

What is VAT: Prospects and problems

By A K M Sahab Alam

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

As 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

been exported out of Bangladesh. VAT is payable by all domestic producers, manufacturers, service-renderers, exporters and importers of taxable goods and services.

It is payable on all goods and services specified in the schedule of taxable goods and services.

It is determined at import stage, on duty-paid value of goods; and at the output stage, on the invoice value (before VAT) of goods and services.

It is collected at three stages: at import stage, at the output stage from the importer-traders, and from the domestic producers, manufacturers, service-renderers, exporters and importers.

All domestic manufacturers, service-renderers, exporters and importers who make a taxable

supply of goods and services are required to register themselves with VAT office, and obtain a VAT registration number which is to be used for all VAT purposes.

A registered tax-payer under VAT is entitled to deduct input tax paid by him from the output tax due from him for determination of his VAT liability unless the goods are used for making exempt supplies.

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

outside its scope for the time being.

It is also simple for tax-payers, tax-assessors and consumers, 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 adjusting the input tax.

As it is levied at various stages, the burden of tax would not be excessive at each stage so as to make it profitable to evade VAT. It is, in addition, self-policing as VAT will be paid or collected by the tax-payers for their own sake so that they can adjust the input tax against the output tax. However, the ultimate burden of VAT is borne by the consumers. But they also bear the

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 limita-

tions 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-marketers, 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 react 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

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

307.0183. Transactions in value terms involved 14 per cent of the total value of shares traded, five gained and 15 lost, five gained and 15 lost, five gained and 15 lost, five gained and 15 lost.

United Insurance, Bangladesh Thai Aluminium, Kewick Jajneswar and Cox's declined within the range between Taka 0.25 and Taka 1.00.

Rupali Bank, Karim Pipe, Beximco Pharma, Modern Dying and Chittagong Cement advanced within the range between Taka 0.13 and Taka 1.00.

Quoted Prices of Traded Stocks

July-10

Stocks	Qty	Closing	Change
Al Baraka Bank	1000/1	810.00	unchanged
Rupali Bank	1000/1	78.50	(+0.50)
Investment	1000/1	90.00	unchanged
6th ICB Fund	1000/1	117.00	(-1.00)
United	1000/1	98.00	(-1.00)
Engineering	1000/1	100.00	unchanged
B Thai Aluminium	1000/1	116.00	(+1.00)
Karim Pipe	1000/1	100.00	unchanged
Metalex Corp	1000/1	96.75	(-0.25)
Beximco Pharma	1000/1	96.75	(-0.25)
Food & Allied	1000/1	96.75	(-0.25)

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 BBS.

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 broken teas 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 a less demand at lower rates. A small weight of popular types sold between Taka 55 and Taka 58.20 per kg.

Primary fannings were also a good market at firm to tender levels except for a few plain types which were shade easier. A small quantity of popular types sold between Taka 54 and Taka 58.20 per kg.

Orthodox teas on offer sold well with the flowery orange pekoe selling at Taka 62 and Taka 63 per kg. And golden Taka 48 and Taka 49 per kg.

160 chests of green tea on offer met with a selective demand. Stalky types were generally neglected and were sold at a drop of Taka 2 per kg. While clean varieties were firm to slightly dearer. 220 chests of dust catechu met with an improved demand at around the last levels. Once again internal buyers were the only operators for this category.



Salt and shrimp producers and owners of processing industries met with Prime Minister Begum Khaleda Zia at Sugandha on Tuesday.

LUXEMBOURG, July 10: The scandal over the Luxembourg-based Bank of Credit and Commerce International (BCCI) will unjustly and fuel to the idea that the Duchy is a tax haven and money-laundering paradise, bankers say, reports AFP.

"Such criticism is inevitable," acknowledged Jean-Nicholas Schaus, Director of the Luxembourg Monetary Institute, the Duchy's Central Bank.

But in this case Luxembourg is in good company, he added, pointing to the fact that even the Bank of England had for years apparently had the wool pulled over its eyes by the BCCI.

In addition, the Luxembourg banking authorities had ordered the BCCI last year to move its headquarters to London by June 30, 1991, saying the Bank could not maintain Luxembourg as its base because only one per cent of its turnover was handled there, making effective control of its operations impossible.

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.

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

The 4th Annual General Meeting (AGM) of Eastland Insurance Co Ltd was held recently at the head office of the company at Dhaka with Mahbubur Rahman, Chairman of the company in the chair, says a press release.

The annual report and audited accounts for the year 1990 was approved in the meeting and the company declared 15 per cent dividend to its shareholders for the year 1990.

The company has increased its volume of business by 24 per cent in 1990 over the previous year and earned a net profit of Tk 1.27 crore against Tk 79.50 lakh in 1989, an increase of 60 per cent over the previous year.

Luxembourg's financial image tarnished by BCCI scandal

Manila adds: The Philippine central bank was Tuesday poised to suspend operations of the Manila office of the Bank of Credit and Commerce International, Ltd (BCCI) following a worldwide BCCI liquidity freeze.

In the light of developments abroad affecting the operations of BCCI, the central bank is taking appropriate steps to ensure that the interest of depositors and creditors of the Manila overseas banking unit are duly protected," a central bank statement said.

A central bank official said BCCI operations here would likely be suspended, adding that the steps being carried out were in conjunction with other bank regulatory authorities in Europe, the United States and the Cayman Islands. AP adds from London:

Britain's High Court on Tuesday moved up the hearing date for liquidation of the Bank of Credit and Commerce International SA, whose units were closed last week in about a dozen countries amid allegations of widespread fraud.

The accounting firm Touche Ross and Co, which the court appointed Friday as liquidator, said the Bank of England had petitioned the court to move up the hearing from October. The court set a hearing for July 22.

The Bank of England wasn't available immediately to elaborate or say whether its action was tied to talks held during the day between senior regulatory officials and representatives of the Abu Dhabi government. The government of Abu Dhabi and its ruler own 77 per cent of BCCI.

DCCI's plea to restore normalcy in BCCI

Star Economic Report

The Dhaka Chamber of Commerce and Industry (DCCI) has requested the central bank to take immediate steps to help restore normal bank-client relations in the branches of Bank of Credit and Commerce International (BCCI) in Bangladesh under whatever arrangements it is found convenient.

In a statement issued Wednesday, Mahbubur Rahman, President, DCCI said the Chamber would expect an immediate directive from Bangladesh Bank to this effect.

He expressed deep concern over the great dislocations caused to trade and industry following suspension of transactions at the branches of the BCCI in Bangladesh.

The DCCI understood, its President said, that the directive of Bangladesh Bank suspending the operations of the BCCI, followed a request from the UAE. The troubles over the operations of the BCCI in some other parts of the world are an unfortunate situation about which the DCCI was not any way competent to make any comment, he added.

Mahbubur Rahman noted

the suspension of the Bank's operations in Bangladesh had caused extreme difficulties for a good of its clients involved in export (including garments) and import and other economic activities. The depositors are also faced with extreme uncertainties. Operations, particularly, involving letters of credits in foreign trade, and credit facilities for running industrial units, are disrupted for the clients of the BCCI, he stated, adding this will have very adverse consequence for the overall economy.

The DCCI Chief also urged all concerned authorities to take into consideration on an urgent basis the situation, arising out of the prevailing situation in the BCCI. The country's banking, trade and industry sectors have come under strains because of linkage effects, in diverse ways, of most unwelcome developments in a very sensitive area, he pointed out.

Any prolonged suspension of the BCCI's operations will lead to further worsening developments, DCCI President warned.

Exchange Rates

July - 10

Taka has been depreciated by 1.95 per cent under the latest exchange rate adjustments in relation to its intervention currency, US Dollar, with effect from July 2.

The latest exchange rate adjustment makes Taka 36.37 (average of buying and selling rates) equal to one US Dollar as against Taka 35.68 on June 1.

SELLING AND BUYING RATES, offered by Commercial Banks, for Bank Cheques (BCs) and Overseas Drafts (ODs)	Buying	Selling
US Dollar	36.0226	36.1390
UK Pound Sterling	59.8438	59.1215
German Deutsche Mark	20.2727	19.9934
French Franc	5.9748	5.9930
Saudi Riyal	9.7974	9.6680
Dutch Guilder	18.0096	17.7587
Pakistan Rupee	1.4896	1.4755
(AMU)*		
Singapore Dollar	20.8462	20.5709
UAE Dirham	10.0053	9.8732
Kuwait Dinar		Not available
Indian Rupee		
AMU	1.4190	1.4055
S. Kroner	5.6023	5.5241

SECONDARY EXCHANGE MARKET

Wage Earners Fund/Export Performance Benefit (XPB) Fund	Buying	Selling
US Dollar	37.19	37.24
UK Pound	60.79	60.84
Saudi Riyal	9.95	10.00
UAE Dirham	10.16	10.21

* The rates of Pound Sterling are decided every day, based on the cross-rates of New York market
Source: Sonali Bank

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

HAILE (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 Reuters.

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-ever monthly jump in June, the main statistical office (GUS) said on Tuesday, reports Reuters.

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.

জাতিসংঘ মাদক বিরোধী দশক ১৯৯১-২০০০

মাদকদ্রব্যের অপব্যবহার
অবৈধ পাচার ও
মাদকের বিরুদ্ধে সামাজিক
আন্দোলন গড়ে তুলুন

জাতীয় উন্নতির জন্য
প্রয়োজন মাদকমুক্ত
পরিবার মাদকমুক্ত সমাজ
ও মাদকমুক্ত দেশ

মাদকদ্রব্যের অপব্যবহার
প্রতিরোধে আপনার অন্তরিক
সক্রিয় সহযোগিতা প্রয়োজন

মাদকদ্রব্য মুক্ত জাতি গঠনই আমাদের লক্ষ্য

মাদকদ্রব্য নিয়ন্ত্রণ অধিদপ্তর



The 9th meeting of the Board of Directors of Al-Baraka Bank Bangladesh Ltd was held Wednesday at its Head Office in Dhaka. Mahmoud J A Hassoubah, Chairman of the Board presided over the meeting.