

#FYI

# VAT increase

## A price too high for Bangladesh's fashion industry?

When the government recently increased the Value-Added Tax (VAT) on 43 goods, including branded clothes from 7.5 per cent to 15 per cent, it sent ripples through Bangladesh's fashion industry. Consumers, designers, and artisans alike are already feeling the reverberations of this policy shift. The decision raises an important question: Was such a move necessary or could alternative measures have softened the blow?

### The impact of VAT hike

The decision to increase VAT affects a wide range of essential goods and services. For clothing specifically, the doubling of VAT poses noteworthy challenges for businesses, designers, and consumers alike.

For an average person, this new decision could mean that clothes are more expensive and as a result, household budgets would be strained that are already grappling with inflation.

Lamenting this decision prominent designer, Humaira Khan says, "Businesses are already struggling and we have been in survival mode since the pandemic. Customers, meanwhile, are already dealing with inflation and rising foreign exchange rates. Doubling the VAT rate overnight, just before Eid – which is our most important season – hurts everyone."

With the Eid-ul-Fitr approaching, this new VAT will seriously affect retailers. For many consumers, this year's Eid shopping may feel like a burden rather than a joy. Families that once splurged on new outfits for the occasion now will find themselves rethinking their budgets.

Explaining the ripple effect, Khan adds, "Customers will simply not want to pay it and sellers will feel pressured to break the rules. This could lead to illegal practices and disrupt the entire system."

"Also, buyers from countries like the USA and Canada are not used to such high VAT on clothing. We risk losing their trust and their business."

The VAT increase also impacts the purchasing power of lower-income groups, pushing them toward lower-quality alternatives. The

disparity in affordability raises concerns about whether basic clothing is slipping out of reach for many.

### Was the VAT increase necessary?

The government's rationale for the VAT hike revolves around increasing revenue collection, ostensibly to fund public welfare initiatives. However, targeting the fashion industry can be an ill-conceived strategy.

According to renowned designer, Tenzing Chakma, this is not just a short-term issue rather it is going to create long-term problems. If VAT increases, people will buy less, and businesses will suffer.

The VAT hike on clothing may seem like a revenue-boosting measure on the surface but its long-term implications for Bangladesh's fashion industry are deeply concerning and one of the most noteworthy long-term risks is the weakening of domestic brands, as highlighted by Chakma.

Instead of a uniform VAT hike, a differentiated approach could have balanced the need for revenue with the well-being of citizens and industries. Subsidies for essential goods, incentives for small businesses, and targeted taxes on luxury items are potential alternatives that could have mitigated the fallout.

"There's no shortage of ways to stabilise revenue without burdening people who are already struggling. Better planning, taxing luxury goods, and targeting those with surplus wealth would have been far more effective and equitable. Policies like this make it harder for local businesses to thrive, and in the long run, everyone loses," emphasises Tenzing Chakma.

While the need to boost revenue is undeniable, the method matters. An unreasonable VAT hike on clothing risks disrupting the progress of Bangladesh's garment industry, placing undue strain on consumers, designers, and workers.

Of course, we understand that policymakers are trying their best to chart a path forward but they must also prioritise inclusive growth – one that ultimately balances revenue generation with economic sustainability.

**NOTE: The government has retracted VAT decisions on some items and services including clothing.**

By Ayman Anika

Photo: Salek Bin Taher

Model: Sumedha Chakma

Wardrobe: Sozpodor by Tenzing Chakma

Mua: Mohammed Abu Sayem

