

## Anti-quota campaigners under BCL cosh!

### Imperious impunity

SEVERAL leaders of the platform demanding civil service quota reform were allegedly set upon by the members of the BCL while they were about to address a press conference regarding the issue on June 30. And this was not for the first time that students ventilating their grievances collectively have suffered the wrath of the BCL activists. Predictably, the matter was denied by the BCL central leaders claiming that no BCL activists were involved in the violence. The explanations they offered do not hold water and the pictures say otherwise.

The behaviour of the Chhatra League activists, particularly on the campus of the country's highest seat of learning, provokes one to ask a few fundamental questions. Firstly, don't the students have the right to air their demands or the liberty to dissent? Secondly, who has given the right to an appendage of the ruling party to stifle the students' demand by force? There have been similar instances in the past where AL appendages were seen trying to chastise opposition dissent behaving as another arm of law enforcement.

We have commented many times before about the unbridled behaviour of the BCL activists, not only in DU but also in several other educational institutions. Regrettably, the central leadership of the party has not moved strongly enough to restrain these elements. Despite the PM expressing annoyance in the past, the situation has not changed. The responsibility of maintaining law and order or addressing students' demands is that of the University administration. We would hope that they would not allow their responsibilities to be outsourced to any student organisation.

## A novel way of extortion!

### Stop abuse of animals

THE use of an elephant to stop vehicles on the Gazipur-Pubail road to collect extortion money, as can be seen in a photograph published by this newspaper yesterday, although not uncommon in our country, should raise a number of questions. Questions that mostly concern animal rights.

As mentioned, extortion using elephants has happened before even in Dhaka city. These animals have often been used to collect illegal toll from motorists and locals in cities, towns and on highways in the past. The method is quite simple. The mahout stops it in front of a vehicle, and the elephant's intimidating presence does the rest, even though such intimidatory tactics are in clear violation of the law of the land. But besides robbing people through extortion, those using elephants to commit robbery in this way are abusing the elephants as well. And this is also a matter that should concern the authorities.

After all, aren't the authorities responsible for taking care of the wildlife and animals in our country? Shouldn't these animals be taken into government sanctuaries, instead of being exploited like this by these extortionists? Then why don't the authorities take any action against the mahouts and stop the exploitation of these animals? It is not as if spotting an elephant is difficult, even for the authorities.

We urge the authorities to take the matter of animal rights seriously and we hope that they will bring an end to the exploitation of elephants to coerce the people to pay.

## LETTERS TO THE EDITOR

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### Tackle Hepatitis E outbreak in Chittagong

According to multiple media reports, an outbreak of Hepatitis E has put lives at high risk in Chittagong. At least three people died, while over six hundred people have been affected in the last three months. Reportedly, contaminated water is to blame for that. It goes without saying that safe water is one of the fundamental services that the residents of a city deserve. It is common to have waterborne viral hepatitis spreading to consumers if hand washing and sanitary precautions are not observed, which means as well as the authorities responsible for providing safe water, people also have a responsibility to be aware of the risks of unsafe water.

The Daily Star has carried a number of reports and editorial pieces, as did other newspapers, but these seem to have fallen on deaf ears. I would like to urge the authorities concerned to take immediate steps to prevent the Hepatitis E outbreak from spreading any further.

Sumon Kumar Paul, By e-mail

### We should plant more trees

It is said that June and July are the best times of the year to plant trees. A country should have 25 percent of its area covered with trees, but in our case, only 10 percent of our total land is occupied by trees.

Needless to say, trees help keep our environment congenial to human lives. Moreover, as we are one of the most badly affected nations due to the global warming phenomenon, it's morally imperative that we plant more trees. The government should also raise awareness among people about the importance of tree plantation.

Zabed Wali, Chittagong

# Is VAT a regressive tax on the poor?

## CYBERNAUTIC RUMINATIONS



HABIBULLAH N KARIM

THE share of value-added tax (VAT) in the national exchequer has continuously been creeping up ever since its introduction more than 27 years ago, and has increased in recent years to

the point where it is the single biggest slice of revenue collections by the government. The latest budget just passed in the parliament amounts to Tk 4,64,573 crore of which tax revenue is Tk 3,39,200 and value-added tax is estimated at Tk 1,10,555, which is 36 percent of tax revenue receipts.

The above numbers depict a picture where VAT has become the most productive "milch cow" of the government for tax receipts and the National Board of Revenue is bent on gradually expanding the scope of VAT-able products, services and merchants to "milk" this further in the days ahead. Among the tax policy wonks, the perception is that the size of VAT collections based on the size of our economy could easily be double what it is today.

Given this emphasis on VAT as the fastest growing portion of tax revenue, the government has embarked on a comprehensive automation of VAT administration that has been afoot since 2015. Once this automation process is completed, taxpayers can expect easier compliance processes aided by online tax administration systems. Combined with computer-based VAT accounting systems at the taxpayer end, the automated VAT administration system, once fully available, is expected to usher in a VAT collection and reporting system that would be largely free from manual interventions and discretionary oversight. Businesses that maintain full-disclosure automated accounting systems should find themselves free from compliance hassles and overwrought tensions of discretionary rulings. This, however, is the realm of process optimisations and information technology solutions that will carry out whatever taxation policies are put in place under the VAT regime.

VAT is a multi-stage tax that is collected at the import, manufacturing, wholesale and retail stages of goods



transactions and for service transactions at the consumption stage. For goods, even though the tax is collected at multiple stages, the brunt of the tax is borne by the retail consumer in the end, as taxpayers of earlier stages are allowed to claim credit for VAT paid earlier once the later stage tax is accounted for. In other words, for both goods and services, the consumer at the end of the chain pays the bulk of taxes.

Rich people consume a larger share of their income for subsistence than do poor people who often consume all their income just to survive. Since VAT is essentially a consumption tax in the end, one can easily see that poor people end up paying much more VAT as a share of their income than do rich people. In that sense, VAT certainly seems like a regressive tax, that is, you tend to pay proportionately more as your income level goes south. That, however, hasn't prevented more than 40 of the largest economies in the world, accounting for more than 80 percent of world GDP, to adopt VAT as a central pillar of tax revenue. To assuage the negative impact of VAT on subsistence-level consumption, many countries, including Bangladesh, exempt basic foodstuffs such as grains, edible oil, and fresh produce from VAT. Another way VAT is made more bearable for those who earn less is by offering a truncated rate on

certain types of consumption such as basic utilities or house rents below a certain ceiling. These measures make VAT accounting and receipts more daunting but they do provide tax relief to those at the bottom of the socio-economic pyramid.

It is significant in that sense that the latest budget proposal, just passed by the parliament, has truncated the rate of VAT on Internet—a basic utility these days—to 5 percent which is a third of the previous rate of 15 percent. This is a momentous policy shift which will have a highly positive impact on students and lower-income people. We would also like to see VAT on other utilities slashed in a similar fashion which, needless to say, will help alter the regressive nature of VAT as a tax implement.

The 2012 VAT and Excise Law envisioned a VAT ecosystem mandated on a single rate of 15 percent at all stages of collection (except for those goods and services that are exempted from VAT) and proposed abolishing the truncated system of VAT rates. Over the last six years, there has been a lot of hue and cry over this, and in the end, the government has opted to retain the system of truncated rates, though slightly streamlined to reduce the number of slabs from six to four. This will undoubtedly help diffuse the misgivings

among small traders and manufacturers who were highly sceptical of their ability to comply with full-disclosure accounting systems overnight.

But the biggest benefit of retaining the system of truncated rates is neutralising the regressive tax pressure of VAT on small and medium enterprises (SME) as well as on consumption by the bottom half of the populace. In that sense, the budgetary direction given for VAT is a highly progressive measure and the government must be thanked for making it happen.

In the medium term though (2-5 years), VAT compliance shall become commonplace by default due to fully automated VAT administration system at the NBR end, and fully automated VAT accounting systems at the taxpayer end, which shall enable full-disclosure account reporting across the economic value chain. Once the country reaches that stage, perhaps then, and only then, a single rate of VAT may be possible across all sectors and stages of production and consumption. Even then, goods, utilities and services essential for subsistence will need to be kept out of VAT reach.

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# Why not 8 percent growth in the new fiscal year?



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THE planning minister, during the signing ceremony of the Annual Performance Agreement (APA) for FY2018-19, expressed his hope that Bangladesh economy would be able to achieve 8 percent growth in 2019-20 and 10 percent growth by 2028-29. His expectation is in line with the ongoing 7th Five Year Plan as

well as the long-term perspective plan for 2021-2041, which is currently being prepared by the Ministry of Planning. Indeed, the economy has been performing quite well over the last few years with consecutive 7-plus-percent growth of Gross Domestic Product (GDP) including that of the outgoing fiscal years. Macroeconomic indicators are responding impressively to political stability, tolerable inflation, with no major pressure in macroeconomic management, and a public sector-led investment regime. Despite the devastating floods and damage in food production, the economy grew at 7.65 percent as per provisional estimate. All these indicate that the economy is on a sustainable path.

growth rate now would not be a mere dream given that 19.2 percent of GDP is spent domestically through public sector (if we exclude interest payment of the foreign loans) in which about 40 percent is investment having implications for considerable return in the medium to long run through physical infrastructure and connectivity. Therefore, it is a good opportunity for the economy to gain extra pace on top of its target.

The finance minister faced severe criticism for reducing corporate income tax rate by 2.5 percentage points after placing the budget for the new fiscal year. However, this benefit was aimed at increasing private investment and encouraging industrialisation through reducing the lending interest rate, which was not properly conceived by its critics. Recently, the banks were asked by the government to provide 6 percent interest rate on term deposit and charge the highest 9 percent interest rate on lending for businesses and industries. The business community would welcome this initiative as it was their long-standing demand and would significantly reduce the cost of doing business, although there are concerns about its likely adverse effects on the economy.

the households' formal savings are channelled through the banking sector, it would have a detrimental effect on the household welfare through reduced income streams from their savings. It would trigger consumption because of lower future preference and informal savings of the households, which would raise upward pressure on the aggregate demand side of the economy.

Another possible adverse effect of the reduced interest rate can be inferred. Both domestic and national savings ratios have been on the decline since 2016-17, and the investment ratio has been greater than the savings ratio. National savings ratio was 30.8 percent of GDP in 2015-16, which has gone down to 28.1 percent in 2017-18, while investment ratio has gone up from 29.7 to 31.5 percent by this time. This means that investment is financed through borrowing from foreign sources and the informal or unaccounted savings. The reduced interest rate would also have a negative effect on foreign borrowing, which would be beneficial for the economy. However, it would generally intensify liquidity crisis in the banks because people would find banks less beneficial even though many of them would still rely on the banks, considering the security of their money. The overall stress on the banks would, therefore, increase because of the presence of considerable default and classified loans.

There is another concern related to the performance of the capital market, which is unfortunately gloomy for quite some time. Since it is a *de facto* failure case of mobilising capital from the market, despite recent demutualisation, the private sector is unlikely to depend on this source for investment. Therefore, pressure on the banks for loan would continue to increase despite a possibly diminishing future savings ratio.

Despite these concerns, there are two important opportunities before the economy in the new fiscal year. One is that there is no possibility of major floods, which means there will be minor dislocation of public and private resources to replenish the higher depreciation of capital stock due to flood. Therefore, the resources would be available for their intended purposes which would generate positive returns to the economy. Food supply would not be disrupted, which would keep inflationary pressure within a reasonable limit and ease the macroeconomic management. Another opportunity is reduced cost of doing business through reduced interest rate despite the above adverse effects, as it would attract both domestic and foreign investment. Nevertheless, private investment may not increase sharply before the national election because of manifold uncertainties working in the psyche of the business community. The government investment should take a lead to provide a strong signal that Bangladesh is getting ready to become a magnificent place for investment. Thus, 8 percent growth of GDP should not be a mirage even before the year 2020.

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ILLUSTRATION: BY JOHN TOMAC

The mega budget, if implemented properly, has all the potential to promote faster growth rate, which is targeted to be 7.8 percent for the new fiscal year. The aggregate government spending was merely 14.68 percent of GDP in 2017-18 due to significant underutilisation of the budget. Nevertheless, signing APA means the government agencies are binding themselves to "perform" and implement the budget, and not implementing its one-fifth on a regular basis should be considered an implicit offense as implied by the APA. A faster

The first concern is related to a sharp decline in real interest rate. Currently, the general inflation rate is 5.8 percent. Therefore, the highest interest rate of the term deposit, which would be implemented from the very beginning of the new fiscal year, as per the directive of Bangladesh Bank, would be nearly equal to the current inflation. The interest rate on other types of deposit would be much less than that rate. If the inflation rate increases or even remains the same over the new fiscal year, real interest rate in the banking sector would be almost zero to negative. Since most of