

Value Added Tax (VAT), as it is commonly known, is the most innovative and talked about system of direct taxation since 1940s.

Its name suggests, it is a tax on value added (gross revenues minus bought-in goods and services) by an economic unit.

The VAT has been introduced in Bangladesh in its modified form.

The Government introduced VAT as a substitute for sales-tax, excise duty and turnover tax. It is intended to widen tax base, remove blanket reliefs and exemptions, simplify tax administration.

VAT is not a new tax but a new tax system. It is levied on all taxable goods and services at a uniform rate of 15 per cent.

However, tax-payers whose annual turnover is lower than Taka 2,00,000 would pay turnover tax at 2 per cent instead of VAT at 15 per cent. In addition, supplementary duty at 10 per cent to 85 per cent is imposed on some specified luxuries, unnecessary and socially undesirable goods and services.

It is zero-rated for goods exported or deemed to have

What is VAT: Prospects and problems

By A K M Sahabub Alam

been exported out of Bangladesh.

VAT is payable by all domestic producers, manufacturers, service-renderers, importers and exporters who makes a taxable supply of goods and services.

It is excepted imported taxable goods at import stage, on imported manufactured on the import or service stage.

It is determined, at import duty-paid value of goods; and at the stage, on the import or service stage.

All taxable goods and services are to be supplied against issuance of invoices.

No taxable supplies can be made without invoices. Bills of entry are deemed to be invoices for imported taxable goods. Input tax can only be claimed against purchase invoices and bills of entry; and output tax is to be determined with reference to sale invoices.

These are obvious advantages of VAT. It is comprehensive. It expands the tax base as it applies to all goods and services except those which are specifically exempted or kept

supply of goods and services outside its scope for the time being.

It is also simple for tax-payers, tax-assessor and consumer, and operates on a self-assessment basis. It is easy to collect as the tax is collected at various stages, and tax-payers can avoid their cash flow problems. It is easy to calculate as the tax is based on actual price, i.e. invoice of goods and services; and tax rate is uniform at 15 per cent. It is easy to pay as the output tax can be paid on account of adjusting the input tax.

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same way the burden of sales tax and excise duty without VAT.

Besides VAT provides adequate protection to local industry as all imports are taxed and all exports are zero-rated. It also encourages the industrial growth by zero-rating capital goods or spreading the credit.

It does not differentiate amongst various tax payers as it is imposed at a uniform rate. It neutralises pressure groups. It avoids the cascading effect which is built into excise and sales tax, which in turn leads to distortion of trade and possible inequality by imposing greater burden of tax on products which pass through more stages.

Because of its self-policing matter, it is cheaper for compliance by the tax-payers as number of books and forms is minimum, and it operates on self-assessment basis. But, these are some limitations for VAT in a country like Bangladesh. VAT presupposes a formal economy where all economic units starting from imports to retailers document their transactions, and maintain perpetual records therefore. This enables the tax-payers to substantiate their claims and obligations, and the tax-assessors to audit such claims and obligations. However, in a developing country, like Bangladesh, the informal economy, comprising in addition to informal operators, black-marketeers, black-money-holders, smugglers, hoarders and manipulators, covers substantial tradings which are not documented and registered.

And again, equity and justice make it imperative that exemption from VAT should be given to necessities and small units. Exemptions narrow the tax base, and distort the system because exemption to small units does not eliminate VAT on goods or services.

rather forces small units not to recover output tax and get credit for input tax paid.

VAT is in practice, determined with reference to sale and purchase invoices. Invoicing method can be abused by the tax-payers through collusion with the tax-assessors and by use of fraudulent invoices. Therefore, VAT carries a risk of fraudulent practices unless an efficient 'VAT audit' system can be implemented by the Government.

The introduction of VAT may result in inflationary impact on prices. As it covers, at least theoretically, all goods and services, its introduction or any change in its rate may cause price level to re-adjust directly.

But there is no reason in the present context for any VAT induced price rises because it replaces certain hitherto existing indirect taxes. Unless the relevant goods and services prior to introduction

of VAT, were free of these indirect taxes, there is no reason why the prices should go up.

The VAT provisions reveal that it is neither too complex as complained by some political parties, trade associations and media nor too simple as claimed by the Government. The major problem is inherent apathy in the country to any change, fear for VAT without knowing what the fear is and what the VAT is.

VAT is both a hope and a big risk for Bangladesh. It is a big risk because of its limitations. However, the hope far outweighs the risk. What is needed now is a strong determination, adequate propaganda campaign, adequate number of honest Government employees, effective VAT audit (by qualified accountants, either in practice or to be employed by the Government as expert) and co-operation of all concerned (including trade associations, opposition political parties and media) to implement the VAT.

(The writer is a Chartered Accountant. The views, expressed in this write-up on VAT, are of the contributor's own, not necessarily of The Daily Star. — Economic Editor)

Snippets

China uses nuclear tech for cables

JINAN, July 10: China's first production line using nuclear technology to manufacture electric cables went into production today in Yantai, a coastal city in Shandong province, reports Xinhua.

The technique improves the cables' resistance to high pressure, high temperature and erosion.

Previously China had to import high-quality electric cables for use in mines, oilfields and nuclear power stations.

German FM calls for aid to USSR

HALLE (Germany), July 10: German Foreign Minister Hans-Dietrich Genscher on Tuesday called for a massive western aid programme for the Soviet Union, days ahead of a summit of leading industrialised nations, reports AFP.

Genscher said he was convinced of Moscow's determination to implement "Deep-seated political, economic and social reforms and changes" and urged major industrialised nations to set in place "a large-scale programme of support".

Western Countries should not miss this "historic opportunity" even if the prospect of full Soviet integration into the world economy was still far off, Genscher told a seminar in Halle in former East Germany on trade with Eastern Europe.

US may lift sanctions against S Africa

WASHINGTON, July 10: The United States was expected to lift most economic sanctions against South Africa today (Thursday) having determined that Pretoria has met five condition of political reform laid out by Congress, reports Reuter.

Administration and diplomatic sources said a White House announcement was expected on Wednesday morning, though one source said it could slip until Thursday.

President George Bush, who was Vice President in the Reagan administration opposed the imposition of sanctions in 1986, said the law compelled him to remove them once the conditions were met.

1.5m unemployed in Poland

WARSAW, July 10: Unemployment in Poland topped 1.5 million or 8.4 per cent of the workforce after the highest monthly jump in June, the main statistical office (GUS) said on Tuesday, reports Reuter.

GUS said 139,600 new jobless were registered in June, raising the total figure to 1,574,100.

The increase was twice as high as in any other month this year, indicating the Solidarity government's tight monetary policies have finally started hitting hard 18 months after being introduced.

Belgian airline loses \$202m

BRUSSELS (Belgium), July 10: The Belgian airline Sabena on Tuesday reported losses of 7.5 billion Francs (202 million US Dollars) last year and 2.2 billion Francs (61 million Dollars) during the first quarter of 1991, reports AP.

The airline state-owned company is expecting a massive bail-out from the Belgian government. It also foresees some type of association with another European airline to face the increased competition resulting from the deregulation of the European air transport market.

Sharp decline in share trading

Star Economic Report

Dhaka Stock Exchange (DSE) witnessed a sharp fall in trading on Wednesday.

In all 1,252 shares changed hands compared with Tuesday's 4,049. Traded issues valued Taka 1,00,875.00 against the previous day's Taka 5,04,933.00.

Advancers were more in number, but decliners involved more transactions in value terms. As a result the All Share Price Index of DSE, which is the broad indicator of price movements of all the listed stocks, declined to 306.7398 points from Tuesday's

Quoted Prices of Traded Stocks

	July-10	** Changes	(Taka)
Books			
Al-Burka Bank	1000/1	±10.00	unchanged
Rupali Bank	100/10	78.50	(+0.50)
Investment			
6th ICBM Fund	100/10	90.00	unchanged
Insurance			
United	100/10	117.00	(-1.00)
Engineering			
B.Thai Aluminum	100/10	98.00	(-1.00)
Howdader PVC	100/10	100.00	unchanged
Karim Pipe	100/5	116.00	(+1.00)
Metalex Corp	100/5	100.00	unchanged
Hemant Jayneswar	100/5	66.75	(-0.25)
Food & Allied			

Dhaka Stock Exchange

Market Profile

July - 10

134 Listed Stocks

5 Gains	4 losers	125 Unchanged

116 Unchanged stocks include eight traded on the day at its previous quoted prices.

DSE All Share Price Index = 306.7398

Issued Capital=Taka 5,439,680,590

Market Capitalisation = 8,765,168,895

Turnover = Taka 1,00,875.00 (Value) 1,252 (Volume).

Foreign buyers active at Ctg tea auction

CHITTAGONG, July 10: Foreign buyers particularly the USSR, Iran and Egypt were active at the weekly tea sale here today, market sources said, reports BSS.

The buyer for the USSR operated in strength and absorbed the bulk of the broken grades with good support from the Iranian buyers. Iran was also active in the fannings market and accounted for a fairly substantial quantity. Internal buyers lent good support in this regard.

Egypt operated for a fair quantity of fannings.

All brokens were a good market at around the last levels with a selected few lines being fully firm to slightly dearer. Poor leaf types, however, saw less demand at lower rates. A small weight of popular types sold between Taka 54 and Taka 58.20 per kg.

Primary fannings were also a good market at firm to slightly dearer. Poor leaf types, however, saw less demand at lower rates. A small weight of popular types sold between Taka 54 and Taka 58.20 per kg.

Orthodox teas on offer sold well with the flowery orange types selling at Taka 62 and Taka 63 per kg. And golden orange pekoes at Taka 49 per kg.

160 chests of green tea on offer met with a selective demand. Stalky types were generally neglected and were sold, with a drop of Taka 2 per kg. While clean varieties were firm to slightly dearer.

320 chests of dust cake met with an improved demand at around the last. Once again internal buyers were the only operators for this category.

It was the Bank of England's enquiry into BCCI ahead of the move that led to the discovery of the problems in the Bank, Luxembourg says.

The Bank of England suspended the BCCI on Friday amid allegations of widespread fraud and money laundering, prompting similar action in many other countries where the BCCI operates.

An affair in 1988 when the BCCI was implicated in laundering of drug money led Luxembourg to tighten its banking laws, imposing penalties of up to five years in prison and fines of up to 50 million Luxembourg Francs (1.3 million Dollars), for such operations.

Banks were also made responsible for ensuring that they knew exactly who they were dealing with when clients engaged in major financial operations.

Informers said that the Duchy had also learnt another lesson from the BCCI affairs: It had recently refused permission to set up in Luxembourg to a bank based on the same system of being based in one country but with its operations centred in another.