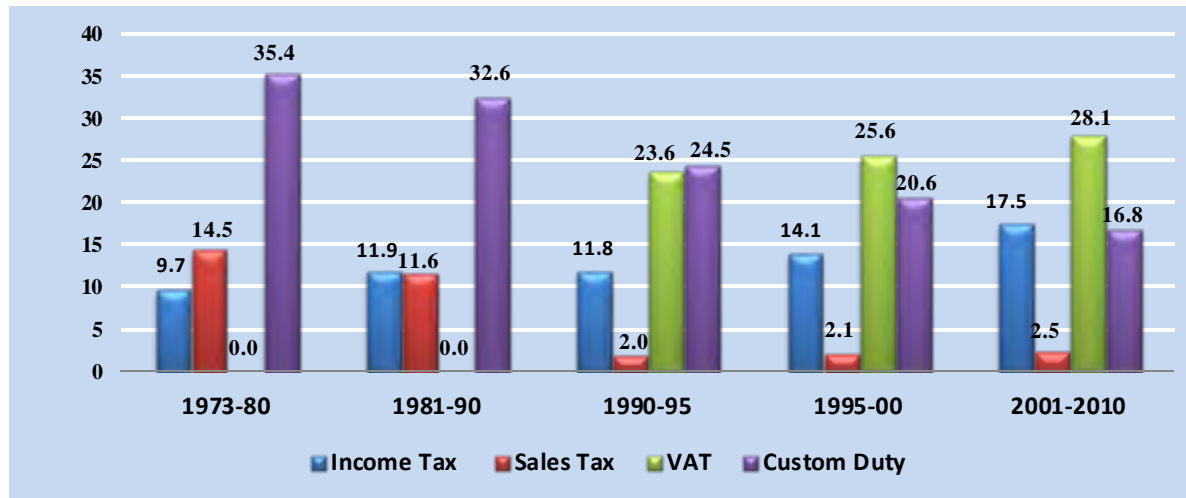
Table 2. Tax to GDP Ratios Among South Asian Countries

Countries	FY06	FY07	FY08	FY09	Average Tax Revenue*	Average GDP per Capita US\$	Average Income tax*	Average Value added tax*
Bangladesh	8.5	8.3	9.1	9.0	8.6	586	1.8	2.8
Bhutan	17.6	17.8	17.9	17.8	17.2	1126	4.8	3.4
India	15.9	17.2	17.6	17.2	16.3	755	4.7	4.8
Nepal	12.2	12.4	12.5	12.6	12.5	486	2.5	4.5
Pakistan	10.1	10.5	10.3	10.2	10.6	735	3.0	4.7
Sri Lanka	13.7	14.6	14.2	13.3	13.7	1200	2.6	8.5

- ❑ The tax revenue to GDP ratio of Bangladesh is still low in comparison with South Asian countries. (About 12% in South Asia).
- ❑ Tax revenue in South Asian countries during the 2000s experienced declining trends in relation to GDP.
- ❑ But, on average, these countries maintained their tax to GDP ratios at significantly higher levels than Bangladesh.

Revenue Structure during Pre and Post VAT Regime

Figure 1: Tax Structure during Pre and Post VAT Regime in Bangladesh



- ❑ Customs duty (import tariff) used to be the preeminent contributor to the revenue envelope in the early 1980s – accounting for 35.4% of total tax revenue (FY73-80) and 32.6% in 1990’s.
- ❑ In FY1991 VAT was introduced with a view to gradually replace the sales tax that has cascading effects; over the years VAT emerged as one of the major components of tax revenue.
- ❑ Dependency on custom duty in this post VAT period declined steadily to 16.8% in the recent decade, and to 14.8% in FY11(the most recent year).

VAT System of Bangladesh: Current Tax Structure

Table 3. Salient Feature on Bangladesh's VAT

Characteristics of VAT System	Exemptions and Deductions	Current tax status with rates
<ul style="list-style-type: none"> <input type="checkbox"/> Invoice method VAT applied to manufactures <input type="checkbox"/> Imports and selected services and goods at the domestic wholesale and retail level 	<ul style="list-style-type: none"> <input type="checkbox"/> Firms with turnover less than Tk. 6 million per annum. <input type="checkbox"/> 4.0 percent turnover tax is applicable and no rebate is allowed on inputs <input type="checkbox"/> education, public administration, housing and charitable health services, cold storage, travel agency, indenting firm, construction faces a reduced tax of 5.5 percent without credit from invoiced tax 	<ul style="list-style-type: none"> <input type="checkbox"/> 15 percent <input type="checkbox"/> Fixed VAT amounting Tk. 6,000 for small retailers of Dhaka City Corporation <input type="checkbox"/> TK. 4,800 for Chittagong City Corporation <input type="checkbox"/> TK. 3,600 for other city corporations <input type="checkbox"/> TK. 1,800 for all district level <input type="checkbox"/> Truncated rates of 1.5 percent, 2.25 percent, 4.5 percent, 5 percent and 9 percent in cases where invoice method is difficult to apply.
<ul style="list-style-type: none"> <input type="checkbox"/> Exports are zero-rated 	<p style="text-align: center;">Exemptions are the following goods:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Animals, meat, eggs, hides, fish, vegetables, fruit, grain, flour, cattle and poultry feed, primary milk products, insecticides, jute cuttings, oilseeds, <input type="checkbox"/> A few chemicals and drugs, fertilizers, domestic textiles. Cottage industries (defined as a unit with an annual turnover of less than taka 2 million and a capital machinery value added up to taka 300000) <input type="checkbox"/> Some plastics, metal products, electricity used in the agricultural sector and a wide range of machinery and scientific apparatus. 	<ul style="list-style-type: none"> <input type="checkbox"/> 5.0025 percent for electricity <input type="checkbox"/> Commercial importers and fixation of VAT deductible at source at the rate of 3%. <input type="checkbox"/> Services provided by commercial importers and businesses (3%), construction firms (5%), furniture manufacturer s (6%), furniture sellers (3%) and procurement providers (4%).
<ul style="list-style-type: none"> <input type="checkbox"/> VAT is levied on the base inclusive of <input type="checkbox"/> Customs duties and supplementary duties <input type="checkbox"/> Distortion-chain base system <input type="checkbox"/> Wholesalers and retailers may register for VAT(those who want to engage in standard VAT system) 	<ul style="list-style-type: none"> <input type="checkbox"/> Animals, meat, eggs, hides, fish, vegetables, fruit, grain, flour, cattle and poultry feed, primary milk products, insecticides, jute cuttings, oilseeds, <input type="checkbox"/> A few chemicals and drugs, fertilizers, domestic textiles. Cottage industries (defined as a unit with an annual turnover of less than taka 2 million and a capital machinery value added up to taka 300000) <input type="checkbox"/> Some plastics, metal products, electricity used in the agricultural sector and a wide range of machinery and scientific apparatus. 	<ul style="list-style-type: none"> <input type="checkbox"/> Services provided by commercial importers and businesses (3%), construction firms (5%), furniture manufacturer s (6%), furniture sellers (3%) and procurement providers (4%).

VAT System of Bangladesh: Current Tax Structure(Cont'd..)

- ❑ At the initial stage, VAT was introduced only at the manufacturing and import stages.
- ❑ The standard tax rate for VAT was at 15%, which was initially applied uniformly on all taxable goods and services
- ❑ Over the years, VAT coverage has been extended gradually to a large number of service sectors and as well as at the wholesale and retail levels.
- ❑ The expansion of the VAT led to political compromises including the adoption of truncated value-bases resulting in multiplicity of de facto tax rates, despite a de jure single rate of 15%.
- ❑ The 'truncated value-base' was fixed with the accompanying provision of waiving 'input tax credit', which essentially cut the input credit chain prematurely.
- ❑ In many cases tariff values were also established, generally at significantly lower than market values, leading to revenue loss.

Bangladesh's VAT Rate

Table 4: VAT Rates among Countries

Statutory VAT Rate (%)	Number of Countries	Percent
20 +	10	16.4
16-20	33	54.1
15	04	6.6
Less 15	04	6.6
Less 10	10	16.4
Total	61	100.0

- ❑ An uniform 15 percent VAT rate was chosen for Bangladesh with a view to ensuring revenue neutrality and to ensure efficiency of the system through equal treatment.
- ❑ A review of the VAT rates across 61 countries suggests that most countries charge VAT at more than 15 percent and 77 percent countries in the sample have basic VAT rates of 15 percent and above.
- ❑ Due to the introduction of 'truncated base' for services, as many as 8 VAT rates (i.e. base rate plus 7 other rates for truncated base ranging from 1.5% to 6%) are now in operation in Bangladesh.
- ❑ Even though, the effective VAT rates are within the global modal range(16-20%), multiple rates severely erode the efficiency of the VAT system due to the unequal treatment of economic agents.

NBR TAX Performance

Table 5: Tax Revenues of the Central Government in Bangladesh

(As % of GDP)	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Tax Revenue	7.8	7.8	8.3	8.2	8.5	8.5	8.2	9.1	9.0	9.4
NBR Tax Revenue	7.4	7.4	7.9	7.8	8.1	8.1	7.9	8.7	8.5	9.0
Import-based tax	4.0	3.8	4.0	4.0	4.1	3.7	3.3	3.6	3.4	3.3
Custom duty	2.0	2.0	2.2	2.1	2.1	1.9	1.7	1.8	1.5	1.5
VAT Import	1.5	1.4	1.4	1.3	1.4	1.4	1.3	1.6	1.5	1.4
Suppl' Duty	0.5	0.5	0.4	0.5	0.5	0.4	0.3	0.3	0.4	0.4
Domestic-based tax	3.4	3.6	3.9	3.9	4.0	4.4	4.5	5.1	5.1	5.7
Income tax	1.4	1.4	1.5	1.4	1.5	1.7	1.8	2.2	2.3	2.5
VAT Domestic	1.1	1.2	1.2	1.3	1.4	1.5	1.6	1.7	1.8	2.0
Suppl' Duty	0.8	0.8	1.0	1.1	1.0	1.1	1.0	1.1	1.0	1.1
Other taxes	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-NBR tax	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

Source: National Board of Revenue, Bangladesh

- ❑ Almost all of the components of taxes under the jurisdiction of the National Board of Revenue (NBR) showed increasing trend except custom duties.
- ❑ Notably, value added taxes (VAT) and income taxes were the two most important categories that registered fairly sharp increases.

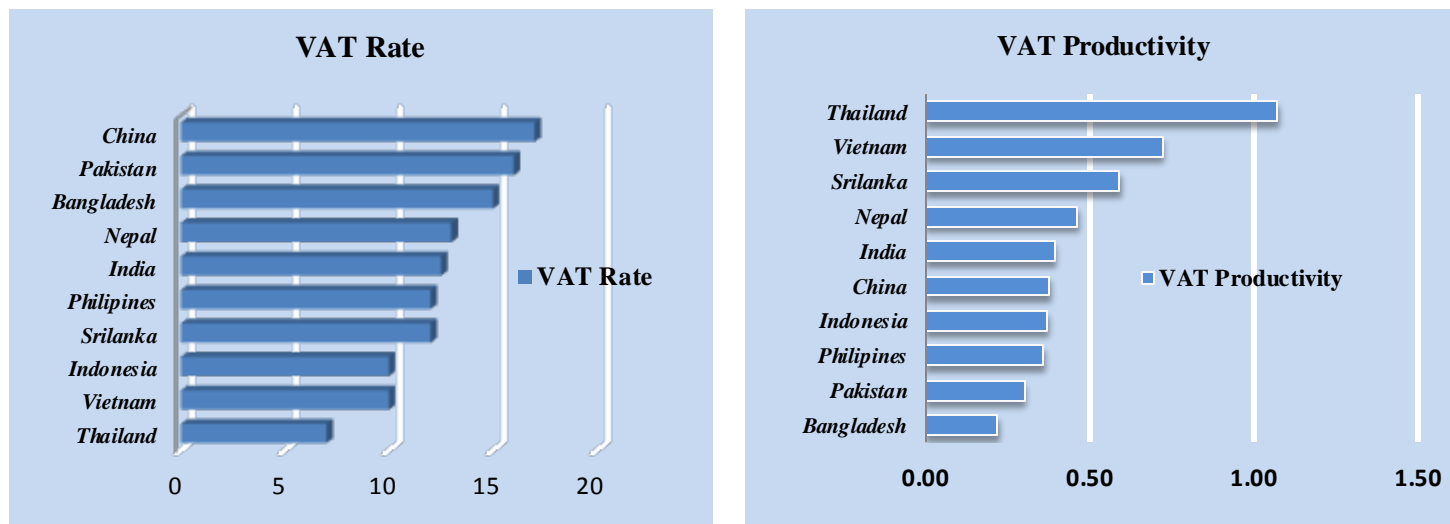
Limitations of VAT System

- ❑ Despite various reforms in VAT system, the growth performance of the VAT system was far from satisfactory.
- ❑ VAT revenue growth (23%) during initial years (i.e. FY92-95) was quite impressive but the growth rate fell to 12% between FY96 and FY07.
- ❑ Thus, the VAT system seems to have underperformed in Bangladesh due to the following reasons:
 - ✓ Collection mechanism is old-fashioned, excise-type and based on control over physical shipment/production/delivery of goods and services.
 - ✓ The VAT payment system, based on treasury receipts (challans), is outdated, error prone, and burdensome for the taxpayers.
 - ✓ Overall, the tax system is inefficient in generating revenue for the government given the basic rate of 15 percent. Besides, the multiple rates in VAT system distort producer's choice.

Limitations of VAT System(Cont'd..)

Lower Productivity:

Figure 2 : VAT Rates and Productivity in Selected Countries



❑ Bangladesh's relatively low VAT-to-GDP ratio reflects mainly a low level of domestic taxes and high statutory nominal VAT rate.

❑ That high statutory rate of VAT is inversely related to its productivity can be discerned from Figure 5 that lists VAT rates and productivity for several countries with different paces of growth of GDP and levels of development.

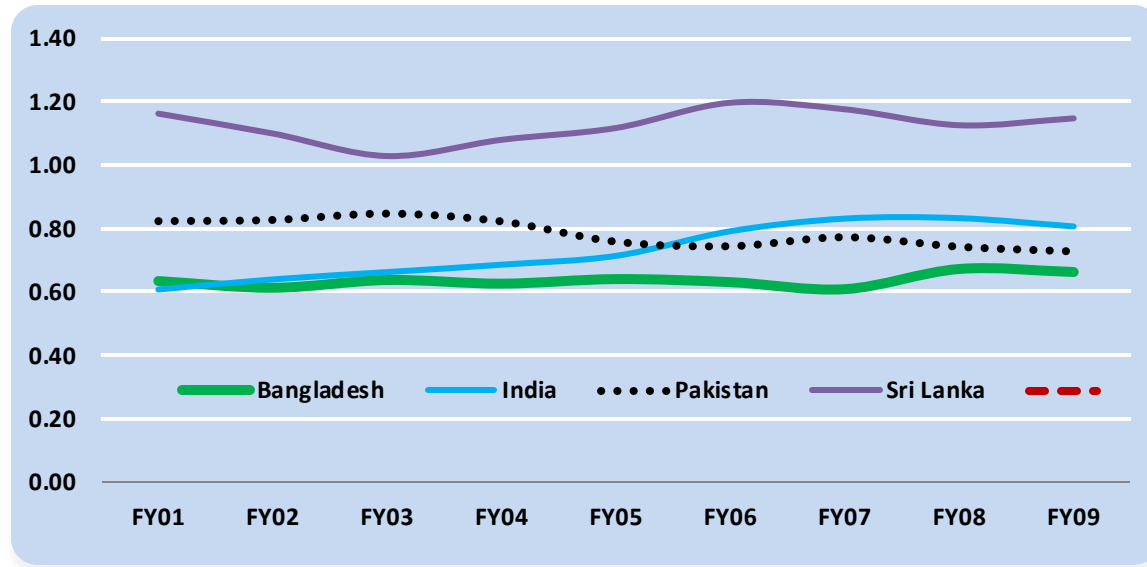
❑ This observation should not be generalized; efficient tax system in industrial economies demonstrate that high VAT rates may indeed be associated with higher productivity.

Efficiency of the VAT System

- ❑ As mentioned above, efficiency of the VAT system depends on the uniformity of the tax rate and comprehensive coverage of the economic activities.
- ❑ Contrary to these conditions, multiplicity of tax rates as well as prevalence of widespread exemptions eroded the efficiency of the VAT system in Bangladesh.
- ❑ Specifically, Single uniform rate of 15 percent is supposed to ensure efficiency of the VAT system through equal treatment of economic agent.
- ❑ However, due to the truncated base the VAT system is facing multiple VAT rate undermining the efficiency objective of the VAT system.
- ❑ Due to various exemptions and non-functioning of the supply chain, cascading (i.e. tax on tax) is still observed in the Bangladesh VAT system.

Inefficiency in VAT due to Lower Tax Efforts

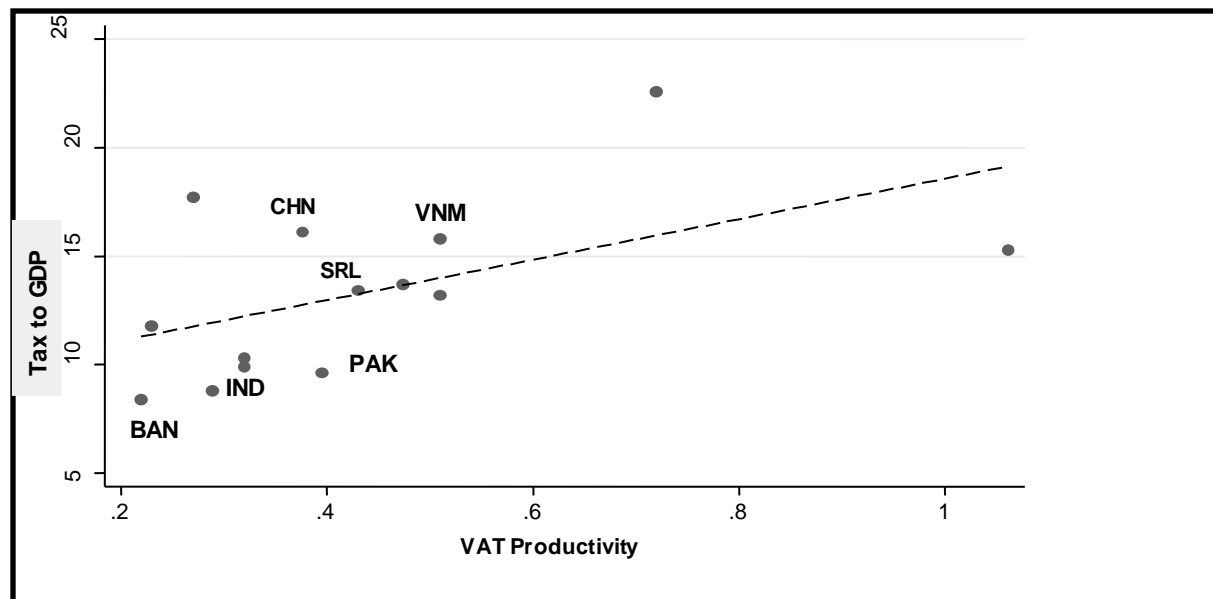
Figure 3 : Trend in Tax Efforts in South Asian Countries



- ❑ Based on the trend of tax effort, Sri Lanka ranks the highest and Bangladesh ranks the lowest among the South Asian countries.
- ❑ Sri Lanka's tax effort shows a declining trend until FY03 after which a reversal is observed.
- ❑ Pakistan performed better than India until FY03 after which tax effort in Pakistan starts deteriorating, while that in India performed better than Pakistan.

Potentiality and Scopes for Reforms

Figure 4 : VAT Productivity and Tax Revenue



- ❑ A regression analysis based on data for 15 countries to establish the relationship between the impact of VAT productivity on tax to GDP ratio has been plotted above.
- ❑ The fitted line shows a positive correlation between the VAT productivity and tax efforts.
- ❑ Given the VAT productivity, Bangladesh's position is significantly below the trend line. This indicates a great scope for raising revenue even made the current low level of VAT productivity.

Potential Scope for Reforms(Cont'd..)

Table 7. Tax Buoyancy among Asian Countries

Countries	Tax revenue	Income tax revenue	Indirect tax revenue	Tax Components	Buoyancy
Bangladesh	1.245	1.202	1.252	Income tax	1.202
India	1.013	1.451	0.852	Indirect tax	1.252
Pakistan	0.823	1.074	0.692	Of which:	
Sri Lanka	0.802	0.842	0.861	Domestic VAT	1.555
Indonesia	0.887	0.795	0.954	Import VAT	0.642
Philippines	0.924	1.124	0.721	Custom duty	0.833

- ❑ The good news is that in terms of buoyancy, Bangladesh ranks the highest among the South Asian countries, and indirect taxes appear to be slightly more buoyant than direct taxes.
- ❑ Higher buoyancy ratio of both direct and indirect tax indicate that potential scope for raising further tax revenue collection from these sources is huge.

Reforms in VAT: Current Initiatives

Modernization of VAT System: Online VAT registration and return submission allowed by law

Reforms in Judicial Process:

To discourage taxpayers from seeking legal proceedings, a 2% penalty per month has been imposed on tax payments delayed due to legal actions.

In order to impose penalty under the existing VAT Act properly Special Judges are to be appointed under the Criminal Law Amendment Act 1958.

Reforms in VAT System:

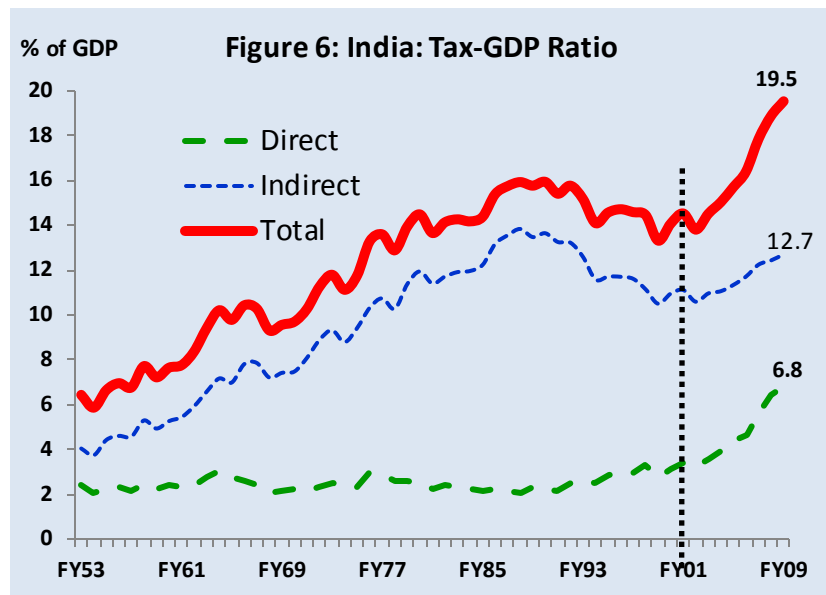
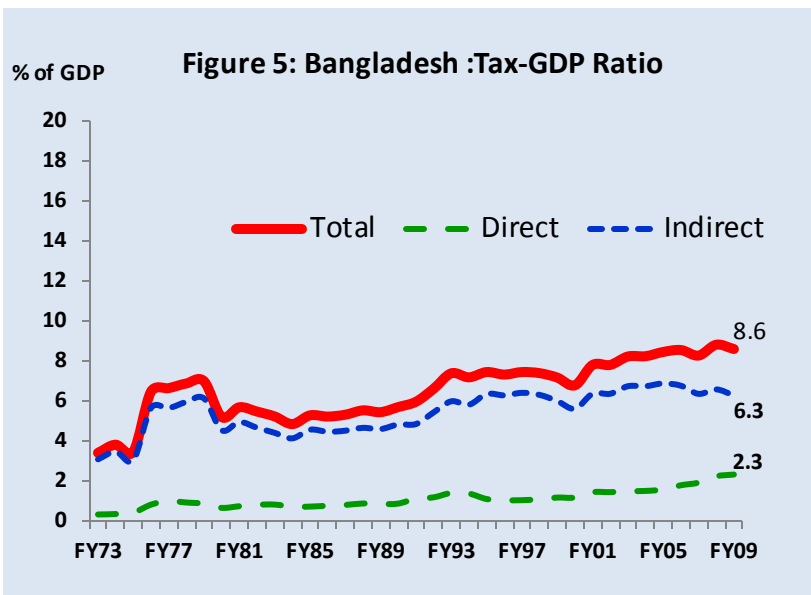
- Reduced the number of items subject to truncated base value ;
- Broadened the withholding on any purchase of goods or services through tender by government organizations, semi government organizations, autonomous bodies, NGO, bank, insurance company or any other financial institutions, limited companies and educational institutions.
- Amendment of provision about deduction of VAT at source at the import stage for commercial importers at the rate of 3%.
- Increased the truncated base value closer to actual value addition for the services provided by commercial importers and businessmen (3%), construction firm (5%), furniture manufacturer (6%), furniture seller (3%) and procurement provider(4%).
- Increased the rate of minimum VAT at fixed rates for small businessmen for Metropolitan cities of Dhaka and Chittagong.

Recent Performance Way Forward

- Excellent revenue performance during FY11 is due to two critical factors:
 - Strong domestic demand.
 - Tax policy measures included in the VAT law through FY11 Finance Act.
- The New VAT law 2011 will essentially be a consolidation of the measures included in the FY11 budget along with an improved structure.
- The VAT revenue collection could have been better if the VAT administration reforms envisaged in FY11 budget were in operation. They include:
 - Automation and computerization of VAT administration
 - Criteria based audit system

- Although legal provisions were made for automation of administration, it lacks required infrastructures.
 - ❖ More specifically, RFP for automation had been sought several months back but progress has been slow so far.
- This delay is avoidable and causing significant revenue loss.
- Recent revenue experiences of BD and India testify this conclusion.

Bangladesh-India Experience



- In mid 1970's Bangladesh and India had similar total tax incidence at above 6% of GDP
- Currently Bangladesh's Tax/GDP ratio is about half of India.
- The recent surge in Indian tax revenue is primarily attributed to automation of tax administration.

Way Forward...

- ❑ The success of a modern VAT system would also depend critically on the effectiveness of audit functions backed by a pool of well trained auditors.
- ❑ Thus, it was proposed that NBR should appoint 600 auditors beginning of FY11.
- ❑ The important issue is how NBR can develop its audit functions, employ auditors and train them to carry out a well-designed audit program.

Some Aspects of Direct Tax

Why a Broad Based Capital Gains / Property Tax Needed?

- ❑ In absence of appropriate rates of land/property tax and capital gains form these, investment incentives can easily be distorted in favor of land holdings and real estate and away from taxed assets and activities
- ❑ without taxation there will be an excess demand for land and real estate that can easily have a spiral effect on prices especially in a densely populated country like Bangladesh.
- ❑ Growing population pressure and growing income have all contributed to a rapid escalation of land prices, especially in major metropolitan areas like the capital city of Dhaka and Chittagong. For example:
 - ✓ Between 1972 and 2010, land prices in Dhaka city grew by an average of 100-125 percent per year.
 - ✓ Allowing for the average inflation rate of 9 percent between 1972 and 2010, real land prices in Dhaka have grown by a whopping 91 percent per year

Why a Broad Based Capital Gains / Property Tax Needed?(Cont'd..)

Impacts on investment incentives

Table 10: Investment Incentives in Bangladesh

Investment options	Average gross annual rate of return	Rate of taxation	Net of tax rate of return
Bank fixed deposits	10-12 percent	10 percent	9-11 percent (risk free)
Commerce/Industry	20-30 percent	28-38 percent	15-23 percent (with risk)
Stocks (2006-2011 average)	38 percent	Zero	38 percent (with risk)
Land holdings (1972-2010 average)	100-125 percent	0-5 (limited taxation)	95-120 percent (virtually risk free)

❑ It is obvious that the lack of property taxation and the taxation of capital gains from property transactions and stocks are major factors that distort investor incentives in favor of land holdings and stock market speculation when compared with real economic activities.

❑ Additionally, the spiraling land price, especially in the capital city of Dhaka, has made land a binding constraint to the growth of commercial and industrial activities.

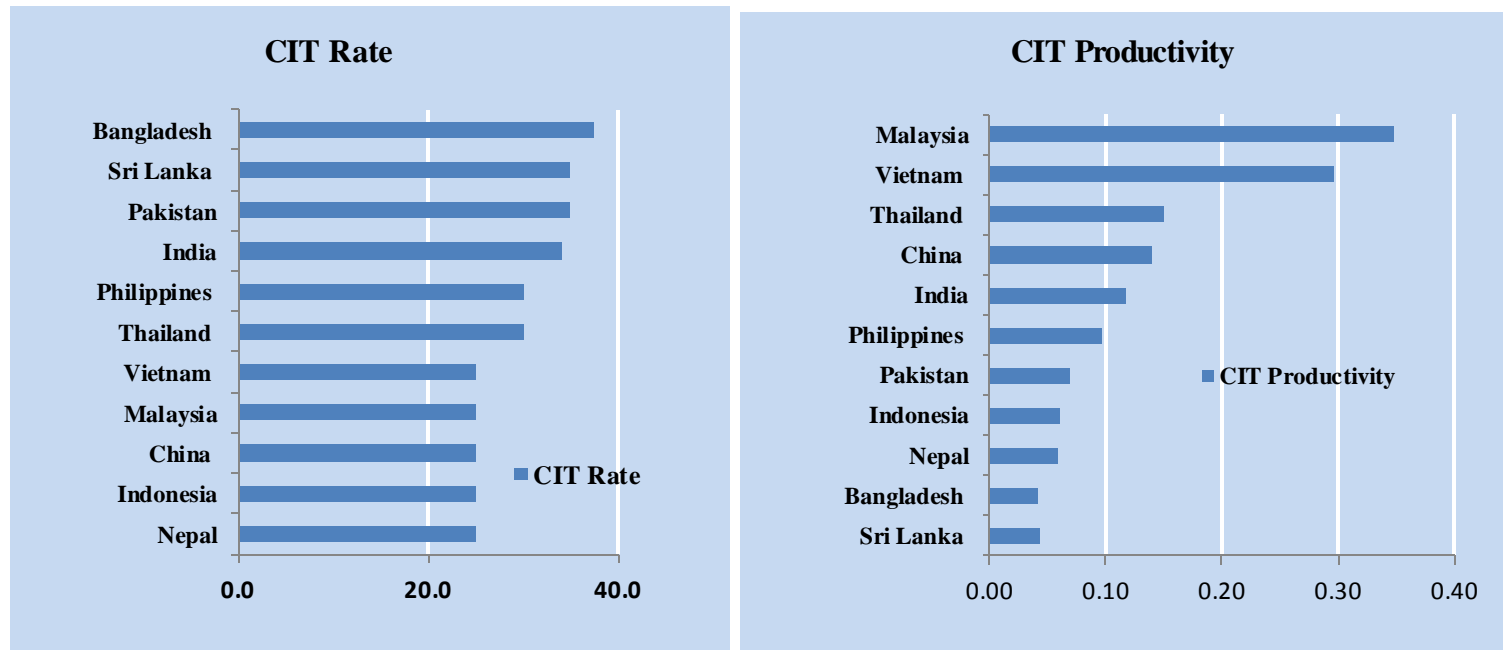
Salient Feature on Bangladesh's CIT System

Corporate Tax Rates

Types of Company	Types of Income		Tax rates (%)
Bank, Insurance, Financial Institutions	(1) Capital gain arising out of	Transfer of stocks and shares of any company registered under Companies Act, 1994. [SRO No. -269-Law/Income Tax/2010]	10
		Transfer of other capital assets	15
	(2) Dividend income	Dividend declared by any company registered under companies act 1913 or 1994 or any foreign company	20
	(3) Other income	Both for publicly and not publicly traded company	42.5
Mobile Phone Operator Company	(1) Taxable Income	Private Limited Company	45
	(2) Taxable Income	If converted into public limited company by issuing minimum 10% of shares through IPO	35
Other Company	(1) Capital gain arising out of	Transfer of stocks and shares of any company registered under Companies Act, 1994. [SRO No. -269-Law/Income Tax/2010]	10
		Transfer of other capital assets	15
	(2) Dividend income	Dividend declared by any company registered under companies act 1913 or 1994 or any foreign company	20
	(3) Other income	-For publicly traded company: dividend declared less than 10% or no dividend within the SEC stipulated time	37.5
		-Other situation	27.5
	Non-publicly traded company, local authority and private limited company and other companies as per sec 2(20)	37.5	

CIT Productivity

Figure7 : Statutory CIT Rate and CIT Productivity in Selected Countries



Source: <http://www.taxrates.cc/html/tax-rates.html>, KPMG (2010), and National Board of Revenue, Bangladesh

Fiscal Incentives in CIT

Tax Rebates:

Table11: Corporate Income Tax Rate Rebates in Bangladesh

Particulars	Rate of Rebate
If production in volume exceeds 15 percent, but does not exceed 25 percent as compared with preceding year.	2.5 percent of tax on such income
If production in volume exceeds 25 percent as compared with preceding year.	5 percent of tax on such income
If total income includes income received from life assurance business.	12.5 percent of tax on such income
On the amount of dividend received from a company registered in Bangladesh under the Companies Act in force of a body corporate formed in pursuance of an Act of Parliament.	15 percent of tax on such dividend income
On the amount spent to perform specified CSR activities [Ref: SRO 270-AIN/IT/2010 dated 01.07.2010]	10 percent of such expenditure

Tax Exemptions in CIT

- ❑ Accelerated depreciation on cost of machinery is admissible for new industrial undertaking in the first three years of commercial production at 50 percent, 30 percent and 20 percent respectively.
- ❑ Initial depreciation allowance for first year on machinery at 25 percent of cost and in respect of factory building at 10 percent of cost if the said factory or machinery is constructed
- ❑ Incomes from fishery, poultry, cattle breeding, dairy farming, horticulture, floriculture, mushroom cultivation and sericulture are exempted from tax up to 30 June 2011. This exemption is conditional up to investing at least 10 percent of the exempted income if that income exceeds Tk. 150,000.
- ❑ Incomes derived from export of handicrafts are exempted for the period from 01 July 2008 to 30 June 2011.
- ❑ An amount equal to 50 percent of the income derived from export business is exempted from tax. However, this benefit is not applicable for companies registered outside Bangladesh.
- ❑ Incomes derived from any Small, and Medium Enterprise (SME) engaged in production of any goods, and having an annual turnover of not more than Tk. 2.4 million is exempted.

Proposal 1: Removal of the truncated based system to make the VAT system efficient

In the Truncated based System-

- Sellers cannot take input tax credit
- Incentives for tracking of transactions through invoices are lost
- Help tax compliance
- Remove cascading
- Remove multiplicity of VAT rates

Proposal 2: VAT Base Expansion Effort can be Expanded and Accelerated

- To expand VAT administration network by establishing divisional offices
- Withholding at sources, has been expanded at the import level, producers, service sectors and at the retail shops. But needs to be enforced efficiently.

Proposal 3: There should be a Single VAT Rate

- To improve tax administration and compliance
- Ensure uniform treatment of economic activities

Proposal 4: Automation of VAT Process and Alternate Dispute Resolution

- To ensure a simple and taxpayer friendly revenue collection system
- To facilitate online submission of tax return, declaration of imports, and tax payments
- To minimize costs and delays associated with the dispute resolution through the court system

Proposal 1: Align Individual income tax threshold to with real per capita GDP

- To ensure the benefit for all taxpayers, benefits will be more for the lower income taxpayers than the upper income.
- It will address the fairness of the income tax by maintaining a standard deduction that more properly reflects the cost of subsistence level of income.

Proposal 2: Eliminate the non-taxed housing allowance/accommodation

- To reduce the avoidance behavior of paying non-taxable compensation

Proposal 3: Eliminate the exclusion of pensions/gratuities and all non-taxed allowances

- To ensure uniform treatment of income for all sources
- To eliminate the inequity by allowing certain benefits to go untaxed
- To avoid close monitoring and higher administrative cost

Proposal 5: Bring realized capital gains and agriculture income into the tax net properly

Reforms in the Area of CIT

Proposal 1: Harmonize the corporate and individual income tax rates

- To eliminate the incentives to shift income in order to take advantage of tax differentials
- Neutral tax system promotes corporate form of organization

Proposal 2: Eliminate all CIT holidays and exemptions

- To increase tax receipts by creating a more level playing field for all business
- To simplify the administration of the tax system
- To improve the horizontal and vertical equity

Proposal 3: Simplify capital allowances by reducing the number of asset types and eliminate the special treatments for certain industries such as the RMG, etc.



Innovative Approach to Enhance Taxpayer Compliance

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IGC Growth Week 2011
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Outline of the Presentation

- Context and Background
- Taxpayer Compliance Framework
- Innovative Approach to Enhance Taxpayer Compliance
- NBR Modernization Plan: Objectives and Strategies
- Concluding Remarks



1. Context and Background

- Bangladesh's tax-GDP ratio (below 10%) remains quite low when compared with other countries in South Asia.
- Less than 1% of the population pay income tax and tax evasion is persistent.
- A significant amount of tax revenue is given up in the form of tax incentives and exemptions.
- Most of the NBR's processes are manual and there is little in the nature of taxpayer education and taxpayer services.

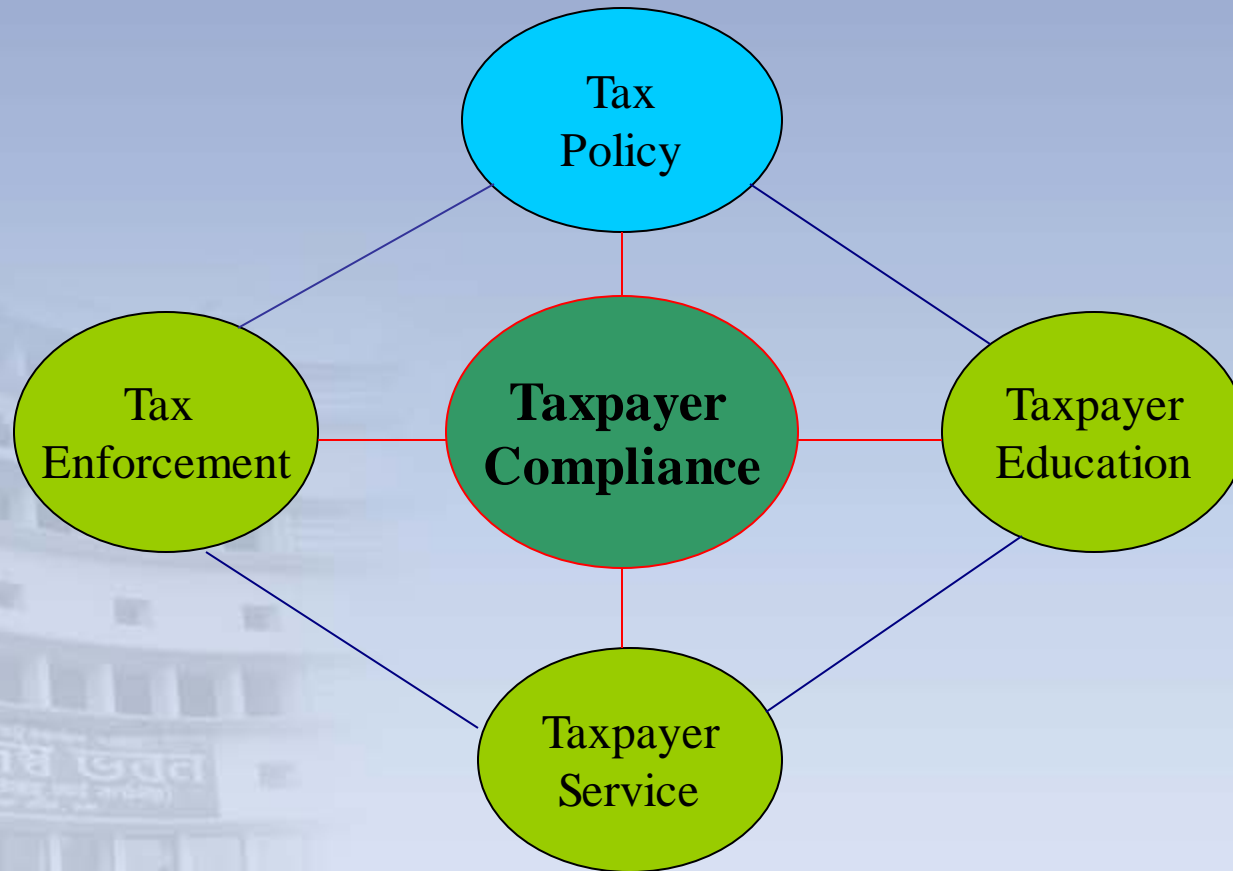


Context and Background

- The NBR also faces problems in its functioning due to lack of distribution of tax work by function and size.
- Moreover, the NBR faces the problems of acute shortage of trained manpower as well as physical infrastructure.
- Curbing tax evasion and dealing with tax incentives and other reforms could add 5 percentage points to the tax-GDP ratio.
- Since sustaining the current momentum in revenue generation will require fundamental reforms, NBR has prepared and is implementing a modernization plan over a five year period (i.e. FY 2011-FY2016).



2. Taxpayer Compliance Framework



3. Innovative Approach to Enhance Taxpayer Compliance

3.1. Holding Tax Fairs

- Last year NBR, for the first time in its history, organized **income tax fairs** at Dhaka and Chittagong.
- One stop services were provided to taxpayers.
- The fairs were a huge success. More than 52 thousand people submitted income tax returns at the fairs. Taka 114 crore (US \$16 million) was collected as tax.
- In 2011, the tax fairs, holding from September 17-22, 2011, have been expanded to all divisional HQs.



Foreign Media Praised the NBR Innovation

Amazing success of Bangladesh's tax 'funfairs': BBC (UK) 2 Oct 2010.

Bangladesh's taxman tries a different approach: The National (UAE) 3 Oct 2010.



3.2. Taxpayer Recognition Program

- Under the taxpayer recognition policy of 2008, three highest and two longest paying taxpayers from each of the 64 districts and 6 city corporations are given social recognition at a state function.
- They are awarded certificates, crests etc.
- Under the national tax card policy of 2010, ten highest personal and ten corporate income taxpayers at the national level are recognized.
- They are accorded the status of commercially important persons (CIPs) every year.



3.3. Dispute Resolution in Taxation through ADR

- More than 20 thousand cases are lying with different courts involving about 20 thousand crore taka (US\$ 260 million).
- The Finance Act, 2011 has incorporated ADR provisions for dispute resolution in income tax, VAT and customs.
- By ADR mechanism, the NBR and taxpayers would be able to iron out their differences with the help and guidance of a referee called **facilitator**.
- The parties would retain their right to due court process where they do not agree.
- The NBR is going to operationalise the ADR mechanism on a pilot basis shortly.



3.4. Establishing Taxpayer Information and Service Centre

- Two Taxpayer Information and Service Centers have been set up in Dhaka and Chittagong (two largest cities of Bangladesh)
- The centre provides answers to taxpayers' questions.
- It assists taxpayers in preparation of tax returns, calculation of tax liabilities etc.
- It also provides remote service through mobile phone, internet etc.
- It coordinates taxpayer education programs at different organization levels.



4. NBR Modernization Plan:

4.1. Objectives of the Modernization Plan

- Reach a tax-GDP ratio of 13% by 2016;
- Provide exemplary customer service to all taxpayers through a web-enabled tax administration from e-registration, e-filing of tax returns to e-payments/ refunds by 2016; and
- Reduce the tax pendency in the courts by 80% by 2016.



4.2 Strategies of the NBR Modernization Plan





5. Concluding Remarks

- The NBR is committed to continuing the reform initiatives in tax policy and administration.
- We are thankful to IGC for providing a forum for having interface of research and policy on key growth issues including taxation.
- We take this opportunity to urge upon IGC and other partners to undertake more research work on tax policy issues in Bangladesh.



Thank You



Brief overview of policy research needs in food and agriculture

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Brief overview of policy research needs in food and agriculture

OUTLINE

- Need for Informed policy making and public intervention/investment
- Options for using information generated through GoB initiatives
- Engagement in institutionalization process for policy uptake
- Concluding remarks

Need for informed policy making and public intervention/investment

Evidence-based information/analysis may help in formulating public policy in attaining food security and agricultural growth by understanding -

- Current landownership and tenancy structure
- Static and dynamic comparative advantage
- Impact of and alternatives for using input subsidy
- Changing pattern of demand for different agro-food products
- Value addition through market linkage and exports of high value products
- Economics of commercial versus subsistence farming
- Reform and investment options toward efficient agriculture/food markets
- Impact of public actions and subsequent priority settings
- Scope for designing productive safety net that can actually contribute to human capital development and as well as economic growth

Options for using information and policy documents generated through GoB initiatives

RECENT SURVEY AND CENSUS DATASETS

- ✓ Bangladesh Census of Population and Households 2011
- ✓ Household Income and Expenditure Survey 2010-11
- ✓ Bangladesh Health and Demographic Survey 2011
- ✓ Bangladesh Agricultural Census 2008

RECENT POLICY DOCUMENTS

- ✓ Bangladesh Sixth Five Year Plan, 2011
- ✓ Bangladesh Food Security Country Investment Plan, 2011
- ✓ Draft National Agriculture Policy, 2011

Engagement in institutionalization process for research based policy uptake

Existing institutions engaged in policy uptake initiatives

- ✓ GED-PRI-BIDS (Sixth Five Year Plan and MDG Monitoring)
- ✓ FPMU-FAO (Food price, CIP implementation, Hunger monitoring)
- ✓ MoA-IFPRI (Agricultural Policy and Research Support Initiatives)
- ✓ MoF-MTBF (Key performance indicator monitoring)
- ✓ BBS-WFP (Poverty and food insecurity analysis and mapping)

Influential Civil Society Think-Tanks

- ✓ BIDS
- ✓ CEGIS
- ✓ Centre for Policy Dialogue
- ✓ PPRC

And others

Concluding remarks

- ✓ Policy researchers are acting like distant observers and critiques
 - *criticism without accountability and continuity*
- ✓ Policy briefs – prescriptive form with expectation of automatic policy uptake
- ✓ Delinked from and not interested in policy update through public institutions
 - *Isolation resulting in serving distant observers only*
 - *Not proven partners in pursuing policy reform until adjustment*
- ✓ Mostly end up in unsustainable national capacity and dependency

*IGC MAY THINK AND PLAN DIFFERENTLY THAN EXISTING RESEARCH INITIATIVES TO
SUPPORT AGRICULTURAL GROWTH RELATED POLICY RESEARCH IN BANGLADESH*

Supervisory Training for Female Production Workers: A Key to Productivity?

Rocco Macchiavello (*Warwick*)

Andreas Menzel (*Warwick*)

Christopher Woodruff (*Warwick*)

IGC Growth Week, September 19-21st 2011

Motivation

- Poverty reduction rests on the creation of jobs in larger firms. How can the private sector be helped to generate these jobs?
- Ultimately, increases in productivity are necessary (key focus of the IGC Firms Capabilities Research Agenda)
- Skills shortages commonly held as a constraint on productivity
- In the context of the Bangladesh Garment Sector, we evaluate, through a RCT, the *GIZ Female Line Operator Training Program*

Context: the Bangladesh RMG Industry

- Why **Garments**? A pivotal sector that has historically played a fundamental role in the early phases of the development process: labour intensive, accumulation of basic skills, jobs for women
- Why **Bangladesh**? 3rd largest exporter in the world
- Why **Garment** in **Bangladesh**?
 1. A shortage of skills at the line supervisory level is perceived to be an important bottleneck to further increase productivity;
 2. The bottlenecks created by a shortage of skills are aggravated by gender imbalance: most line supervisors are male, while line operators are female. This creates tensions and communication problems on the production floor;
 3. Training programs are routinely at the line operator and supervisor level to promote productivity and employment. (**GIZ program**, DFID-supported programs, ASDA, H&M, etc.)

Training Program

- 6 – week (36 day) training program developed by local consultants in conjunction with GIZ.
 - Production process
 - Quality control
 - Social compliance
 - Leadership
- GIZ piloted in 2009, with ~10 factories

GIZ pilot impacts

Effects of training on productivity among the firms in the pilot 2009			
Category	Before	After	%
Pieces line/hour	86	102	18%
Defects line/hour	7	3	-43%
Complaints line/hour	4	2	-50%

Research design

- The RMG industry comprises 5000+ firms, highly heterogeneous in terms of capabilities, etc.
- Sample of 96 firms selected in collaboration with large foreign buyers, highly demanding but below top end
 - Identify a homogenous group of producers who are 'almost good enough' for them. Better producers don't need the training, worse ones can't take advantage of it.
 - Participation in the program offered at subsidized rate
- Sample of workers: each firm identifies 20 production workers as candidates
 - GIZ diagnostic, ranking
 - Select top two plus 3 of the next six for training

Research Questions and Data

- **Does training female operators to become supervisors increase productivity in the production line / factory?**
 - administrative production records from the firms,
- **If yes, through which channels?**
 - games to measure trust, communication, ...
- **To which extent the increase in productivity is shared with the workers in the factory? What is the impact of training on workers well-being?**
 - workers survey.

Secondary research questions

- The study can shed light on two other important issues:
 1. Firms worry that the trained workers will leave. Do they? Do low **retention rates** discourage firms from offering training?
 2. Internal records will allow us to determine whether there are **strong complementarities** in the production function? (within and across lines). This is important to understand the impact of trade on the labour market, particularly skill premia and inequality.

Discussion of
"An Evaluation of Training Female Production Workers to
Become Line Supervisors in the Garment Sector of Bangladesh"
by Christopher Woodruff

Zaki Wahhaj
Queen Elizabeth House, University of Oxford

September 20, 2011

- Carefully designed, potentially very large benefits for the garments industry, and workers in the industry
- Distinguishing between the effects of training and gender dynamics:
 - Training for (existing) male line supervisors?
 - Female trainees are ‘peers’ of existing machine operators
- How to ensure that firms indeed promote trainees to become line supervisors?
 - Potential opposition from management & existing male line supervisors
 - Could trainees serve as line supervisors for a limited (probationary) period after taking the course, as part of their training?
- The use/replication of patriarchal norms within non-traditional organisations?
 - Impact on attitudes/aspirations of female machine operators of working under a female line supervisor versus a male line supervisor

Export Dynamics in Bangladesh: Exploring the Data

Bernardo Díaz de Astarloa, Jonathan Eaton, Kala Krishna, Bee Roberts,
Andrés Rodríguez-Clare, James Tybout

Growth Week

20 September, 2011

1. The Growth in the Exports of Bangladesh over the last several decades has been phenomenal:
 - (a) in absolute terms.
 - (b) as a share of world exports (growth was 33 times higher than the growth in world exports over 1972-2008)
 - (c) relative to Bangladesh's GDP (5 % in 1987 to 20 % in 2007)

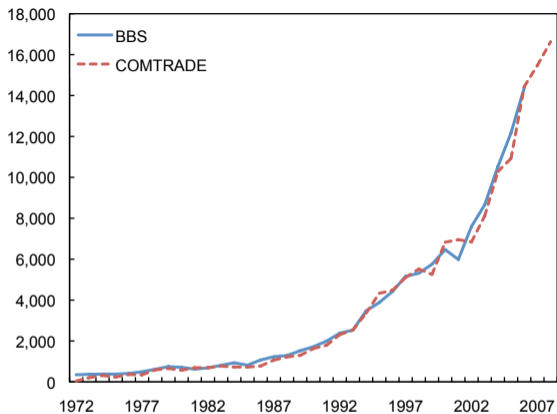


Figure 1. Total Bangladesh exports, in USD million. Source: COMTRADE data and BBS.

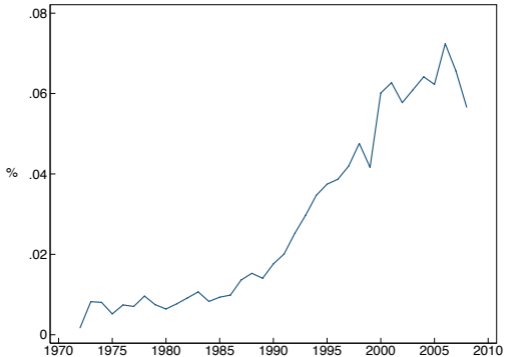


Figure 2. Bangladesh's share in world exports (%), 1972-2008. Source: COMTRADE data.

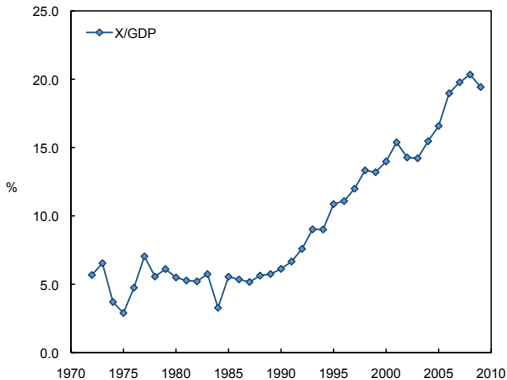


Figure 3. Exports to GDP ratio, Bangladesh, 1972-2009. Source: WDI (World Bank).

2. This export growth “miracle” has all been about one sector: textiles and apparel.

(a) The Daewoo story (1979)

(b) How did this initial success spread?

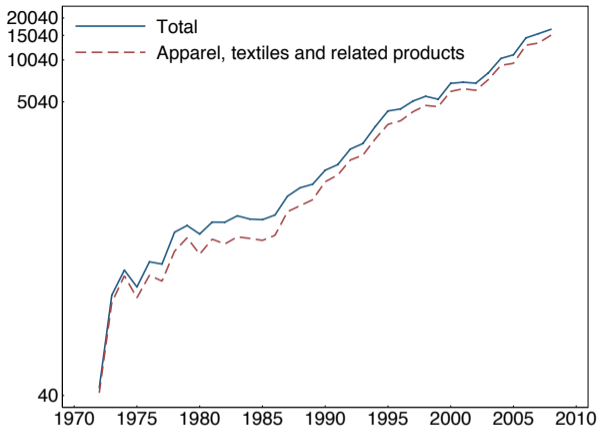


Figure 4. Total exports and exports of apparel, textiles and related products, in USD million (log scale).

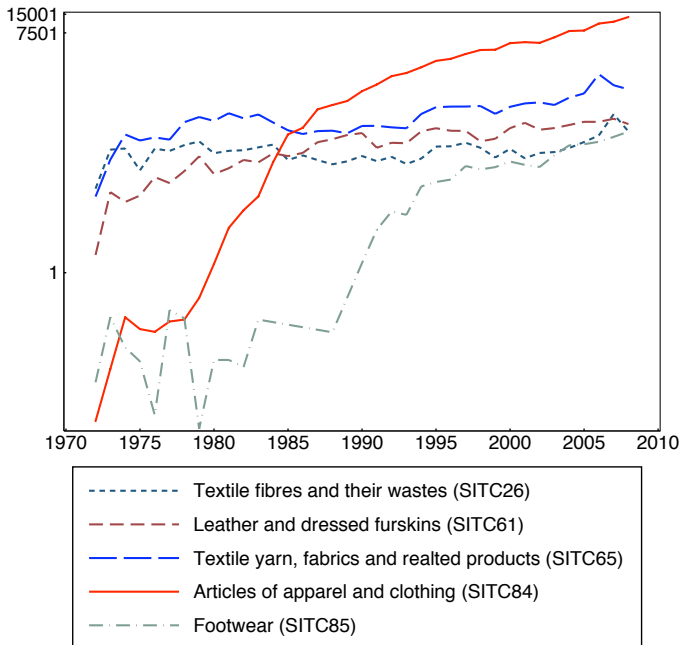


Figure 5. Exports of apparel and textiles SITC 2-digit industries, in USD million (log scale).

3. Was this apparel export boom unique?

(a) No: Vietnam, Honduras, Dominican Republic, Tunisia, Romania.

4. What was the legal environment?

(a) In Bangladesh: The Export Processing Zones (EPZ's)

i. Duty-free imports

ii. Tax abatements

iii. Exemption from some labor regulations

iv. Prohibition of labor unions

(b) In Destinations:

- i. Europe: Everything but Arms (EBA)
- ii. USA: only the Generalized System of Preferences (GSP)
- iii. The Multifibre Agreement (MFA)

5. How did growth take place?

(a) SITC 84 (“Articles of Apparel and Clothing”)

(b) Enormous diversification at the 4 digit level (SITC 84: from 8 in 1980 to 28 by 2000)

(c) But nothing is happening in other sectors

6. Diversification of destinations?

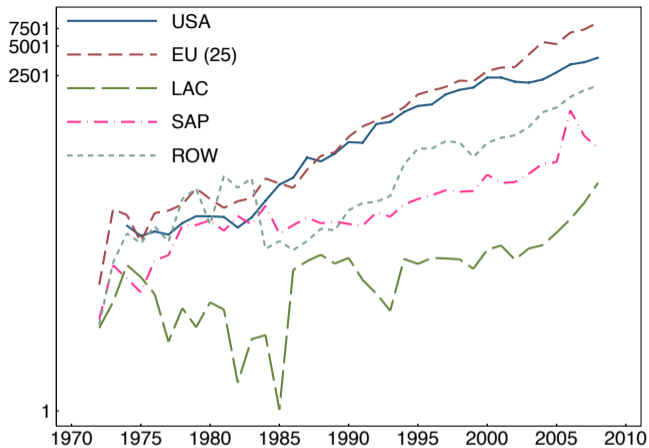


Figure 6. Exports of apparel, textiles and related products by regions, in USD million (log scale). EU(25) are the 25 countries of the European Union, LAC is Latin America and the Caribbean as defined by the World Bank and SAP are main trade partners in South East Asia and the Pacific.

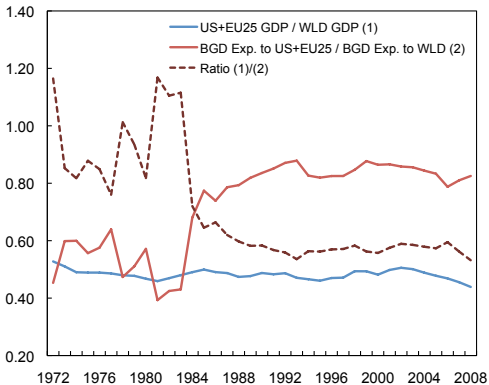


Figure 8. Exports concentration in the US and the EU, Bangladesh. Source: based on WDI (World Bank) and COMTRADE data.

7. Quality upgrading? The evidence from unit values

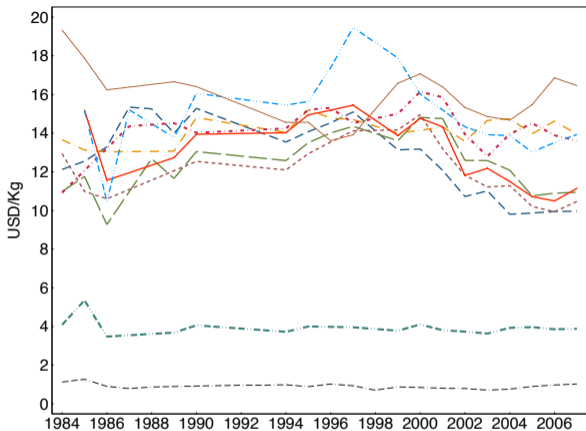


Figure 16. Unit values in the US market for BGD top 10 selling sub-industries. Observations where units are number of items are dropped.

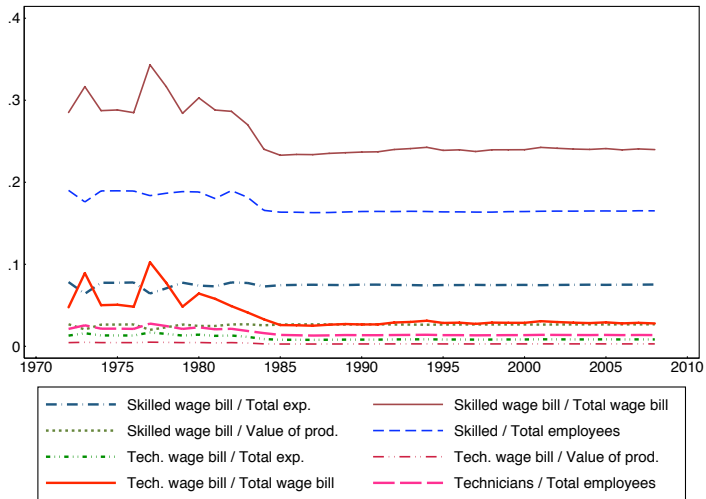


Figure 17. Technological sophistication indicators, Bangladesh. “Skilled” includes skilled workers and technicians. Indicators are based on 1989 data for Colombia SIC 4-digit industries.

8. The firms involved

Table 8: Firms by initial export year cohorts, 2004-2009.

Year	Cohort						Total
	2004	2005	2006	2007	2008	2009	
A. Number of firms							
2004	3,629						3,629
2005	2,949	918					3,867
2006	2,603	587	763				3,953
2007	2,431	536	532	1,365			4,864
2008	2,231	460	435	941	1,111		5,178
2009	2,019	418	381	774	700	1,061	5,353
B. Value of exports (USD million)							
2004	7,295.3						7,295.3
2005	8,393.8	1,031.4					9,425.2
2006	7,040.4	656.8	205.1				7,902.3
2007	9,502.3	1,141.0	968.7	510.3			12,122.2
2008	9,761.5	1,278.5	1,153.9	1,294.8	371.5		13,860.1
2009	9,197.3	1,259.1	1,231.8	1,570.4	842.4	363.9	14,464.9
C. Exports per firm (USD million)							
2004	2.0						2.0
2005	2.8	1.1					2.4
2006	2.7	1.1	0.3				2.0
2007	3.9	2.1	1.8	0.4			2.5
2008	4.4	2.8	2.7	1.4	0.3		2.7
2009	4.6	3.0	3.2	2.0	1.2	0.3	2.7
D. Number of products							
2004	579						579
2005	567	322					607
2006	515	280	266				567
2007	499	279	291	350			575
2008	476	273	273	340	308		568
2009	485	282	289	325	312	323	608
E. Exports per product (USD million)							
2004	12.6						12.6
2005	14.8	3.2					15.5
2006	13.7	2.3	0.8				13.9
2007	19.0	4.1	3.3	1.5			21.1
2008	20.5	4.7	4.2	3.8	1.2		24.4
2009	19.0	4.5	4.3	4.8	2.7	1.1	23.8
F. Number of destinations							
2004	162						162
2005	151	88					155
2006	144	84	77				151
2007	165	95	104	95			176
2008	158	100	98	108	94		169
2009	156	96	86	105	93	92	170

Note: a firm is classified as belonging to cohort x if the firm first reported exporting in year x . If a cohort x firm exits in a given year and re-enters in the future, it is still treated as belonging to cohort x . Altering this classification to allow firms to switch cohorts as they re-enter does not significantly change the results.

9. Are these firms “born to export”? Look at the high initial sales and survival rates

10. Is the miracle over?

11. Future work

- (a) Who were the buyers? (US customs records)
- (b) The role of EBA in providing a safe haven
- (c) Where might there be the seeds of another miracle?