



Public resource mobilisation strategy — I, II&III

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Public resource mobilisation strategy — I

The challenge of achieving tax revenue target

Ahsan H. Mansur in a paper presented at a seminar titled 'Fiscal Policy for 2015-16 Budget in the Context of the Seventh Plan' organised by the Policy Research Institute (PRI) on Saturday (May 09, 2015) in Dhaka. The Financial Express was the media-partner of the event. This is the first of the three parts of the paper

Bangladesh's solid track record of continued macroeconomic stability is largely attributable

to prudent fiscal management. Successive governments have demonstrated solid fiscal management, despite limited public sector resource availability, primarily through strict expenditure control and prudent debt management. Over several decades the government has contained the overall fiscal deficit at or below 5% of GDP (gross domestic product) which, together with its policy of relying on concessional external financing, helped reduce the burden of public debt over time. This is certainly a remarkable achievement for a developing country like us.

This achievement notwithstanding, it is also true that the fiscal policy in Bangladesh is on a “low level equilibrium” with a very small size of government-measured in terms of level of fiscal spending-which is incapable of addressing the growing social spending and infrastructure needs of the society. At less than 16% of GDP the size of the government is too small, forcing the government to limit its expenditure on all major categories of spending: expenditure on health at 0.8% of GDP; on education at 2% of GDP; social protection at 1.6% of GDP; and infrastructure spending at -% of GDP. All of these major categories of spending are at or below 50% of what their desired level should be when compared with many other developing and emerging economies.

This low-level fiscal operation must change if Bangladesh is to achieve the socio-economic objectives envisaged under the 7th Plan. The Plan aims to increase the size of the Government by about 5 percentage points to 21% of GDP by FY20. More than 20% of the increase will be on account of the larger ADP. However, much of the expanded spending will be directed to expanded coverage and better quality of public service delivery. With the type of structural transformations outlined in the 7th Plan, expenditure side of the government budget would look more like Figure 1 below.



This positive turnaround both in terms of non-ADP spending and financing of a larger proportion of ADP by own savings will only be possible if the strategy for revenue mobilization is realized as Planned. The remainder of the paper outlines the Revenue Mobilization Strategy Under the 7th Plan and what needs to be done in the next budget, which will also be the first budget under the 7th Plan and should lay the foundation for the sustained increase in tax/GDP ratio over the Plan period.

REVENUE MOBILISATION UNDER THE SEVENTH PLAN: The Seventh Plan is being formulated against the background that the revenue targets set under the Sixth Five Year Plan were not achieved despite strong performance in the first two years of the Sixth Plan (Table 1).



The total revenue target was not achieved in any of the years, although performance was reasonably better in the first two years of the Plan period. The major shortfall in terms of GDP ratio was to a large extent attributable to a significant upward revision of the GDP series with the rebasing of GDP to FY05 from FY95 base. The upward revision of the GDP series in general contributed to a reduction of the revenue to GDP ratio by about 1.2 percentage points. Thus while the average annual revenue shortfall appears to be 3.3% of GDP, the actual shortfall was about 2.1% of GDP after taking into account the upward revision of the GDP series due to rebasing to FY05 the whole national accounts series. The shortfall was mainly from NBR taxes, since non-tax revenue was mostly in line with its targets, except for the GDP revision induced effect.

Figure: 2 Growth in Tax Components under the Sixth Plan



Source: SFYP Documents and NBR

Growth of domestic VAT and direct (income) tax has been on a persistent decline after recording respectable growth in the first two years of the Sixth Plan, partly due to non-implementation of necessary reforms. In the past, high growth years (in terms of revenue collection) such as FY08 and FY11-FY12, have coincided with years in which some tax reforms and tax measures were implemented. However, since the reform process was not sustained, the positive impacts have started to diminish in the years that followed. In FY11, some VAT and income tax reforms (particularly widening of withholding at source) were implemented which led to the increase in tax collections surpassing the set targets. While the positive effects of these reforms continued until FY12 and some up to FY13, because the new package of reforms was delayed the tax buoyancy started to diminish eventually leading to the slump in revenue collection experienced in FY14. The tax revenue growth rates from FY06-FY15 are

show in Table 2 below.

In light of these considerations, achieving the tax revenue target under the 7th Plan will be a major challenge. The required growth rate would need to be almost 24% per annum over whole Plan period, compared with 17.8% average growth recorded over the Sixth Plan period. The higher growth rates observed in the first three years of the Sixth Plan could not be maintained, mainly because NBR reform efforts were not sustained over the whole Sixth Plan period.

Figure 3: Growth in Taxes under different scenarios



Source: PRI Staff Calculations

In line with the growth scenario under the Plan, the tax-GDP scenario is presented in Figure 4 below. These scenarios build a strong case for the need for tax reforms, particularly in the collection of domestic taxes which would constitute bulk of the revenue collection effort. If there are no major reforms during the 7th Plan period, it would be quite possible that tax revenue performance will fall back to the pre-SFYP (FY06-FY10) levels and thereby would result in a tax/ GDP ratio of 11.4% by FY20.

Figure 4: Tax-GDP Ratios under Various Scenarios

Source: PRI Staff Projections

Based on the analysis presented above, the revenue targets under the 7th Plan are presented in Tables 3 and 4 below. In the last five years, NBR revenue constituted 96.5% of the total tax revenue which is expected to continue into the 7th Plan period since, Non-NBR taxes has been stable accounting for about 3.5% of total tax revenue. Therefore, the NBR revenue target should be set at 14.3% of GDP against a total tax revenue target of 14.7% of GDP at the end of the seventh five year plan period. The resultant total revenue target will be

16.1% of GDP, which is five percentage points higher than the 11% of GDP estimated for FY15.

The 7th Plan revenue projection presents an opportunity for Bangladesh to break out of the 10%-11% of GDP level that it has been stuck in recent years. The 4 percentage point increase in revenue in relation to GDP over a 5 year period, while ambitious in the Bangladesh context, is quite possible if we review the revenue performance of other developing countries. Many developing and most middle income countries have already done it and certainly Bangladesh can do it, despite its unimpressive track record on this front. For example, despite all gains, currently Bangladesh VAT system is one of the most inefficient in the world with the lowest VAT productivity (Figure 5). This must change if we are to achieve the revenue objective in the long run. The same inefficiency applies to the Bangladesh direct tax system.

Figure 5: VAT Rates and Productivity in Selected Countries

Source: Selected Issues, Fiscal Affairs, IMF, 2013.

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Public resource mobilisation strategy - II

Need for discretionary revenue measures

Ahsan H. Mansur in a paper presented at a seminar titled 'Fiscal Policy for 2015-16 Budget in the Context of the Seventh Plan' organised by the Policy Research Institute (PRI) on Saturday (May 09, 2015) in Dhaka. The Financial Express was the media-partner of the event. This is the second of the three parts of the paper

Complicating the task [to break out of the 10%-11% of GDP level] will be the other structural

shift, which is already underway, entailing steady reduction in the share of customs duty with diminishing importance of trade-based taxes in line with global trend. The share of customs duty in total NBR taxes has already come down to about 12% of total NBR revenue, and this will probably decline further to about 9% of total NBR revenue by FY20. Accordingly, reliance of Direct Taxes and VAT would need to increase much more in relative terms. Every year revenue collection from these two sources would need to increase by 0.8 percentage point of GDP, shared roughly equally between the two major sources. The specific reform strategies are discussed in Box 1.

Box 1: NBR Tax Reform Required for Attaining Tax Targets in the Seventh Five Year Plan

Tax Policy Reforms

- * Effective Implementation of VAT and Supplementary Duty Act 2012
- * Drafting and implementation of a new Direct Tax Code
- * Drafting and implementation of a new Customs Act

Tax Administration Reforms: Income Tax

- * Broadening of the taxpayers' base- This will require monitoring of the ownership of all sizable physical and financial assets of taxpayers and determining the income generation out of those assets.
- * Broadening of the tax revenue sources- Traditionally there has been an excess dependency on taxing financial institutions and a few large non-financial corporations. The tax department should explore other smaller organizations in the formal sector as well various corporations.
- * Focusing on income from service providers and self-employed (who are difficult to tax).
- * Treating all sources of income equally for the tax purpose without discrimination for the households. This would imply taxation of capital gains from land, real estate/housing, and

stock market. Wealth accumulation in Bangladesh is primarily happening through accumulation of urban land and real estate, untaxed/low tax income of the rapidly growing RMG sector, and relatively low tax incidence on income through financial instruments. This must change.

- * Automation of TIN registration and linking TIN with National I.D.
- * Integrated Revenue Management Programmeme: Business Process. An integrated revenue management programme seeks to connect the three departments at transactional level by linking the taxpayer identification numbers i.e. TIN and BIN in the database. The methodology for setting up such an integrated system is to first centralize the database and transaction processing of the three departments at one location and then to build an information system that can mine data in the three databases and thereafter process the same for exception reports. The integrated revenue management programme will enable the desired flow of information and consequent synergy among the three tax wings of the NBR.
- * Integrated Revenue Management Programmeme: Digitalisation Programmeme. This programmeme will seek to set up a country-wide integrated ICT platform to capture all tax payment information from tax returns, banks, TDS deductors, third-party collection agencies, etc. The integrated revenue management system will also receive third party returns i.e. TDS returns, Annual Information Returns (AIR) etc. and generate MIS reports, exception reports etc. Under this programme, a Central Processing Centre is to be set up for processing all Income-tax and VAT returns, whether e-filed or paper filed at one integrated processing centre.
- * E-Filing of income tax returns.
- * Aggressive imposition and expansion of withholding taxes, particularly on individual taxes which could potentially improve tax compliance, expand the income tax base and address administrative issues pertaining to tax collection efforts through increased transparency and efficiency.
- * Strategic Communication and Taxpayer Outreach, Education and Assistance. Bangladesh has a very narrow tax base and a very small percentage of the population bears the burden

of taxation. Most of the direct tax revenues come from tax deduction at source (TDS) whereas a large percentage should be coming from corporate tax as well as from businesses and professions through advance tax (PAYE). The logical inference is gross under reporting or non-reporting from various eligible categories. The taxpayer education programme will make available a menu of offerings through remote outlets like websites, internet etc. as well as through customers facing one to one or group interface with the NBR Customer Service Wing.

Tax Administration Reforms: VAT

- * Implementation of the new VAT Act.
- * Expanding VAT base especially on businesses and organisation.
- * Incentivising VAT payment with benefits for small businesses to bring them into the VAT coverage as well as promoting increased formalisation of businesses currently operating in the informal sector.
- * Reform of the VAT administration along functional lines
- * Automation of the whole tax administration through Central Data base including Central VAT Registration; electronic submission and return processing
- * Comprehensive taxpayers' education and information campaign about the new VAT law and Rules.

The need for strengthening of the tax administration, its computerisation and improvement in efficiency is integral to achieving these targets. Expansion of the income tax base and bringing more individuals and companies under the tax net and under the withholding mechanism would be necessary to drive the revenue growth and to achieve levels enjoyed by our neighbouring countries. Initiatives and incentives by the government to formalise the informal sector activities would greatly enhance the tax potential on the domestic sides. Clearly the structural reforms identified in Box 1 are most important and the process must start immediately for sustainable revenue growth as envisaged under the 7th Plan. However, these medium-term reforms will not lead to revenue gain in FY16. Thus the Government

would need to consider a series of discretionary measures to implement the fiscal policy underpinning the FY16 budget.

HOW TO ACHIEVE THE REVENUE TARGET IN FY16: Since implementation of structural reforms in the VAT and direct tax areas have not yet gained momentum, we do not expect any revenue gain from the reform initiatives in FY16. In addition to the endogenous revenue growth driven by expansion of economic activity there will be need for sizable discretionary revenue measures if we are to realise the revenue target envisaged under the Plan. Even with an ambitious autonomous revenue growth elasticity of 1.2, which is above historical average but based on the consideration that revenue growth was depressed in FY15 due to political hostilities, the required discretionary measures would amount to Tk. 131 billion in FY16.



The challenge will be to identify the possible measures which could be revenue yielding, structurally sound and socially desirable and equitable, and in relevant cases enhancing environmental sustainability. Not all measures will be revenue augmenting in the short run, but will strengthen and broaden the economic base for enhanced and sustained revenue collection in future. A number of such measures are briefly noted below, although in some of these cases we have detailed background studies to justify the proposals.

1. Taxation of tobacco products

There is huge revenue potential for sizable additional revenue from taxation of cigarettes and bidi. PRI has recently done a study on “A Review of Cigarette and Bidi Pricing and Taxation in Bangladesh”. The study indicates a number of interesting findings and leads to some policy recommendations, some of which are summarised below:

A. Some interesting findings/facts needs to be looked at before we go into specific recommendations

a. Market share of the low segment cheap cigarettes has increased to 63% in 6 years from 36% in FY08, leading to huge loss of revenue.

Figure 6: Share of Segment Volumes in Total Cigarette Volume (In per cent)



Source: National Board of Revenue & PRI Staff Calculations

b. Income-adjusted cigarette prices have not increased much, thus prevalence/consumption of cigarettes has not declined in recent years.

Figure 7: Income-adjusted Cigarette Prices



Source: National Board of Revenue and PRI estimates

c. Low segment cigarettes expanded at more than 26% per annum at the expense of medium segment.

d. Effective tax rate on the low segment is one third of the rate on other segments, contributing to lower prices and the growing market shares of the low segment with huge revenue loss

Figure 8: Effective Tax Rate for Cigarettes across Segments



Source: National Board of Revenue and PRI Staff Estimates

e. Tax incidence and price per pack of cigarettes is one of the lowest in the world. Accordingly there is no reason Bangladesh should not increase tax rates on low segment cigarettes.



Source: WHO REPORT ON THE GLOBAL TOBACCO EPIDEMIC, 2013 (World Health Organization

2013) and National Board of Revenue (NBR)

f. Bidi Tax Structure encourages its smoking and leads to huge loss of revenue. The decline in the market share of bidi has also markedly slowed down in recent years.

In volume terms bidi accounts for 47% of total smoking tobacco market in Bangladesh, but it contributes only 2%-3% of revenue collected from this sector. In Bangladesh, bidis are taxed at much lower rates than cigarettes. It is also important to note that bidis are taxed based on “tariff values” set by the government, which are approximately half the actual retail prices. It is interesting to observe that the principle of taxation applied to bidi is very different from the principle of taxation applied to cigarettes. For the most popular size of bidi packs (containing 25 bidis), the amount of tax collected is Tk. 1.87 on a pack of bidi with tariff value of Tk. 4.27 per pack. The effective tax rate is 43.7% of the applicable tariff value. However, actual price of a pack of 25 bidis in the market is about Tk. 8. This amounts to an effective tax of only 23.4% of the actual market price compared with 59% of final price for low category cigarettes. This tax difference is excessive and helped support demand for bidi among the low income rural households despite the detrimental effects on their health.

Figure 9: Volume of Cigarette and Bidi Production (in percentage)

Source: National Board of Revenue

Public resource mobilisation strategy - III

Urgency of tax policy rationalisation

Ahsan H. Mansur in a paper presented at a seminar titled ‘Fiscal Policy for 2015-16 Budget in the Context of the Seventh Plan’ organised by the Policy Research Institute (PRI) on Saturday (May 09, 2015) in Dhaka. The Financial Express was the media-partner of the event. This is the concluding part of the paper

KEY RECOMMENDATIONS ARE AS FOLLOWS: The weighted average prices of bidi and

cigarettes are quite low in Bangladesh and increasing this weighted average price is the only way to reduce smoking and generate 20% growth in year on year revenue from tobacco products. Since 63% of the cigarette industry is low segment, moving the floor price up by increasing the tax would be the way to move forward. The same principle applies to bidi where the tax increases. There is virtually no scope for increasing the tax rates on premium, high and medium segment cigarettes. Any increase in tax rates for the top three segments beyond the current 77% of final price may lead to a fall in revenue. Volumes of sales in these three segments are already falling. For the premium segment the main competition is from smuggled international brands which can flood the market if the domestic price is too high. For the medium segment, the main cause for lower sales is the down trading to cheaper low segment cigarettes. Both social cost and revenue loss are huge and the policy must change.

There should be no Dead Zones in the pricing structure and the pricing issue should be left with the manufacturers so that they can adjust prices to compensate for tax increases. Differentiation among the 4 different segments of cigarettes (premium, high, middle and low) should be based in terms of identified price floors and there should be no cap on prices for three lower segments and hence no dead zones. This will allow for increase in prices to have a positive impact on tobacco control, yield more revenue, and prevent operators to place illegally smuggled cigarettes into the dead zones.

The health development surcharge should have the dual objective of discouraging consumption and dedicating the revenue collected from the surcharge for targeted smoking control programmes/projects. To discourage consumption the prices of cigarettes should have been increased by at least the amounts of the surcharge and burden of the new surcharge should be on the consumers in order to directly impact their buying behaviour. Furthermore, administrative arrangements should be put in place to direct the funds generated through this surcharge for strengthened tobacco control, prevention and remedial measures.

In line with the global best practice, Bangladesh should also move to a uniform tax structure for all smoked tobacco products. Taxes on top three segments at more than 75% is high and there is virtually no scope for increasing the tax rates on premium, high and medium segment cigarettes. This policy would entail increasing the tax rates on low segment cigarettes and bidi—which are taxed at substantially lower rates—to the current maximum rate

of 77% of final retail price. It is morbid to justify lower taxes on low segment cigarettes and bidi to keep prices affordable for the low-income consumers because the harmful effects on their health is not factored in.

Finally, given the very high rates of taxation on cigarettes in Bangladesh for the top three segments, the tax system needs to be supported by good tax administration and collection systems. Adopting more aggressive ways to curbing smuggling and counterfeiting, coupled with the elimination of dead zones (as proposed earlier), would go a long way in containing smuggling and tax evasion and enhancing the buoyancy of the tobacco tax system.

WITHHOLDING OF PAYROLL TAX: Payroll withholding is the most important source of income tax collection in all developed and emerging economies. Generally speaking 70%-80% of the value addition in an economy is attributable to the workers and self-employed. Thus tapping this most important source of income at source, that is, at the stage payrolls are distributed is the most secured way to maximise on income tax collection. Tax administration in Bangladesh is very weak in this respect. For example, Bangladesh collects only 2%-3% of the total income from payroll, compared with more than 87% in the UK and 63% in Australia.



A review of what is collected at source in Bangladesh also reveals the basic weakness of the tax administration and its growing dependence on collecting taxes from a few well-identified sources such as: withholding by government agencies for contractors and suppliers; withholding at the import stage from importers; and withholding through financial institutions. Income tax deducted from salary-earners or payroll amounted to Tk. 5.6 billion in FY12, accounting for only 3.7% of the total tax deducted at source. No good tax administration would go for taxing at contractor/supplier and import level because such methods are dictionary and often corresponds to indirect taxes to be passed on to the consumers. Such practices, which could only be justified as interim measures, have become a permanent phenomenon of Bangladesh direct tax system.

NBR direct tax wing needs to set up a dedicated department to monitor withholding agents, get the withholdings linked to the payroll of staff provided by withholding agents (the business enterprises), and follow up on persons who has paid withholding tax but not

submitted the income tax returns.



BROADENING OF INCOME TAXPAYERS' BASE: The number of TIN (Tax Payer's Identification Number) holders in Bangladesh is extremely low at 1.8 million in FY15, which has declined from the previous level (FY13) of more than 2.0 million registered taxpayers. This decline with the introduction of e-TIN system is a matter of concern. Furthermore, out of the 1.8 million e-TIN holders only little over 1.0 million submitted tax returns as of November 2014, the final closing date for return filing. The overall situation is disappointing given that, despite the doubling of the size of the economy over the last five years, the number of TIN holders has fallen and the number of return filers has not changed much. Part of the problem is associated with the upward adjustment in the income tax threshold almost every year. The other part is associated with the tax department's inability to expand taxpayers' base through tax surveys and monitoring of payrolls at the enterprise level.

The Direct Tax Wing of NBR should be given a target for increasing the number of TIN holders every quarter and modalities must be worked out how the targets can be achieved. Some other complementary measures may also be considered to help the process, such as:

- * No property registration can take place when the parties do not have income tax registration and the process can start with urban properties across Bangladesh.
- * Getting payrolls from all public and private enterprises and issuing them TIN numbers when they do not have their own.
- * Issuing all home and land owners in all large and medium cities [TIN numbers], unless they already have one.
- * No Bangladeshi 25 plus years old passport holders can purchase tickets if they do not have TIN numbers.

INCREASING THE TAX RATE ON RMG AND KNIT EXPORTERS: Garment and textiles sector is the most dynamic sector of Bangladesh and it is the most under-taxed sector as well. Over

the last several years the tax rate on the RMG exporters was slowly increased from 0.25% of export volume to 0.8% of export volume in FY13 budget. However, in order to mitigate the higher costs incurred by the sector in FY14 due to political disturbances the rate was temporarily cut down to only 0.3%, on a time-bound basis. This rate should now go back to at least the original level of 0.8% in FY16 and should further go up in the coming years.

There is no justification for taxing the fastest growing sector at such an artificially low rate while taxing the rest of the economy at much higher rates. It is generally believed that on the assumption of 10% average profit on turnover the rate which would make the turnover tax equivalent to the top rate of 30% would be 3%. Thus even at 0.8% rate the sector is being taxed very lightly in a discriminatory manner and this should change in the coming years. The revenue impact from this modest move of getting back to the old rate would be about Tk. 6.0 billion.

INTRODUCTION OF A PROPER PROPERTY TAX SYSTEM: The simplistic manner of imposing Wealth Tax in the form of an Income Tax surcharge of 10%-15% must be abandoned and the NBR should move to develop a proper “Wealth Tax” or “Property Tax”. The current practice essentially increases the top personal income tax rate by additional 3-4.5 percentage points to 33%-34.5% which is very high. Such high tax rates diminish the incentive to work and in most cases tend to increase tax avoidance. This practice must be discontinued. NBR has to build up its capacity for proper administration of property/wealth tax with proper study and to determine the right way to collect the tax, not simply by taxing the tax-paid taxable income once again in the form of a surcharge. Implementation of a proper property tax system with necessary administrative preparations will take at least two years and the process should start in FY16.

TAXATION OF CAPITAL GAINS FROM ALL SOURCES: All capital gains should be subject to taxation. The capital gains should be collected at the point of sale when the transaction is recorded. For example, capital gains from every sale of land or apartment should be collected at the point of sales registration as a withholding tax and to be reported at the time of income tax return. All land/apartment registrations should be linked with the income tax wing of NBR and sales information should be accessed from central data bank or based on reports sent by registration offices to the nearest income tax department. The tax rates should be uniform (as much as possible) and the base should be as broad as possible.

RATIONALISATION OF SUPPLEMENTARY DUTY STRUCTURE IN LINE WITH THE NEW VAT LAW: Government of Bangladesh intends to implement the new VAT law in FY17. Along with systemic improvements and elimination of some of the distortions, the law also aims to remove Supplementary Duties (SD) imposed on most imports. More specifically, law suggests imposition of SD on around 250 items, compared with about 1400 items subject to SD at the import stage at the moment.

A recent study by PRI titled “Revenue, Price and Protection Impacts of the New VAT Law” indicates that currently there are more than 16,500 tariff lines (i.e. products) subject to SD at different rates ranging from 0%-500%. Out of these the number of products with positive SD rates is 3,439 (or 20.8%). Almost 14% of tariff lines fall between SD rates of 10% to 60%. Only 0.57% of tariff lines fall under rest of the five high SD rates (i.e. 100% to 500% SD rates). Tariff lines associated with special imports (Special imports include imports for President and duty-free cars for the Members of Parliament. These also include relief goods, defence equipment, equipment for disabled persons, imports under baggage rules. Duty-exempt imports by foreign diplomatic missions and development partners are also included under special imports.) are 1,065 or 6.43% of all tariff lines. Thus, SD rates on 3,439 products need to be rationalised in conformity with the proposed VAT law. A phased strategy may be adopted where SD rates on half of 3,439 products may be rationalised in FY16 and rest in FY17.

The report concludes that implementation of full package of the new VAT law is revenue augmenting. Elimination of SD on imports, although may appear revenue diminishing under a comparative static analysis, in reality it may turn out to be revenue augmenting when elasticity factors (please note most of the products under import stage SD are price elastic and hence rationalisation of SD rates would lead to higher import and revenue) are incorporated into the analysis.

TAX POLICY RATIONALISATION OVER TIME: Bangladesh tax policy has a number of distortions and there is need for tax policy rationalisation to enhance growth prospects for certain dynamic sectors of the economy and for making economic growth environmentally sustainable. Based on detailed background studies prepared by PRI, we would like to mention some of them:

Telecom/ICT Sector: Telecom/ICT sector in Bangladesh is subjected to extremely high level of taxation. A study by Miller and Atkinson under the auspices of the International Technology Information Foundation (ITIF) shows that Bangladesh has the highest rate of taxation of ICT among the 125 countries reviewed in the study (Figure 10). The primary basket of ICT goods and services used in the study consists of taxes and customs duties on the following: basic mobile phones, smart phones, computers and other digital products like digital cameras and digital audio devices. Taxes are computed as a per cent of cost of service provided. China imposes the lowest taxation (3%) while Bangladesh the highest (an astounding 58%). The second highest taxation is in Turkey, at 26%. Taxes in 40 of the countries in the study are in the low range of 3-5% and taxes in the remaining others are mostly in the 5-20% range. In the global context, Bangladesh is clearly an outlier in the matter of high ICT taxation.

Figure 10: Taxation of ICT as a per cent of Cost



The development role of knowledge economy through ICT has just started and the returns are already being felt. The future growth and revenue potential of this sector is immense and the Seventh Plan will need to adopt consistent strategies and policies to take this forward. Two special challenges will be to further increase the mobile telecom-density and expand internet and bandwidth connectivity through investments in network infrastructure and incentive for the un-served population to use these services. The supply expansion and demand increase will both require substantial reductions in ICT taxes. This will be a win-win policy because a larger subscription volume will both benefit service expansion and total tax revenues from ICT.

DUTY RATIONALISATION FOR ENVIRONMENTALLY-FRIENDLY CAPITAL MACHINERIES: The textile sector in Dhaka comprising 1700 washing, dyeing and finishing (WDF) units currently consumes 1,500 billion liters of groundwater annually to produce 5.0 million tons of fabric (300 liter per kg fabric). The WDF units in Bangladesh are extremely inefficient in water use with the average water use per kilogram being 300 liter compared with the global standard of 50 liter per kg. This inefficient use of groundwater at a massive scale contributes to 1-2 meter per year decline in the water level in certain parts of Dhaka city, whose impact is already being felt through seasonal water shortages in Dhaka and its environs.

The sector is also a major contributor to water pollution and scarcity, impacting health, food production, and other economic sectors. In case of water pollution, textile sector is the second highest polluter following tanneries. With the projected expansion of RMG (ready-made garment) and Textile sector in Bangladesh over the next 15-20 years and adhering to current inefficient production process suggest substantially faster depletion of ground water. Furthermore, influx of untreated water wastes from the textile and leather factories due to lack of ETP (effluent treatment plant) facilities would continue to contribute to large-scale pollution of water bodies in Bangladesh. Thus, textile and other sectors in Bangladesh need to upgrade equipment, machinery and treatment facilities not only to improve water efficiency but also to lessen water pollution. Upgradation and modernisation process would require access to low-cost financing as well as other incentives in the form of conducive tax policy.

In terms of the current tax structure, the APEC list (the list of goods prepared by the Asia and Pacific Economic Cooperation) of environmental goods contains around 70-72 items out of which many items have a Customs Duty Rate (CDR) of 25%, 12% and 0% while the majority have a CDR of 3%. Although, there is no Supplementary Duty on most of these items contained in the APEC list, only two items are subject to a Supplementary Duty Rate (SDR) of 20%. Regulatory Duty Rate (RDR) of 5% has been imposed on few of the items while the rest are not subject to no RDR.

The proposal is to set CDR on all APEC listed capital goods at 3% with no supplementary duty and regulatory duty. PRI background study indicates that such a move would lower the price of APEC goods significantly leading to higher use of water and energy efficient investment with negligible revenue loss.

DUTY RATIONALISATION TO DISCOURAGE USE OF HAZARDOUS CHEMICALS IN THE TEXTILES WET PROCESSING AND LEATHER SECTORS: Hazardous chemicals are being used in Bangladesh, particularly in the textiles wet processing (washing and dyeing) and leather industry, without regard to health and environmental considerations. Bangladesh is considered to be the number one producer of denims (blue jeans) which is a major source of chemical pollution. While we all would like to have industrial expansion, the growth should be environmentally sustainable and not at the expense of human health for the current and future generations. As part of an international initiative called Zero Discharge of Hazardous

Chemicals (ZDHC), Bangladesh Government and industry also need to play their due role in this regard.

The roadmap to Zero Discharge Hazardous Chemicals (ZDHC), if adopted by the Bangladesh Government and industries, will help lead the industry towards zero discharge of these identified hazardous chemicals by 2020. As part of that initiative, Bangladesh can start with either increasing the tax rates on these hazardous chemicals to discourage their use and at the same time encourage the users to switch over to better and non-/less-hazardous chemicals. The Government may also impose an outright ban to discourage their use by industries, including textiles and footwear.

Increasing the tax rates will not lead to revenue losses for NBR even if the tax rates are prohibitively high because in all cases there are better substitutes and firms will replace these hazardous chemicals with better import substitutes. Industries currently have the readily available option to switch to substitutes which are environmentally friendly. According to chemical industry sources, it would generally cost about 10% more for the firms to switch to better substitute chemicals. As a matter of fact, this potential substitution would be revenue augmenting rather than losses as these substitutes are about 10% more expensive to import than the hazardous chemicals.