

# Why is tax-GDP ratio so low in Bangladesh and how to raise it?



ABU AFSARUL HAIDER

**D**ESPITE positive economic growth in recent years, Bangladesh has one of the lowest tax-to-GDP ratios (9.3 percent) in the South Asian region. It is 23.1 percent in Nepal, 16.8 percent in India and 11.0 percent in

Pakistan. Income tax is one of the major components of tax revenue. Besides income tax, there are two other major sources of revenue—value added tax (VAT) and customs duty. The projection of total revenue collection from income tax, VAT and customs duty for the year 2020-21 is estimated to be Tk 378,000 crore, where the National Board of Revenue (NBR) will contribute Tk 330,000 crore. Of that, Tk 103,945 crore will come from income, profit and capital tax, while Tk 125,162 crore will be collected through VAT. Past record shows collection from VAT has always been higher than that of income tax—which puts a burden on marginalised people through double taxation and as a result, inequality has worsened over the years. At the same time, because of globalisation, both custom and import-stage supplementary duties are likely to decline in relative terms. Under the circumstances, the government is set to enhance its revenue mobilisation through income tax.

Unfortunately, in Bangladesh, a large number of individuals and firms are unregistered and the vast majority of registered individuals and firms with taxable income are not interested in paying taxes. According to a NBR study, about four crore people in the country have the capacity to pay taxes, but the majority of them do not pay tax on their income. At present, NBR has about 40 lakh registered taxpayers but only 22 lakh submitted their tax returns in FY 2018-19. The study also found that there are 213,505 companies registered with the Registrar of Joint Stock Companies (RJSC), of which about 45,000 companies submitted tax returns.

Tax evasion is a serious problem in Bangladesh—as companies with huge

revenues also evade taxes. In addition, businessmen who collect VAT from consumers evade tax through under-reporting. Some of the multinational companies evade taxes through misuse of a mechanism, known as “transfer pricing”. Transfer price is the price at which divisions of a company transact with each other for goods or services. It takes place when two related companies such as a parent company and a subsidiary, or two subsidiaries controlled by a common parent, engage in international trade with each other for goods and services. Sometimes, related entities of a multinational firm show artificially high

USD 5.9 billion (about Tk 50,000 crore) was siphoned out of Bangladesh and a total of USD 81.74 billion went out between the years 2006-2016. The annual report of the Swiss National Bank titled “Banks in Switzerland 2019” showed that money held by Bangladeshi nationals and entities stood at 603 million Swiss francs or Tk 5,427 crore in 2019. The amount was Tk 5,553 crore in 2018 and Tk 4,329 crore in 2017, according to the report.

All these are affecting the economy—with disproportionate effects on the poor and marginalised sections of the population. Only working on serious changes in the tax system

for, i.e., the social contract is not honoured, they tend to reduce their tax compliance by not paying income taxes. This results in serious inadequacy of government funds for public utility services such as water supply, electricity, maintenance of roads and highways, healthcare, security and so on. Therefore, there is a crucial need for the government to make sure that this contract is honoured and public services are well provided for.

Also, a sizeable segment of people think that there is no level playing field when it comes to paying taxes; only some people pay taxes every year, while others, despite

equity and creates distortions in the economy. Various other tax breaks legally keep many more people off the tax rolls. Therefore, withdrawal of all sorts of tax holidays and tax exemptions from all sectors can significantly increase revenue.

The Eighth Five-Year Plan for fiscal year 2020-21 to fiscal year 2024-25 has set the target of raising the tax-GDP ratio to 14.2 percent by 2025. Raising tax-GDP ratio from the current dismal level of 9-10 percent to 14.2 percent of GDP will no doubt be challenging. But it is possible if the government overhauls the entire taxation system. The main thrust of tax policy reform is to boost up revenue mobilisation by expanding the tax base. In this connection, there are ample opportunities to increase tax revenue collection. Many economists argue that considering our socio-economic culture, the present tax structure is not suitable to attract enough people to pay taxes and as such the tax rate needs to be brought down to a level where everybody with taxable income feels comfortable to pay income tax; the tax net would then be wider. In economics, the Laffer Curve represents a relationship between government revenue raised by taxation and all possible rates of taxation. The Laffer Curve postulates that when tax rate on producer surplus approaches 100 percent, tax revenues may approach zero, since economic agents would not be left with any incentive to produce. The higher the tax rate, the higher the disincentive against tax compliance and greater the propensity to generate black money. Thus, reducing tax rates, particularly the maximum marginal rates of progressive taxes, can increase tax revenue in two ways. First, by increasing tax base and second, by increasing compliance with the tax rules.

Finally, strong institutional reform is essential to enhance the efficiency and capacity of the tax administration. Without an efficient and effective tax administration, it is almost impossible to execute the policies that are intended to enhance the volume of revenue collection to achieve the required tax-GDP ratio.

Abu Afsarul Haider is an entrepreneur. He studied economics and business administration at the Illinois State University, USA. Email: afsarulhaider@gmail.com



*Tax compliance depends on how the government perceives the social contract between itself and the taxpayers. When citizens see that the services they get from the government are less than what they pay for, i.e., the social contract is not honoured, they tend to reduce their tax compliance by not paying income taxes.*

prices for an imported product or service in an attempt to deflate profits and evade taxes. This practice is known as “transfer mispricing”. According to the Global Financial Integrity Report (GFI), Bangladesh lost a staggering USD 7.53 billion on average between 2008-2017 to trade mis-invoicing during foreign commerce with its 135 trading partners (*The Daily Star*, March 05, 2020).

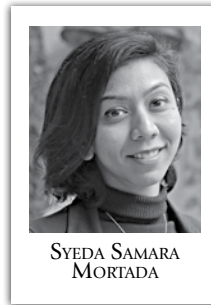
Moreover, there are some businessmen, politicians and government officials, who instead of paying taxes on their undisclosed income (legal or illegal), are taking their money and investing in commercial ventures and properties abroad. According to the GFI report released in January 2019, in 2015,

can give long-term results. Unfortunately, the NBR has neither enough manpower nor the expertise to address tax evasion of such magnitude. It is difficult for taxmen to identify the loopholes without having advance training on transfer pricing, money laundering, etc. Therefore, the government should train tax officials to hone their skills and come up with pro-people policy measures and create awareness on developing a culture of paying taxes.

Tax compliance depends on how the government perceives the social contract between itself and the taxpayers. When citizens see that the services they get from the government are less than what they pay

having taxable income, continue to evade them. Under current practices, the burden of tax lies on a limited number of persons/companies with higher marginal income tax rates; and the bulk of those paying income tax are salaried employees, whose companies are responsible for making their tax payments. Around 85 percent of income tax revenue comes from tax withheld at source. Another problem in our tax policy is the extensive use of tax exemptions, incentives and special provisions, which limit revenue collection and make the effective tax base much narrower than the standard tax regime. Generally, it is argued that widespread exemption encourages tax evasion, erodes tax

## To parents of sons from a parent of a daughter



SYEDA SAMARA MORTADA

*As a woman, I have grown up watching over my shoulder, when I am walking on the streets, even at 6 o' clock in the evening, even if the street is not completely deserted; even if the street is where I grew up all my life.*

**I** often wonder if I would be any different, feel any different, if I were a mother to a son, rather than a daughter. Yes, parents ought to love all children in the same way and treat them the same, but recently I have begun to think that the responsibilities of being a parent to a son at this day and age far outweighs that of a parent to a daughter. And I arrive at this conclusion based on conversations I have had with many other parents of my generation. And what they say (and I agree with) is that while our generation of women have stepped out of the roles and boxes designed for them, the men of our generation have still not evolved. So, they still expect their wives/partners to carry out the same tasks that they saw their mothers perform, BUT also contribute to household expenditures at the same time. There has been much said and written by experts and activists working in the area. Today, I write and express myself only as a mother.

And that makes me wonder, how are we raising our sons, what is the environment we are moulding them in, that gives rise to such perpetrators, abusers and rapists we read of everyday? Let's face it, they are part of this very society that we live in and helped create. They are our fathers, uncles and

most importantly our sons. And so, the onus of creating a “better” family, a “better” community that cuts the very root of rape culture, lies now more than ever on parents of today's children—the ones raising future generations. And by parents I do not mean mothers. For far too long women have been carrying the flag of equality, fighting the good fight, seeking justice. The responsibility does not lie with her alone, just like it is not upto a mother alone to raise her son, to give him good lessons, to teach him to respect his wife, partner or girlfriend.

The majority of perpetrators of sexual violence are men. And so, while survivors are always women and children, the ones inflicting violence are almost always men. As a woman, I have grown up watching over my shoulder, when I am walking on the streets, even at 6 o' clock in the evening, even if the street is not completely deserted; even if the street is where I grew up all my life. Throughout my life, I have been extra vigilant, extra cautious, almost as if it is MY responsibility to not get abused/harassed/raped.

But, I don't want the same things for my daughter, and I will not accept it. I want it to be okay and safe for her to walk the streets, use public transport, feel no less than her male counterparts. To my daughter, like most mothers I have said that she can be anything, do anything: a doctor, an astronaut, or an artist. But what's most important is to be a good person, to be empathetic and kind; to respect one and all, for who they are—not because they have a particular tone of



skin, or because of where they come from, or because what genitalia (yes, it is a word one can utter in front of kids!) they have. I hope that's the kind of conversations parents of young boys are also having with their sons. But this is not the end; parents of boys also need to encourage their sons to play with dolls or kitchen sets, not with guns; they need to stop saying that it's okay to be naughty, and to hit others. Parents of young boys growing up need to set forth the same house rules for their sons as they do for their daughters. It can't be okay for

the son to be out till midnight, when the daughter has to come back home during sunset. But most importantly, parents of young boys need to set forth good examples as parents, and act out what they are teaching their sons. They will pick up what they see, so if they see parents sharing household responsibility, if they see their fathers being more involved at home, with the children, that is what they will practice.

As a mother to a daughter, I request you, no I beg you, to hold your uncles, your fathers your brothers accountable for their behaviour, for making sexist

jokes, for thinking it's okay to harass and abuse their power and positions of authority. As a mother, I beg you to have open conversations with your sons so that they can learn about their sexuality from their parents, rather than from porn or peers. Teach them about consent, and about respect. I don't want your son to protect my daughter, I want him to check his own behaviour. I owe it to my daughter to end rape culture, and so do you.

Syeda Samara Mortada is the Regional Movement Builder at SheDecides, Asia and a core member of the RageAgainstRape Movement in Bangladesh.

### QUOTABLE Quote

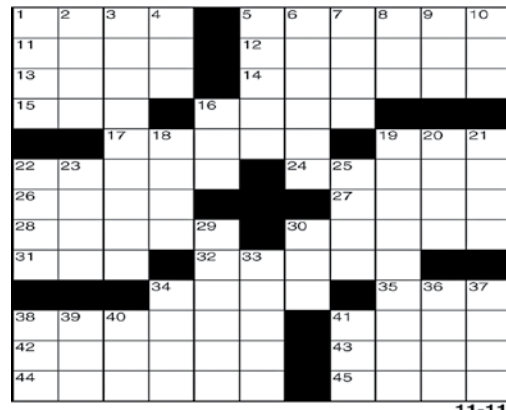


ALBERT JAY NOCK (1870-1945) American author.

*The mind is like the stomach. It is not how much you put into it that counts, but how much it digests*

### CROSSWORD BY THOMAS JOSEPH

- |                     |                     |                                |
|---------------------|---------------------|--------------------------------|
| <b>ACROSS</b>       | 32 Like Poe tales   | 10 Summer sign                 |
| 1 Highway exit      | 34 Coffee, in slang | 16 Guy's friend                |
| 5 Sudden storm      | 35 Mafia head       | 18 Take a breather             |
| 11 Swift horse      | 38 Deceptive front  | 19 Broke                       |
| 12 Down Under       | 41 Oxen connector   | 20 To boot                     |
| denizen             | 42 Come to          | 21 Honey bunch                 |
| 13 Moves swiftly    | 43 Continental coin | 22 Poet Angelou                |
| 14 Attends          | 44 Change back      | 23 Sneaker problem             |
| 15 Use a raygun on  | 45 Ollie's buddy    | 25 Fare carrier                |
| 16 Obtains          |                     | 29 Forward fall                |
| 17 Wipe off         | <b>DOWN</b>         | 30 History chunk               |
| 19 Bar bill         | 1 Make fun of       | 33 History bit                 |
| 22 Work the runaway | 2 Diva's piece      | 34 Boxer La Motta              |
| 24 Hackneyed        | 3 Planned in detail | 36 Gumbo veggie                |
| 26 Bustles          | 4 "Nova" carrier    | 37 Noble gas                   |
| 27 Church area      | 5 Wise guys         | 38 Distant                     |
| 28 Early years      | 6 Brokers' numbers  | 39 Really impress              |
| 30 Trade shows      | 7 Calls on          | 40 Cleveland player, for short |
| 31 Museum focus     | 8 Braying beast     | 41 Word of assent              |
|                     | 9 Set fire to       |                                |



### YESTERDAY'S ANSWERS

**O**L**D**S **G**R**I**P**S**  
**S**E**E**K**S** **O**U**T**R**E**  
**C**A**P**I**T**A**L** **G**A**I**N  
**A**S**I** **E**L**F** **L**E**S**  
**R**E**C**A**L**L **R**I**S**E  
**S**T**Y**L**I** **E**A**T**S  
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**R**A**R**E **V**O**T**E**S**  
**E**V**E**S **A**I**S**L**E**S  
**D**E**M** **K**I**N** **P**R**O**  
**D**R**I**V**I**N**G** **R**A**I**N  
**E**S**S**E**S** **S**U**S**A**N**  
**N**E**S**T**S** **M**O**L**Y

### BEETLE BAILEY



BEETLE WAS LAUNCHED ON SEPTEMBER 4th, 1950

by MORT WALKER

### BY MORT WALKER

25,550 STRIPS LATER, WE'RE STILL MARCHING ON

THANK YOU FROM GREG, BRIAN & NEAL WALKER



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### BY KIRKMAN & SCOTT

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