

Progressive Taxation Policies in Asian Countries: Challenges and Opportunities

Perspective Bangladesh

Progressive Taxation in Bangladesh

Objective of this presentation

- **A general overview of existing Tax system & Practice in Bangladesh**
- **VAT policy and it's Impact as regressive to the poor**
- **Challenges on pro poor strategies in domestic resource mobilization through taxation**

Progressive Taxation in Bangladesh

Our views on Progressive Taxation:

- Consider welfare state rather than traditional definition.
- Tax must be collected from rich and their income/profit and be utilized for the welfare of the poor
- Progressive taxation must be redistributive in nature that means utilization tax will be addressing the Re-pricing and Re-prizing.

Progressive Taxation in Bangladesh

Development Approach and Role of Taxation :

- Vision 21: reducing poverty and bring it down below 15% (31% people living under poverty line at present)
- Need to resource investment 30%-35% of GDP (US\$46 billion) per year
- Govt prepare national budget and mobilize the resources achieving the Vision 2021.

Progressive Taxation in Bangladesh

Domestic Resource Mobilization in National Budget 2011-12

- Total Budget US\$ 20.15 billion (17.6% of GDP)
- Revenue income US\$14.90 billion (13% of GDP and 74% of total budget)
- Annual Development Program (ADP) US\$ 5.14 billion (4.5% of GDP and 25% of budget)
 - 13% of total Revenue is used in ADP and
 - 87% used in Non Development Expenditure.
- Gross Domestic Product (GDP) US\$ 114.35 billion

Progressive Taxation in Bangladesh

Overview of taxation in Bangladesh (FY 2012-12)

- **Direct Tax 24.42% of total revenue**
(income tax, corporation tax, wealth tax, estate duty, house rent tax, etc).
- **Indirect Tax is 75.58% of total revenue**
(value added tax (VAT), supplementary duty, excise duty, import duty, turnover tax etc.)

Progressive Taxation in Bangladesh

Why VAT is Regressive ?

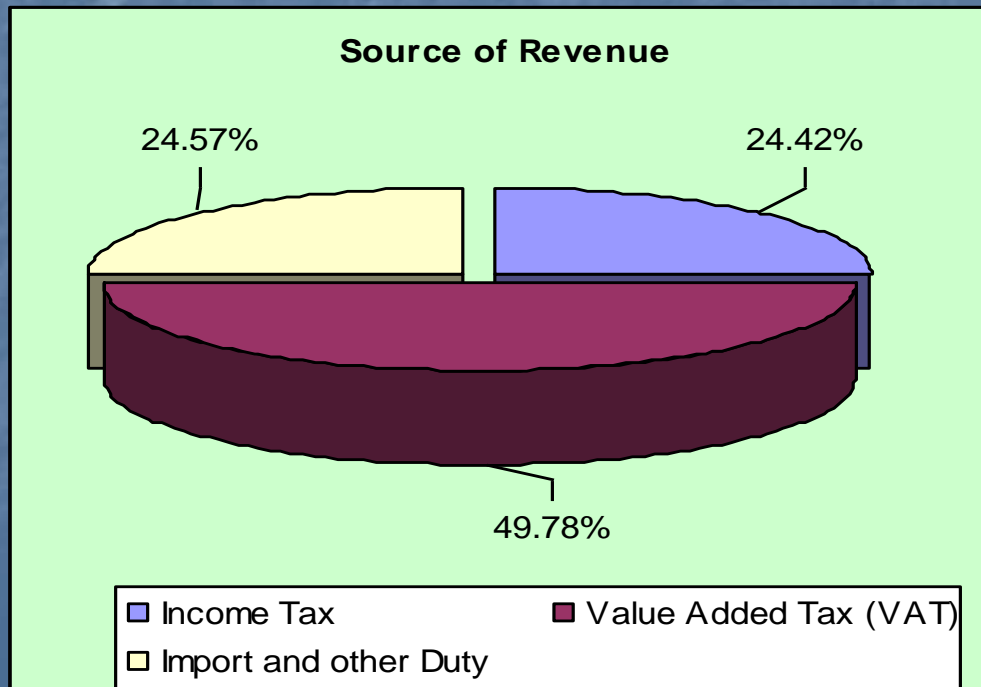
Fiscal Year	% of Total Revenue		% of VAT in total Revenue
	Direct or Income Tax	Indirect Tax	
2000-2001	19.40%	80.56%	41.56%
2004-2005	19.49%	80.51%	45.00%
2008-2009	27.17 %	72.83%	48.36%
2009-2010	28.09%	71.90%	47.50%
2010-2011	29.49%	70.51%	48.23%
2011-2012	24.42%	75.58%	49.78%

Source: NBR AR 2011

Progressive Taxation in Bangladesh

Why VAT is Regressive ?

Particulars (FY 2011-12)	USD in Billion	Percentage
Total Revenue	11.55	
Income Tax	2.85	24.42%
Value Added Tax (VAT)	5.47	49.78%
Import and other Duty	3.22	24.57%



Progressive Taxation in Bangladesh

How VAT is regressive (Continue)

The marginalized people who receive less public facilities, are bearing the burden of Vat expansion. It affects all sections of society equally and it creates a burden on the poor.

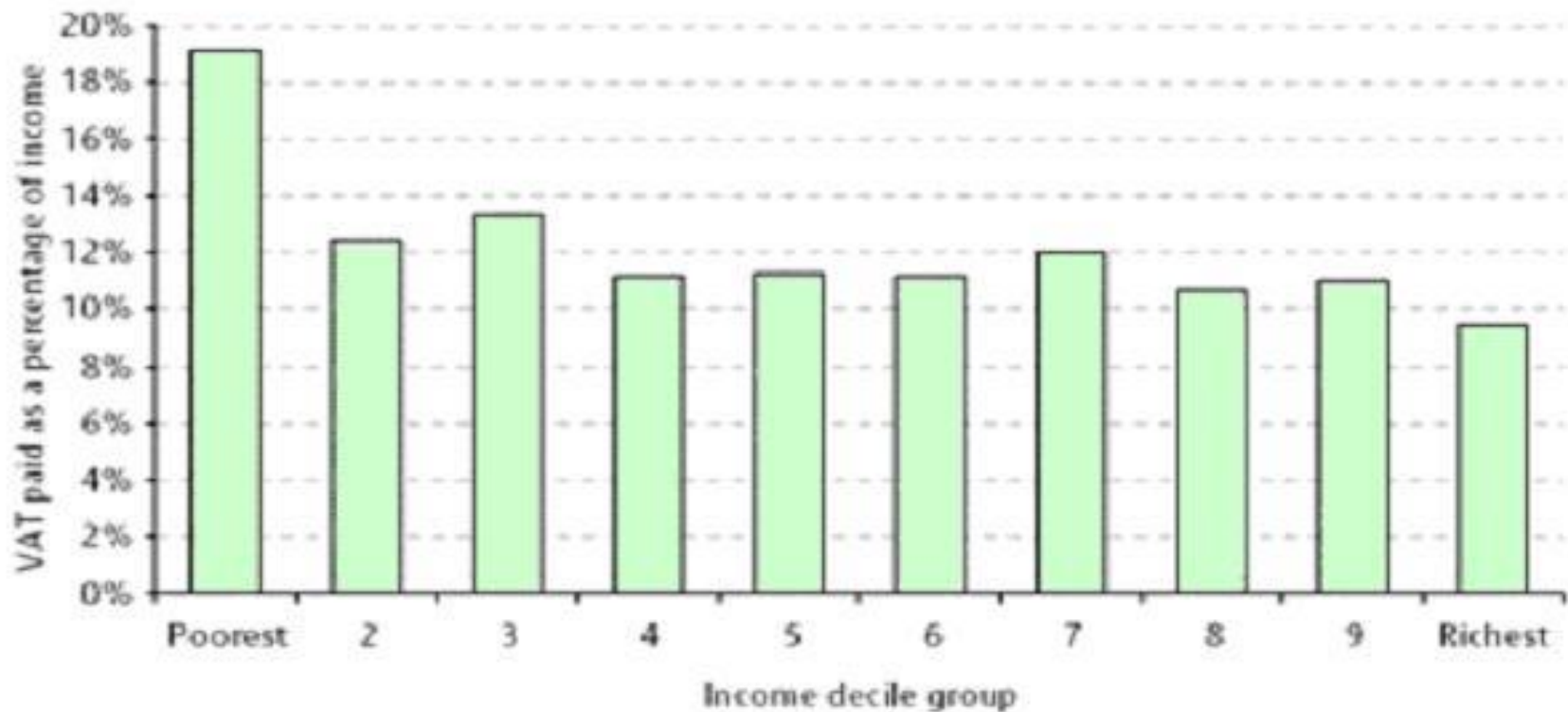
Income Group	Income Range (In Tk.)	Essential Consumption	VAT Paid (In BDT)	Effective VAT Rate (%)
1	< 3,999	2,996.29	207.34	6.92
2	4,000-4,999	4,757.51	319.70	6.72
3	5,000-5,999	5,371.19	338.92	6.31
4	6,000-6,999	6,055.52	352.43	5.82
5	7,000-7,999	6,681.90	432.31	6.47
6	8,000-8,999	7,367.67	450.90	6.12
7	9,000-9,999	7,345.70	453.22	6.17
8	10,000-12,499	8,940.37	540.89	6.05
9	12,500-14,999	10,251.07	608.91	5.94
10	15,000-17,499	11,971.06	713.47	5.96
11	17,500-19,999	12,720.51	638.56	5.02
12	20,000 & above	19,119.01	871.82	4.56
Average		8631.00	494.03	6.01

Progressive Taxation in Bangladesh

How VAT is regressive (Continue)

Institute of Fiscal Study, UK has made a comment that VAT always impinge the poor livelihood. The study found that the poor are paying double as VAT than the rich based on the proportion of income earnings.

Figure 10.1. VAT paid as a percentage of net income



Political Economy of VAT and IMF

- **Govt. approved new VAT Act-2012 as IMF condition**
- **Debate to:**
 - (i) Exemption of goods and coverage of VAT**
 - (ii) Rate of VAT impose (Different slab VS Single rate of 15%)**

Progressive Taxation in Bangladesh

Challenges of Progressive Taxation in Bangladesh

Weak policies and administration:

- Misuse of policies (Exempt tax for agriculture investment and small scale enterprises)
- Foreign Direct Investment (FDI) conditions
- Export Processing Zone (EPZ) “A tax haven in Bangladesh”
- Underground economy (38% of GDP i.e. US\$ 43.45 billion)
- Capital Flight (US\$ 1.406 billion on a yearly average).
- Special facilities for MPs (US\$ 125 million revenue losses)

Progressive Taxation in Bangladesh

Opportunities of Progressive Taxations

- Only 0.8m people (0.53% of total population) are paying direct tax !!!
- Unveil under ground economy
- Strengthening NBR and minimize the policy loopholes.
- Focus to the direct tax rather than VAT as indirect tax.
- Stop corruption and to ensure transparency in taxation process.

THANK YOU



www.equitybd.org