



## How to realise the Sixth Plan revenue targets?

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Ahsan H Mansur concluding his two-part article on tax revenue mobilisation during the Sixth Five Year Plan

The Sixth Five Year Plan (SFYP) envisages a steady increase in National Board of Revenue (NBR) tax revenue by 0.6 percentage points in relation to gross Domestic product (GDP) every year on average. After taking into account the envisaged nominal economic growth, the average nominal growth in NBR tax revenue would need to be 26.2 per cent per annum. Despite a modest shortfall in NBR revenue in relation to GDP compared with the target of 10.32 per cent set for FY12, the gains made in recent years gives all concerned the confidence that Plan targets for NBR revenue may still be attainable if the reform agenda is sustained. The NBR Revenue Modernisation Plan should still remain the basic framework for achieving the medium- and long-term objectives and the process needs to be accelerated and sustained. At the same time, achieving the revenue targets under the SFYP would require series of measures which will generate enough revenue in the near term to meet the Plan targets and also help sustain the reform agenda.

On the Income Tax front: 1) Broader tax base should be the primary focus of income tax administration. The ongoing campaign in the form of tax fairs is a welcome initiative in this

direction and is creating much greater awareness among the potential taxpayers. While creating awareness and interest among taxpayers, efforts need to be made to make tax filing easy and friendly. This can be achieved in several ways:

- u Self assessed tax returns submitted by taxpayers should be considered accepted automatically with the submission whether it is done physically or electronically. There should not be any requirement for approval of returns by the tax officials.

- u Income tax form should be simplified. The focus should be on income earned during the fiscal year and not on wealth and expenditure statements. Only thing that may be asked is a reporting of the assets owned by the taxpayer although such information may be collected over time through different sources and financial transactions once a comprehensive Information Technology (IT) system is operational.

- u For the newcomers who are submitting themselves there should be a policy of no questions asked and no audit or inspection in the first three years of submissions, except for some general inconsistencies (if any) found during review of the returns.

✘2) Payroll monitoring through broadening of the withholding base is very poor and there is tremendous scope for improvements in this area with very high payoff. Withholding from payroll accounts was less than Tk. 5.0 billion (500 crore) in fiscal year (FY)10 and more than half of that is coming from a handful of companies administered by the Large Tax-payers Unit (LTU). In most developed tax systems, much of the personal income tax comes from payroll withholding systems.

\* It is always relatively easy to manage the withholding agencies compared with managing the huge pool of salaried income earners. In Bangladesh, there is virtually no effective mechanism in place for registering all employers as withholding agents and administering their activities through reconciliation of payroll statements and tax deducted with the actual receipts of the amount withheld.

3) A number of steps can be considered in this regard:

- \* Register all employers for payroll management purpose. All business enterprises in all

sectors must register themselves with the tax department as employers and withholding agents. This, in principle, should apply to all employers although at the first phase every firm employing five or more people should be required to register as an employer for withholding purpose and should be given an employer registration number if they are not already registered with a Tax Identification Number (TIN) or BIN.

\* Every registered employer must submit Payroll Statements and amounts withheld to the tax department within seven days after the end of the month along with a copy of the withholding tax deposit receipt or treasury chalan.

\* The registered employers should include all factories, financial institutions, hospitals, clinics, diagnostic centres, legal firms, consulting firms, non-government organisations (NGOs), and all other types of service providers.

\* Instead of using 10 per cent withholding NBR should steadily move to an estimated/projected income base and withholding rate should be in line with the applicable marginal rate with some allowance for exemptions/thresholds. Thus high income employees, managers or directors of organisations would need to pay withholding taxes at higher rates commensurate with their income. At present many taxpayers consider the 10 per cent withholding as the final tax and there is virtually no follow up on the additional tax liabilities.

\* Exemptions in the form of housing or medical allowances essentially create a discriminatory and higher exemption levels and should be abolished on equity and tax efficiency grounds.

On the VAT front: 1) Since the new value added tax (VAT) law is ready to be enacted by Parliament and it will come into effect three years after its enactment, some key elements of the new VAT law may be incorporated in the current VAT law (of 1991) through Finance Bills in phases. In particular, changes may be introduced in phases with regard to: market-based valuation (by moving away from the process of price approval for manufacturers); gradual phasing out of the Account Current and truncated base VAT systems; and conducting massive education campaigns about the benefits of invoiced based transactions and the VAT input credit mechanism.

2) The primary focus in the mean time however should be on administration, administration

and administration of the VAT system. Shifting VAT administration from the current geographical to a functional-based system will be a major medium-term undertaking. While continuing with that, a number of critical linkages with other wings/directorates of the National Board of Revenue (NBR) will be beneficial for strengthening tax administration. Some of these include:

- \* Exchange of information between the direct tax, VAT and customs wings. In particular, the information on payroll which accounts for about 70-80 per cent of value addition of a typical firm is very useful for assessing VAT liabilities on producers and service renderers.
- \* The very weak state of NBR IT system is a major impediment against effective tax administration. Progress on customs front is better than in the other two wings (income tax and VAT). NBR needs to develop urgently a central IT network covering all three major wings and enabling information sharing and statistical/ research analysis.
- \* Strengthening of Research and Statistical Department of the NBR to identify areas of weakness or greater tax potentials for targeted intervention by the tax wings.

3) Cleaning up the VAT registration database should be a priority task. In the current database, the number of inoperative accounts far exceeded the number of truly active accounts. This needs to be done systematically so that non-filing and other standard notices could be generated automatically through the computer system.