

Tax Evasion: Need for Remodelling the System

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high side which is simply encouraging evasion. And from that point of view I would agree with the business sector point that reduction of the tax rates might help in expanding the tax pays in one hand and also ensuring tax compliance on the other. With these few comments I would like to thank the chairman once again.

SAMS Kibria: The last point first. I didn't understand what Mr. Sattar was talking about distortion. Taxes are distortion. Life itself is a distortion on the natural state of things. Human beings can survive only by subsisting on other life forms. So if you philosophise on that I don't know where you will end up. The state exists and in order to survive it has to tax. And that's the simplest fact on which the rest of the system has to be built. And this search for simplicity can be carried to the extreme. One can think of a system where for all offenses you cut off the head. Then it will be simple law. But I think simplicity can also promote injustice because you have to try to deal with different sets of people for different sets of circumstances. That is why complexities arise. Life cannot be ordered to be simple when life itself is so complex.

About a large tax payers unit, the name slightly amuses me because it should be a large business unit because the large tax payers unit may leave out some of the large business. So I hope it will not be only the large tax payers unit but large business will be included in it.

I think Mr. Cookson and also some others made some comments about income tax. Let me say very clearly that income tax is in my view or the indirect tax, is and should be, the main tax for the future. This is where we will concentrate our attention while not neglecting VAT and customs. But income tax is, as in the United States, the main source of income for the state. And in most other developed countries that's the main source of revenue for the state. So income tax is going to remain our main focus. Even though we are not getting a very large sum of revenue we will continue our effort.

I was very pleased to hear so many voices being raised about compulsory PSI. I think we should work on it and if the business community is unanimous on this there should be a positive decision on this question.

I am sure this thing about compulsory PSI and other advice on tax collection has been music to the ears of the Chairman of the NBR. This is his main or only pre-occupation these days. Let me say that apart from the NBR, a very substantial part of the government revenue is collected through other sources. There are the non-tax revenues and there also there is significant tax evasion, and the government is thinking of addressing those non-tax revenue sources. It was very nice to hear that the professional groups should be included in the tax net. The professional groups are very vocal at the slightest indication of touching them. They jump up

and my office is flooded by delegation after delegation. I hope in the coming days and months I will see less of these delegations. When professional groups are required to be included in the tax structure by consensus Mr. Mintoo was saying something very interesting. Now I think it was Mahfuz who said people are getting away by breaking the law. Of course we all know that a lot of people get away by breaking the law and that's why we have to strengthen the law enforcing agencies. But I hope Mahfuz will agree with me that not all people are getting away. Some people are appearing in courts which they never did in the past. I hope he will give me that credit that some people are being taken to the court for breaking the law.



A. Mueyed Chowdhury, Chairman of NBR: It was a very good session today because the key note paper presented by Mr. Moazzem Hossain and the other two papers presented by Mr. Noel and Dr. Cookson, have covered the tax evasion situation very elaborately.

I will give you just some figures on income tax because I tried to find out and recently got the figure that we have got a total of 677638 TIN holders in Bangladesh. Of them only 294226 file their tax returns. So that's just about one third. Of the total TIN holders only 33 per cent file their tax return and of them the number actually paying income tax are 280397. That means not a very large number but some of those who file tax returns, file zero tax returns.

The figures on the tax payments up to Taka 5000, those who pay income tax up to Taka 5000, is 211802. That means, of the 280 thousand, 211 thousand pay taxes of below 5000 Taka.

Those who pay up to 15,000 Taka, that number is only 31,929.

Source: National Board of Revenue (NBR)

Number of people	Amount of income tax paid Tk one million and above
411	up to Tk 250,000
1,860	up to Tk 100,000
3,584	up to Tk 50,000
12,265	up to Tk 15,000
31,929	up to Tk 5,000
211,802	

Those who pay up to 30,000 Taka is only, and that includes the others, is 12,265 persons or TIN holders because it also includes companies.

Up to 250,000 Taka only 1860. And above a million Taka only 411 in a country of 120 million people.

So that is the tax situation in Bangladesh.

Now, we have been talking about income tax, but basically, particularly for the salaried people, it is easy because as the present government servants are not paying taxes, they are deemed to have been paid at source. If the government decides then they will submit their returns and there they cannot hide because the salary has to be covered. But how far people will show their other incomes, I don't know. That's equally true of those who are working in companies. But so far their income tax and salaries are concerned it comes.

But people who are in the private sector, we do not know anything. For the salaried people we know how much salary they are earning, benefits their employers are giving, because in most cases, I would say, are on the table. But in the private sector, they are not entirely on the table in many cases. I am



not talking of the large companies or corporations. But I am aware that in the private sector, like for example in the insurance companies, they are paying a salary of 100,000 Taka but they are showing a salary of 30,000 Taka and the rest they are showing as commission given to fictitious numbers of huge numbers of agents. And that goes as salaries to the officials. This is reality. This is truth. If you ask me how I have come across it, I cannot disclose it. This is the position.

So, on the business side we need to come to income tax but only after we have been able to take care of the other taxes they are supposed to pay. Like VAT, customs duties.

I was telling Mr. Noel a little while ago that in his sector there are established factories producing soap. Now they do not themselves import the soap noodles which they use for their production. So its very difficult for my VAT people to find out how much they have imported and how much they are producing. What they are doing is taking advantage of the open import situation. They have set up their own importing firms, may be under different names and they are importing these and taking into their warehouse and producing. So it is very difficult to clearly identify the production level on which you can charge VAT. This is why we are thinking that in such cases we will restrict import. If I have

have the large tax payers unit, which we are in the process of setting up, the IMF representative is here and they are working with us on this. We have already started the process. The large tax payers unit purpose is basically to have large enterprises and companies under one administration for tax purposes. And our plan is to have all their imports recorded in the computer, all their VAT recorded in the computer, and then all their income tax clearly identified. So, in this system if we can link up imports, the indirect taxes and then lead to direct taxes it will be possible to enhance tax revenues.

But more importantly, I agree with the views given by the learned participants and discussants, is that tax evasion is taking place definitely because of lot of distortions in our tax rates and very high tax rates. Dr. Zaidi Sattar is here and he knows, he has previously worked as a consultant to NBR and now from the World Bank also, he is seeing that we have for the same HS code 3-4 different tax rates. And it is very difficult. Only yesterday I had a problem. As you know that we have made importation of agricultural equipment like power tiller duty-free and their spare parts also duty-free. Now, so far the power tiller is concerned there is no problem. But when it comes to the spare parts, now a piston ring is brought in slightly larger in diameter, it can be used in a baby taxi but for a power tiller you need a smaller diameter piston ring. Now how do you determine. Because when such a consignment comes it is very difficult for anyone to clearly identify. And when a large consignment comes, you to know. Because an importer brings in different types of rings and says that 60 per cent of these are for power tillers and 40 per cent of these are for other purposes. This is a serious situation. So, we have to use sometimes our discretion in determining.

The moment a tax collector at the port of entry has his discretion it can be played with to the advantage of the collector, to the advantage of the importer. And this is why I personally believe that there

should not be such discretion. We should have a clear policy. Like you see, we were importing MS sheets. Now, we have two rates. One for secondary and one for primary. And in Chittagong port say 30 tons of MS plates have been brought in by somebody and he says 60 per cent of those are secondary and 40 per cent are primary. It is very difficult. So, we have changed it into one. We said you bring whatever you want to bring. And my point is why should I allow somebody to bring secondary quality sheets and pay lesser duty and sell it to the consumers as primary product. We must also give protection to the consumers. So we have made one uniform rate. There were lot of agitation, applications were submitted but we haven't given in. So, it is sticking.

Similarly in other areas we are trying to bring about rationalisation of the duty structure, reduction as well as rationalisation. And I think if we can do this, then lot of tax evasions which are now taking place we will be able to overcome those because then there will not be any discretion with the tax collectors. That is very important.

On the income tax side, our thinking is, at least my thinking if I can get it approved is, that tax return files even now a self assessment file, it is subjected to an assessment by the tax officer and the tax officers frequently on very frivolous ground convert it into a regular return and try to make an assessment and in the process harass people. So, we are thinking that this year we will introduce a system where you file your return and that's final. Whatever tax you have paid is final. But we will go for a 10 to 15 per cent post audit and if somebody is found in the audit that he has not paid the tax properly then the recommendations of this seminar will be very strictly enforced.

About the PSI, I am glad that this roundtable has recommended mandatory, compulsory PSI because the people who had been talking to me about it know that personally I am absolutely determined to introduce mandatory PSI for various reasons. But our PSI, the scheme of things that I have

will be slightly different from what is generally done because our problem is also different. And one of the problem is that in our case we have fictitious LCs. Even if we have a genuine LC we have a fictitious party. And it so happens that a consignment comes in and then they go to the court, obtain some kind of an order, pay some interim duties and then the party vanishes. So I am settled with the case and no party to contest. So to avoid this we are thinking that one of the function of PSI that we would like them to discharge is establish the authenticity of the LC, establish the identity of the importer and then do the things at the other end so that it is all matched. There is no way for anyone to get out of it. And once we do that, we will of course retain our right because it will not entirely be given to the PSI. Customs will retain the rights to open the consignments and inspect. But you should not get alarmed because my scheme is that we will have a computer generated number everyday and the Commissioner can only inspect those numbers. Like if we determine that 20 or 10 per cent of the consignments will be checked then the identity of those consignments will be determined through the computer not by any individual. So, it will be I think fair because the computer can generate and identify the numbers and it will be checked.

So, these are the things we are now thinking for introduction. And the honourable Finance Minister was here and this is why he was repeatedly asking about PSI. I am sure that after today's session this will help me because, I am sure, he is also convinced that mandatory PSI needs to be introduced.

Since August, when I had taken over the NBR as many of you know, I am trying to bring about more accountability in the system, quick response because previously it was very difficult to get response out of NBR. I think many of you would agree that you are getting responses even though, not to your satisfaction always. But at least you do get a response from us now. For me it is becoming pro-

gressively more and more difficult to go to NBR myself because the WASA is making my life difficult and in the process it is difficult for you also to approach me. We are trying and I can assure you that some of the issues that you have raised, these are very, very pertinent issues, like incentive structure.

Talking of tax administration, reorganisation of tax administration is quite easy but I personally think that keeping the salary structure of the tax officials and the promotion system as it is, it will be very difficult to bring about any major change. The changes I am talking about are the functional changes. By law reducing the discretionary powers and trying to bring about more accountability, but that alone will not suffice. We have to definitely have to have incentive system which will also encourage them to spontaneously act honestly and fairly. And these are the issues that have been brought out today.

I will cite just one very simple example. Like I have superintendents of customs, excise and VAT at various locations. Now he is supposed to cover a small district area and he doesn't have a transport and all the units which are supposed to pay VAT, he can't even cover one everyday. And it is very difficult for him really to go and enforce. We need to increase his mobility but I don't have resources to provide the transport. I have been arguing with the Finance Division that they must give me more money in the budget because in return I will be able to give them more revenues. And your recommendations today would be of great help in my efforts to get something more for my colleagues in the department who need this for discharging their functions.

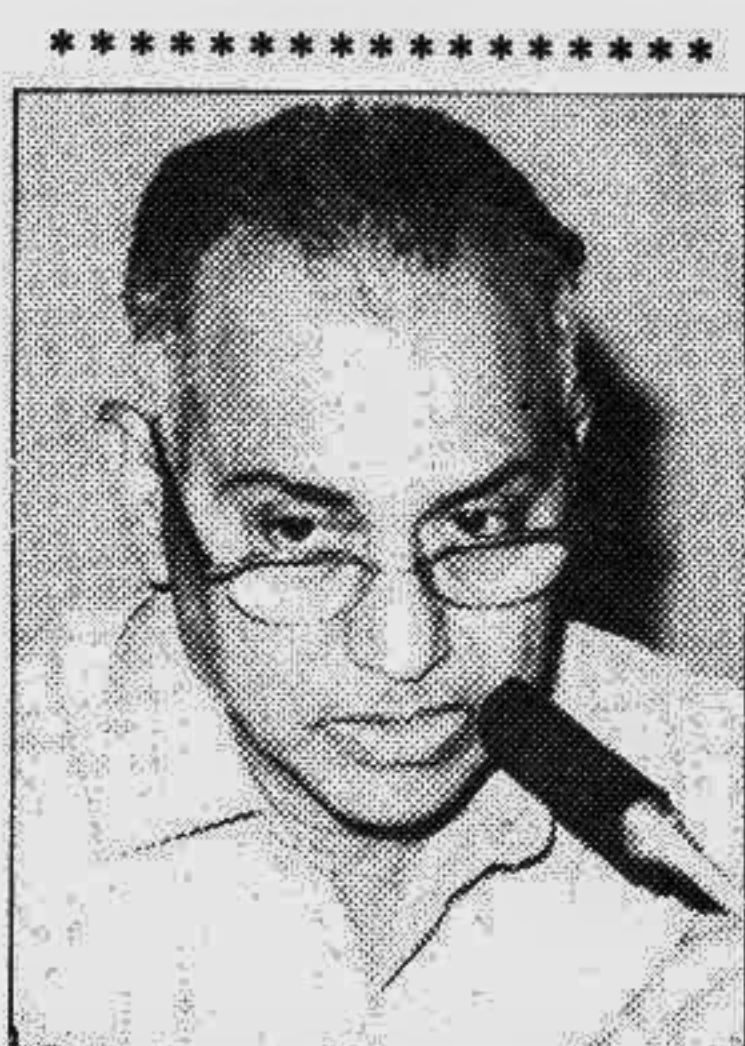
I think, basically this is all I wanted to say.

Somebody was mentioning, I think it was the President of the Federation. We are thinking. Right now it is very difficult to get the SROs issued by the NBR. Previously NBR was following a system that an SRO was issued in 1980 and then every year they would change. Clause A of section 2 is amended like this and then they would add something more. Its a maize. Its very difficult to get out of it. So, I have changed that system now. I say that whenever an SRO is to be changed it should be replaced by a new SRO so that you have in one place everything, all changes. You don't have to go through hundreds of pages.

I have started work to have a web site of all the SROs so that you can access it anytime. I am working on it because it involves translating a large number of SROs issued in Bangla. So, as soon as I have completed it I will start the process. My people are already working on this. Maybe we can introduce a system of having tax defaulters list on the web site so that people, banks and others can go and check. Even may be a foreign investor coming to Bangladesh can enter the web site and check whether this is the right person to go to business with. So, this is an idea I am carrying back. I will work on this and see if we can do something like this.

About what Mr. Mahfuz Anam has said about people getting away with tax default and using political clout. I must tell you that no political clout can get anyone through NBR anymore. This is absolutely clear. If anyone has a tax liability he will have to pay it. You know that we recently closed down two insurance companies and these are not owned by ordinary people, these are owned by very, very influential people and they had to come around and agree to pay the taxes. And the same thing we will do in other areas. We are doing in other areas as Mr. Noel pointed out very briefly. On this issue I would just like to say that recently, two three days back, in a Bangla newspaper there was a news item that I am under tremendous pressure from some very important person and I might resign. So, I was very surprised because this is a totally concocted story, nothing like this exists and I am not the resign-

ing type of person. So if anyone has any dream of my resigning then he is dreaming because I never resign. I never quit. And I can tell you that I am under no pressure from anyone. The Honourable Finance Minister is not here. I can only say that that I am almost continuously bombarding him with new proposals and till now nothing has come back from him unapproved. So this is the environment I am working in and I hope that by the time we are ready to prepare and go to the parliament with the new budget we will be able to give you lot more changes in various fields which will make economic activities, business definitely much more convenient in Bangladesh than before.



Kazi Aminul Huq, FCA, Senior Partner of Rahman Rahman Huq: Chartered Accounting firms audit a company's account based on facts presented. They have limits to what extent they can go. But by and large it can be said that the members of the FICCI do present reasonable details. Tax returns can and should be accepted based on certification by chartered accountants. Spot checks can be performed based on samples drawn by computers. Provision for appropriate punishment may be there for errors detected.

AKM Shamsuddin: We have come to the end of the session. It was a bit lengthy but lively. Your presence proves the importance of the subject. Some very good and constructive suggestions came out of the seminar. We hope the government will seriously consider those.

I am thankful to the finance minister first for suggesting to hold this seminar and then for staying with us for so long. This demonstrates his keen intention to reform the tax collection system. The chairman of NBR stayed with us all through. He also made very pertinent and useful comments. We are grateful to him.

The author of the keynote paper Mr. Moazzem Hossain deserves special thanks. He, at our request, worked very hard to write this paper which was praised by all today. The papers of Mr. John Noel and Dr. Forrest Cookson were brilliant additions, rich in contents too. Our thanks to all of them.

Dear discussants, hats off to you. You all were marvelous. I hope something meaningful would come out of today's deliberations.

Thanks to all of you dear participants. Khoda Hafez.

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