A recipe for wider tax net

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BANGLADESH has already stepped into fifties of its age as an independent country and is currently being considered as one of the emerging economies in Asia with a prospect to be ranked as one of the middle income group members. But very surprisingly, the tax-GDP ratio in Bangladesh is quite low registering less than 10 percent. In spite of various measures taken by the National Board of Revenue (NBR) from time to time in the recent past, the tax net has not widened as expected. There are about 28.5 lakh TIN (taxpayer's identification number) holders out of which only 9.73 lakh file tax returns covering all categories.

Recently, the tax department has been reorganised expanding its administrative jurisdictions. However, such an effort may not be sufficient to bring 18.77 lakh TIN holders into the tax net. Further, activity of the tax administration is practically limited to major towns of the country. Vigorous survey work can be conducted in the urban areas to locate new taxpayers. Small towns and growth centres in rural areas should also be surveyed for identifying potential taxpayers. This has become more relevant in view of significant expansion of the taxes department this year.

Fixation of tax rates, among others, is a very important factor for creating a tax friendly environment. Since long, there has been a demand from business community for reduction of corporate tax rate.

In view of the foregoing data, there is no logical argument to support 37.5 percent tax rates apart from further increased rates for banks, non-bank financial institutions and telecom sectors. It is important to note that lower corporate tax rate is one of the prime attractions for foreign direct investment (FDI). Mere cheap labour may not be enough to attract FDI. Further, in reality, the corporate entities, especially the foreign companies and local genuine taxpayers, also suffer from undue add back and disallowances due to arbitrary assessments. Some of these are not virtually challenged because of long legal process and hassle and ultimately, the effective tax rates go up further. Taking all these points into considerations, the corporate tax rate should not be fixed at more than 30 percent for fiscal 2012-13 and gradually bringing down to and around 25 percent. However, corporate tax rate in general has not been reduced. It has been a demand from genuine taxpayers for long. The concept is that the corporate tax rate will be lower with wider tax base covering more companies for reasonable tax payments and more coverage of potential taxpayers in the tax net. This step will obviously increase collection of revenue and will encourage local small and emerging large companies to pay taxes with lesser burden. In essence, it will widen the tax net.

CORPORATE TAX RATES IN THE REGION

India	Sri Lanka	China	Korea
32.44%	28%	25%	24.2%
Malaysia	Philippines	Singapore	Vietnam
25%	30%	17%	25%
Indonesia	Hong Kong	Thailand	Taiwan
25%	16.5%	23%	17%

HIGHEST INDIVIDUAL TAX RATES IN THE REGION

India	Sri Lanka	China	Korea
30%	24%	45%	39%
Malaysia	Philippines	Singapore	Vietnam
26%	32%	20%	35%
Indonesia	Hong Kong	Thailand	Taiwan
30%	17%	37%	40%

On the other hand, individual tax rates also need special review for revision.

It is understood that Bangladesh is aspiring to be included in the mid-income category country and can easily be compared with India, Vietnam, Indonesia and the Philippines. It is important to mention that social benefits such as health insurance, unemployment benefits and utilities services are not adequate from the public sector and these factors deserve special consideration. It may also be noted here that income level of a section of a community has gone up remarkably apart from an increase in the overall per capita income in recent years. The highest individual tax rate can be revised to 30 percent and minimum income for tax threshold can be fixed at Tk 250,000 considering current income and price level. Further, perquisites, house rent allowance, conveyance also need to be adjusted accordingly and revised for providing benefits to lower level income earners and taxpayers.

Whitening black money is a widely discussed and debatable issue in Bangladesh for last many years since it was enacted. A plain reading from tax point of view indicates that money that was not shown in the tax return can be termed as black money. A close look into this issue reveals that there are two types of black money: a) money earned through legal means but kept outside tax return; and b) Money earned through illegal means and not shown in tax return including money kept in anonymous bank account(s). The government has been allowing people to whiten black money by paying a concessional tax for last many years. This is, in no way, a long term solution but for the sake of industrialisation and to satisfy the pressure groups, such extraordinary benefits are granted. As a result of this step, the genuine taxpayers are being discouraged to pay tax at higher rate apart from the ethical issue. Anyway, money earned legally but kept outside the tax returns is less harmful than money earned through illegal means and kept outside the tax net. Many a times, these benefits were available but after so many years, why this kind of undue benefits should be resorted to. Policy should be more stringent on this kind of undue benefit to discourage tax evaders and encourage genuine taxpayers. It will not be out of turn if the tax evaders are dealt with in different manner.

Worldwide the tax returns are considered as reliable documents for assets and liabilities. But unfortunately, in our country, in many cases, real statement of assets and liabilities are far from the one submitted with tax returns. The difference needs to be minimised if not completely eliminated. A new law should be enacted to confiscate assets or property not shown. Alternatively, tax at 80 percent can be charged on value of assets including bank balances and assets so identified. The value of the immovable assets can be ascertained based on the ruling market value of such assets. The assistance of the independent professionals can be taken to get fair value of the properties. This step will help government to earn huge revenue and gradually will ensure transparency in tax filings and payments.

The transport sector is a very important in our country but from tax point of view, not a very promising one. An argument is always placed that if tax is increased, the fare will also increase and common people will also suffer. In reality, common people are already suffering from higher fare even after imposition of lower tax. In fact, the main cost for running the commercial vehicle is not the tax -- fuel, maintenance including cost of spares and tyres, salary, etc are the main costs apart from hidden cost like tolls. It may be noted here that tax is imposed on income, not the charge on gross revenue but this concept is not working well. Currently, commercial vehicles plying for hire are being taxed on presumptive tax system causing substantial revenue leakage.

The transport sector should be brought under the normal process of tax assessment. Highest tax for buses (luxury AC buses) at Tk 20,000 now should be at least Tk 100,000. Alternatively, a daily rate of levy can be fixed ranging from Tk 200 to Tk 500 per day depending on nature of vehicles. It may be very difficult to monitor by limited staff of the tax department but may be monitored through computerised account systems maintained with commercial banks and finally scrutinised by transport authority at the time of renewal of route permits and crossed checked by tax department through tax return and supporting documents.

Capital gain on transfer of properties is another important area, especially in city corporations. In fact, when a piece of land was allotted to any persons at heavily concessional rate, it was given for his living. But when such properties are sold or transferred at market price for commercial purposes, the country should share this benefit. Based on this concept, at least capital gain at 25 percent on value realised or market value of the properties including signing money less cost paid to Rajuk should be imposed.

Now, few points on tax exemption and reduction can be discussed. The new scheme of tax holiday applicable for the period from July 1, 2011 to June 30, 2013 allows tax holiday to industrial undertakings and infrastructure facilities but does not include tourist industries. In all previous schemes of tax holiday, tourist industries were included. Excluding tourist industries from tax holiday may bring some insignificant revenue gain but it may discourage development of tourism industry in the country. That will have a more significant negative impact on the economy as a whole, especially for employment generation and foreign exchange earnings. Therefore, tax holiday facility may again be extended to tourist industries.

The maximum limit of tax-exempted house rent is Tk. 15,000. This amount is unrealistically low. The amount may be raised reasonably to Tk 25,000.

The maximum amount of allowable perquisite for an employer in respect of any employee is Tk 250,000 at present. This is unrealistically low and may be increased at least to Tk 400,000.

Since there is no government sponsored insurance and health management plan, some incentives in the form of tax-free instruments such savings certificates and bonds should be issued to retired and aged people having limited income source.

Enforcement should be made more effective and rational without causing undue harassment to taxpayers. Further reforms are needed in tax administration for this purpose. More monitoring of assessing officers by higher authorities should be there and exercising of discretionary power of the assessing officers should not be used for personal benefits or unnecessary harassment of the taxpayers.

There is a widespread complain that genuine tax payers suffers more and face more challenges than tax evaders or willful tax defaulters. This issue needs to be addressed after a thorough study and research.

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NEWSWEEK SPECIAL

Teatulia that transforms a community

Alice Feiring

TO transform the parched, arid Bangladeshi soil into a lush organic tea garden took dung. Tons of it. How to acquire the massive amounts needed was the sticky problem facing Kazi Anis Ahmed, the 41-year-old cofounder and president of Teatulia. After all, it was not exactly part of the doctoral thesis in comparative literature that he had completed at New York University.

The story of Teatulia, the only organic tea garden in Bangladesh, started in 2000. Ahmed's father, Kazi Shahid, was preparing for his three sons to join the family business Gemcon Group, which at the time was focused on media and construction. It was Kazi Shahid who came up with the idea of expanding into tea in the northwest of the country, a mere 97 kilometres from India's famed Darjeeling tea region. The little-known fact is that Bangladesh is one of the world's 10 largest tea-growing locations. But with no international reputation, all the tea is consumed within the country's borders -- and almost all the tea is grown in the east.

Ahmed loved the concept, though when he moved home after graduate school to run the company in 2004, his caveat was that the farming had to be organic. "At the time we started the garden," he says, "no one took organic seriously. They said it was impossible. The traditional tea experts of Bangladesh told us tea in the northwest would not be quality."

Still, the family only needed to produce adequate tea, as their major mission was to provide jobs to the region. They were convinced they could make it work. Purchasing 1,215 hectares of desert-like land in Tetulia (the tea's name is a nod to the region), on the wrong side of the country for tea, where annual income per family is a mere $800 and there is a constant threat of seasonal famine, they started the Kazi & Kazi Tea Estate. They circumvented the lack of regional tea expertise by bringing in consultants to train staff and farmers, with an eye toward self-reliance.

The lack of agricultural tradition proved a blessing because the land was virginal, not ravaged by the government-supported, synthetic-fertiliser-dominated "Green Revolution." After reading the poetic One Straw Revolution by the master Japanese farmer, Masanobu Fukuoka, Ahmed went one step beyond organic and tried to do low-intervention farming. The tea garden functions on minimal irrigation. They installed a plethora of plants next to the tea plants to feed and aerate the soil. What now exists is a breathtaking vision. The barren area has been transformed into an Eden with a resurgence of wildlife never seen before -- recently, a pair of monkeys was spotted. The animals had not been seen in the area for decades.

TEATULIA

The Teatulia tea plantation has transformed a once-barren land into a lush garden paradise.

"The garden, which supplies 100 percent of the tea and infusion production, has over 250 kinds of plants, many rare, and all indigenous," Ahmed explains. All are planted for their usefulness -- the neem double as shade trees and natural pesticides, for instance, and are made into medicinal teas. Ginger, peppermint, and lemongrass are cultivated for the herbal infusions.

The main ingredient needed for this metamorphosis was cow poop: 200 metric tons a month of it. So they needed quite a few cows. And that's where the story of Teatulia's transformation gets even more interesting.

Initially, the estate cared for its own bovines. But as each year brought another 40.5 hectares into production, the herd swelled to 600 animals. The situation became overbearing. "We didn't want to be a dairy -- that wasn't where our expertise was," Ahmed says.

In addition to cows, the family also nurtured the community. Already established at the tea estate were centres for language and computer literary, parks for kids. "As nice as all of this was to do," Ahmed says, "here was an opportunity to engage in a deeper way."

"I always believed that enterprise, not charity, was the real driver of growth. I had this continuous thought, that if we could solve the problems of the land, of the fertiliser, we could solve the problems for many people."

The solution Ahmed came up with: to let the neighbouring villagers care for the cows. In 2005 they formed a cow co-op. The plan was to let it be run by the women. The estate would loan them an animal. In two years, after 1 litre of milk and a certain amount of cow dung a day, the members paid back their debt and were free to use whatever revenue was generated by the cow for themselves. "Almost 99 percent of the members have re-enrolled to take more cows. Some are on their third or fourth cow," Ahmed says.

As it turns out, a cow in rural Bangladesh can change a life. With around 1,400 cows to date, and with the area looking forward to 3,000 in the next two years, many futures have been impacted. Families have pulled themselves out of poverty. It is reported that a woman named Fahima has even managed to use the revenue from cows to outfit her dirt-floored hut with real floors, solar power, a good kitchen, and plumbing. Her brood has grown to four cows; her husband quit his job and went to work for her.

Teatulia's success was laudable, but its next challenge was to sell the tea outside of Bangladesh. The company took the traditional route of going to tea fairs. "So we thought, Now we had great tea, single garden, organic. Everyone would want it. But then we couldn't sell the damn thing," Ahmed says. They were offered about $2 a kilo -- half of the rate for organic teas grown elsewhere. "We could not have broken even, let alone made any profit."

The family hadn't worked so hard just to admit defeat. And the tea was more than just adequate -- it turned out to be quite good. "In Darjeeling, the tea is delicate. Here in Tetulia, the leaf gives a more robust taste," Ahmed says. The family decided to take their tea on the road. Their first success was at Harrod's in London. Based on that confidence-booster, they then approached the American market.

In 2009, with American co-founder and CEO Linda Appel Lipsius, the tea for the American market was christened Teatulia, after its homeland. Lipsius helped to arrange the organic packaging from top to bottom, including corn silk bags and water-based ink for the packaging. ("People are even more intimidated by tea than wine," Lipsius says.)

Lipsius has cracked into 100 Whole Foods nationwide, as well as many high-end spas and restaurants. The strong flavors also attracted some mixologists, like the ones at New York City's Rouge Tomate. The taste is as compelling as the story, and US sales have doubled every year. "We expect 2012 United States sales at 2.5 million. With a very premium product, 16 tea bags for $9.99 -- in this economy, that's not bad," says Lipsius.

The family is just now accelerating, taking the tea global -- next stop Japan and the Mideast. But the main work at home continues against adversity. Just this past March, the estate was attacked by hundreds of land-grabbers, looking to pirate the sedimentary stone beneath the garden. Two hectares of tea plants were damaged, bones were broken, and a handful of people were jailed.

Still, despite the challenges, Ahmed prefers to concentrate on the future. "I've heard that two other tea companies are now planning to go organic. Some have started to farm organic vegetables. Today, organic -- once a puzzling new term for most in Bangladesh -- is well understood."

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