Towards a more conducive tax system: reform strategies and priorities

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The Covid-19 pandemic has laid bare around the globe the need to strengthen domestic revenue mobilisation systems of countries, particularly in developing nations. Given the imperative of harnessing resources to combat the extremely deleterious effects of the pandemic on national economies, the revenue system in a country like Bangladesh, whose swift progress towards attaining developed country status has received an unexpected shock, does come in for some examination.

Major economic shocks are affecting global markets, culminating in lower or negative growth, higher unemployment, rise in poverty, and acute fiscal pressure for countries around the world. The International Monetary Fund (IMF) projects the global economy will contract by 4.4 per cent in 2020 while emerging and developing Asia will grow at an estimated negative 1.7 per cent.

Bangladesh too, having displayed a robust average growth of more than 7 per cent over the last decade, will witness a lower growth. There is, of course, a rebound since June with positive trends in exports, remittances, and large parts of the domestic economy but several challenges continue to persist, including uncertainties in middle-east job markets, displacement of small enterprises, and loss of livelihoods or drop in income for millions.

While the current scenario is encouraging, the loss of the past several months will not be easy to recoup. For the export and overseas workers sectors, the state of the various customer and host countries will be major determinants in their performance going forward.

In the immediate aftermath of the Covid-19, the government of Bangladesh was quick and bold in announcing a massive $11 billion economic stimulus programme, equivalent to more than 3 per cent of the country's GDP; as well as direct fund transfers and food aid to the neediest.

More than three-fourths of the total stimulus comes from bank credits, but the fiscal cost is significant – around 1 per cent of GDP. It is unarguable that although through past prudent fiscal management, the government has created significant headroom to manoeuvre even in these troubled waters, revenue generation will be strained.

Managing the health and economic crisis and necessary prudent measures to secure medium-term recovery require massive fiscal resources. Allocation of higher resources in the health sector, absorbing interest losses or subsidies in the banking sector, delivering direct assistance to the poor, forbearance in tax and other regulatory compliance, tailored policy and financing support will place a significant fiscal burden of the state.

Bangladesh's unprepossessing tax-GDP ratio, which hovers around the 10 per cent and below the mark, is not a healthy sign for the volume of revenue needed to be generated to keep the economic scenario as stable as in the last several years. The essential dialogue needs to begin now on how effectively to work towards increasing this ratio while lowering the monetary and regulatory burden of compliance on good taxpayers.

Securing these resources in a fiscally sustainable way, and how to manage them wisely are key policy questions for the government to address. Notably, the need to strengthen the state's capacity to collect tax revenue to ensure a sustainable debt-GDP position while funding essential public services such as health and social protection will require careful but immediate effective consideration followed by prompt action.

This may seem like an inauspicious time to contemplate significant reforms; however, in addition to potentially focusing the minds of policy-makers, large shocks can also provide opportunities to positively align political and bureaucratic resistance to significant change, thus opening new reform opportunities.

In addition to responding to the crises to mitigate its impact on the people of Bangladesh, this may be an opportunity to re-engineer processes to remove the discretionary application of laws and rules, as well as making them much more technology-drive, which will create a large measure of transparency and accountability.

One critical rationale for Bangladesh policy-makers at this moment that warrants a quick and effective tax reform programme is to make the country's business environment more conducive and supportive of the country's 'Developed Country' vision. The regulatory and institutional environment has many weaknesses which are reflected in global indicators and indices. Significantly, both domestic and foreign investors rank the taxation system and administration as one of the major roadblocks towards increasing private investment in Bangladesh.

Paying tax in Bangladesh is plagued with numerous policy and administrative complexities. The Doing Business 2020 reports that, on average, firms in Bangladesh make 33 tax payments a year, spend 435 hours a year filing, preparing and paying taxes, and pay total taxes amounting to 33.4 per cent of profits.

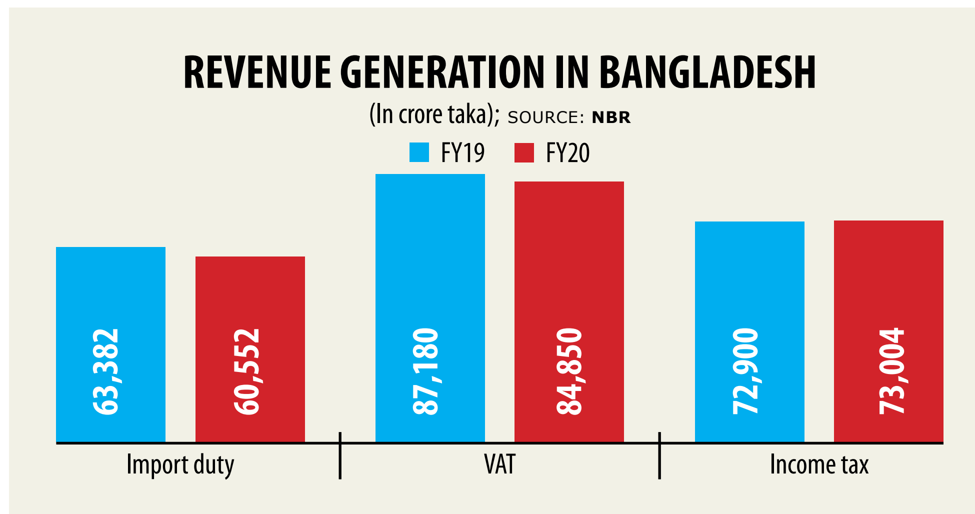
Despite a number of incremental reforms in recent years, the feedback from firms and the Tax Perception and Compliance Cost surveys indicate that there would have been more investment and growth, and more firms would have become formal enterprises if the tax regime were simplified. SMEs, particularly small enterprises, fear to formalise because of perceived difficulties related to the tax system.

Tax reforms are complex undertakings due to both political economy and technical considerations. Key issues have been much talked about for a long time here in Bangladesh with the business community, influential in their own right, often pleading for such reform.

The principal points of contention have been a lack of transparency, the exercise of discretion, unfair application of laws to meet revenue targets, sudden changes to tax rates and conditions for imposition, the irrational imposition of advance income tax and tax deductible at source, lack of any effective mechanism for adjustment or refund of excess tax paid, failure to expand the tax net significantly, among others.

Yet, very little has taken place so far, an indication that tax reforms, however impactful they may be, will be no easy task. It will be critical to understand the incentives of the important stakeholders relevant to the system, prioritise the reforms, and set the appropriate reform strategies.

Bangladesh can accelerate successful tax reforms by adopting best practices from the world and contextualising them to the country's ground realities. Widening and deepening of the existing tax base across all the three taxes will be critical in this regard. In this context, developing a technology-led tax administration and taxpayer services system is critical, both to align with the vision of Digital Bangladesh but also to address many inefficiencies, including minimising contact between tax official and taxpayers, discretionary behaviour, and improving transparency.



Setting up an efficient, integrated national tax accounting network that will correctly account for, reconcile and record tax payment information at a transactional level for all the three taxes and make visible this information in real-time basis to taxpayers and to all stakeholders, including the government, the National Board of Revenue (NBR), tax officers, Bangladesh Bank and taxpayers, is essential.

Better and easier tax compliance is a function of both enforcement and incentivising taxpayers. Enriched and enhanced taxpayer experience through measures of simple and quick taxpayer services available at the doorsteps of citizens and business, reducing compliance cost for the taxpayer by eliminating unnecessary paper works and contacts between tax administration and taxpayers, will help develop trust and relationship between tax authorities and the honest and diligent taxpayer. Research into taxpayer behaviour and motivation has proven to be an effective tool in providing inputs to tailor taxpayer experiences to specific types of taxpayers, resulting in better revenue generation.

The objectives of an effective tax administration system would be to reduce and minimise the costs of administration and compliance on both sides, ensure procedural fairness, avoid discretion and discrimination, ensure transparency and engender confidence in the system as far as the taxpayer or citizen is concerned.

With a fast-growing economy and capacity constraints on the part of revenue administration, embracing a risk-based approach in enforcing tax policies and compliance holds the key to efficient administration and taxpayer services.

Authorities must consider shifting tax compliance management from the traditional subjective audit selection approach to a technology-assisted intelligent selection approach based on efficient data mining and revenue risk management tools. Incorporating a culture of prioritisation in revenue administration will help keep tax officials from non-priority routine work which is often high-volume and low-knowledge, and focus more on priority compliance and tax collection work.

If a paradigm shift is required in the tax policy landscape of Bangladesh, what are the questions to ask? What kind of taxation should be prioritised and in what time-frame: direct taxes, trade revenues or indirect taxes? What is an effective use of withholding and advance taxes, which are currently not just inefficient, but unjust in practice? Should the system be organised around the different kinds of taxes or different kinds of taxpayers?

Effective segmentation of taxpayers has proven to be a good practice in many countries, but the Large Taxpayers Unit is perhaps not playing the desired role, rather has become burdensome on the taxpayers included in it. An ongoing public-private dialogue is essential between the business community and the NBR, but that does not take place. A mind-shift in treating the taxpayer as a client as opposed to a target and the taxation officers as facilitators as well as revenue collectors is also necessary.

In terms of establishing accountability, it may be the appropriate time to consider establishing the office of Tax Ombudsman, as well as including private sector members in non-executive positions in the revenue governance body.

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DCCI teams up with ICMAB

STAR BUSINESS REPORT

The Dhaka Chamber of Commerce & Industry (DCCI) has signed a memorandum of understanding with the Institute of Cost and Management Accountants of Bangladesh (ICMAB) to work together for the betterment of the business community.

DCCI President Shams Mahmud and ICMAB President Md Jasim Uddin Akond penned the document on Tuesday, according to a press release of the chamber.

Mahmud said the signing the MoU would usher in a new opportunity for both organisations to work together for the betterment of the business community.

He appreciated the professionals of the ICMAB for their hard work to ensure transparency in the financial system of a company.

He also called upon the institute to work closely with industries and firms to strengthen cooperation.

Akond emphasised on ensuring cost audit certification by professional cost management accounting firms or professionals for every listed company.

"CMA professionals can create a great impact by ensuring clarity in various economic aspects."

DCCI Senior Vice President NKA Mobin said the DCCI and the ICMAB could jointly work to facilitate a business-friendly environment in the country for the development of the economy.

DCCI Vice President Mohammad Bashiruddin was also present.

ECB warns against 'abrupt' end to pandemic aid

AFP, Frankfurt

The European Central Bank warned Wednesday that a premature withdrawal of government support to the eurozone's pandemic-hit economies could derail the recovery and trigger a wave of bankruptcies.

An "abrupt" end to the measures could "result in a more severe economic contraction than during the first wave of the pandemic," the ECB said in its twice-yearly financial stability report.

Eurozone governments have taken unprecedented steps to shield companies and workers from the pandemic fallout, including through guarantees on bank loans and repayment moratoriums, massive short-time working schemes and aid for businesses hit by shutdowns.

Despite recent optimism about Covid-19 vaccines, "there is a long road ahead," ECB vice president Luis de Guindos said in a statement. "Authorities will have to make difficult decisions on whether and how to extend policy measures and, eventually, deal with the debt they create," he said.

If fiscal support is not maintained for the full length of the crisis, firms most affected by social distancing restrictions "may face severe solvency issues or a more permanent disruption to their business models", even as other sections of the economy recover, according to the ECB report.

Concerns over a slew of bankruptcies are already high due to the levels of debt incurred by companies and households during the first wave of the pandemic.

ECB President Christine Lagarde has previously said her biggest concern was governments creating a "cliff effect" by taking away fiscal support before a full-fledged recovery was under way.

However, while government support schemes continue to be essential, they should "remain targeted towards pandemic-related economic support and avoid giving rise to debt sustainability concerns in the medium term," De Guindos said.

The ECB has said that its own pandemic stimulus package, which includes a 1.35-trillion-euro emergency bond-buying scheme ($1.6 trillion) to help keep credit flowing, will continue until the "crisis phase is over".

In the previous edition of its report in May, the Frankfurt-based institution said the risk of the eurozone collapsing could re-emerge as public debt in some countries explodes to cope with the coronavirus shock.

Lagarde at the time however said she was "not overly concerned", and the risk is no longer mentioned in the latest report despite EU leaders bickering over a 750-billion-euro recovery plan agreed in July.Lagarde last week called for the Next Generation EU fund to become available "without delay".

Miners say Covid-19 has accelerated move to digital, automation

REUTERS, Melbourne

The coronavirus lockdown is hastening digitalisation and automation in the mining industry, major firms and their partners said this week, helping to get more work done at remote mines, even if operators are far away.

That trend will drive down costs quicker, leading to smaller, cleaner mines where more can be done with fewer people, industry officials said at the Imarc mining conference in the southeastern Australian city of Melbourne.

"The pandemic has forced us to think about how we can do more of the work that had to happen on site, remotely... (and) how we do those tasks with less people," said Suresh Vadnagra, chief technology officer at Newcrest, one of the world's largest gold-mining firms.

Digital twinning and better use of big data was also winning adherents, he added.

Australia's Big Three iron ore miners already have "digital twins", or big city control centres to let them manage parts of their operations from hundreds of kilometres away, but such sites are becoming more common.

Blasting the ground to collect ore offers an example of how big data is being used to make operations more efficient.

REUTERS/FILE

A worker operates an underground mining truck remotely from an office above a mine site at Independence Group's Nova nickel mine in Western Australia.

Manually drilled blast holes can have small differences in relation to their location on a plan, as well as to each other, which can sometimes mean a blast sequence is not efficient.

Now a detonator put in the bottom of a blast hole can function as a sensor that can provide information such as moisture content and signal its position relative to the rest.

"All this data allows the possibility to utilise Artificial Intelligence (AI) for modelling and designing blast timing," said Dirk van Soelen, a vice president at explosives maker Dyno Nobel.

Efficiencies of this kind, combined with new technology, will help diversified miner Anglo American carve out another 10 per cent to 20 per cent of costs in the next three to five years, said Chief Executive Mark Cutifani.

"In using automation and industrial processes, we have changed mining methods," he said. "Anglo is using bulk ore sorting and it plans to roll that through our sites in the next few years."

Improved methods of sorting ore grades at its copper mines are helping Anglo cut its energy intensity, he added.

Big data now allows energy use and carbon emissions to be tracked and integrated with a mine's maintenance and operations, said Bas Mutsaers, global strategy tech and marketing lead at Schneider Electric.

"We can use this data to confirm our understanding of the processes at the site, to see correlations," he said, which could help miners forecast when to consume, produce, store or sell energy on solar farms, for example.

"AI is allowing us to do this at ever higher levels of complexity and speed."

Elon Musk now world's second wealthiest person

AFP, New York

Elon Musk, the charismatic chief of electric automaker Tesla, has overtaken Bill Gates to become the world's second richest person, according to the Bloomberg list of billionaires.

The South African-born Musk, 49, added $7.2 billion in wealth on Monday alone following Tesla's latest surge.

He now has an estimated $128 billion. The outspoken Musk, who is also cofounder of SpaceX, had already overtaken numerous luminaries in recent weeks, including Facebook Chief Executive Mark Zuckerberg and Bernard Arnault, the head of French luxury giant LVMH.

Now the only person he stands behind is Amazon founder and CEO Jeff Bezos, whose wealth is estimated at $182 billion.

Elon Musk

The upheaval of the coronavirus pandemic has allowed the ultra-rich to amass even more wealth as technology companies have gobbled up more market share of the economy.

In 2020, Tesla shares have surged more than 500 percent and the company is now valued at more than $500 billion.

Musk, who owns about 18 percent of the shares, has made some $100 billion during this stretch.

Tesla shares have gained further since the presidential election of Joe Biden, who favors more aggressive policies to address climate change.

Tesla was also boosted by an announcement that it is being added to the prestigious S&P 500 index.