



TAMING CORONAVIRUS RAMPAGE

Tax noose likely to be loosened to kickstart economy



SOHEL PARVEZ and REJAUL KARIM BYRON

With the pandemic-induced lockdown battering livelihoods and choking cash flow across the board, the tax authority is working to give a breathing room to businesses and individual taxpayers in the low-income bracket.

The government is unlikely to impose any new tax in the upcoming fiscal year beginning from July; rather, there might be some exemptions such as waiver of value-added tax on the internet use, said officials of the finance ministry.

The National Board of Revenue is expected to place its proposed tax measures to the prime minister today for approval.

"We are getting prepared," said a senior official of the NBR. At the meeting with the prime minister, the overall revenue target for next fiscal year would be discussed and finalised, he added.

Officials said the total revenue collection target might be fixed at nearly Tk 400,000 crore, up 5 per cent from this year's collection target of Tk 377,810 crore.

The NBR may also see a 5 per cent rise in tax collection from this year's initial target of Tk 325,600 crore.

Non-tax revenue collection may go up as the government revised the target by Tk 20,000 crore from Tk 37,710 crore set initially for this fiscal year.

Next year's target for non-tax revenue collection is expected to be fixed at nearly Tk 60,000 crore.

And to attain the collection target, the finance ministry will zoom in on the users of luxury goods and cigarettes that account for roughly 30 per cent of the total annual collection of VAT and supplementary duty, the biggest source of revenue out of direct tax and customs duty.

Besides, there is a plan to levy a new type of tax named COVID-19 tax, the finance ministry officials said.

The NBR will also focus on realising arrears to help implement the Tk 570,000 crore-budget for fiscal 2020-21 and bring the pandemic-hit economy back on track.

WHAT HAVE OTHER COUNTRIES DONE?

Many countries have taken steps to support individual taxpayers and businesses to help them weather the devastating effect of the coronavirus, according to a report of the Organisation for Economic Co-operation and Development released last month.

Measures include an extension of deadlines for tax filings, deferral of tax payments and faster refund to enable businesses to overcome liquidity crunch and remain afloat.

Some countries also offered tax exemptions including social security contributions and payroll taxes. There has been cash support and expanded unemployment benefits.

The steps also include tax waiver to the hardest hit sectors and reduction of corporate tax. Indonesia brought down the corporate tax for the manufacturing sector in 19 areas while Kenya reduced corporate and personal income taxes.

Italy introduced a corporate tax credit for sanitation works at the workplace. A few countries such as China, Norway and Kenya have cut VAT rates temporarily to support consumption, according to the report.

Neighbouring India also offered relief for salaried workers and taxpayers in the form of an extended deadline for income tax returns. It cut tax deduction at source and tax collection at source by 25 per cent for next year.

ANALYSTS' SUGGESTIONS

Analysts said revenue collection and tax relief measures should go hand in hand in Bangladesh

stimulate consumption and investment demand. Personal income tax exemption limits will need to rise to provide relief to the middle-income households.

"The challenge, therefore, will be to find ways of making up the revenue losses on these counts by enhancing the efficiency and integrity of the tax administration and expanding the tax net to bring in new taxpayers."

Simplification of the corporate income tax rate structure may encourage small firms to register and pay taxes.

Accelerating ongoing efforts for automation of registration, assessment, filing and payment will help reduce tax avoidance and leakage.

Hussain also recommended speedy settlement of accumulated tax disputes in the courts.

Syed Aminul Karim, a former NBR member



SK ENAMUL HAQ

to help firms and individuals as well as the economy to rebound from the downturn.

"Next fiscal year is likely to be one of the most challenging ones for revenue mobilisation," said Zahid Hussain, former lead economist of the World Bank's Dhaka office.

This is primarily because of the persistence of economic downturn as the world in general and Bangladesh in particular struggles to tame the spread of the virus.

"Fiscal 2020-21 is not a year in which it will be possible to raise tax rates and achieve significant expansion in the tax base."

In fact, the government will have to consider rate reductions or even waivers, particularly in cases of imports of medical supplies and essential staples.

Hussain said personal income tax and corporate income tax rates may also need to be lowered to

of tax policy, said the government can consider creating a new slab -- at 35 per cent -- of wealth tax surcharge to be collected from the super-rich.

As many property owners remain out of the purview of wealth tax surcharge in absence of valuation of the property at the current market price, a new tax on people having a property in upscale areas such as Dhanmondi and Gulshan can be considered, he said.

Also, the tax rates for the low-income bracket can be reduced to ease pressure on individual taxpayers, said Karim, now an adjunct professor at the Department of Banking and Insurance at the University of Dhaka.

"Tax rebate benefit on investment should be enhanced to increase the disposable income of taxpayers. This will ultimately drive consumption," he said.

What should be Bangladesh's tax policy response to the pandemic?



NASIRUDDIN AHMED

Mobilising sufficient financing for implementing the 2030 Agenda for Sustainable Development is a major challenge on its own, but the global coronavirus pandemic has exacerbated it.

The pandemic underlines the need for a strong, resilient domestic financial system, which is stable, facilitate an inclusive economy and provide for public goods such as the universal health system.

Effective public revenue generation is of critical importance to financing the kind of system that is better able to deal with the pandemic.

Against the background, the National Board of Revenue (NBR) can prepare a five-year plan of taxation covering the following points:

COVID-19 TAX

A recent proposal for imposing COVID-19 tax on tobacco and luxury products deserves the attention of policymakers.

Research has shown that tobacco use is detrimental to public health and tobacco users are more vulnerable to COVID-19.

Research also shows that the government intervention in the form of reducing the four tiers of cigarettes into two, raising maximum retail prices and introducing a specific tax is projected to generate additional revenue of about Tk 4,100 crore to Tk 9,800 crore in a year.

TAX DISPUTE RESOLUTION

Dispute resolution is a key issue in taxation. In fiscal 2017-18, 6,231 tax cases were pending in different courts involving about Tk 17,039.41 crore, according to data from the NBR.

For resolving tax disputes, the NBR can take a two-pronged approach: (1) taking initiative to get the pending cases disposed of; and (2) bringing more cases under

the alternative dispute resolution (ADR) mechanism.

This is likely to bring a huge chunk of money to the government exchequer. We may follow the South Africa model that disposes of more than 80 per cent tax cases through the ADR mechanism.

REALISING OUTSTANDING REVENUE

About Tk 38,639 crore is due to the different government bodies. The NBR can launch a vigorous drive to deal with the defaulters.

FINANCIAL INCLUSION

The government can generate additional revenue by bringing informal sectors into the formal one through financial inclusion and enhancing withholding taxes by linking different services with taxes.

COMBATING TAX AVOIDANCE AND EVASION

Tax avoidance and evasion are rampant in Bangladesh.

Some multinational corporations try to shift money to their headquarters through the transfer pricing mechanism.

The NBR should activate its Central Intelligence Cell (CIS) to address tax avoidance and evasion strategies that exploit gaps and mismatches in tax rules.

ADDRESSING TRADE-BASED MONEY LAUNDERING

According to the reports of Global Financial Integrity, a huge amount of money goes out of the country mainly through trade-based money laundering every year.

In a study, it is found that it happens primarily through import over-invoicing, which results in colossal revenue loss.

Since the data is available online, the NBR can detect the cases of money laundering by matching the bills of entry and shipping documents with the letters of credit opened and settled online.

Moreover, a system can be put in place by which the laundering of money is prevented.

The writer is a former chairman of the NBR and professor of Brac Institute of Governance and Development

Payout of safety net funds through MFS to enhance transparency

Experts, operators say

MUHAMMAD ZAHIDUL ISLAM

It was unimaginable for Robichandra Shil, a barber in Pingree bazar in Rajapur upazila under Jhalakathi, that he would receive Tk 2,500 on his mobile wallet from the prime minister as Eid gift.

"It was unbelievable to me!" an amazed Robichandra told The Daily Star over the phone. He received the sum on the evening of May 14.

Until he cashed out the sum the following morning, he was not fully confident on whether he would get the full amount or someone would not stake a claim on a portion of it.

"Our local councillor at the union parishad took my mobile and NID [national identification] numbers a few days ago, saying the government would send some money to the people who have become unemployed for the pandemic," he added.

Hundreds of thousands of people like Robichandra have lost jobs soon after the rogue virus hit the country in March, leaving the government on the brink of losing all the gains in poverty reduction over the past decade.

This has prompted the government to provide cash support to those who lost their livelihoods through the mobile financial service platform, which allowed them to avoid to visit banks or union parishad office or lobby with anyone to get the relief.

The government is disbursing cash assistance to support 50 lakh poor households with the help of the four top MFS operators under a programme of the disaster management and relief ministry.

Under the project, designed by the finance ministry, the government has targeted to pay out Tk 1,250 crore to the ultra-poor.

No doubt, MFS is the most efficient way that can push the country to a robust digital financial inclusion, said Zahid Hussain, a former lead economist of the World Bank's Dhaka office.

"I think the time has come to accept technology for the financial sector to enhance inclusion and bring transparency."

There is no other effective way like MFS that can disburse cash assistance to the poor while they maintain social distancing to stop the spread of the deadly virus, stakeholders say.

Moreover, a level of transparency can be ensured with this kind of payment, where at least a person who has a mobile and NID card gets the sum and not a ghost.

Allegations are rife under traditional channel that people who do not exist also get government assistance.

For every case of government payout, errors are found both in beneficiary inclusion and exclusion level.

In the listing phase, the government can consider taking support from the MFS operators, which can help prepare an authentic eligibility list, Hussain said.

With some criteria and previous transactions, the MFS operators can determine users' authentication. This authentication can also be done after field offices prepare a list.

"Using this technology, the government can also think about disbursing other cash assistances and even small agricultural loans and also repayment can be done," Hussain added.

The use of MFS for disbursement would be only effective if the beneficiary selection process is done effectively, said Kamal Quadir, chief executive officer of bKash, the country's leading MFS provider.

"Our NID system is one of the best among the emerging countries, so we should take advantage of this national asset for the validation."

Already, there are examples of education stipends such as the Prime Minister Education Trust Scholarship and a few stipends of the government that bKash and Agrani Bank jointly have executed.

Without any flaws, these stipends have gone to the right people, Quadir added.

MAJOR GOVT CASH ALLOWANCES FOR SAFETY NET SCHEMES

| PROGRAMMES | AMOUNT (in Tk cr) |
|---|-------------------|
| Old age allowance | 2,640 |
| Grants for widowed, deserted & destitute women | 1,020 |
| Allowances for financially insolvent disabled | 1,390.50 |
| Assistance for cancer, kidney & other patients | 150 |
| Livelihood Improvement of tea garden labourers | 25 |
| Grants for orphanages & other institutions | 183.63 |
| Maternity allowance for poor | 763.27 |
| Allowances for urban lactating mothers | 273.11 |
| Honorarium for freedom fighters | 3,385.05 |
| Medical allowances for injured freedom fighters | 480.15 |
| Pension for retired govt employees & their families | 23,010 |
| Stipend/grants for disabled students & schools | 123.64 |

If this can be done successfully, the other areas can also adopt digital financial service for allowance distribution effectively.

"However, the most critical thing is to select the person with the right mechanism and verify them with the NID system. Otherwise, such great initiatives can be abused," he said.

Industry sources say the government also understands the need for digital payments for social safety net programmes and is increasingly opting for digital platforms in a bid to steer clear of the plundering risks.

For this fiscal year, the government has allocated about Tk 127,000 crore for safety net programmes, of which Tk 35,000 crore will be disbursed in cash.

If the government considers disbursing this amount through MFS, it will ensure at least a level of transparency and it would be hassle-free for them, economists and industry leaders said.

The government is very positive about this kind of payout, said Abul Kashem Md Shirin, managing director of Dutch-Bangla Bank, which runs Rocket, an MFS service.

"Though there are some resistances within government offices and local level politicians, we have found the top level of the government to be very committed to this digital platform," he said.

Both bKash and Rocket started MFS disbursement of the stipends for students in

2015 and listed about 10 lakh individuals at the time. The number rose manifold and only bKash is dealing with 35 lakh individuals.

The education ministry has embraced large-scale digital disbursement. The women and children affairs ministry is following suit.

But the social welfare ministry, which handles the biggest amount of the safety net amount, is not interested, sources say.

A couple of months ago, the government engaged an MFS operator to run a pilot in Sylhet but the team could not carry it out despite repeated attempts because of opposition from the local level.

"The government even can run technical audit after a fund is disbursed through MFS and can use our technology to find out the eligible persons," said Tanvir A Mishuk, managing director of Nagad, an MFS provider of the Bangladesh Post Office and a private entity.

After the full automation of fund payment, the government can get the exact numbers of how many people are being repeated in all cash support and this will save public money as well.

With 17 lakh families, Nagad, the fastest-growing MFS in Bangladesh, is disbursing the biggest chunk of the prime minister's gift allocation. It is distributing other funds from the government and the non-governmental organisations.

Top player bkash is also disbursing funds to the poor on behalf of the NGOs. Recently, it paid Tk 1,500 to each of two lakh people under an initiative of Brac and Grameenphone.

It has engaged with microfinance institutions and is receiving instalments, which the government halted because of the ongoing pandemic.

MFS operators collect donation on behalf of voluntary organisations such as Bidyanondo, too.

This write-up is produced under the Bangladesh Policy Advocacy Initiative, conducted by the Policy Research Institute of Bangladesh