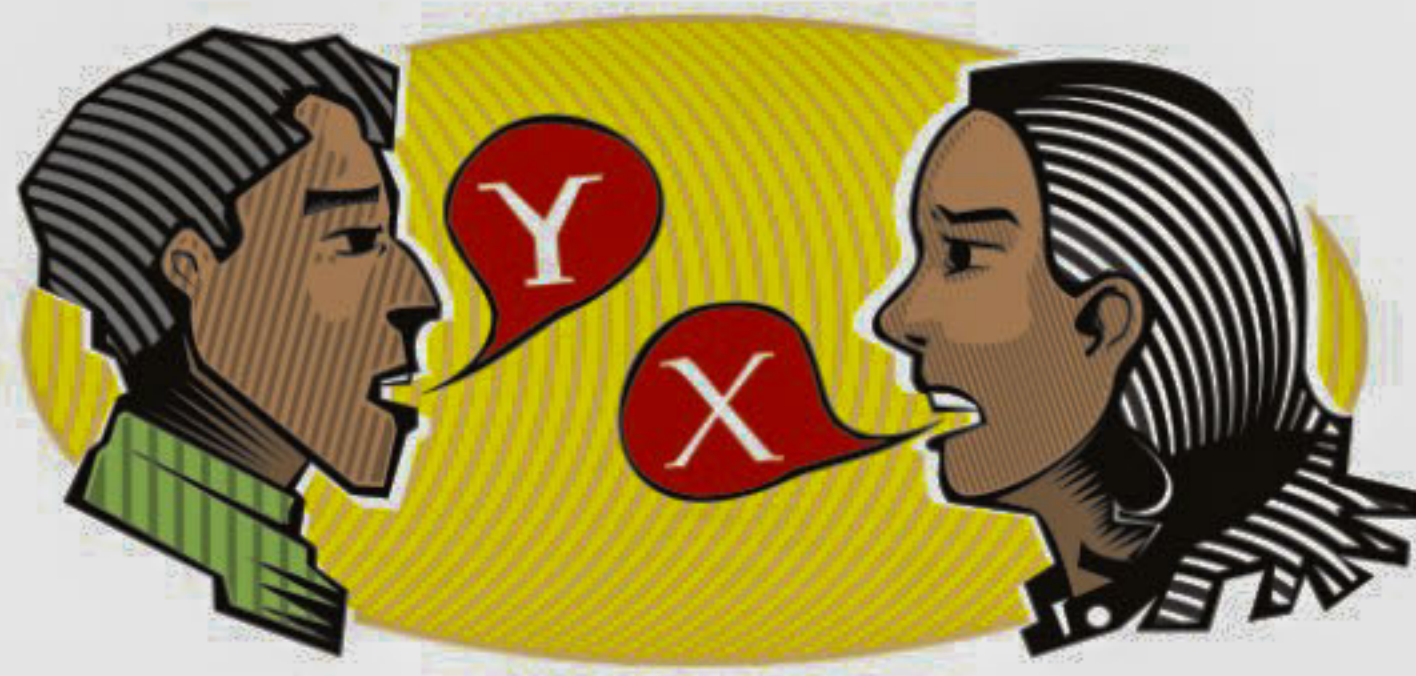


Open for



Debate

DHAKA, WEDNESDAY, MAY 11, 2011, E-MAIL: business@thedailystar.net

To tax property, or not to. That's the question.

The Daily Star caught up with National Board of Revenue Member Aminur Rahman, Bangladesh Institute of Development Studies Director General Mustafa K Mujeri and businessman Abdul Haque in separate interviews to hear their views on the proposed taxes on property. The government's plan to introduce property taxes to discipline 'bubbling' property markets and generate revenue has evoked mix reactions.

Property tax rate must be rational, tolerable

MD FAZLUR RAHMAN

THE government should not worry about any potential opposition to its plan of introducing property taxes, said Mustafa K Mujeri, director general of Bangladesh Institute of Development Studies (BIDS).

"There may be some teething problems in levying such taxes. The tax rate, however, should be rational and tolerable," he said.

He said the concept of property tax is nothing new in Bangladesh. "We had tax on property after the country gained independence. In the 1980s, we had to cancel it because administrative and operational costs to collect the tax mainly surpassed revenue generation."

However, things are different today, said the former chief economist of the central bank.

"The value of property has gone up sharply. The income gap has increased. We hope revenue generation from the area will go up this time."

He however urged National Board of Revenue (NBR) to draw up a comparison between the costs to operate the system and the revenue generated from it.

Mujeri said if any sort of a discriminatory system prevails in the society due to the ownership structure of property, then levying the property taxes is justified. "This is same for income tax -- people who are earning more are paying more."

He said inequality within society, in cases of income and property, is widening fast.

"The Household Income and Expenditure Survey (HIES) shows that such a gap in the case of income is widening very fast."

"Similarly, inequalities in wealth and property are also increasing very fast. Although it is tough to quantify, from anecdotal evidence, we can say that it is increasing."

"If we cannot narrow this gap, we will not be able to achieve our various social targets, such as poverty alleviation, as quickly as we want. Similarly, property tax could play an important role in reducing such differences."

Mujeri said administering property tax could be a key challenge for NBR. "We already face problems in cor-

rectly making an assessment of one's true income. There are incidents of tax evasion and a tendency among the tax payers to show income less than what they actually earn."

He said NBR could also face difficulties if it introduces property taxes across the country. "Too much expansion could pressurise NBR due to capacity constraints. It should move stage by stage, which will be helpful for it to operationalise."

The economist said NBR could start with the metropolitan areas. "As we gain experience, we will expand to other parts of the country."

Mujeri said NBR could start by fixing property taxes on the basis of the income tax statement. "But the figure

should not be a final assessment, as the properties mentioned in the statement could be undervalued."

"We need to make the assessment as scientific and reliable as possible. The valuation of property should be done from time to time."

He said people should not complain about paying nominal taxes, as property prices are rocketing."

He said there are redistributive elements to these types of taxes, which could be used as fiscal weapons to reduce inequality in society.

Mujeri admits that the owners of property, buildings or flats could shift the direct tax onto tenants, taking advantage of the imperfections in the property market.

"If the country's property market operates properly, then owners will not be able to pass on the additional taxes

onto tenants. No one can pass direct taxes onto others. But as long as there are imperfections in the market, this type of a problem will surface. But we must first let it go."

Mujeri urged NBR to bring all taxable persons under the tax net, particularly those who are eligible to pay taxes.

He said people need to pay taxes, as the tax-GDP (gross domestic product) ratio is too low in Bangladesh, compared to many other neighbouring countries.

"Our tax-GDP ratio is below 10 percent, while countries like Nepal have a ratio of about 13 to 14 percent. If they can do, we can too."

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Mustafa K Mujeri

An answer to curbing wealth disparities

MD FAZLUR RAHMAN

THE government plans to introduce property taxes from the upcoming fiscal year to collect more resources from internal sources in efforts to bridge the fast widening gap between the rich and the poor, said a top official of National Board of Revenue (NBR).

Aminur Rahman, member of income tax policy of NBR, said the tax administrator has asked the government collect taxes on property from 2011-12 across the country, on the basis of the income tax of a taxpayer.

"We are talking with the stakeholders on the issue." He said many recent studies have indicated that the gap between the rich and the poor is widening in Bangladesh, and the wealthy should pay more taxes to wipe out inequality.

Rahman said they proposed that the government amend the income tax law to introduce property taxes. "Everything now depends on the government. If the proposal is accepted, we will be able to introduce the system in the upcoming fiscal year."

In the first year, NBR will fix the rate, possibly at 10 percent, on the basis of the taxpayers' income tax, so that people can start in a simple manner, he said.

He said NBR plans to realise property taxes on the basis of the income tax statement, as authorities are not still ready to go for international property taxation systems that require property valuations.

NBR has not yet set any benchmark to calculate property taxes. Rahman said if the price of a single unit of property goes beyond Tk 50 lakh, it could be brought under the plan.

He said taxpayers have to be educated on the issue before introducing it in full swing, possibly from 2012-13.

The property tax rate in later years could be 2 percent, which would be based on valuation, said Rahman.

"There is a need to educate the taxpayers on when and how they will pay the tax. We need to prepare separate returns and it also requires setup."

He said there are complexities in the country's land and building record system that need to be improved for full and effective implementation of property taxes.

"Things have become more complicated after realtors began operations. Besides, property ownership patterns in the country have also created problems, where an individual uses property although there is more than one owner."

"We also need law."

Rahman said the planned property taxes would be applied across the country. It will however have little effect on the rural population due to the minimum threshold, as the amount of people holding land is



Aminur Rahman

low and the price of agriculture land is also low.

He said wage-earners who have land and property in Bangladesh but stay abroad could also get exemption, as they do not have income sources back home.

Rahman however opposes any exemption. "It gives discretionary powers to enforcers to include or exclude potential taxpayers, resulting in complexities in the law and the process becomes non-transparent."

"We should keep the rate low and make the laws simply, to weather off any doubt among people," he said.

NBR would set up its own valuation unit to fix the prices of the property, he added.

Rahman said NBR would initially not face any problems in introducing property taxes. "But when we start to do things in conventional ways, we need to be better prepared."

He said NBR would also set up a unit for property valuation to practice international property taxation systems and reduce incidents of hassles, if any.

He said: "This type of a tax is important to help the government meet various expenses to safeguard one's property."

Rahman said NBR also implementing an online income tax filing system to give the taxpayers hassle-free, simple and an easy experience of paying taxes.

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Don't jump to conclusions on property taxes

MD FAZLUR RAHMAN

THE government should sit with all the stakeholders to discuss the planned property tax and study the experiences of other countries instead of jumping to conclusions, said Abdul Haque, a top business leader.

"The objectives will not be achieved by just imposing taxes on property. There are many other issues that have to be thoroughly discussed, evaluated and settled," he said.

"This tax could be used to create national wealth, curb black money, protect land from grabbers and ensure the best use of scarce land."

He said land reforms are a must for the government to successfully implement the planned property tax.

Haque fears if it is not used appropriately and if there is a drift away from its real objective, then it could be a tax burden on the taxpayers, which will discourage the obliging taxpayers.

He said the tax on the cards should be used to discipline the country's largely unregulated land market. "Otherwise, it will be of no

benefit."

The former president of Japan-Bangladesh Chamber of Commerce and Industry also said: "We have to formulate strategies where buying land will not be a profitable investment. Then people would invest in productive sectors."

"Otherwise, it will be misused and pave the way for bribery," said Haque, also a director of Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).

The businessman said NBR should evaluate property tax policies in force in other countries to make the move more effective.

"There is no need to rush to it. We should make it as effective as possible."

Haque is also aware of the need for such taxation. "Capital is rushing to land, in both urban and rural areas, in an absence of strategies to build national capital."

"A large portion of people are losing land day-by-day as they are selling property off in view of making gains. On the other hand, it is creating unproductive investment. Inflationary effects are also there due to this sort of investment."

"People are buying land but they are not

using it. As a result, this type of investment is neither generating any employment nor contributing to creating wealth," said Haque, also the managing director of Haq's Bay Automobiles.

He said there should be a thoughtful tax proposal in respect to acquiring land, possessing land, real estate and also inheriting land and property.

Haque urged NBR to study the experience of other countries so that the tax is not abused. "It has to be ensured that it is not a tool for extortion or corruption."

"It cannot give a licence to government officials to extort money. If that is the case, it will not sustain."

"Therefore, it should be thoroughly studied, carefully drafted, and implemented properly so that the objectives of creation of wealth is there and visible."

He also said the proposed limit of Tk 50 lakh for exemption is nothing in the current market. "Today, a small flat costs Tk 50 lakh. I do not think it is thoughtful."

He however did not suggest any figure.

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Abdul Haque

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