

VAT dominance squeezes consumers as income tax lags

MD ASADUZ ZAMAN

Over the past two decades, Bangladesh's tax structure has shifted sharply, with value-added tax (VAT) emerging as the largest source of government revenue. The change has increased the burden on consumers, as VAT is an indirect tax that applies equally to everyone, regardless of income.

VAT is charged at every stage of production and sale, and consumers always bear the final cost. Families end up paying more for everyday items such as edible oil, biscuits, soap, detergents, medicines, LP gas, and clothes.

Data from the National Board of Revenue (NBR) shows that in FY01, VAT accounted for 27.11 percent of total tax receipts, income tax for 19.44 percent, and import tariffs for 53.45 percent. By FY25, VAT had risen to 38.15 percent, income tax to 34.8 percent, while import tariffs had fallen to 27.05 percent.

VAT became dominant in FY11, surpassing import tariffs for the first time, as customs revenue declined under trade liberalisation.

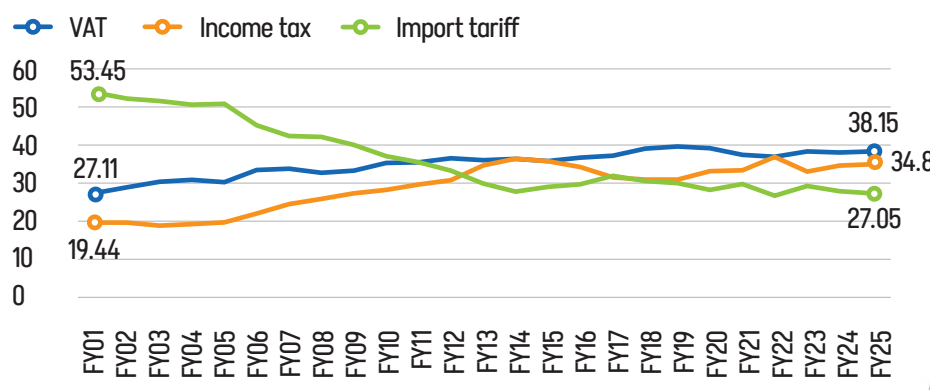
Introduced in 1991, VAT has increasingly shifted the tax burden onto consumers, made government revenue more sensitive to inflation, and added compliance pressures for small and medium businesses.

Economists say that as import duties have declined, the government has relied more heavily on VAT, placing extra strain on households already facing high living costs.

"VAT is inherently regressive; everyone pays the same rate regardless of income," said Prof Abu Eusuf, executive director of Research and Policy Integration for Development.

"The growing dependence on indirect taxes, without a similar rise in direct taxes, is putting an unfair burden on low- and middle-income people. While advanced economies rely mainly on direct taxes, Bangladesh's pattern is reversed,"

SHARE OF NBR'S COLLECTION BY TYPES OF TAXES (In %)



SOURCE: NBR

he added.

Prof Eusuf also said that the government favours VAT because it is easier to administer. "Efforts to identify potential taxpayers or integrate databases have not yet produced visible results," he added.

As Bangladesh approaches LDC graduation in November 2026, declining tariff revenues are expected to push the government to rely even more on VAT.

NBR Chairman Abdur Rahman acknowledged this reliance. "No advanced economy depends heavily on trade-based taxes, and Bangladesh must gradually shift toward domestic revenue sources," he said yesterday while observing VAT Day at the NBR headquarters in Dhaka's Agargaon.

"Despite the potential of income tax, there are significant leakages. In the long run, most revenue should come from income tax, followed by VAT, while customs duties should play only a minimal role. With LDC graduation, this shift will become unavoidable," he added.

CALLS FOR A MORE BALANCED TAX SYSTEM

A new OHCHR study suggests that a more balanced tax system could reduce poverty and improve fairness. If direct

taxes were increased and reliance on VAT reduced, the national poverty rate could drop from 18.7 percent to 17.7 percent, with the poorest households seeing poverty fall from 37.2 percent to 33.2 percent. The study also finds that this shift would slightly reduce income inequality.

Towfiqul Islam Khan, additional research director of the Centre for Policy Dialogue (CPD), said, "From the perspective of welfare and economic justice, those with greater ability should pay more. So, direct taxes should take priority. If VAT's share remains high, it simply means we're not collecting income or property taxes properly."

He added, "Tax evasion happens in both direct and indirect taxes. Even within indirect taxes, a major problem is that consumers pay, but the money does not reach the exchequer. Our direct tax collection is not working properly. Eliminating tax evasion should be the number one priority."

Finance Adviser Salehuddin Ahmed also raised concerns over VAT evasion, saying the tax often does not reach the government even though consumers pay it. "It is an unfortunate and persistent weakness in the VAT system," he said at a seminar marking VAT Day.



Put domestic industry and business first

MANWAR HOSSAIN

I write as a manufacturer, a Bangladeshi manufacturer at heart. I believe in protecting our ability to make products at home. I agree with the idea behind tariffs, but they must be used smartly, not as slogans. My concern is simple and existential: Bangladesh's real economy is seriously bruised, and unless we act immediately to start the healing process, many factories will not survive to see the upswing.

In real terms, since 2018, and particularly since 2020, domestic demand has never fully returned, yet input costs have soared and credit has turned prohibitively tight. Capacity kept being added. This was because misleading headline indicators like foreign-exchange reserves and gross domestic product growth masked the reality on the ground.

Today, many firms are deeply loss-making. Even a few of the biggest names are living on prayers. Businesses such as those in steel and cement are drowning in unutilised capacity and equity erosion.

We see this stress daily. Several financial institutions are unable to adjust letter of credit (LC) facilities to absorb the devaluation of the taka. Some are struggling to extend already-approved working capital, and some cannot clear cheques. Business owners can feel the systemic pressure building inside a fragile system. The government may look rich on paper, but if its industrial base collapses, the entire economy follows.

Also remember that in times like these, capital erosion, especially in heavy and capital-intensive industries, happens quickly and pushes industries towards monopoly; the big get bigger, and small and even medium firms grow weaker.

Some industries already see up to 70 percent of the market controlled by as few as two players — a situation that may not seem urgent to a politically busy government but will be paid for dearly by the people sooner than we think.

Historically, governments have used construction to fight stagflation and recession. But we have almost stopped all major infrastructure projects or chosen not to launch new ones. Construction — our primary economic flywheel — has lost half its public-sector buyers.

The slowdown in the private sector is equally tragic. It is caused not only by squeezed money markets but also by suffocating bureaucracy. Real estate approvals have become slow by default. Understandably, political representatives have been temporarily replaced by bureaucrats as heads of city corporations, upazilas, and municipalities. Many of them hold multiple positions on top of their regular duties. They are very cautious because this is not their area of expertise. I can't blame them. Files sit until an elected representative takes office. Projects wait while the economy suffers.

Several countries already practise e-approval for construction — and, yes, they're building faster, and getting money circulating earlier.

We are running out of time. Elections are scheduled for early 2026. The new government will need months to form a team, settle in, and prepare. The fiscal year 2026-27 budget will already be drafted by then. In all likelihood, a conservative approach like the current budget will follow. Practically, real policy room may not open until FY2027-28. Waiting that long is not an option.

Factories are not lines on a spreadsheet; they are homes and communities; they are workers' shrines. Construction sites are not just concrete-pouring sites but the epicentres for creating jobs in those 3,600 support industries.

I am not asking for favours, but I am crying out loud: with each day that passes, our capital erodes, businesses fail, and the very people you have taken responsibility for are weakened.

The writer is the chairman of Anwar Group of Industries

US, India start fresh trade talks

AFP, Mumbai

US and Indian trade negotiators began two days of talks Wednesday as they try to reach a deal amid geopolitical turbulence after Washington hit New Delhi with huge tariffs over its purchases of Russian oil.

The 50 percent levies on most goods was imposed in August, with US officials arguing the imports of discounted Russian crude effectively bankroll Moscow's war in Ukraine.

Deputy US Trade Representative Rick Switzer's visit comes a week after Prime Minister Narendra Modi embraced Russian President Vladimir Putin in New Delhi. India's foreign ministry described Switzer's meetings as a "familiarisation" trip.

India was among the first countries to begin trade talks after President Donald Trump unveiled sweeping tariffs on most US trade partners in April.

But it is one of the few major economies still without an agreement, raising risks for jobs, economic growth and markets. India is the world's fastest-growing major economy and recorded a \$45.8 billion goods trade deficit with the United States in 2024.

Large export categories such as smartphones and generic drugs are exempt from Trump's tariffs, but many labour-intensive industries are not.

That's a serious blow for a country already struggling to generate well-paid jobs for millions of young graduates, and the turmoil threatens Modi's ambition to lift the country into high-income status.

ICDs postpone decision to suspend container handling

STAFF CORRESPONDENT, Ctg

Private inland container depots (ICDs) have postponed their earlier decision to suspend handling of export and empty containers for a month after a fruitful meeting with the Chittagong Port Authority (CPA) chairman yesterday afternoon.

Citing that they are currently unable to cover their expenses because the proposed increase in charges has not been implemented, ICD operators had earlier verbally informed their clients of the suspension of all export and empty container handling operations from December 11.

The move sparked fears of a potential disruption to the export supply chain through Chattogram port.

CPA Chairman Rear Admiral SM Moniruzzaman held an emergency meeting with the leaders of the Bangladesh Inland Container Depots Association (BICDA) at Chattogram port at 4 p.m. to

discuss the issue.

BICDA President Khalilur Rahman, Vice Presidents Imran Fahim Noor, Haji Md Hossain, Benojir Nissan, and Secretary General Md Ruhul Amin Sikder attended the meeting.

ICD operators said that they are currently unable to cover their expenses because the proposed increase in charges has not been implemented

CPA Secretary Md Omar Faruk said the CPA chairman urged the BICDA leaders to postpone their move for a month and resolve the issue through discussion with all stakeholders. The BICDA leaders agreed to the request.

BICDA Secretary General Md Ruhul Amin Sikder said the ICD owners, at the meeting, placed three-point demands, including the

withdrawal of a case with the High Court related to the ban on the ICD tariff increase.

They also demanded the abolishment of the one-sided tariff committee from the ICD Policy, citing the majority representation of service takers, as well as a logical adjustment of the ICD charges, said Sikder.

BICDA, in July, announced an increase in charges for handling export cargoes and empty containers by as much as 60 percent, effective from September 1, citing rising operational and investment costs, currency devaluation, and inflationary pressures.

Port users, from the beginning, opposed the decision and refused to pay the increased rate.

As several mediation attempts failed, the issue went to the High Court, which suspended the revised tariff.

The shipping ministry later clarified that no new charges could be imposed without approval from the tariff committee.

Amazon to invest \$35b in India by 2030

AFP, Mumbai

E-commerce giant Amazon said Wednesday it would nearly double its investment in India, seeking to expand exports, create jobs and invest in artificial intelligence in the world's most populous nation.

Several global corporations, including technology giant Microsoft, have announced large investments this year in the South Asian nation, the world's fifth-largest economy, and which is projected to have more than 900 million internet users by year's end.

"Amazon has announced plans to invest more than \$35 billion across all its businesses in India through 2030, building on nearly \$40 billion invested in the country so far," the US online giant said in a statement.

"This investment will focus on business expansion as well as three strategic pillars: AI-driven digitisation, export growth, and job creation."

The announcement comes a day after Microsoft said it will invest \$17.5 billion to help build India's artificial intelligence infrastructure, with CEO Satya Nadella calling it "our largest investment ever in Asia".

Amazon said it had invested in both building physical and digital infrastructure, including transportation networks, data centres, digital payments infrastructure and technology development.

"The investment will create one million jobs, boost cumulative exports to \$80 billion, and deliver AI benefits to 15 million small businesses", the e-commerce company statement added, in an announcement made in New Delhi.

READ MORE ON B2

How China Inc is marching into Vietnam amid US tariffs

REUTERS, Hanoi

Chinese firms are expanding in Vietnam, leading investment inflows and sending record shipments to Hanoi in defiance of US calls for decoupling, as the Communist neighbours beef up ties.

Recent steps that Hanoi had long resisted on security grounds include sensitive tech contracts for Chinese telecoms firms Huawei and ZTE; approval of Chinese loans for high-speed rail links; and Chinese-made COMAC planes cleared by regulators for a leading airline.

Hanoi's overtures to Beijing may reflect its long-standing policy of balancing foreign ties after pledges made to Washington in trade talks, said Alexander Vuving of the Asia Pacific Center for Security Studies.

But if the trend continues, Vietnam "may become a 'torn country' rather than a 'swing state'," he added, citing risks to Western relations.

While the Southeast Asian nation opened its economy to US multinationals and technology after Washington lifted its embargo in the 1990s, it stayed cautious over China, after their 1979 war and disputes over South China Sea boundaries.

Now Beijing's influence is rising and US

ties are strained by tariffs.

Chinese firms make pledges to transfer technology, rare until now, and increasingly view Vietnam as a consumer market rather than just an assembly base, a Reuters review of data and industry interviews showed.

The shift has been turbocharged by tariffs of 20 percent imposed by Washington, said Phan Xuan Dung, a researcher at the ISEAS-Yusof Ishak Institute in Singapore.

"Vietnamese officials were displeased by what they saw as punitive US measures,

and this pushed them to hedge by leaning economically further into China," he added.

Vietnam's foreign ministry and the White House did not respond to requests for comment.

China's foreign ministry said economic cooperation benefits both countries.

RECORD IMPORTS FROM CHINA
Despite US pressure to curb reliance on Chinese technology and components, imports from China stood at about \$168 billion through November, up nearly 30 percent on the year and already well above all of 2024, itself a record year, Vietnamese data shows.

Nearly one-third are electronic parts, often re-exported in goods bound for the United States. Consumer imports, including vegetables and cars, are also climbing.

Fading anti-China sentiment among younger Vietnamese is helping drive the surge, dovetailing with Beijing's push to find new markets amid US tariffs, and emboldening Chinese companies to take on domestic champions.

E-scooter maker Yadea sold more than 36,000 units in Vietnam in the year's first 10 months, ranking fourth nationwide, according to non-public registration data obtained by Reuters.



PHOTO: REUTERS/FILE

A container is loaded onto a cargo ship while docked at Hai Phong port in Hai Phong, Vietnam. Chinese firms make pledges to transfer technology, rare until now, and increasingly view Vietnam as a consumer market rather than just an assembly base.