

Fiscal management reform has been identified by the Bangladesh Priorities project as a **smart way to enhance economic growth in Bangladesh** as it works towards the ambitious Vision 21.

The Bangladesh Priorities project worked with economists from Bangladesh, South Asia, and around the world to study 76 concrete solutions to improve the future of the country. Using cost benefit analysis, the researchers identify how much social, economic and environmental good is achieved for each taka spent, providing policy makers with the most relevant information and analysis to support their decision-making. Based on this analysis, an Eminent Panel considered all the research in detail, and prioritised the 76 solutions. This series of policy briefs focuses on the most important priorities for Bangladesh, from tackling tuberculosis to education, health and digital governance.

Strategy

Reform VAT and automate collection

Takas of benefits per taka spent



6 taka / taka

FISCAL MANAGEMENT

- Low revenue mobilization in Bangladesh stands out as one of the **critical constraints to economic growth**, with a tax revenue-to-GDP ratio of around 10%
- This is a serious constraint for Bangladesh to fund critical physical infrastructure investments, **one of the key drivers of economic growth**.
- **Increasing tax revenue can provide opportunities** to invest not only in physical infrastructure, but also in human capital which can enable Bangladesh to earn middle-income status by 2021.
- The government aims **to increase the tax-to-GDP ratio to 14%**
- VAT and income tax **account for 70% of all government tax revenue**.
- The National Board of Revenue (NBR) has a comprehensive Tax Modernization Plan (2011-2016) which recognizes the **critical need to increase tax revenue** and while there is no update of the Tax Modernization Plan, it is expected that the current Plan will hold for the next five years.

The new VAT Law, which comes into effect from July 2017, is a hallmark achievement of the government's Tax

Modernization Plan and, if implemented, will increase the VAT-to-tax ratio, broaden the tax base and contribute towards establishment of a modern and service oriented VAT administration.

RESEARCH EVIDENCE

The two-part solution of replacing tariffs with actual market prices and automating the VAT system would raise the nation's tax-to-GDP ratio by nearly 1 percentage point.

Calculating the net effects of the tax reforms plus benefits from infrastructure spending, **every taka spent toward making the VAT system more efficient and effective in this way would do almost do Tk. 6 of good**, assuming the revenues are spent on infrastructure projects.

A projection of VAT together with other components of revenue in the current 7th Five Year Plan indicates a 2.5 percentage point increase (as % of GDP) in VAT collection over the next 5 years. A lot of this increased tax revenue collection rests on the successful administration and implementation of the new VAT Law.

Specific tax administration reforms are being considered, coupled with the implementation of the VAT Law: expanding the VAT base, reforming the VAT administration,

automating tax administration through Central Data base including Central VAT Registration, electronic submission and return processing, raising awareness about the new VAT Law and regulations, incentivizing VAT payment with benefits for small businesses, etc.

In addition, to counter widespread tax evasion through the very low number of registered direct tax payers, transfer pricing and money laundering, NBR can strengthen its tax evasion detecting unit. The NBR should definitely coordinate with other government agencies like Bangladesh Bank and the Anti-Corruption Commission.

Although the NBR has introduced the Alternative Dispute Resolution (ADR) mechanism to settle disputes, more than 20,000 cases are still lying with different courts amounting to approximately BDT 20 billion. The ADR mechanism will need to be strengthened and institutionalized to solve the pending cases and collect arrear revenue.

This would steer enhanced tax revenue generation in an indirect manner – not by bringing in more revenue but by recovering the same.

Financing investments needed for the government's ongoing five-year plan will **require a significant increase in domestic resources and a widening of the tax base.**

The government, for the upcoming Budget FY2017-18, has prioritized some key activities related to the new VAT law and its implementation, many of which were also recommended by Bangladesh Priorities:

- **Elimination of the present value approval system** by the VAT authority, making tariffs reflect market prices
- **Incorporate provisions** to reduce the discretionary power of the VAT authority
- **Single registration for different business units**
- Amendments in the existing laws to **ease hearings on dispute cases** within ADR's mechanism
- Mandatory obligation for businesses to **adopt Electronic Cash Register (ECR) and point of sale (POS) system**

- Move away from the present scenario of products being taxed on basis of tariff values
- **Integrating ICT into VAT collection process**; for example, an application which will allow for integrating tax payments and lodge official complaints against tax evasion.

REPLACING TARIFFS WITH MARKER PRICES (TARIFF VALUE ELIMINATION)

Currently the National Board of Revenue (NBR) formally sets the tariff value at which goods and services are taxed. **Reforming this system so that VAT rates apply to the market value would more than double VAT revenue, adding Tk. 76.4 billion in extra tax revenue.**

AUTOMATION OF VAT SYSTEM UNDER VAT ONLINE PROGRAM (VOP) PROJECT

Streamlining VAT collection process to lower the costs of complying with tax codes and regulations and to file returns, could **raise tax revenue by approximately Tk. 24 billion.**

This will increase the number of active registered VAT payers from 50,000 (2014) to a projected 85,000 (2018).



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