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Taxing e-journal subscription illogical

What can we possibly gain from depriving researchers of access to knowledge?

We are quite befuddled to learn that an advance income tax (AIT) is being imposed on subscriptions to international electronic journals (or e-journals). This will also include payments of arears from previous years which may adversely affect research work in about 40 universities and research institutes, as subscription costs would also go up leading to their potential cancellation. At a time when we should be patronising a knowledge-based society, it is quite absurd that such a move that may curb our researchers' access to scientific knowledge is being thought of.

Reportedly, the non-profit Bangladesh Science Academy (BSA) gets discounted subscriptions – sometimes as much as 90 percent of discount – on behalf of the universities and institutes. Needless to say, one of the reasons for the low number of research and studies in our country is the high cost of access to international research material. Thus, the BSA's endeavour to get discounted subscriptions is invaluable for facilitating research work. Imposing an advance income tax would, therefore, be a major drawback for academic advancement. It may mean the end to access to about 10,000 e-journals. The Daily Star's report in this regard quotes a BSA official saying that the concerned authorities had said that they would need to pay an AIT of 20 percent along with the arrears of previous years. It may lead to cancellation of subscriptions, he added.

The tax comes at the worst possible time when some local universities and institutes are already struggling to pay the existing subscription costs. Trying to get them to pay a tax then would be quite illogical. Also, with the dollar rate going up, the tax will make subscriptions even more costly even if they are discounted. According to the BSA, the total subscription fee for access to over 10,000 e-journals was $3.36 lakh, out of which $50,000 still has not been paid.

We are fortunate that since 2006, world renowned publishers and distributors such as Oxford Journals, Cambridge Journals and the Royal Society for Chemistry have given our researchers access to their content at heavily discounted rates thanks to a memorandum of understanding between the BSA and the International Network for the Availability of Scientific Publications (INASP). The goal behind this initiative was to spread knowledge on science and technology in the country, and to ensure that local scientists and researchers are updated on the latest developments in their fields of work. Any endeavour in terms of research and knowledge cannot be confused with taxable economic activities, yet this is what we are witnessing today.

Also, if there are tax exemptions on the import of printed books and journals, why can't the same facility be extended to e-journal subscriptions?

We urge the authorities to concede to the BSA's appeal to be exempted from an advance income tax, which may prevent our scholars and students from gaining essential knowledge or de-link them from the intellectual minds of the rest of the world. Wouldn't such a loss be devastating to our future as a nation?

Eviction without rehabilitation?

Need for development cannot override the moral imperative to protect the marginalised

We are alarmed by the news of continued eviction risks facing the tenants of the South Kamalapur Railway Colony near the Gopibagh area in southern Dhaka. These people belong to the Harijan/Telegu community who for generations have served as cleaners and sweepers. They also happen to be one of the most marginalised groups in the country. The colony, popularly known as the Gopibagh TT Para Sweeper Colony, apparently stands in the path of a rail line being constructed from Kamalapur to Jashore and other structures planned under the Padma Bridge Rail Link Project, and the tenants are expected to go along with it at the risk of upending their own lives.

The Tk-39,247-crore railway project is an important part of the vision surrounding the multipurpose Padma Bridge. Once the entire 169km-long rail line is opened, it is estimated that the distance from Dhaka to Jashore would decrease by 200km, and the travel time would be nearly halved. While we understand the need for reclaiming railway land for such a vital project, the question is, is the method being followed – eviction without rehabilitation – the best way to go about it? Reportedly, evictions are already underway in phases. In the first phase in 2019, 112 families were evicted. Later, 27 more families were evicted last December. More families were evicted and their houses demolished this year too.

According to some of the tenants, people involved with the railway project had assured them of rehabilitation and compensation before any eviction drive. But none of those promises materialised to this day. Instead, evictions were allegedly carried out without any notice. Some of the victims described the suffering and uncertainty that it caused as well as the humiliation of being denied rented accommodation outside the colony because of their identity. Finding no other option, a number of ousted families were forced to move in with those that still lived there. This is totally unacceptable.

The director of the Padma Bridge Rail Link Project has claimed that most tenants were living here "illegally". Many of them are retired from the railway service, many work for the city corporation, and most work in private companies, he said. That may be the case, but together they play a vital role essential to the smooth function of the city and associated services, and thus deserve to be treated with special consideration. Also, why were those evicted weren't rehabilitated as promised? Project authorities say that a building is being prepared in the Shahjahanpur Railway Colony where former TT Para tenants, or at least those they consider "legal", will be shifted. This is too little, too late, and not to say too tokenistic a gesture to be an appropriate response.

Eviction without rehabilitation is a deeply flawed and hegemonic exercise that no one can support under any circumstance, especially in case of marginalised groups. We urge the relevant authorities to quickly undo the damage they already caused and ensure that all former and current tenants of this colony are properly rehabilitated before any further attempt at land clearance is made.

The urgent task of restrategising domestic resource mobilisation

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The IMF's quantitative requirement of increasing tax-GDP ratio to 9.4 percent by 2026 (requiring an additional Tk 234,000 crore to be raised over the next three years), as part of the $4.7 billion loan terms, also speaks of the magnitude of the challenges involved in mobilising additional domestic resources over the near-term future.

In recent years, the issue of Bangladesh having one of the lowest tax-GDP and revenue-GDP ratios in the world has been a recurring theme in the economic and public policy discourse in the country. With revenue earnings averaging about 9 percent of GDP in recent past years and the budget deficit being equivalent to about 4-5 percent of GDP (underwritten mostly by borrowings from banking, non-banking and the central bank and foreign lending), public expenditure in Bangladesh has been equivalent to only about 15 percent of GDP. To compare, as IMF database shows, these two figures – revenue and public expenditure as shares of GDP respectively – are significantly higher in other countries in the region: India 19.5 percent and 28.8 percent; Bhutan 29.4 percent and 32.4 percent; Nepal 22.9 percent and 27.7 percent; Pakistan 12.5 percent and 19.4 percent; and Sri Lanka 10.1 percent and 19.2 percent. The relatively low public expenditure-GDP ratio indicates that many developmental needs which should be addressed through government's resource allocation continue to remain unmet in Bangladesh.

It is true that public expenditure has been on the rise, particularly over the last decade, as reflected in the growing size of the country's national budget. However, the fact remains that it has failed to match the pace of GDP growth. To recall, in the 7th Five Year Plan of Bangladesh, the revenue-GDP target was set to be raised to 14 percent of GDP by the end of the plan's period – 2020. Indeed, if achieved, this could have taken Bangladesh's public expenditure-GDP ratio to about 19 percent of GDP. However, on the contrary, there has actually been a reversal in this regard in recent years.

As Bangladesh makes its stride in the 21st century, the need for significantly higher allocations of resources in education, health, transport and infrastructure and for ensuring food and energy security are set to rise significantly. More money will be needed to pay for salaries of government employees, introducing new pay scales and for paying pensions and other entitlements of public employees and for servicing growing interest payments – both domestic and foreign. More resources will be required for the implementation of government plans such as transition from social safety net to social security and introduction of the universal pension scheme and universal mid-day meal scheme for school children and other reasons. The country's dual graduation, LDC graduation (November, 2026) and middle-income graduation (2015) – impressive milestones in Bangladesh's development narrative – will demand meeting what may be called a new generation of challenges. Sustainable LDC graduation will demand more resources to be allocated for readjustment to the new trading regime, with significant attendant erosion of preferences and high cost of compliance with various standards.

Middle income graduation is already manifesting itself in more stringent terms of borrowings and higher share of non-concessional loans in the loan portfolio. Thus, the dual graduation will call for higher resource allocations for the transitional needs of economy and debt servicing. More public investment will be required to create conducive production and business investment for the private sector. Bangladesh will need to invest in its youth to reap and realise the potentials of demographic dividends over the next two decades.

The IMF's quantitative requirement of increasing tax-GDP ratio to 9.4 percent by 2026 (requiring an additional Tk 234,000 crore to be raised over the next three years), as part of the $4.7 billion loan terms, also speaks of the magnitude of the challenges involved in mobilising additional domestic resources over the near-term future.

True, over the past years the government has been trying to raise more tax and revenue to underwrite the anticipated higher public expenditure by enacting the VAT law, undertaking a number of reforms, introducing technological changes and establishing digital interfaces. However, the fact remains that revenue mobilisation has been outpaced by GDP growth and consequently tax and revenue-GDP ratios have been falling from what these were even a few years back.

One point which is oftentimes mentioned as one of the key factors behind the low tax-GDP ratio in Bangladesh is that there are too many exemptions in place and that revenue mobilisation and tax-GDP ratio would have been significantly higher had there not been so many waivers. Newspaper reports citing internal NBR estimates put the amount of revenue exemptions to be roughly equivalent to about Tk 250,000 crore. It is reasoned that if this would have been factored into the calculation, the tax-GDP ratio would have risen to 17.8 percent. No one should be questioning the need for selective support, incentives and exemptions in a developing country such as Bangladesh (indeed, most developed countries also have in place a host of tax incentives and subsidies in place). However, a key rationale for the exemptions is that such support is crucial to stimulate economic activities, which in turn create opportunities for greater fiscal/revenue mobilisation by stimulating economic growth, creating jobs and generating income which then can be taxed. Thus, in most countries, one finds presence of both exemptions and incentives, as also growing tax earnings and high tax-GDP ratio. For example, in India tax expenditure (forgone tax revenue) which used to be equivalent to 5.7 percent of GDP in FY2005-6, came down to 1.4 percent in FY2020-21, while the revenue and public expenditure as share of GDP remained at relatively high levels.

The uniqueness of Bangladesh lies in the fact that there are large-scale exemptions in place, which have contributed to the rise in GDP, led to rising income and growing wealth, but the tax net and tax collection have not risen in tandem.

There should be, as a rule, sunset clauses (when and how the particular support measure is to be phased out) when an exemption is put in place. Estimation of the revenue forgone will need to be carried out, and reliable projections about the anticipated tax stream that such support is expected to generate will have to be made.

The issue which should merit close and urgent attention of policymakers is avoidance and evasion of direct tax. In spite of some recent compositional change, Bangladesh's tax revenue is still predominantly dependent on indirect taxes (about two-thirds, which by all accounts are regressive in nature since these fall disproportionately on relatively disadvantaged sections of the people), whereas in most other countries it is the other way around. This is where the crux of the low tax-GDP ratio in Bangladesh lies.

In spite of the declarative statements in successive budget speeches, concerted effort to raise more revenue in Bangladesh from direct taxation has been muted at best. Recent evidence about the rise in the number of dollar millionaires, number of bank accounts with more than tens of crores of taka in fixed deposits, number of second homes in Malaysia, Dubai and Canada, successive Global Financial Integrity Reports showing an average of $7-8 billion worth of capital flight annually, Swiss Bank reports on Bangladeshi account holders, occasional investigative reports of the National Board of Revenue (NBR) and Anti-Corruption Commission as regards trade mispricing, misappropriation of bank money and wilful bank default and capital flight, indicate that a significant amount of money is not being reported for purposes of direct taxation and, in many cases, the taxable money is being moved out of the country through various illegal avenues.

Regrettably, the signals coming from policymakers do not do justice to the task at hand. Regular opportunities to whiten the so-called black money at highly reduced tax rate has not helped the NBR to mobilise any mentionable amount of additional taxes. This step is sometimes justified by saying that while the amount collected as tax may not be significant, this helps to bring a segment of hitherto unreported economic activities (and hence income) under future tax net. However, no cost-benefit of such initiatives have ever been undertaken – the disincentive that it creates for honest taxpayers and the incentive it creates for not paying taxes at present in the hope that there will be opportunity to have a clean sheet by paying a much lower rate of tax in future. In the last budget, provision was even kept to incentivise those who have taken money out of the country, illegally, to bring it back and to report assets purchased abroad with unlawfully gained and illegally shifted money, by paying highly reduced tax rates and under attractive terms. However, it is not surprising that these incentives did not bring any tangible results. Such measures are neither justifiable on economic grounds, nor acceptable on moral grounds and, what is no less important, is that they are also not helpful from a political point of view since the general public perceive such incentives as favouring the unscrupulous rich, and the incorrigible corrupt, at the cost of national interest.

Steps must be taken against those who have shifted money and wealth out of the country illegally. A specialised unit should be set up to deal with these cases, backed by adequate financial resources and necessary legal authority. More proactive steps will need to be taken in areas of digitisation of various services and digital interface among institutions with greater coordination between the NBR, dealing banks, and the central bank, by strengthening of the Transfer Pricing Cell of the NBR and by raising forensic and investigative capacity of concerned institutions to follow the paper trail. More effective coordination will need to be established with partner countries to bring illegally moved money and assets back. Speedy passing of long-awaited reforms such as the Direct Tax Act and Customs Act must be prioritised.

Bangladesh's LDC graduation and the free trade agreements that we are planning to go for will require revisiting of various import duties. This will call for more reliance on direct taxes. In the South Asian region, for example, direct tax constitute 48.9 percent of total taxes of Bhutan and 52.4 percent of that of India (2020). Raising domestic resources through greater direct taxation ought to feature prominently in going forward. Otherwise, low direct taxation could prove to be a binding constraint not only from the perspective of creating a more equitable economy and inclusive society that Bangladesh aspires to be, but also in mobilising the public resources that are required to sustain and accelerate the pace of Bangladesh's GDP growth in future.

As may be recalled, the recent Household Income and Expenditure Survey (HIES, 2022) testifies to the further deepening of income inequality in Bangladesh (manifested in the rising gini-coefficient). When detailed data will be available, it is most likely to show further increase in asset inequality as well. One of the key underlying reasons behind the growing income and asset concentration lies in the failure to mobilise more resources through direct taxation which then could underwrite the growing public expenditure. Thus, the issue of taking concrete steps to enhance opportunities of tax mobilisation and strengthening of enforcement of relevant laws to deal with tax dodgers have become critically important, both from the vantage point of economic growth and distributive justice.

In view of the current challenges facing the economy, now is an appropriate and opportune time to take a strategic political decision to address the urgent task of waging an all-out campaign to mobilise more revenues through direct taxation – both personal and company and corporate. This should be done not by harassing the honest taxpayers and law-abiding tax-paying companies, but by pursuing a zero-tolerance policy against the tax-avoiders and evaders. One only hopes that the upcoming FY2023-24 budget will be a welcome departure from the past practices in this regard.

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