

Reforming taxes: A payer's perspective

Thought must be given to establishing an autonomous and professional Tax Service Authority (TSA). The TSA must hire competent professionals, should have automated record system, and must be oriented to provide service to the tax payer. The relationship should be one of client and service provider rather than based on threat and fear. A tax system based on voluntary tax compliance is the only hope for long-term progress with tax reform. The earlier the government recognizes this and establishes the environment for this, the better off are the tax payers and the prospects for enhanced tax revenues.

SAIDIQ AHMED

TAX revenue as a share of GDP in Bangladesh is amongst the lowest in the world. The tax ratio (tax revenue as a share of GDP) is a meager 9 percent in Bangladesh as compared with an average of 17 percent for countries with per capita income below \$1,000, 22 percent for countries with per capita income between \$1,000 and \$17,000, and 27 percent for countries with per capita income exceeding \$17,000.

Controlling for per capita income, cross country comparison suggests that Bangladesh, along with a few other countries, is at the bottom of the tax effort list. With its present per capita income, Bangladesh should be collecting at least 12-13 percent of GDP as tax revenues.

Broadly speaking, the tax ratio tends to rise as income grows, although this relationship does not always hold at very high per capita income levels. For example among OECD countries, Sweden obtains an astounding 50 percent of GDP as tax

revenues whereas US, with higher per capita income, obtains some 25 percent. This suggests that the tax ratio depends not only on per capita income but also on the readiness of citizens to let their governments partake a large part of their income for the use of the state. So, the search for an optimal tax ratio is futile. Rather, this is an exercise in political economy and the ratio will vary from country to country based on the political discourse between citizens and the state.

Nobody likes to pay taxes. History is full of examples of tax rebellion and tax related conflicts. What makes it possible for OECD countries like Sweden to collect some half of its GDP as taxes? Even at the lower end, countries like Japan and US collect a quarter of its GDP. Clearly, a part of the answer must lie in the willingness of citizens to pay. This in turn depends upon services provided by the state. But willingness is only one element. Even if I like the services provided by the state, I don't necessarily benefit in proportion to the taxes I pay. Fur-

thermore, since states tend to provide many "public goods" why not I let my neighbours pay and I can be a "free rider"? Thus, capacity to pay (per capita income), willingness to pay (services provided by the state) and incentive to pay (free rider problem) are all important factors in determining the tax outcome.

What can Bangladesh learn from the experience of OECD countries? Countries are different with different levels of per capita income and relevance to the Bangladesh case. Let's first start with the last point: the ease of tax filing. This is simply a reflection of the fact that income tax laws are pretty straight forward and simple for most citizens whose income sources are from wages and interest income from bank deposits and who are happy to take standard deductions. The tax filing gets a bit more involved as other sources of income, such as rental income or income from self employment are involved or when itemized deductions are sought. Even then, the process is relatively straightforward and filing is not a big hassle.

This illustrates two of the fundamental principles of a good tax system: transparency and simplicity. Tax system should be transparent so that informed tax payers understand how taxes are assessed and be simple enough for most tax payers to have the option to do their own filing. Of course, special provisions are there to handle complex cases including income from business, multiple sources of income, complicated itemized deductions, special treatments, etc. Tax accountants and tax lawyers typically handle those cases, but these provisions are not essential for most wage earners who can be regarded as ordinary tax payers.

The fact that I have never seen a tax official and yet always filed my tax return on time suggests another powerful characteristic of a good tax system: voluntary compliance with self assessment. An environment must be created whereby most citizens would voluntarily file their taxes on time. This is partly related to the first two principles of transparency and simplicity noted above. If I know my tax obligations and can file my tax return without any hassle or complicated filing process, my incentives to file taxes voluntarily increases manifold.

The most attractive feature of the US experience is that tax filing and related transactions do not require direct dealings between the tax payer and the tax authority unless there are problems. I file my taxes through the mail. I also send my payment through mail. If there is an over payment through withholding or other means, I have always gotten

back the amount owed to me by the Treasury without any follow up. This is a remarkably hassle-free aspect of the tax system which makes voluntary tax compliance so much more acceptable. It also has the powerful incentive that it eliminates any kind of tax fraud or avoidance through collusion with the tax official. The system cuts through this aspect of corruption directly at the source, which is a great feature in the context of the corruption-ridden environment of Bangladesh.

Self assessment and voluntary compliance are backed by a well crafted follow-up system to ensure proper compliance with tax laws. This is chiefly built on the principle of selective audits. The audits are done very carefully. This requires good record keeping and computerization of tax record. In this 21st century these requirements are quite easy to implement. In the US audits are done selectively (less than 2 percent of tax cases per year) but vigorously. Anybody familiar with the US tax system knows that penalties for tax fraud can be very severe and without exception. The legal cover against tax fraud and hundred percent implementation of legislated sanctions are essential ingredients of a tax system based on voluntary compliance and self assessment.

The tax authority needs to be empowered so that it can do its job without undue political influence. Many countries have found it useful to have an autonomous tax department. It also has to be adequately staffed and with the right kind of expertise. A

modern tax department cannot be run on the basis of civil service staff that transfer jobs frequently as a part of routine rotations. This needs to be run as a business with seasoned professional staff. Since the tax department has lots of power and can be a source of exploitation or fear, OECD countries have emphasized the concept of a "tax service authority" with the emphasis on service. The customers (tax payers) are treated as clients who need services of the tax department. The tax department staff are required to treat customers with respect and care when there is a need for interaction. However, most tax forms and publications are available electronically and direct interaction for these is not necessary. Tax forms and publications are routinely mailed to tax payers well ahead of time. These documents are also available in post offices, public libraries as well as in tax offices.

Third, a system of rigorous audits must be established. The audits should be highly selective but enforced with the full force of law and without exception. Finally, thought must be given to establishing an autonomous and professional Tax Service Authority (TSA). The TSA should hire competent professionals, should have automated record system, and must be oriented to provide service to the tax payer.

The relationship should be one of client and service provider rather than based on threat and fear. A tax system based on voluntary tax compliance is the only hope for long-term progress with tax reform. The earlier the government recognizes this and establishes the environment for this, the better off are the tax payers and the prospects for enhanced tax revenues.

The author is Sector Director Poverty Reduction, Economic Management, Finance and Private Sector Unit of the South Asia Region of the World Bank, Washington D.C. The views expressed in this piece are those of the author and not necessarily the views of the World Bank Group.

Islamabad becoming Taliban stronghold

The stage is being set for transforming Islamabad into a Taliban stronghold. When Musharraf exits -- which may be sooner rather than later -- he will leave a bitter legacy that will last for generations, all for a little more taste of power.

PERVEZ HOODBHAY

AFTER his ill-advised dismissal of the chief justice of Pakistan's supreme court ignited violent protest, President Pervez Musharraf may be banking on Islamic fanatics to create chaos in the nation's capital, Islamabad. Many suspect that an engineered bloodbath that leads to army intervention, and the declaration of a national emergency, could serve as a pretext to postpone the October 2007 elections. This could make way for Musharraf's dictatorial rule to continue into its eighth year -- and perhaps well beyond.

This perverse strategy sounds almost unbelievable. Musharraf, who George Bush describes as his "buddy," supports an "enlightened

moderate" version of Islam, and wears two close attempts on his life by religious extremists as a badge of honour. But his secret reliance upon the Taliban card -- one that he has been accused of playing for years -- is increasing as his authority weakens.

Signs of government-engineered chaos abound. In the heart of Islamabad, vigilante groups from a government-funded mosque, the Lal Masjid, roam the streets and bazaars, imposing Islamic morality and terrorizing citizens in full view of the police. Openly sympathetic to the Taliban and tribal militants fighting the Pakistan army, the two cleric brothers who head Lal Masjid, Maulana Abdul Aziz and Maulana Abdur Rashid Ghazi, have attracted a core of banned militant organisations around them. These include Jaish-e-

Muhammad, considered a pioneer of suicide bombings in the region.

The clerics openly defy the state. Since January 21, baton-wielding, burka-clad students of the Jamia Hafsa, the woman's Islamic university located next to the headquarters of Lal Masjid, have forcibly occupied a government building, the Children's Library. In one of their many forays outside the seminary, this burka brigade swooped upon a house that they claimed was a brothel, and kidnapped three women and a baby.

Male students from Islamabad's many madrasas are even more active in terrorising video-shop owners, whom they accuse of spreading pornography. Newspapers have carried pictures of grand bonfires made with seized cassettes and CDs. Most video stores in Islamabad have

now closed. Their owners duly repented after a fresh campaign on May 4 by militants blew up a dozen music and video stores, barbershops, and a girls' school in the North-West Frontier Province.

Astonishing patience has been shown by the Pakistani state, which on other occasions freely used air and artillery power to combat such challenges. Lal Masjid seems to operate with impunity -- no attempt has been made to cut off its electricity, gas, phone or website -- or even to shut down its illegal FM radio station. The chief negotiator appointed by Musharraf, Chaudhry Shujaat Hussain, described the burka brigade kidnappers as "our daughters," with whom negotiations would continue and against whom "no operation could be contemplated."

Clerics realise that the government wants to play ball. Their initial demand -- the rebuilding of eight illegally constructed mosques that had been knocked down by Islamabad's civic administration -- became a call for enforcement of Sharia law across

Pakistan. In a radio broadcast on April 12, the clerics issued a threat: "There will be suicide blasts in the nook and cranny of the country. We have weapons, grenades, and we are expert in manufacturing bombs. We are not afraid of death."

Lal Masjid's head cleric, a former student of my university in Islamabad, added the following chilling message for our women students:

"The government should abolish co-education. Quaid-e-Azam University has become a brothel. Its female professors and students roam in objectionable dresses. I think I will have to send my daughters of Jamia Hafsa to these immoral women. They will have to hide themselves in hijab, otherwise they will be punished according to Islam. Our female students have not issued the threat of throwing acid on the uncovered faces of women. However, such a threat could be used for creating the fear of Islam among sinful women. There is no harm in it. There are far more horrible punishments in the hereafter

for such women."

Indeed, on May 7, a female teacher in the QAU history department was physically assaulted in her office by a bearded, Taliban-looking man who screamed that he had instructions from Allah.

What's next? As Islamabad heads the way of Pakistan's tribal towns, the next targets will be girls' schools, internet cafes, bookshops, and shops selling western clothing, followed by purveyors of toilet paper, tampons, underwear, mannequins and other un-Islamic goods.

In a sense, the inevitable is coming to pass. Until a few years ago, Islamabad was a quiet, orderly, modern city no different from any other in Pakistan. Still earlier, it was largely the abode of Pakistan's elite and foreign diplomats. But the rapid transformation of its demography brought with it hundreds of mosques with multi-barreled audio cannons mounted on minarets, as well as scores of madrasas, illegally constructed in what used to be public parks and green areas. Now, tens of

thousands of their students with prayer caps dutifully chant the Qu'ran all day. In the evenings, they roam in packs through the city's streets and bazaars, gaping at store windows and lustfully ogling bare-faced women.

The stage is being set for trans-

forming Islamabad into a Taliban stronghold. When Musharraf exits -- which may be sooner rather than later -- he will leave a bitter legacy that will last for generations, all for a little more taste of power.

Courtesy: The Guardian

Who can contest?

The proposed amendment is all the more illogical in the case of NGO officials. There cannot be any earthly reason to think that participation of an NGO official in election after retirement or resignation (even when in service) will create any situation of clash of interest. The NGOs are working for eradication of poverty and for improvement of the standard of living of the poor. The same thing an NGO employee would be doing being in the government. There cannot be any clash of interest between the government and an NGO since both are working with the same end in view.

GIASUDDIN PATHAN

THE proposed amendments to the Representation of the People Order of 1972 and the Conduct of Election Rules, 1972 have triggered wide-spread discussions throughout the country. People of different professions and social strata have come up with comments and suggestions after critically examining the proposed provisions. We must encourage and welcome this awareness of the people regarding the value of their votes and their concern for an atmosphere wherein they can exercise their right of franchise freely and safely.

This is the heart of democracy. These are expected to offer good opportunities for the Election Commission to know the wills and expectations of the voters which is crucial for ensuring a free and fair election. We are sure that a highly experienced, honest, sincere and intelligent retired government officer of the highest rank, as the CEC, Dr. A.T.M. Shamsul Huda, will be able to choose successfully the prudent, pragmatic and useful ones out of these numerous comments and suggestions for deciding a correct course of action for fulfillment of his mission, i.e. presenting the nation with a really free and

fair election.

Most of the proposed amendments and provisions are really pragmatic and praiseworthy and are expected to play a useful role in the conduct of a free and fair election. I congratulate the EC for proposing these courageous steps. The purpose of the present article is to add something to the comments and suggestions already offered by many about the proposed provisions regarding participation of retired government officials and NGO employees in elections.

It has been proposed that Article 12 of the Representation of the People Order of 1972 would be amended to impose ban on government employees, employees of statutory bodies, members of armed forces and employees of NGOs (working with foreign donations) to contest in elections after retirement or resignation from service. In that case it has also to be considered whether such a provision in the Representation of the People Order will be contrary to the constitution or not.

It appears that the EC is proposing this amendment on the presumption that all employees of government, statutory bodies, and NGOs are corrupt, and start taking preparatory actions for contesting in elections immediately after retirement or resignation from service. It has been said that participation of employees of government statutory bodies, NGOs (working with foreign donations), and members of armed forces in elections immediately after retirement or resignation from service would create situations of clash of interest.

First of all, I think, this observation of the EC that participation of employ-

ees in election just after retirement or resignation would create situation of clash of interest is not clear to most of us. How this will create clash of interest needs to be clarified. It appears to be an unfounded imagination of the EC. If the persons concerned are sincere in their intention, i.e. serving the people, there cannot be any question of clash of interest.

Moreover, the constitution has imposed restrictions only on the persons in profitable positions of the republic to participate in elections. There is no constitutional restrictions on such persons to contest in elections after retirement or resignation from profitable positions (service). In that case it has also to be considered whether such a provision in the Representation of the People Order will be contrary to the constitution or not.

The proposed amendment is all the more illogical in the case of NGO officials. There cannot be any earthly reason to think that participation of an NGO official in election after retirement or resignation (even when in service) will create any situation of clash of interest. The NGOs are working

for eradication of poverty and for improvement of the standard of living of the poor. The same thing an NGO employee would be doing in the government. There cannot be any clash of interest between the government and an NGO since both are working with the same end in view.

Foreign donations procured by the NGOs from foreign governments or from foreign philanthropic organizations cannot be treated as government funds. It is not the government who brings these funds for the NGOs; the government or the NGO Affairs Bureau does not even play any facilitating role in arranging foreign donations for the NGOs. It is the NGOs themselves who contact the foreign donors, submit project proposals to them and convince them to provide donations for implementation of such project activities. The foreign donors after being convinced about the activities and capability of the concerned NGOs and after being satisfied about the usefulness of the activities proposed in the project proposal for eradication of poverty or human resource development provide the donations.

An NGO as again to obtain prior approval of the government (NGO Affairs Bureau) to receive foreign donations committed by the donors. For this purpose the NGO has to submit project proposal to the NGO Affairs Bureau declaring the amount of foreign donations receivable, the particulars of the donors and describing the activities to be implemented therewith.

The project proposals are examined by the concerned ministries of the government in addition to the NGO Affairs Bureau. After being satisfied that the activities proposed in the project proposal are necessary for the area and

the target people and are in conformity with the overall development objectives of the government, the government approves the project and the NGO Affairs Bureau gives permission in writing to the NGO to receive the foreign donation.

The NGO has to utilize the foreign donations only for implementing the activities mentioned in the government approved project, not a single farthing is allowed to be spent for any other purpose. Even for any minor change in the project which may be necessitated by circumstances during implementation, the NGO has to obtain approval of the NGO Affairs Bureau. The NGO has to obtain government approval even for utilization of the bank interest earned on the foreign donations for implementation of any minor extended activity under the project.

An NGO working with foreign donations procured by itself with government clearance has also to submit annual audit report to the NGO Affairs Bureau by getting implementation of project activities and utilization of foreign donations for implementation of socio-economic development activities.

These are very good NGOs in the country who are really dedicated and committed and have been working devotedly for eradication of poverty by empowering the poor. These NGOs strongly and rightly believe that establishment of democracy and good governance is a prequisite for eradication of poverty. Employees of these NGOs are real friends of the poor. So why should we bar them from contesting in elections and be in the government to try to establish a pro-poor government. Barring NGO employees from contesting in elections by amending law will be improper, unconstitutional, and would make the present dearth of honest, patriotic and capable people in politics more acute.

So I would like to suggest that the employees of the NGOs against which there is no allegation of misuse of foreign donations should not be

Giasuddin Pathan is a former Director General, NGO Affairs Bureau.