VALUE ADDED TAXATION IN BANGLADESH: A CRITICAL APPRAISAL

A DISSERTATION SUBMITTED TO THE UNIVERSITY OF DHAKA FOR THE AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY

By

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Bangladesh

March 2010

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CERTIFICATE

This is to certify that the Ph.D. thesis entitled "Value Added Taxation in Bangladesh: A Critical Appraisal" is a bonafide record of the research work done by Mr. Swapan Kumar Bala, Associate Professor, Department of Accounting & Information Systems, University of Dhaka, Dhaka. The thesis represents an independent and original work on the part of the candidate. The research work has not previously formed the basis for the award of any degree, diploma, fellowship or any other similar title. The entire work has been planned and carried out by the candidate under my supervision and guidance.

Santi Narayan Ghosh
Supervisor

Date: 26 th March, 2010

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DECLARATION OF THE CANDIDATE

I hereby declare that the thesis entitled "Value Added Taxation in Bangladesh: A Critical Appraisal" for the award of the degree of Ph.D. is my original work and that it has not previously formed the basis for the award of any degree, diploma, fellowship or any other similar title. The entire work has been planned and carried out by me under the supervision of Prof. Santi Narayan Ghosh.

Swapan Kumar Bala

Date: 24.03.2010

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ACKNOWLEDGMENTS

Tax research is usually a domain of mainstream economists interested in public economics viewed from a macroeconomic angle. Commencing the study from a taxpayer's stance of solving individual tax problems, as viewed in accounting,* and finally assessing the particular tax under study towards the widened national policy perspective, I find the task at times as a challenging one. I am fortunate to be under the supervision of Prof. Santi Narayan Ghosh, Department of Accounting & Information Systems, University of Dhaka, whose caring mentorship and insightful and scholarly support have directed me in completing the study. Amidst his academic and administrative preoccupation, Prof. Santi Narayan Ghosh always finds time to extend his invaluable suggestions and evaluative remarks, including supply of essential reference materials from his personal collection.

At this stage, I show my indebtedness to the researchers and contributors whose published and unpublished research works have given me a solid footing to undertake the study. I want to record my deepest sense of appreciation and thankfulness towards the participants in the two Ph.D. seminars (held on 17 May 2006 and 17 October 2009), where I got critical comments and valuable recommendations that helped me immensely to refine my methodological designs and also to organize the study and its findings in a matured direction. In this regard, I express my special indebtedness to Prof. Shafiq Ahmed Siddiq, Prof. Abul Hashem, Prof. Jagadish Chandra Shukla Das, Prof. Begum Khaleda Khanam, Prof. Mustafizur Rahman, Prof. Mamtaz Uddin Ahmed FCMA, and Prof. Dhiman Kumar Chowdhury FCMA.

A good number of taxmen have provided me many apparently inaccessible information as well as experienced clarification of many intricate tax issues. With special thanks, I acknowledge the assistance of some of them including Mr. Aminur Rahman, Mr. Ranjan Kumar Bhowmik FCMA, Dr. Abdul Mannan Sikder, Dr. Abdur Rouf, Pijush Kanti Nath, Mr. Ahmed Munirus Salehin, and Mr. Al-Amin Pramanik. I want to distinctly recognize the generous support of Mr. Shachin Sarkar, Director, Research and Statistics Wing, NBR, who has provided me tax information according to my customization and helped me in obtaining the unpublished draft annual reports of the NBR. A number of persons have also helped me in obtaining the reference literature, particularly the help from the libraries of the Centre for Policy Dialogue and Bangladesh Bank and the personal help from my colleagues Mr. Dewan Mahboob Hossain and Mr. Pallab Kumar Biswas are noteworthy. My sincere gratitude is also due to Prof. Dilip Kumar Sen for some of his valued suggestions during the research.

I want to show my gratefulness to the management of the companies where I have undertaken the case study, and also to the respondents who have given their time and effort in filling up the questionnaire.

Blessings of my late father are always a source of my dedication to enhanced perfection for any study. I have no word to express my feeling towards the encouragement, support and love from my family, without which the study cannot be completed. My mother, my wife and two daughters have sacrificed their personal desire to devote my time to this study.

Swapan Kumar Bala

Date: 24.03.2010

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* 'Tax research in an accounting context' includes research that deals with taxation in the functional context of accounting practice—financial reporting, auditing, managerial accounting, financial management, and tax accounting (Lamb, 2005, p. 62). The purpose of tax research, as viewed by Raabe *et al.*, is to find solutions to the tax problems of one's clients or employer and the process is similar to that of traditional legal research (Raabe *et al.*, 2000, p. 37).

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ABSTRACT

The scope of the study is to critically appraise the VAT system in Bangladesh after a period of about two decades of its introduction in 1991-92. In particular, the study has been undertaken with the following objectives: (1) to identify the reasons and objectives of introducing VAT as an indirect tax in Bangladesh in 1991 and to have an idea about the extent of achievement of these reasons and objectives; (2) to provide a critical account of the evolutionary progress of the implementation of VAT over the years in terms of basic structure, comprehensiveness, administration, regulatory framework and an analytical review of the functioning of VAT system; (3) to show the extent of contribution of the revenue collection from VAT to the internal resource mobilization and also to measure the effects of VAT on the general mass as well as on the overall economy in some selected areas; (4) to identify the problems and difficulties faced by the VAT-payers from the implementing tax-authority in imposition and collection of VAT and also to enumerate the disadvantages and bad effects of VAT on the legal taxpayers (the persons registered under the VAT Act) in terms of grievances of the business community and inherent distortions in the present VAT system; and (5) to find out a solution preferred by the various groups involved in the value added taxation system.

As an exploratory study, the researcher has attempted to explore the VAT system in Bangladesh from its genesis with its initial vehement challenge of enactment and subsequent public acceptance, through following the perspective of a critical theory. The existing legal framework of VAT as practiced in Bangladesh over the study periods has been appraised using a theoretical lens of the standard practice of the VAT system in the European Community (EC). In the study, the strategies of inquiry followed are the mixed methods, employing the data collection associated with both quantitative and qualitative forms of data. The methodology includes case study of six companies and empirical questionnaire survey undertaken on randomly selected 38 taxable services provided by 67 taxable entities and also on 10 executives dealing with withholding VAT. In addition, six hypotheses have been formulated and tested.

According to the findings of the study, there were eight reasons of introducing the VAT in Bangladesh. Of them, seven objectives that have been achieved significantly subject to certain deviations from the standard VAT system include: removal of the cascading effects of input taxation at different stages production; generation of more internal resources than that excise duties and sales tax used to provide; introducing VAT as the main vehicle for resource mobilization; adopting a flat tax rate on a broader base, covering a wide range of goods except the primary agricultural products; bringing transparency in the taxation system; activating the overall economy by mobilizing more internal resources; and bringing consistency in the tax-GDP ratio. However, the *sixth* objective of introducing VAT (consolidating the tax administration) has not been achieved from the context of practical viewpoint.

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As regards the second objective, a critical account of the evolutionary progress of the implementation of VAT over the years in terms of basic structure (including variant, methods of computation, VAT taxpayers, tax points, structure, taxable event, rate structure, tax base, coverage, right to take input tax credit, adjustment for capital goods and regional limits), comprehensiveness, administration, regulatory framework and an analytical review of the functioning of VAT system have been provided. The findings of the critical assessment of the structural array of basic issues of VAT system in Bangladesh show significant deviations from the idealistic version of VAT in the EC, in terms of multiplicity of taxes (four taxes other than VAT being collected under the VAT law) and tax rates in addition to standard and zero rates, overlapping of legal and real taxpayers, four types of tax period, restrictive provisions of input tax credit mechanism, tax collection based on declared price and not on actual transaction value and tax payment in advance of actual sales, prescribed separate set of books of accounts and diverse types of tax invoices, inoperative refund system and unusual withholding mechanism for VAT in case of prescribed services.

The findings show that the rate of inflation in 1991-92 (the first year of introduction of VAT up to import-cum-manufacturing stages) and that in 1996-97 (the year of extending the VAT-net to retail stage) declined from the preceding year and hence, it is least likely impact of VAT on the general rate of inflation. The regressive tax structure, for which the VAT is highly liable, tends to violate the principle of equity in taxation. The findings indicate that pervasiveness of the VAT beyond its imposition on the non-agricultural base and the consequent regressivity thereof. However, the exemption of VAT is also significantly expansive substantially shrinking the VAT network, which can be stated as an attempt to make the VAT system to some extent equitable. There is also another aspect of introducing equity under the VAT system, which is related to effective reduced rate for selective taxable services. From the administrative point of view, the tax collection in Bangladesh can be said to be efficient in terms of the efficient use of resources budgeted for the NBR (average 87.5 percent of the budget spent only). The collection efficiency in terms of cost of raising revenue is also noticeable, because the cost per Taka 100 of VAT revenue is very low, which is only at an average Taka 0.54 during 2003-04 to 2007-08. However, from its initial standardized shape, the VAT in Bangladesh is now affected by the adoption of *ad hoc* measures and this has created some indiscriminate incongruity in the system.

The elasticity and buoyancy of the VAT in Bangladesh indicate that the VAT is highly elastic and buoyant. The elasticity indicator above 2 (i.e., 2.293) and the buoyancy statistic above 1 (i.e., 1.263) of the VAT over the seventeen years (1991-92 to 2007-08) show unimaginable ability of the tax in raising revenue. There is always an annual increase of VAT over the preceding year and the rate of this escalation ranges from 5.7 percent (in 1997-98) to the maximum of 47.7 percent (in 1992-93, the second year after the introduction of VAT), which might be a jumping rate for newly expanded tax coverage. Another observation is that the rate of increase in case VAT is usually higher until the recent decline in border stage taxation (2008-09 and 2009-10). However, in terms of C-efficiency ratio and VAT revenue

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productivity (VRP), Bangladesh has been successful to tap only a fraction of the potential (0.27 C-efficiency ratio and 0.22 VRP in 2008-09). Numerous exemptions, pervasive ad hoc measures, weak or corrupt enforcement, poor tax culture and a host of similar measures have contributed towards this poor efficiency of VAT.

If the outstanding VAT is considered, then there is a grave picture showing the efficacy of the enforcement ability of the VAT administration. For 2007-2008, of the combined outstanding taxes at both import and local stages, VAT was about Tk. 30 billion. The local stage VAT remains outstanding mainly due to different types of unsettled cases. Around 70 percent of local stage VAT has become pending for cases in the Supreme Court. The rate of recovery from the outstanding local VAT is very poor (average 7.4 percent of year-end outstanding).

At its inception, most of the political parties, except the ruling party and their allies, publicly protested the introduction of VAT vehemently. Even most of the ruling party lawmakers opposed the introduction of the VAT system in a Parliamentary Party meeting. Absence of sufficient preparatory time and lack of awareness program might be the reasons of objections. The business community has usually identified a number of common difficulties in relation to the VAT-payment, which have been also the source of their grievances on VAT. These difficulties include multiplicity of arithmetic calculations, the complication for multi-stage application, invoice-processing overload, difficulty in understanding VAT circulars, partial allowance of exemptions, disallowance of various things such as obsolete goods and existing accounting system, additional recording in VAT-related books, etc. There are a number of inherent distortions within the present VAT system including cascading effect for tax on tax (VAT on customs duty, and SD); complexities in the existing VAT system; regulatory distortion and malpractice regarding withholding VAT; absence of some legal provisions; and some discriminatory treatments across the taxpayers.

Case study findings show that except for one company, which took erroneously the VAT registration being an exempted entity, other five companies have maintained VAT documents properly. These companies submitted VAT return monthly, but the interesting finding is that in many cases there was a significant difference between the sales reported in audited accounts and that in VAT returns, but the companies defended themselves as a regular VAT-payer, without any irregularities. The excess sales as reported in the audited accounts were normally not taxable under different ad hoc VAT measures through SROs.

According to the findings of the empirical survey on 67 service providers, the level of compliance of VAT was not noteworthy (34.9 percent did not show VAT registration in the office in a conspicuous place; 78 percent of the respondents followed manual accounting and submitted the VAT return monthly; some followed POS software, ECR and both manual system and the ECR; 4.8 percent submitted VAT return quarterly, 1.6 percent half-yearly, 12.7 percent annually and 3.2 percent infrequently at the time of pressure by VAT officials; only 19.4 percent submitted some documents along with the return). In terms of VAT

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compliance time and costs, annual average time spent was 194 hours; whereas the annual average extra cost was around Tk. 394 thousand. However, 13.4 percent of respondents reported that they had no extra effort or costs for VAT related activities.

With respect to annual turnover, 28.4 percent of the respondent entities reported that their annual turnover was less than threshold for turnover tax, but they were registered due to the provision of mandatory registration (79.1 percent of the respondents fall in this category). Of the entities, 31.3 percent were paying VAT per annum at an amount less than Tk. 1 lakh, about half of them were paying VAT within Tk. 5 lakh and about 15 percent were paying VAT at Tk. 40 lakh or more. All the entities reported that they properly deposited the VAT to the Treasury, although there was wide variation in doing so (53.7 percent monthly; 3.0 percent half-yearly; 9.0 percent annually; and 4.5 percent solely through withholding VAT). About 10.4 percent were paying taxes infrequently depending on the frequency and scale of enforcement. One entity gave the money for VAT to the VAT official, who deposited it.

The respondent entities identified several problems with respect to VAT, although 28.4 percent of entities reported to have no problems on VAT. The problems relating to VAT included: delay in response from the VAT office to queries raised; tax computed was excessive; disallowance of input tax credit totally disallowed; interviews with VAT Officials were not satisfactory; frequent asking for submission of various documents; frequent visits of VAT persons cause business disturbance; frequent asking for upward revision of price; and VAT officials' tendency of blackmailing. About 6.5 percent of large entities faced a problem of "Pressure on gradual increase in VAT"; and around 2.8 percent of small entities faced problem concerning "Behaviour of concerned VAT officials not satisfactory enough".

However, both the small and large entities experienced the following common difficulties with respect to VAT management: difficulty in understanding the legal provision; unavailability of updated version of law; extra unnecessary documents; unavailability of updated SRO; delay in getting refund; discouraging computerized accounting; and financial hardship. The main solutions desired for mitigating the difficulties with respect to VAT management included: responsive help desk in VAT office; updated version of law in website; updated SRO in website; annual flat amount of tax; three-month tax period in place of one month; allowing existing accounting system; and monthly flat amount of tax.

The results of hypotheses testing show that VAT had no inflationary impact and it has significant contribution to the internal revenue generation. The VAT-related problems experienced by the small taxpayers and large taxpayers are mostly common. But the small taxpayers and large taxpayers have experienced different degree of difficulties relating to VAT, although they expect common type of solutions to remove those problems and difficulties. The VAT-payers have no harmful effect on their cash flows due to the collection and payment of VAT. Finally, the study suggests some policy recommendations for making the VAT system a standardized one, which would be distortion-free and more taxpayer-compliant.

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BRIEF CONTENTS

Chapter		Page
	Certificate	ii
	Declaration of the Candidate	iii
	Acknowledgements	iv
	Abstract	v
	Brief Contents	ix
	Table of Contents	x
	List of Tables	xiv
	List of Abbreviations	xvi
	Key to Letters and Vernacular Terms	xx
One	**Introduction**	1-6
Two	**Value Added Tax: Relevant Conceptual Issues**	7-40
Three	**A Survey of Related Literature**	41-78
Four	**Methodology of the Study**	79-94
Five	**Imposition of VAT in Bangladesh**	95-161
Six	**Management of VAT in Bangladesh**	162-200
Seven	**Taxation of Services under the Value Added Tax**	201-232
Eight	**Administrative Aspects of VAT in Bangladesh**	233-263
Nine	**Implications of Regulatory Changes on Value Added Taxation System**	264-285
Ten	**Findings on the Assessment of the VAT System in Bangladesh**	286-365
Eleven	**Summary, Policy Implications and Conclusion**	366-393
	Bibliography	394-426
	Annexes	427-431

Dhaka University Institutional Repository

TABLE OF CONTENTS

Chapter		Page
	Certificate	ii
	Declaration of the Candidate	iii
	Acknowledgements	iv
	Abstract	v
	Brief Contents	ix
	Table of Contents	x
	List of Tables	xiv
	List of Abbreviations	xvi
	Key to Letters and Vernacular Terms	xx
ONE	**INTRODUCTION**	1-6
	1.1 Background of the Study	1
	1.2 Research Problem	2
	1.3 Objectives of the Study	5
	1.4 Justification of the Study	5
	1.5 Organization of the Study	5
TWO	**VALUE ADDED TAX: RELEVANT CONCEPTUAL ISSUES**	7-40
	2.01 Introduction	7
	2.02 Meaning of Value Added Tax	7
	2.03 Types of Value Added Tax	9
	2.04 The Nature of Value Added Tax	14
	2.05 Value Added Tax vs. other Indirect Taxes	15
	2.06 Computation of Value Added	17
	2.07 Computation of Value Added Tax	19
	2.08 Use of the Concept "Value Added" in Accounting: A Historical Perspective	20
	2.09 The History of Value Added Tax	22
	2.10 Merits of Value Added Tax	30
	2.11 Demerits of Value Added Tax	35
	2.12 Summary	39
THREE	**A SURVEY OF RELATED LITERATURE**	41-78
	3.1 Introduction	41
	3.2 Literature Survey in the International Context	41
	3.3 Literature Survey in the Context of Bangladesh	73
	3.3.1 Study on Revenue Effects of the VAT System in Bangladesh	74
	3.3.2 Study on Revenue Neutral VAT in Bangladesh	74
	3.3.3 Study on Equity Aspects of the VAT System in Bangladesh	75
	3.3.4 Study on a Systemic Analysis of the VAT Policy of Bangladesh	75
	3.3.5 Studies on VAT in Operation, VAT Administration, Input Tax Credit System, and VAT System in Bangladesh	76
	3.4 Summary	78

Dhaka University Institutional Repository

FOUR	METHODOLOGY OF THE STUDY	79-94
	4.1 Introduction	79
	4.2 The Framework of Research Design	79
	4.2.1 Theoretical Perspectives	79
	4.2.2 Approaches to Research	81
	4.2.3 Research Methods	82
	4.3 Hypotheses	83
	4.4 Sources of Information and Database of the Study	84
	4.5 Scope of the Study	86
	4.6 Sampling Procedure	86
	4.7 Survey Instruments	90
	4.8 Statistical and other Measurement Techniques Used	91
	4.9 Limitations of the Study	94
FIVE	IMPOSITION OF VAT IN BANGLADESH	95-161
	5.1 Introduction	95
	5.2 Taxation in Bangladesh: A Historical Perspective	95
	5.3 History of Introducing VAT in Bangladesh	96
	5.4 Reasons of Introducing VAT in Bangladesh	103
	5.5 Preparation before the Implementation of VAT	105
	5.6 Basic Aspects of VAT in Bangladesh	106
	5.6.1 Variant of VAT	106
	5.6.2 Methods of Computation of VAT	111
	5.6.3 VAT Taxpayers	113
	5.6.4 Tax Points under VAT System	115
	5.7 Structure of VAT in Bangladesh	116
	5.7.01 The Taxable Event	117
	5.7.02 The Taxable Persons	118
	5.7.03 Rate Structure	120
	5.7.04 Tax Base	125
	5.7.05 Special Issues in Considerations	131
	5.7.06 Coverage of VAT	133
	5.7.07 Right to Take Input Tax Credit	148
	5.7.08 Taxation of Private Use	155
	5.7.09 Adjustment for Capital Goods	156
	5.7.10 Regional Limits	157
	5.8 Summary	158
SIX	MANAGEMENT OF VAT IN BANGLADESH	162-200
	6.01 Introduction	162
	6.02 Registration or Enlistment	162
	6.03 Accounting Obligations	166
	6.04 Declaratory Obligations	169
	6.05 VAT Invoices	172
	6.06 Submission of Return	174
	6.07 Payment of Tax	176

Dhaka University Institutional Repository

	6.08	Withholding VAT	177
	6.09	Tax Assessment and Assessment Authorities	180
	6.10	Size of Firm for the Imposition of VAT	182
	6.11	Treatment of Exports under the VAT Laws	187
	6.12	Summary	198
SEVEN	**TAXATION OF SERVICES UNDER THE VALUE ADDED TAX**		201-232
	7.1	Introduction	201
	7.2	Service Sector Taxation in Bangladesh: Pre-VAT Regime	201
	7.3	Coverage of Service Sector under the VAT System	202
	7.4	Tax Points for Taxable Services	211
	7.5	Tax Base and Tax Rates for Taxable Services	218
	7.6	Services as Input and Input Tax Credit Thereon	219
	7.7	Complexities in Defining Services	220
	7.8	Some Special Issues for Renderer of Taxable Services	225
	7.9	Summary	227
EIGHT	**ADMINISTRATIVE ASPECTS OF VAT IN BANGLADESH**		233-263
	8.01	Introduction	233
	8.02	VAT Authorities and Their Appointment	233
	8.03	Tax Jurisdictions under the VAT Systems	237
	8.04	The Audit of VAT	242
	8.05	Inspection, Investigation and Other Enforcements under VAT Laws	245
	8.06	Reporting by the VAT Authorities	248
	8.07	Penal Provisions for Noncompliance of the VAT Laws	249
	8.08	Appeal, Revision or Rectification	253
	8.09	Recovery of Delinquent Revenue	255
	8.10	Refund of Excess Revenue	257
	8.11	Taxpayer Assistance by VAT Authorities	257
	8.12	Large Taxpayer Unit (LTU): A Perusal	258
	8.13	Computerization of VAT Administration	259
	8.14	Summary	262
NINE	**IMPLICATIONS OF REGULATORY CHANGES ON VALUE ADDED TAXATION SYSTEM**		264-285
	9.1	Introduction	264
	9.2	A Note on the Chronology of Regulatory Changes	264
	9.3	Some Important Changes in the VAT Statutes: A Critical Review	279
	9.4	Summary	285

Dhaka University Institutional Repository

TEN	**FINDINGS ON THE ASSESSMENT OF THE VAT SYSTEM IN BANGLADESH**		286-365
	10.01	Introduction	286
	10.02	An Assessment on the Achievement of Objectives of Introducing Value Added Tax	286
	10.02.1	Removal/Prohibition of the Cascading Effects of Input Taxation at Different Stages of Production	286
	10.02.2	Generation of More Internal Resources than that Excise Duties and Sales Tax Used to Provide	287
	10.02.3	Introducing Value Added Tax as the Main Vehicle for Resource Mobilization	292
	10.02.4	Adopting a Flat Rate of Taxation on a Broader Base, Covering a Wide Range of Goods Except the Primary Agricultural Products	294
	10.02.5	Bringing Transparency in the Taxation System	295
	10.02.6	Consolidating the Tax Administration	296
	10.02.7	Activating the Overall Economy by Mobilizing More Internal Resources	297
	10.02.8	Bringing the Consistency in the Tax-GDP Ratio	298
	10.03	A Critical Appraisal of the Functioning of the VAT System	300
	10.04	Price Effects of VAT	308
	10.05	Equity Aspect of VAT	313
	10.06	Efficiency Aspect of VAT	316
	10.07	Contribution of VAT in the Tax Structure	319
	10.08	Outstanding, Recovery and Drawback of VAT	330
	10.09	Grievances of the Business Community and Inherent Distortions in the Present VAT System	332
	10.10	Findings of the Case Studies	340
	10.11	Findings of the Empirical Survey	349
	10.12	An Endnote on Hypotheses Testing	363
ELEVEN	**SUMMARY, POLICY IMPLICATIONS AND CONCLUSION**		366-393
	11.1	Introduction	366
	11.2	A Summary of the Overall Findings of the Study	366
	11.3	Policy Implications of the Study	388
	11.4	Scope of Further Study	392
	11.5	Conclusion	393
	BIBLIOGRAPHY		394-426
	ANNEX		427-431
	Annex-I:	**QUESTIONNAIRES**	
		Questionnaire-I	427-429
		Questionnaire-II	430-431

Dhaka University Institutional Repository

LIST OF TABLES

		Page
Table 1.1	Tax, Revenue and VAT Indicators	3
Table 2.01	Possible Combinations of Various Choices about VAT	12
Table 2.02	Comparative Operation of General Turnover Tax, Single-Stage Tax, and Value Added Tax, with 10% Rate	17
Table 2.03	Computation of Tax-Base under Different Types of VAT	18
Table 2.04	Computation of Value Added	18
Table 2.05	Computation of Value Added Tax in the UK	20
Table 2.06	Comparison of the Cost-Subtraction Procedure and Tax-Credit Procedure of Computing VAT under Three Situations: (1) a Uniform 4% Tax Rate, (2) a 10% Rate at Manufacturing Stage with a 4% Rate at Other Stages, and (3) a 10% Rate at Retailing Stage with a 4% Rate at Other Stages	20
Table 2.07	Chronology of VAT Adoption in the EMU Countries	26
Table 2.08	Decade-wise Chronology of VAT Adoption in the World	27
Table 2.09	Year-wise Chronology of VAT Adoption in the World	29
Table 2.10	Region-wise VAT Adoption in the World	30
Table 4.1	Sample Respondent Service Providers	89
Table 5.01	Truncated Value Addition and the Net VAT Rate for Services	122
Table 5.02	Truncated Value Addition and the Net VAT Rate for Traders and Commercial Importers	123
Table 5.03	Rates of Turnover Tax (TT) and Supplementary Duty	124
Table 5.04	Rates of Supplementary Duty for Taxable Services	124
Table 5.05	Effective Main SROs/Orders relating to Exemption in FY 2009-10	134
Table 5.06	Number of H.S. Codes in the First Schedule of the VAT Act	137
Table 5.07	Number of Total Specific Taxable Services and Heading Numbers	139
Table 5.08	List of All Prescribed Taxable Services up to FY 2009-10	141
Table 5.09	Full Exemption with Exemption Period up to 30 June 2010	145
Table 5.10	Partial Exemption with Exemption Period up to 30 June 2010	146
Table 5.11	Services subject to Exemption of Supplementary Duty (SD)	148
Table 5.12	Negative List for Input Tax Credit	150
Table 5.13	Negative List for Partial Input Tax Credit	153
Table 6.01	Taxable Goods and Number of Services under Mandatory Registration	164
Table 6.02	Conditionalities for Cottage Industry	165
Table 6.03	Negative List of Goods for Cottage Industry Benefit	165
Table 6.04	Tax Periods prescribed by SROs and Orders	175
Table 6.05	Frequency of Payment of Value Added Tax by Traders	177
Table 6.06	Year-wise Services subject to VAT deduction/collection at sources	178
Table 6.07	Annual Turnover Threshold for Turnover Tax and Turnover Tax Rate	183
Table 6.08	Maximum Capital Investment and Annual Turnover for Cottage Industry	184
Table 6.09	Traders as Payers of Turnover Tax (TT) and VAT	185
Table 6.10	Minimum VAT Payable by Small Traders or Shops	186
Table 6.11	Exemption of VAT on Services taken by the Exporters	192
Table 6.12	Exemption of VAT on Natural Gas and Six Services Used for Export Goods	193
Table 6.13	Items Allowed for Direct Export through Commercial Banks	197
Table 7.1	List of Excisable Services from FY 1970-71 to FY 1990-91	201
Table 7.2	Year-wise Specific Service Codes Inserted (Deleted)	203
Table 7.3	Chronology of Bringing the Taxable Services under the List of Mandatory Registration	209

Dhaka University Institutional Repository

Table 7.4	A Chronology of the Rates of VAT Deducted at Source (VDS)	212
Table 7.5	Rate of VAT Deducted at Source (VDS) in FY 2009-10 vs. Rate of Income Tax Deducted at Source (TDS) in AY 2009-10	214
Table 8.01	Statutory Designations of Customs, Excise and VAT Officials	235
Table 8.02	Categories of Employees in Tax Administration in FY 2007-08	236
Table 8.03	Vacant Posts (as % of Sanctioned Posts) in Tax Administration	237
Table 8.04	Layers of VAT Administration	237
Table 8.05	Regime-wise NBR-Tax as a Percentage of Total Taxes and Revenues	238
Table 8.06	The NBR's Members in Charge of the Wings	239
Table 8.07	VAT Branches in the NBR and their Officials	240
Table 8.08	Number of Offices for VAT Administration (other than NBR)	240
Table 8.09	Regional Distribution of Customs, Excise and VAT Offices	241
Table 8.10	Power of Adjudication of the VAT Officers except for Export/Import	247
Table 8.11	Power of Adjudication under VAT Laws for Export/Import (2007-08 & onward)	247
Table 8.12	A Chronology of Offences and Penalties u/s 37(1)	250
Table 8.13	A Chronology of Offences and Penalties u/s 37(2)	251
Table 8.14	Appeal Procedure under the VAT Laws	254
Table 8.15	Revenue Performance of the LTU-VAT	259
Table 9.01	Import-Stage Taxes in Bangladesh during the VAT Regime	266
Table 9.02	Number of Sections, Sub-sections and Frequency of Amendments thereon	268
Table 9.03	Frequency of Amendment/Substitution of Schedules to the VAT Act	270
Table 9.04	Frequency of Amendment to the VAT Rules	270
Table 9.05	An Inventory of VAT SROs	272
Table 9.06	VAT SROs issued by the NBR in place of Order	273
Table 9.07	Effective Number of VAT SROs on 30.06.2009	273
Table 9.08	Annual Effective Number of VAT SROs	274
Table 9.09	Number of Valid SROs in FY 2009-10 (on 30.06.2009)	275
Table 9.10	Effective VAT SROs on 30.06.2009 with SRO Nos.	275
Table 10.01	Excise Taxation in 1990-91 and 1991-92	288
Table 10.02	Comparative Revenue Performance from Sales Tax and Excise Duty vs. Taxes under the VAT Laws	290
Table 10.03	Incremental Annual Tax Collection	291
Table 10.04	Contribution in Incremental Annual Tax Collection	291
Table 10.05	Share of Sales Tax, Excise Duty and Taxes under the VAT Laws	292
Table 10.06	Tax Structure in Bangladesh during the VAT Regime	293
Table 10.07	VAT as a Fiscal Instrument	293
Table 10.08	Periodic Average Tax and Revenue as a Percentage of GDP	299
Table 10.09	Tax-GDP Ratios and Revenue-GDP Ratios in SAARC Countries	299
Table 10.10	Rate of Inflation	309
Table 10.11	Rate of Inflation Measured by Percentage Change in Cost of Living Index	310
Table 10.12	Changes in Annual Average Consumer Price Indices of Middle Income Group at Dhaka, Chittagong and Khulna over the Preceding Year (Base: 1973-74 = 100)	311
Table 10.13	Year-wise Tax Structure vs. VAT	314
Table 10.14	Extent of Exemption Related SROs	315
Table 10.15	Extent of Taxable Services under Reduced Rate	316
Table 10.16	Budgeted and Actual Cost of Revenue Collection by Tax Authorities	317
Table 10.17	Tax Collection Efficiency of the Tax Authority	318
Table 10.18	Elasticity and Buoyancy of VAT and Other Taxes with respect to Non-Agricultural GDP	319

Dhaka University Institutional Repository

Table 10.19	Extent of Annual Increase over the Preceding FY	320
Table 10.20	Extent of Compound Growth over a Period	321
Table 10.21	Annual Tax Collection as a Percent of Revised Budget	322
Table 10.22	Actual Collection of NBR Taxes as a Percent of Budget (as classified by NBR)	322
Table 10.23	C-Efficiency Ratio (CER) and VAT Revenue Productivity (VRP) in Bangladesh and Other Asia-Pacific Countries	324
Table 10.24	VAT Collection according to Stages or Types of Commodities	325
Table 10.25	VAT Registered Persons	325
Table 10.26	Top Ranked Goods Yielding the Highest Amount of VAT (Local)	327
Table 10.27	Top Ranked Services Yielding the Highest Amount of VAT (Local)	328
Table 10.28	Jointly Top Ranked Goods and Services Yielding the Highest Amount of VAT (Local)	329
Table 10.29	Outstanding, Recovery and Drawback of Indirect Taxes or VAT	330
Table 10.30	Outstanding VAT (Local) in 2007-2008	331
Table 10.31	Sample Services and the Yielding of VAT (Local) by Them	350
Table 10.32	Distribution of Survey Respondents	351
Table 10.33	Basic Statistics of the Sample Entities	352
Table 10.34	Age of VAT Payment of Survey Respondents	352
Table 10.35	Accounting Method and Frequency of Submission of VAT Return	353
Table 10.36	Extra Time, Effort and Cost for VAT and VAT-related Activities	353
Table 10.37	Last Year's Annual Turnover	354
Table 10.38	Last Year's VAT Payment	354
Table 10.39	Last Year's VAT Payment	354
Table 10.40	Problems Faced by the Registered Persons	355
Table 10.41	Difficulties Experienced by the Registered Persons	356
Table 10.42	Solutions Suggested by the Registered Persons	357
Table 10.43	Perception about Effect of VAT on Cash Flow	359
Table 10.44	Service Provider's Attitude toward VAT	359
Table 10.45	Frequency of Submission of Return and VAT Payment	360
Table A.10.1	Annual Tax-GDP and Revenue-GDP Ratios (in percentage)	365

LIST OF ABBREVIATIONS

ACAS	Advisory, Conciliation and Arbitration Service (UK)
ACR	Annual Confidential Report
A.D.	Anno Domini (years after Christ's birth)
AD	Appellate Division (of the Supreme Court)
ADB	Asian Development Bank
AIT	Advance income tax
ASSC	Accounting Standards Steering Committee (of ICAEW)
ASYCUDA	Automated SYstem for CUstoms Data
ATT	Airline ticket tax
ATV	Advance Trade VAT
AV	Assessable value
BAT	Business Activity Tax (Michigan, USA)
BBS	Bangladesh Bureau of Statistics
BBS	Bangladesh Bureau of Statistics
B.C.	before Christ
BCI	Bangladesh Chamber of Industries
BCS	Bangladesh Civil Service
BE	Budget estimate
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIDS	Bangladesh Institute of Development Studies

Dhaka University Institutional Repository

BIN	Business Identification Number
BLC	*The Bangladesh Law Chronicles*
BLD	*The Bangladesh Legal Decisions*
BLT	*The Bangladesh Law Times*
BNP	Bangladesh Nationalist Party
BPSC	Bangladesh Public Service Commission (popularly known as 'BCS Cadre')
BSFIC	Bangladesh Sugar and Food Industries Corporations
BTT	Business turnover tax
BTTB	Bangladesh Telegraph & Telephone Board
BUX	Built-up export
C&E	Her/His Majesty's Customs and Excise (UK)
CA	Chartered accountant
CCC	Customs Cooperation Council (at Brussels, Belgium)
CD	Compact Disc (rented by a Rental Shop)
CD	Customs duty
CDMA	Code Division Multiple Access
CDST	Customs duty and Sales Tax
CENVAT	Central VAT
CER	C-efficiency ratio
CEVAT	Customs, Excise and VAT Appellate Tribunal
CFS	Container Freight Station
CH	Customs House
CI sheet	Corrugated iron sheet
CIC	Central Intelligence Cell
CIS	Customs Information System
CKD	Complete knock down
CLC	*The Chancery Law Chronicles*
CPD	Centre for Policy Dialogue
CR coils	Cold rolled coils
CRCT	Canadian Royal Commission on Taxation
CRF	Clean Report of Findings
CrPC	Code of Criminal Procedure
CT	(Japanese) Consumption Tax
CTTR	Centre for TAX Training & Research
CVAT	compensating value added tax
C–VAT	consumption-type value added tax
CVD	Countervailing duty
DEDO	Duty Exemption and Drawback Office
DG	Director General
DLR	*The Dhaka Law Reports*
'D' report	Daily Report
dt.	dated
ECJ	European Court of Justice
ECR	Electronic cash register
EMS	Express Mail Service
EMU	European Economic and Monetary Union
ENT	Ear, nose & throat
EPZ	Export Processing Zone
ERD	Economic Relations Division
ERW pipe	Electric-resistance-welded pipe
ESAF	Extended Structural Adjustment Facility
ETAC	Excise, Tax and Customs
EU	European Union
EXP	Export
FA	Finance Act

Dhaka University Institutional Repository

FD	Finance Division
FO	Finance Ordinance
FV	Final Value
FY	financial year
FYP	Five-year plan
G2B	Government-to-business
GATS	General Agreement in Trade on Services
GATT	General Agreement on Tariffs and Trade
GC sheet	Galvanized corrugated sheet
GDI	gross domestic income
GDP	gross domestic product
GI pipes	Galvanized iron pipes
GNP	gross national product
GO	General Order
GOB	Government of Bangladesh
GP sheet	Galvanized plain sheet
GST	Goods and services tax
H.S. Code	Harmonized Commodity Description and Coding System
HCD	High Court Division (of the Supreme Court)
HDC	The Mahbub ul Haq Human Development Centre
HO	Head Office
HR coils	Hot rolled coils
IAS	International Accounting Standard
IBFD	International Bureau of Fiscal Documentation (Amsterdam)
ICAB	Institute of Chartered Accountants of Bangladesh
ICAEW	Institute of Chartered Accountants in England and Wales
ICAI	Institute of Chartered Accountants of India
ICD	Inland Container Depot
ICMA (UK)	Institute of Cost and Management Accountants (UK)
IDSC	Infrastructure Development Surcharge
IEE	Index of Economic Freedom
IFAC	International Federation of Accountants
IFC	International Finance Corporation
IMF	International Monetary Fund
IRD	Internal Resources Division
ITIS	Income Tax Information System
ITO	Income Tax Ordinance
I–VAT	income-type value added tax
KDX	Knocked-down export
kVA	kilovolt-amps
L/C	Letter of Credit
LAN	Local Area Network
LCD	Liquid crystal display
LTU	Large Taxpayer Unit
MCCI	Metropolitan Chamber of Commerce and Industry
MIS	Management Information Systems
MLR	*The Mainstream Law Reports*
MLSS	Member of the Lower Subordinate Staff
MODVAT	Modified Value Added Tax
MOE	Ministry of Establishment
MOF	Ministry of Finance
MoU	Memorandum of understanding
'M' report	Monthly Report
MS pipes	Mild steel pipes
MS rod	Mild steel rod

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MT	Mail transfer
MTBF	Medium-term budgetary framework
NBR	National Board of Revenue
NGO	Non-government organization
NNP	net national product
NVR	Net VAT rate
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
p.	Page
para	paragraph
PC	Personal computer
PO	Presidential Order
POL	Petroleum, oil and lubricant
POS	Point of sales
pp.	pages
PRC	Proceeds Realization Certificate
PRSP	Poverty reduction strategy paper
PSI	Pre-shipment inspection
PSISC	Pre-shipment inspection agency's service charge
P–VAT	product-type value added tax
R&S	Research & Statistics (Wing of NBR)
RB	Revised budget
RBI	Reserve Bank of India
RD	Regulatory duty
RE	Revised estimate
RUIM	Removable User Identification Module
SAARC	South Asian Association of Regional Cooperation
SAARC	South Asian Association for Regional Cooperation
SAF	Structural Adjustment Facility
SAFA	South Asian Federation of Accountants
S.Code	Service Code
SD	Supplementary duty
Sec.	Section
SIM	Subscriber's Identity Module
SIM	Subscriber's Identity Module
SKD	Semi knocked down
SPEED	Special Processing of Electronically Entered Declaration
SPSS	Statistical Package for the Social Sciences
'S' report	Spot Report
SRO	Statutory Rules and Order
TDS	(Income) Tax deducted (or collected) at source
TEC	Taxes Enquiry Commission
TIN	Taxpayer's Identification Number
Tk.	Taka
TR	Treasury Rules
TT	Turnover Tax
TT	Telegraphic transfer (by a Provider of Banking & Non-Banking Services)
TV	Television
TVA	Truncated value addition
UD	Utilization Declaration
UDA	Upper Divisional Assistant
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund

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UNW	Unweighted average
UP	Utilization Permission
u/r	under rule(s)
UPS	Uninterrupted power supply
U.S.	United States (of America)
u/s	under section(s)
USA	United States of America
UTIN	Unified Taxpayer's Identification Number
VA	value added
VAS	Value added statement
VAT	value added tax
VDS	VAT deducted (or collected) at source
VIS	VAT Information System
VIVAT	viable integrated VAT
VLT	VAT law taxes (VAT, SD and TT)
VRP	VAT Revenue Productivity
WA	Weighted average
WASA	Water and Sewerage Authority
WB	World Bank
w.e.f.	with effect from

KEY TO LETTERS AND VERNACULAR TERMS

Bangla	অ	আ	ই	ঈ	উ	ঊ
English	i	ii	iii	iv	v	vi

Bangla	ক	খ	গ	ঘ	ঙ	চ	ছ	জ	ঝ	ঞ	ট	ঠ	ড	ঢ	ণ
English	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o

Bangla	ত	থ	দ	ধ	ই	প	ফ	ব	ভ	ম	য	র	ঔ	ঊ
English	p	q	r	s	t	u	v	w	x	y	z	za	zb	zc

	Same physical appearance in English		Same physical appearance in Bangla	
Bangla	অ	ঋ	(বর্গীয়) ব	(অন্তঃস্থ) ব
English	i	i	w	zc

Bangla	ধারা	২(থ)(অ)	৬(৪গ)(অ)	৭১কক(খ)(অ)	২(ব)	২(ব)	২০(ঝ)	৯(১)(ঝ)	২(ম)(অ)
English	section	2(q)(i)	6(4C)(i)	71AA(b)(i)	2(w)*	2(zc)**	20(i)	9(1)(i)	2(y)(i)

*Definition of "concerned officer" under section 2(w) **Definition of "deemed to be exported" under section 2(zc)

Bangla	বিধি	৩(১ক)	৩ককক	৩খ(চ)	১৯(১ক)(ক)	২৭(৯)(খ)	৩২ক(ঙ)	৩৪ক(৫)	৪১(৫)(খ)
English	rule	3(1A)	3AA	3B(f)	19(1A)(a)	27(9)(b)	32A(e)	34A(5)	41(5)(b)

Bangla Term	Clarification
Ain	Act (or Law)
Chalan	Invoice
chalan patra or *Chalanpatra*	Invoice
Crore	10,000,000 or 10 billion
lakh (or *lac*)	100,000 or 100 thousand
Musak	acronym of *Mulya Sangjojan Kar* (Value Added Tax)
Prgnapan	(Gazette) Notification
Treasury Chalan	Treasury Invoice

Note: This key is for providing a ready cross-reference of letters and some words in Bangla (the vernacular language) and English, since the main text of the VAT laws are in Bangla. Capital letter is used in section, sub-section, rule and sub-rule references; small letter in clause references; and Roman number in sub-clause references.

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The roots of the value added tax (VAT) idea and the theoretical support of the concept of value added as a tax base are of U.S. origin. The early favourable reception given to VAT by the United States (U.S.) tax profession can trace its origins to the writings of Thomas S. Adams, a Professor at Yale, who pioneered the 1913 federal individual income tax legislation. Prof. Adams is the first person who supported the basic concept of VAT first in 1911 and later in 1921, he again supported the VAT as the best approach to the taxation of businesses (Lindholm, 1982, pp. 943-944). Hence Professor Adams should be given the credit of innovating the idea of VAT. However, a pioneer niche is rightly occupied by Professor Carl S. Shoup of Columbia University, for whose effort in 1950, Japan enacted the VAT as part of the Local Tax Law of 1950, although it was never implemented and was withdrawn in 1954 (Garner, 1977, p. 41).[1] The only example of value added type of tax in the United States was used in the state of Michigan from 1953 until 1968. It was called a BAT (business activities tax), not VAT and the tax base was the "adjusted receipts" of the business, which was the gross receipts from the business activity less costs and expenses previously subjected to taxation when payment was made to other businesses, and consequently the amount remaining was the value added and was subject to the tax (Sullivan, 1965, p. 147; *vide* Garner, 1977, p. 43; Lindholm, 1982, p. 944; Muten, 1982, p. 263).[2] But due to introduction of VAT at national level, France is considered to be the first country to introduce VAT in 1954 (Khadka, 1997, p. 10).

In Bangladesh, Value Added Tax (VAT) has been introduced since July 1, 1991 under the *Value Added Tax Act 1991* (hereinafter, VAT Act) and the *Value Added Tax Rules 1991* (hereinafter, VAT Rules). First the VAT Act was promulgated as the *Value Added Tax Ordinance 1991* made by Acting President Justice Shahabuddin Ahmed on May 31, 1991 and it was published in the Official Gazette of June 1, 1991 with eight sections (sections 15 to 18, 20 to 22 and 72 relating to VAT registration, and appointment and power of VAT authorities) effective from June 2, 1991 and the remaining sections with effect from July 1, 1991.[3] The Value Added Tax Rules 1991 was promulgated by the National Board of Revenue (NBR) according to the 'power to make rules'

---

[1] The VAT was recommended for use in Japan by the Shoup Mission. In 1949, the Supreme Commander for the Allied Powers (SCAP), General Douglas MacArthur, invited Prof. Shoup to assemble a tax mission to study the postwar economic situation of Japan and make a recommendation for an appropriate tax structure for the country. The recommendation called for a complete overhaul of the Japanese tax system and the members of the mission belived their recommendation if adopted would result in the "best tax system in the world" [*Report on Japanese Taxation* (Tokyo: General Headquarters, Supreme Commander of the Allied Powers, 1949), Volume II, pp. 197-204, ii; *vide* Garner, 1977, pp. 40-41].

[2] The Michigan BAT was administered much like an income tax. In 1955, the rate started at 4 mills on the "adjusted receipts" and was later increased to 7.75 mills in 1959. The BAT was enacted as an alternative to a business income tax, but, strangely enough, it appears to have been strongly influenced by the typical corporate profits tax law in its requirement of computing the adjusted receipts base for the tax (Garner, 1977, pp. 43). James A. Papke (1960) mentioned the BAT as VAT in his article titled "Michigan's Value-Added Tax After Seven Years," *National Tax Journal*, Vol. XIII, No. 4 (December).

[3] The reference of any section or rule, hereinafter, without mentioning of any Act or Rules, shall be deemed to be the section of the Value Added Tax Act 1991 or rule of the Value Added Tax Rules 1991.

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provided in section 72 of the VAT Ordinance as an SRO (Statutory Rules and Order) No. 178-Ain/91/3-Musak, dated June 12, 1991 and published in the Official Gazette on the same day. The VAT Bill was introduced in the Parliament on July 1, 1991 and passed by the Parliament on Jury 9, 1991. The Acting President's assent was given to it on July 10, 1991 as the 22nd Act of 1991. Thus, VAT is now being imposed by the *Value Added Tax Act 1991 (Act No.22 of 1991).*[4] Under section 73 of the VAT Act, the *Sales Tax Ordinance 1982* and the *Business Turnover Tax Ordinance 1982* have been repealed. The 'sales tax' (in the name of VAT) and the 'business turnover tax' (in the name of 'turnover tax') have been brought under the ambit of the VAT Act. The scope and coverage of the Act imposing 'excise duty' on domestically produced goods and services (i.e., the Excise and Salt Act 1944) have also been reduced to expand the VAT-net and now all the previously excise dutiable goods and most of the excisable services except very few are subject to VAT. In addition, another tax named 'supplementary duty' (SD) is also being imposed under the purview of the VAT Act on those goods and services which are deemed to be 'luxurious, non-essential, and socially undesirable' and on other goods and services which are deemed to be reasonable to impose supplementary duty in the interest of public.[5]

1.2 Research Problem

Bangladesh is unable to raise enough resources through taxes. Taxes to GDP (gross domestic product) ratios, which indicate the ability to tap resources from a growing economy, are usually low in South Asia. But the case of Bangladesh is more alarming. On average, tax revenues in Bangladesh are only little more than 9 percent of GDP, which is lower than South Asian average of 11 percent, the developing country average of 15 to 20 percent, the average of 16 percent for South East Asia and the Pacific, the industrialized country average of 30 percent and the average of 24 percent for high-income countries. The size of tax-GDP ratio becomes particularly insignificant when it is compared with several European countries, where tax revenues are between 35-40 percent of GDP. In SAARC (South Asian Association for Regional Cooperation) region, the position of Bangladesh is only better than that of India, Nepal and Bhutan in 1996 and also in 1999. The stagnating or declining natures of the Bangladesh tax system is a "clear indication of a tax system that remains inelastic and non-responsive to growth in the economy" (HDC, 1999, p. 79; UNDP, 1999, pp. 184-187). The VAT has been introduced in Bangladesh primarily with an expectation to augment the size of the public revenue.

At the beginning, VAT has been introduced at import-cum-manufacturing stage with the replacement of previous sales tax and excise duty and the export has been kept as zero-rated. Since the financial year (FY) 1996-97, VAT has been imposed on selected items at wholesale and retail levels. In the revenue proposal of the budget of 1991-92, Tk. 250 crores was proposed from VAT, but the actual revenue collection was much higher (actual revenue from VAT was Tk. 1,735.27 crore which was 5.94 times higher than estimated). In the 1990-91, the tax-GDP ratio was only 5.96 percent which rose to 6.61 percent in the following 1991-92, the year of

[4] A historical chronology of the implementation of VAT has been given in Chapter 5.

[5] From the financial year 1999-2000, the coverage of SD has been extended to 'other goods and services which are deemed to be reasonable to impose SD in the interest of public,' in addition to the primary coverage of goods and services which are deemed to be "luxurious, non-essential, and socially undesirable" (the *Finance Act 1999*).

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introducing VAT. And this ratio continued to remain above 7 percent over the successive FYs. After independence, the average tax-GDR ratio was only 5.62 percent in the 1970s (1972-73 to 1979-80), it declined to 5.39 percent in the next decade (1980-81 to 1989-90), but it improved significantly in the following decade (1990-91 to 1999-2000) to 7.11 percent. The ratio has further been enhanced to average 8.64 percent in the present decade (2000-01 to 2009-10) including the ongoing fiscal year (*vide* Table 1.1 below).

Table 1.1: Tax, Revenue and VAT Indicators

Financial Year (FY)	As a Percentage of GDP			VAT as a % of	
	Tax Revenue	Non-Tax Revenue	Total Revenue	Total Tax	Total Indirect Tax
1972-73 to 1979-80	5.62	0.89	6.51	--	--
1980-81 to 1989-90	5.39	1.05	6.44	--	--
1990-91	5.96	1.27	7.23	--	--
1991-92	6.61	1.60	8.21	21.96	29.23
1990-91 to 1999-2000	7.11	1.70	8.81	--	--
1991-92 to 1999-2000	7.19	1.73	8.92	30.17	39.09
2000-01 to 2009-10	8.64	2.02	10.66	34.48	47.25
2008-09 (RB)	9.03	2.22	11.25	36.23	51.51
2009-10 (B)	9.31	2.26	11.57	35.64	51.83

Growth Rate (compound) [Base: 1992-93]		
FY	Total Tax	VAT
1995-96	9.57	14.62
1999-2000	8.21	10.55
2004-05	10.69	12.43
2007-08	11.86	13.73
2008-09	11.85	13.74
2009-10	12.04	13.72

Note: Figures of 2008-09 are from 'Revised Budget' (RB) and Figures of 2009-10 are from original 'Budget' (B).

Sources: Computation based on the *Annual Report 2007-2008* of the NBR (NBR, 2009) and GOB (2009a; 2009b).

To this enhanced tax-effort, the revenue from VAT is *inter alia* a major contributor. If the revenue from VAT is considered, its volume, both in absolute figure and in relative measure, has been increased a lot. The collection of Tk. 1,735 crore from VAT in 1991-92 has been increased to Tk. 4,588 crore in 1997-98, i.e., 164.41 percent higher in direct increase and 17.59 per cent increase in terms of compound growth rate (NBR, 2009). In the initial year (1991-92), the revenue from VAT was only 21.96 percent of total tax and 29.23 percent of total indirect tax. These ratios rose to average 30.17 percent and 39.09 percent respectively during 1991-92 to 1999-2000 and average 34.48 percent and 47.25 percent respectively during 2000-01 to 2009-10. In the revised estimate of 2008-09, the revenue from VAT was expected to be 36.23 percent of total tax and 51.51 percent of total indirect tax. In the budget estimate of 2009-10, the revenue from VAT is targeted to be 35.64 percent of total tax and 51.83 per cent of total indirect tax. The compound growth rate of VAT is also always higher than that of total tax. Taking a base of 1992-93, the growth rate of total tax was 9.57 percent in 1995-96, 8.21 percent in 1999-2000, 10.69 percent in 2004-05, and is expected to be 12.04 percent in 2009-10. However, the corresponding the growth rate of VAT was 14.62 percent in 1995-96, 10.55 percent in 1999-2000, 12.43 percent in 2004-05, and is expected to be 13.72 percent in 2009-10 (*vide* Table 1.1). In the statement of objects and reasons while introducing the VAT Bill, 1991 on 1 July, 1991, the then Finance Minister said that it was being considered proper and necessary to introduce VAT in place of present sales tax at the import level and excise duty at the local production and service level in order to remove inconsistency and defects of the current indirect taxation system in the country. He mentioned the VAT in that introducing statement as 'modern and dynamic taxation system', 'more elastic tax',

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'possibility of cascading taxation reduced compared to other taxation system', 'a transparent taxation system', 'possibility of tax evasion would be reduced, if it is introduced', 'having no effect on the value stage or income distribution', 'administrative complexity will be reduced', 'method of tax collection will be easier', and 'greater collection of internal resources would be possible'. The Opposition in the Parliament severely protested the introduction of the VAT Bill, The opposing factions of the business community as well as the political parties, even the tax lawyers protested the introduction of VAT and they claimed its immediate withdrawal. Amidst serious criticism and protests, VAT was termed as *Very Anxious Taxation*. However, in the process of gradual appeasement of the furious controversies created since its inception, the VAT is now an inevitable part of our public life. The VAT's expansive acceptability and practicality as a buoyant source of indirect tax revenue in the countries already adopting it, has motivated the fiscal policymakers of our country to introduce it as "a modern and progressive tax system" in order to "expand the tax base, simplify the tax collection procedure and ..... help curbing the tax evasion" (Rahman, 1991, p. 3). And the scenario of revenue collection from VAT, already cited above, has already proved the reasons and objects of the introduction of VAT to a large extent. But the counter arguments against VAT in a developing country like Bangladesh are also equally seemed to be valid. The proper implementation of VAT assumes beforehand a formal economic environment where each economic transaction is desired to be documented and perpetual records thereof are to be properly maintained by the taxpaying entities. In the case of multi-stage VAT-computation in independent multiphase chain production and sales activities by different manufactures and producers and related sellers, the computed VAT-liability (net of input-tax) must have to be supported by objective documentary evidences. It is thus, subject of accounting comes as an issue of VAT-practice. The successful exercise of "the very concept and mechanism of VAT requires an elaborate and up-to-date accounting of all the inputs and outputs, including investment in capital goods" (Azizuddin, 1990, p. 10). In this regard and for many assumed reasons of being wounded by the axe of the very fiscal instrument "VAT" in a country almost lacking a 'tax culture', introduction of VAT has initially protested by the businessmen furiously.[6]

However, after a period of about two decades, it would be a high time to look back with a critical eye to the great break in the path of the tax reform in Bangladesh that was started through introduction of VAT in 1991.

[6] According to an experienced foreign national (Novak, 1994), Bangladesh is an aid-dependent country and its government does not sufficiently tax its own people. To describe the aid-dependence, he has mentioned, "Nearly everything in Bangladesh is built with aid: even the hotels and the golf courses at Kurmitolah and Chittagong were financed by Food-for-Work wheat. Ninety percent of all development activities are financed by aid" (p. 4) and aid to Bangladesh is "enough to cover all development expenditures plus the government's entire budget" (p. 6). To describe the negative consequence of this aid, he has mentioned, "The first evil arising from this system is that food prices are artificially depressed. That hurts 90 per cent of the local farmers, most of them have very small tracts of land. It is also bad because generous food aid makes it unnecessary for the Bangladesh government to collect taxes" (p. 6). And his question in this regard is mentionable: "For what sense of democracy if the people are not required and refuse to pay taxes?" (p. 6).

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1.3 Objectives of the Study

The study has been undertaken with the following objectives:

Objective # 1
To identify the reasons and objectives of introducing VAT as an indirect tax in Bangladesh in 1991 and to have an idea about the extent of achievement of these reasons and objectives.

Objective # 2
To provide a critical account of the evolutionary progress of the implementation of VAT over the years in terms of basic structure, comprehensiveness, administration, regulatory framework and an analytical review of the functioning of VAT system.

Objective # 3
To show the extent of contribution of the revenue collection from VAT to the internal resource mobilization and also to measure the effects of VAT on the general mass as well as on the overall economy in some selected areas.

Objective # 4
To identify the problems and difficulties faced by the VAT-payers from the implementing tax-authority in imposition and collection of VAT and also to enumerate the disadvantages and bad effects of VAT on the legal taxpayers (the persons registered under the Value Added Tax Act) in terms of grievances of the business community and inherent distortions in the present VAT system.

Objective # 5
To find out a solution preferred by the various groups involved in the value added taxation system.

1.4 Justification of the Study

This study has both practical and academic value. After about two decades of introduction of VAT, there is dearth of empirical research studies appraising this most important taxation system in Bangladesh from the context of pervasiveness affecting almost all spheres of the economy and also from the revenue-raising viewpoint and this study would add to the existing knowledge. On the other hand, the findings of this study are expected to help the fiscal policymakers take appropriate measures to remove the problems and difficulties of the VAT and also to make the VAT system more effective and pro-people. Through the enormous critical account of the evolutionary progress of the VAT system up to the latest budget of 2009-10, the study is expected to be a ready reference for all dealing with VAT either for enforcement/policy change by the tax administrators or for the compliance of VAT by the affected VAT registered persons.

1.5 Organization of the Study

The study consists of *eleven* chapters including this introductory one. The second chapter deals with the conceptual issues of the VAT. Chapter three has portrayed a survey of related literature.

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Methodology of the study has been described in the chapter four. Chapter five has covered the various aspects of imposition of VAT in Bangladesh with a historical background. Chapter six has described the management of VAT in Bangladesh covering taxpayers' obligations, tax assessment and other special issues on small firm and export. As a distinct area of VAT system, service sector has been becoming a growing sector and chapter seven covers taxation of service sector in Bangladesh under the VAT regime. Chapter eight has described the administrative aspects of VAT in Bangladesh. Regulatory changes are often a frequent matter in fiscal practice, particularly in case of indirect taxation. Chapter nine deals with the implications of regulatory changes on VAT system. Chapters five to nine have mainly presented a critical overview of the archival survey of all the published and virtual materials on VAT in Bangladesh to date and this overview has established an interlink between the chronological development of the basic value added taxation framework and the findings on empirical studies shown subsequently. Chapter ten has analyzed mainly other empirical findings from case studies, field survey and archival survey. The final chapter has portrayed the policy implications of the study, followed by a concluding remark.

From the viewpoint of findings on various research objectives, the presentational design of the study is as follows. With regard to the *first* research objective, section 5.4 in chapter 5 has enumerated the reasons of introducing VAT in Bangladesh, which have critically been appraised about the extent of the achievement in chapter 10. The comprehensive part of the study has covered the *second* research objective. In chapter 2, along with the discussion on very conceptual issues on VAT, the historical expansion of VAT throughout the globe has been given. Chapters 5 to 9 have provided a detailed delineation of the issues of the second research objective of the study. Chapter 5 has accounted the basic aspects of VAT (including the structure and comprehensiveness) in Bangladesh and the chronological changes thereof. Chapter 6 has described the management aspect of value added tax with a historical note thereon. Chapter 7 has discussed the special features of service VAT. Chapter 8 has outlined the administrative aspects of VAT including the widened span and level of VAT administration over the years. Chapter 9 has covered the regulatory framework with a chronological account of the important statutory provisions in the VAT statutes. The functioning of the VAT system has been analytically reviewed in chapter 10 in section 10.03.

The findings on the *third* research objective have been described in several sections of chapter 10. Contribution of VAT in tax structure has been discussed in section 10.07, with an account on the outstanding volume in section 10.08. Effects of VAT on general mass as well as on the economy have been discussed in several sections – price effects in section 10.04, equity issues in terms of regressivity in section 10.5 and efficiency aspects in section 10.06. The findings on case studies, stakeholder consultation and empirical survey described in chapter 10 have covered the issues in the *fourth* research objective with respect to identification of the problems and difficulties faced by the VAT-payers. The findings on empirical survey presented in chapter 10 have identified the desired solutions for removing the difficulties and problems of the VAT system (set in the *fifth* and final research objectives).

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CHAPTER TWO

VALUE ADDED TAX: RELEVANT CONCEPTUAL ISSUES

2.01 Introduction

This is the chapter which has dealt with the conceptual issues of the value added tax (VAT). Here the value added tax has been defined and classified with the help of authoritative sources. The nature of value added tax and its relationship with other indirect taxes have also delineated. Then the method of calculating the 'value added' as the tax base and the tax thereon have been described with numerical instances. Thereafter a historical perspective of the use of the 'value added' concept in accounting is provided, which follows a good length of archival overview of the value added tax from the origin of its predecessor variant to the growing popularity throughout the world. Subsequently the merits and demerits of the value added tax have been enumerated with a final section on the chapter summary.

2.02 Meaning of Value Added Tax

The term ***Value Added Tax (VAT)*** consists of three words; ***Value***, ***Added***, and ***Tax***. The word ***Value*** has been derived from Latin word *valère,* which means, "be worth". As per *Oxford Dictionary*, ***Value*** means "the worth, desirability, utility of a thing, or the qualities on which these depend", or "the amount of money or goods for which a thing can be exchanged in the open market", or "purchasing power." *Value* has different connotations in accounting measurement of the elements of financial statements (asset, liability and equity): *historic value* (the amount of cash or cash-equivalent paid to acquire an asset, or the amount of cash-equivalent liability), *current/replacement value* (the amount of cash or cash-equivalent that would be paid to acquire an equivalent or the same asset currently, or that would be received to incur the same liability currently), *realizable/settlement value* (the amount of cash or cash-equivalent that would be obtained by selling the asset currently, or that would be paid to redeem the liability currently), and *present/capitalized value* (the present value of net cash flows expected to be received from the use of the asset, or the net outflows expected to be disbursed to redeem the liability) (IFAC, 1992, pp. 784-785, Belkaoui, 1985, p. 351). But for the purpose of VAT, *historic value* is normally used. Regarding the valuation of *financial instruments*, there are two types of values are usually mentioned: "fair value" and "market value." Here, *fair value* is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction and *market value* is the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market [paragraph 5 of *IAS (International Accounting Standard) 32: Financial Instruments: Disclosure and Presentation* (revised 1998); *vide* IASB, 2002]. For computing VAT, "actual market value" (i.e., market value as a historic figure) is usually taken as the value of inputs and outputs.

The word ***Added*** means "increased, augmented, supplemented, raised, or extended". The third word ***Tax*** in VAT has been derived from the French term *taxe* meaning also ***tax***. Etymologically,

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tax has been originated from the Latin word ***taxare***, which means "to charge" or "to demand or exact as a price, etc." As per the definition of the Organization for Economic Cooperation and Development (OECD), "The term ***taxes*** is confined to compulsory, unrequited payments to general government" (*vide* Wilkinson, 1992, p. 22). The United Nations Development Programme (UNDP) has defined tax revenue as the "compulsory, unrequited, non-repayable receipts collected by central governments for public purposes" (UNDP, 1999, p. 256).

In VAT system, "**value added**" consists of the first two words in the term VAT and *value added tax (VAT)* is nothing but a *tax (T)* on *value added (VA)*. Thus **value added** (VA) is the very tax-base on which tax rate is applied to compute the VAT. In general, it is equivalent to the **value added** to bought-in goods and services. According to *Chambers 21st Century Dictionary* (2004), "value added" means "the difference between the overall cost of a manufacturing or marketing process and the final value of the goods." However, there are some sorts of diversities between the accountants and the economists, in respect of the concept "value added". To the *accountant*, "value added" means, as stated by the UK Institute of Cost and Management Accountants (ICMA) Terminology, "the increase in market value resulting from an alteration in the form, location or availability of a product or service, excluding the cost of bought-out materials or services" (ICMA, 1974; quoted by Cox, 1979, p. 1). In accounting terms, value added is the sum of an enterprise's operating profit (before tax, interest and extraordinary items but after eliminating non-production related operating costs and income) and employment costs attributable to sales (Renshall, Allan and Nicholson, 1979, p. 79). The Accounting Standards Steering Committee (ASSC) of the Institute of Chartered Accountants in England and Wales (ICAEW) has defined "value added" in *The Corporate Report* (1975) as "value added is the wealth the reporting entity has been able to create by its own and its employees' efforts" (ASSC, 1975; quoted by Cox, 1979, p. 25).

In pursuance of the *economists' view*, "By definition, value added must equal the sum of factor payments made by the producer: wages, interest, rent, and economic profit" (Rosen, 1985, p. 459). According to Sundharam and Andley (1998), "The difference between the receipts from the sale of the firm's product and the cost of goods purchased by the firm during the period is the ***value-added*** by that firm" (p. 259).

To Rup Khadka (1997), "*Value added* for a firm is nothing but its gross receipts from sales minus all expenditure on goods and services purchased from other firms. In the production and distribution process a firm buys materials from other firms. These materials may include principal raw materials, auxiliary raw materials, chemical, electricity and capital goods such as machinery, equipment, buildings, furniture, vehicles etc. The firm adds value to these purchased materials by processing or handling them with the help of its own factors of production such as labour, land, capital etc. This increase in the value of output over inputs is the *value added* by the firm" (pp. 1-2). In national income accounting of Bangladesh, the concept *Value Added (VA)* has been used in the following way:

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> It is the difference between the production cost of products and its sale value. Alternatively, the value added in an industry is defined as the value of its sales plus increases in stock minus the value of goods and services purchased from other industries (BBS, 1993, p. 287).

From the preceding discussion, it is evident that the concept *Value Added Tax (VAT)* refers to the *tax (T)* imposed on *value added (VA)*. As per *Oxford Dictionary*, *Value Added Tax* means "a tax on the amount by which the value of an article has been increased at each stage of its production." "The value added tax (VAT) is," as defined by Prof. Carl S. Shoup (1990b), "a tax on the value added by a business firm, through its own activity, to the goods and services it buys from other business firms" (p. 3). According to D. K. Stout (1973), value added tax "is a multiple tax imposed at a flat rate upon the annual sales proceeds of a company less all its purchases from other [U.K.] businesses (i.e. excluding direct imports)" (p. 412). As per the definition given by Bannock and Peacock (1989), "VAT is a tax on final consumption which is collected at every stage of production and distribution rather than at the retail stage alone" (p. 158). As stated by Bhatia (1999), "VAT is a tax not on the total value of the goods being sold, but only on the value added to it by the last seller. The seller, therefore, is liable to pay a tax not on its gross value, but net value, that is the gross value minus the value of inputs" (p. 146). According to the Canadian Royal Commission on Taxation (CRCT), "A tax on value-added might best be described as a sophisticated turnover tax, where the cumulative tax factor is removed by taxing each transaction only in respect of the addition to sale value which has occurred in the stage immediately prior to the transaction in question" (CRCT, 1967a, p. 244).

Thus, *value added tax (VAT)* refers to a multistage *indirect tax* which is levied and collected usually at a uniform rate on the *value added* at each stage of production and distribution processes.

2.03 Types of Value Added Tax

Although Prof. John Fitzgerald Due has mentioned that "value-added tax may be classified in several ways" (Due, 1970, pp. 125-127), but he has classified VAT only in following *three* ways:

(i) on the basis of coverage of stages – throughout the production and distribution stages, or confined to limited stages – manufacturing *plus* wholesale, or wholesale *plus* retail;[1]

(ii) on the basis of the method of calculation – tax credit method, subtraction method, and addition method; and

(iii) on the basis of tax treatment of final-product capital goods such as machinery, equipment, and supplies[2] – the consumption form, the income form, and the product variety.

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[1] According to Prof. Due, "A tax using the value-added principle at one stage only (usually manufacturing) is not commonly designated a value-added tax" (mentioned as a footnote; *vide* Due, 1970, p. 126). For this very reason, MODVAT (Modified Value Added Tax) introduced in India in 1986 is not considered as VAT and India is outside the list of VAT-adopting countries until the introduction full-scale VAT (Khiidka, 1997, pp. 12-13).

[2] This classification of VAT was first made by Shoup (1955, pp. 7-19).

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Musgrave and Musgrave have also mentioned the economists' broad classification of VAT into three major types as: gross national product (GNP) type, income type and consumption type (Musgrave and Musgrave, 1989, pp. 399-403). These three types of VAT are distinguished from each other corresponding to three distinct but inter-linked tax-bases, viz., GNP for GNP-type, net national product (NNP) for income-type and consumption expenditure (C) for consumption-type respectively. They are stated by as follows:

GNP Type of VAT: Here, VAT is the tax imposed on each seller at a specific rate on value added, i.e., gross receipts minus cost of purchasing intermediate goods from prior producers in the production line. The tax base at each stage would thus equal depreciation (D) or capital consumption allowance, wages (W), interest (INT), profits (P), and rent (R). Musgrave and Musgrave (1989) have described this tax as "the most comprehensive form of value-added tax" and termed as a value-added tax of the GNP type, where GNP is all the final goods and services produced and sold during a given period. Imposing VAT on value added, the tax would be the same amount arrived by multiplying the GNP with the given rate of VAT (Musgrave and Musgrave, 1989, p. 400).

Income Type of VAT: Under this value-added approach, the intent is to tax net national product (NNP), equal to GNP minus capital consumption allowance or depreciation (D). According to Musgrave and Musgrave (1989), income type of VAT may be imposed in multi-stage form by taxing the *net* value added by each firm, with net value added defined as gross receipts minus purchases of intermediate goods and depreciation. The VAT is here called "income-type" because the same result in terms of volume of tax may also be accomplished by a general income tax, since the bases of a net product and income tax are in fact the same (Musgrave and Musgrave, 1989, p. 400).

Consumption Type of VAT: This type of VAT is "a tax on the incremental value added in the production of consumer goods" (Musgrave and Musgrave, 1989, p. 401).

Disregarding government purchases, indirect business taxes, and net export, the relationship among gross national product (GNP), net national product (NNP) and consumption (C) can be brought out by the identities given below with a view to distinguishing the tax-bases under different types of VAT:

$GNP = I_g$ (gross investment) + C, where $I_g = I_n$ (net investment) + D;
$NNP = NY = I_n + C = GNP - D$;
$C = GNP - I_g = GNP - (I_n - D) = NNP - I_n$.

Thus, since it is evident from the above identities that GNP>NY>C, the GNP-type VAT has the most comprehensive base and the consumption-type VAT has the least pervasive base as compared to the rest two. Howell H. Zee (1995) has also similarly mentioned the three possible variants of a VAT: the product-type (P–VAT), the income-type (I–VAT), and the consumption-type (C–VAT). According to Zee (1995, pp. 86-87), the bases of these VAT-variants (using Zee's notations) are as follows:

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base of P–VAT = GDP – G_w = C + I + G_c + (X – M);
base of I–VAT = GDP – G_w – D = C + (I – D) + G_c + (X – M); and
base of C–VAT = GDP – G_w – I = C + G_c + (X – M)

where,
GDP = gross domestic product = C + I + G_c + G_w + (X – M)
C = final private consumption expenditure
I = gross investment expenditure
G_c = final government nonwage expenditure on goods and services
G_w = government expenditure on wages and salaries
X = values of exported goods and nonfactor services
M = values of imported goods and nonfactor services
(X – M) = trade balance
D = depreciation
V = value added = sum of factor payments (wages, interest, profits, etc.)
GDI = gross domestic income = V + D = GDP, which can be stated in terms of either factor cost (i.e., exclusive of indirect taxes net of subsidies) or market prices (i.e., inclusive of indirect taxes net of subsidies).

With reference to Prof. Carl S. Shoup (1969), Prof. H. L. Bhatia has mentioned *four* possible varieties of VAT as follows:

(a) **Production VAT:** This is a tax applied on the value added after deducting from 'the gross value of output', the value of non-capital purchases, and not the purchases of capital goods even in subsequent years. Here, the aggregate base for the VAT for the country as a whole becomes the gross national product (GNP), and hence this form of VAT is also a GNP-type VAT.

(b) **Consumption VAT:** This is a tax applied on the value added after deducting from 'the gross value of output', the value of both capital and non-capital purchases. Here, in the absence of foreign trade, the aggregate base for the VAT for the economy as a whole becomes **Wage (W)** *plus* **Profit (P)** *plus* **Depreciation (D)** *minus* **Investment (I)**. Since in a closed economy, GNP is equal to **W + P + D = Consumption** (C) + **I**, therefore, the aggregate tax-base becomes **GNP** *minus* **I**. This type of tax-base, as represented by Winfrey (1973), is "**sales proceeds** *minus* **capital** *minus* **materials.**"

(c) **Wage-type VAT:** Here the firm is able to deduct from 'the gross value of output', the 'net earnings from its capital' in order to arrive at the tax-base. Since 'earnings from capital' amount to '**Profit** *plus* **Interest**', therefore, the balance left is equivalent to **Wages**.

(d) **Income-type VAT:** Here the firm is allowed to deduct from 'the gross value of output', the full value of its non-capital purchases from other firms and a depreciation on the capital-purchases from other firms in order to arrive at the tax-base. For the country as a whole, the aggregate tax-base (in the absence of international trade) would be the *net national product and* hence a NNP-type VAT (*vide* Bhatia, 1999, pp. 147-149).

Prof. Bhatia (1999) has provided a general rule about the *treatment of fixed investment expenditure* at the time of determining the tax-base for VAT. As per this rule, from the gross value of output, one has to deduct: '*full* amount fixed investment' in case of consumption-type VAT, '*nothing* for fixed investment' in case of production-type VAT, '*depreciation* of fixed investment' in case income-type VAT, and '*depreciation* of fixed investment' in case of wage-type VAT along *with profit* and *interest* (Bhatia, 1999, pp. 148).

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The second classification of VAT by Due (1970) on the basis of the method of calculation has already been mentioned as: (a) tax credit method, (b) subtraction method, and (c) addition method. Under the *tax credit method,* a firm calculates its liability of VAT by applying the tax rate to taxable total sales and subtracting the VAT paid on purchases during the concerned period. The *subtraction method* calls for the firm to apply the tax to 'a calculated figure of value added.' This figure is ascertained by subtracting from taxable total sales the amounts paid during the period for produced goods or specified categories of them. Under the *addition method,* the above 'figure of value added' is determined by adding the various payments that comprise value added: wages paid, interest paid, net profits, and so on (Due, 1970, p. 126). Schenk and Oldman (2007) have classified tax-credit method into two types–"credit-invoice VAT", and "credit-subtraction VAT that does not rely on VAT invoices." Under the *credit-invoice method,* which relies on invoices and links reported sales to the prices charged in market transactions, the taxable firm calculates net tax liability for each tax reporting period (typically one month) as the difference between the tax charged on taxable sales (output tax) and the tax paid on imports and domestic purchases from other firms (input tax credits). Under the credit-subtraction VAT without invoices, illustrated by the unique Japanese Consumption Tax (CT), effective in 1989, tax on taxable sales (output tax) is calculated the same as under the credit-invoice VAT, but input credit is equal to the tax-inclusive cost of allowable purchases and imports, multiplied by the tax fraction (the tax rate divided by 100 plus the tax rate). The CT did not require registered businesses to issue VAT invoices on taxable sales, but it used usually company records for taxed purchases (at tax-inclusive prices) for calculation of input tax credit (Schenk and Oldman, 2007, pp. 20, 38-41).

However, Carl S. Shoup (1990b) has classified VAT in numerous types on the basis of choices about a VAT-form. Although with a restricted assumption about some area of VAT-form, Prof. Shoup found 576 kinds of VAT on the basis of possible combinations of various choices about VAT that can be enumerated as follows (Table 2.01):

Table 2.01: Possible Combinations of Various Choices about VAT

Serial #	Sets of Choices	Choices about VAT	
		No.	Particulars
1.	Broad types of VAT	3	(i) Consumption, (ii) income and (iii) gross product.
2.	Regime for international trade	2	(i) The *origin principle* (exports taxable, import exempt) *versus* (ii) the *destination principle* (exports exempt, imports taxable).
3.	Methods of computing tax liability	3	The methods by which the taxpaying firm may compute its tax liability: (i) subtraction, (ii) tax credit or "invoice", or (iii) addition.
4.	Area to be kept free of VAT*	2	The products, firms, or sectors to be free of VAT; here, Shoup restricted the number of choices to two – (i) "yes, some" and (ii) "no, none".
5.	Techniques of freeing from VAT	2	(i) Outright exemption (the firm need not file a VAT return) and (ii) "zero-rating" (the firm must file a return, but pays a zero gross tax and gets a refund for VAT payments made at a prior stage).

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Table 2.01: Possible Combinations of Various Choices about VAT ....*cont'd*

Serial #	Sets of Choices	Choices about VAT	
		No.	Particulars
6.	Taxable area for which special rules or regimes required*	2	The sectors and firms that, although taxable, are thought to require special rules or regimes; here, Shoup restricted the number of choices to two – (i) "yes, some" and (ii) "no, none".
7.	Number of VAT rates	2	(i) A single-rate VAT versus (ii) a VAT with two or more rates (in addition to the zero rate, if any).
8.	VAT base for applying tax rate	2	(i) A tax-inclusive VAT rate versus (ii) a tax-exclusive rate. The former is levied on the total amount of money transferred, including the tax itself. The later is levied on the price before tax.

*Here the options may be innumerable, but for counting purpose Prof. Shoup restricted the options to two.

Source: Shoup (1990b), pp. 4-5.

From the *eight* classification above, there are *three* choices in two cases [in (1) and (3)] and *two* choices in remaining six cases [in (2), (4), (5), (6), (7) and (8)] and there might seem to be 576 (= $3^2 \times 2^6$) possible combinations or 576 kinds of VAT. But Prof. Shoup has invalidated this method of counting since "Not every choice within one category is compatible with every choice in each of the other categories." As per his example, for the consumption VAT as a VAT-type [in (1)] is not feasible for the addition method for computing the amount of tax [in (3)]. However, the countries that have introduced the "comprehensive VAT" have shown a remarkable degree of unity in selecting among the possible combinations. The VATs in these countries are uniform with respect to the following:

Serial #	Sets of Choices	The Choice
1.	Broad types of VAT	Consumption type
2.	Regime for international trade	Destination principle
3.	Methods of computing tax liability	Tax credit method
7.	Number of VAT rates	Multiple rate (in addition to the zero rate, if any)
8.	VAT base for applying tax rate	Tax-exclusive VAT

Source: Shoup (1990b), p. 5.

The VATs in the comprehensive VAT adopting countries have for the most part differed only with the other *three* areas as under:

a) The kinds of sectors or products that are tax-free [in (4)];
b) Techniques of freeing from VAT – outright exemption or zero-rating [in (5)]; and
c) The types and extent of special regimes, short of tax-free status, designed for one or another sector or group of firms [in (6)].

However, according to Shoup (1990b, pp. 5-7), in a two-factor (labour and capital) closed economy, the tax-bases under the three types of VAT can be shown as follows: for *consumption VAT*, the tax base is Consumption (C) = Wages (W) + Profit (P) + Depreciation (D) – Gross Investment (I_g). The consumption (C) will be equal to wages (W), when $I_g = P + D$ (which will always hold in all economies, but only with regard to present values) and then it is a 'wage tax'; for *income VAT*, the tax base is $C + I_g + D = W + P$; and for *gross Product VAT*, the tax base is $GNP = C + I_g = W + P + D$.

The VAT used throughout Europe is of consumption-type. The income-type of VAT or income-VAT or net product-VAT is used by Argentina and Peru and the sate of Michigan (USA) and it is

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approximated by VAT enacted in Turkey in January 1985. The GNP-type of VAT or gross product-VAT was employed by France in 1936-53. Presently the countries adopting gross product VAT but at modified version include Finland, Morocco and Senegal (Shoup, 1990b, pp. 5-7).

The VAT introduced in Bangladesh on 01 July 1991 at its initial form is a sort of consumption tax through declaring the full value of plant and machinery as input at the time of acquisition, and extending its coverage up to the levels of import, production or manufacture and service-rendering but not to wholesale or retail level and keeping the export as zero-rated (*vide* section 3 of the VAT Act 1991). Since the financial year (FY) 1996-97, VAT in Bangladesh has been a broad-based consumption expenditure tax by covering the wholesale and retail levels. The first country to impose VAT in its comprehensive from (i.e., up to the retail level of the distribution process) was Brazil in 1967 (Shoup, 1990b, p. 4).

2.04 The Nature of Value Added Tax

To Richard E. Wagner (1983), VAT "is really a method of assigning tax liability rather than a particular form of tax" (p. 270). However, VAT is undoubtedly a world-wining tax of the modern times. Taxes are classified under the *two* general headings of "direct" and "indirect", and this is the commonest classification of tax. In comparing tax structures, this classification may be considered significant because tax structures that rely on *direct taxes* are held to be 'more progressive, less favourable to growth, or disadvantageous on trade grounds.'[3] But Musgrave has mentioned that this comparison of tax structure suffers from ambiguity in the very distinction between direct and indirect taxes. To show this distinction, he has stated some criteria according to which, (1) indirect taxes are taxes which are shifted; (2) they are taxes which are meant to be shifted; (3) they are taxes which are assessed on *objects* rather than on individuals and therefore not adaptable to the individual's special position and his taxable capacity; or finally (4) they are simply taxes which are not on income.[4] A *value added tax* of the consumption type is indirect under all criteria, and the same goes for excise and retail sales taxes on consumer goods. A *value added tax* of the income type might be considered direct by all criteria but (3), which, however, is the most essential (Musgrave, 1971, pp. 173-174). The *value added tax* of the GNP type might similarly be considered direct under all criteria except (3).

As stated by Bickley (2003), "A VAT is assumed to be fully shifted forward to consumers; hence, a VAT is a type of general consumption tax" (p. 1). Since the VAT is mostly introduced as a consumption type, it is usually considered as an indirect tax. Due (1972) has mentioned the *general value added tax* as an alternative form of 'sales tax' *(vide* Bird and Oldman, 1975, pp. 317-322). In its usual form, it is a multi-stage consumption tax imposed on goods and/or services, which is collected at every stage of production and distribution rather than at the retail stage alone, as with the sales tax. VAT is imposed on the *value added,* that is, on the difference between the sales of each firm and its purchases excluding direct imports. Persons registered under the

[3] According to Musgrave (1971), the *first* point is generally valid, although much depends on the pattern of income taxation, the *second* is an interesting hypothesis but empirical evidence does not seem to support it and the *third* proposition is largely mistaken (p. 173).

[4] The most common criteria mentioned by the theoreticians are usually the first three, i.e., indirect tax is conceived as one which can be shifted or passed on, and is imposed on commodities and transaction (Dalton, 1995, pp. 23-24).

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VAT system are entitled to credit the tax paid on their inputs (may be called 'input tax') against the tax collected on their outputs (may be called 'output tax') and only the positive difference between output tax and input tax is to be remitted to the tax authority (Bannock and Peacock, 1989, p. 158). Thus, at every stage of production and distribution, VAT is collected with a total amount imposed at final sale, provided there is no break in the chain, and there exists the scope of shifting of tax through 'input tax credit'. However, it is the final consumer who is not able to shift the tax liability of VAT and the tax paid by him/her is the total amount of VAT collected at multiple points of the transaction processes.

2.05 Value Added Tax vs. Other Indirect Taxes

John Fitzerald Due, in his book ***Indirect Taxation in Developing Economies*** (1970, p. 1), has used the term *indirect tax* to refer to *three* categories of taxes: customs duties, excise taxes, and sales taxes.[5] Customs duty has been mentioned by Due (1970) as one of the oldest forms of taxation imposed upon the importation of goods (p. 27), whereas excise taxes have been stated as taxes traditionally 'applied only to domestically produced goods' (p. 59), and sales taxes as imposed at different stages of production and distribution systems (pp. 79-137). In giving a general conclusion on form of sales tax, Due (1970) has described *nine* forms of sales taxes in developing countries as follows, of which *three* are value added tax:

1. Cascade/turnover tax (a general multiple-stage or multipoint sales tax, applying to sales at all stages of production);
2. Value added tax through retail level;
3. Value added tax through wholesale *plus* retail tax;
4. Value added tax through wholesale;
5. Manufacturers *plus* retail sales tax;
6. Manufacturers sales tax;
7. Wholesale tax;
8. Retail sales tax; and
9. Retail sales tax on large r_s (small retailers), wholesale otherwise (pp. 186-189).

Prof. Due has given a comprehensive and rigorous analysis of the above *nine* 'forms of sales taxes' according to *twenty two* criteria (the detailed enumeration in Due, 1970, pp. 186-189). Prof. Due, in a 1972 article, has identified the above nine forms of sales taxes into *four* major alternative forms of sales tax, where 'general value added tax' is the fourth alternative. These alternatives are: (a) the turnover tax (# 1 form); (b) single stage sales taxes at pre-retail levels (# 6 and 7 forms; that is, single stage levies on the sale by the manufacturer or on the first or last wholesale transaction, i.e., sale to the retailer, whether by manufacturer or wholesaler); (c) the retail sales tax and its variants (# 5, 8 and 9 forms; that is, tax applied to retail sales alone, or other alternatives that apply to retailers but collect part of the tax at pre-retail levels)[6]; and (d) the

[5] Of course, Due (1970) while giving the definition of *indirect tax*, has mentioned in the footnote: "A few miscellaneous items such as stamp taxes and motor vehicle licenses are also included" (p. 1).

[6] The retail sales tax and its variants include (a) *the universal retail sales tax* (the tax solely applied to retail sales); (b) *tax applying on sales by larger retailers and sales to small retailers* (also termed as the *Honduras type of tax*, as it was developed by Honduras, where the simplicity of the retail tax can largely be retained, yet the problem of the very small retailers eliminated, by exclusion from the requirement for registration and tax collection of essentially non-commercial retailers, those too small to have adequate education, property, and records to make effective control possible); and (c) *retail-wholesale level with value added technique* (here all the retailers are included for tax-

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general value added tax (# 2, 3 and 4 forms) (Due, 1972; *vide* Bird and Oldman, 1975, pp. 312-322).

Prof. Richard E. Wagner (1983) has classified taxes on consumption into *four* types: excise tax, general sales tax, turnover tax, and value added tax. According to Wagner (1983), an *excise tax* is one 'which is applied to specific item with different rates applicable to different items' (p. 264); 'a *general sales tax* is applied at a common rate to a broad range of transactions. In principle, a sales tax may be levied against any of several links in the chain of transactions from the initial manufacture of items to their ultimate sale to consumer' (p. 264); 'a *turnover tax* is one in which the gross value of the merchandise sold is taxed at each transaction' (p. 269); and 'the assessment of tax only against the value added at each stage in the process of production and distribution is referred to as the *value-added tax*, although it is really a method of assigning tax liability rather than a particular form of tax' (p. 270).

As already discussed, consumption-type VAT is no doubt an indirect tax, but the income-type and GNP-type VATs are usually considered to be direct, although they are also imposed on goods or services, for which VAT, in those cases also, is conceived to be classified as an indirect tax. But indirect taxes include different types of taxes, of which sales tax, excise duties, and customs duties are the most common. In the U.S. Treasury's presentation, indirect taxes include excise, sales, and production taxes, customs taxes, property taxes[7], and social security contributions by employers (Musgrave, 1971, p. 175). However, as already mentioned, 'value added tax' (of course, of consumption type) is considered as an alternative form of 'sales tax'.

Clara K. Sullivan (1964, pp. 333-337) has classified sales taxes into *three* major groups: the general turnover tax, the single-stage (retail) tax, and the value added tax. Thus the VAT is inter-linked and closely resembled with the single-stage retail tax and the turnover/cascade tax and the discussion followed is a brief comparison of a *comprehensive form* of VAT with those taxes.

VAT vs. Single-Stage Retail Sales Tax: The VAT and the single-stage retail sales tax are "economically equivalent taxes, each offering a vehicle for levying a uniform tax on household consumption expenditure" (Mikesell, 1998, p. 57). In taxing consumption, both the forms of tax collection would 'achieve a similar result', since they would yield an equal amount of tax revenue, assuming the same rate of tax. The tax would be amounted to 'an amount derived from the taxable value and the rate of the tax applied to it' (CRCT, 1967b, p. 245). But the VAT and the single-stage retail tax are different from each other in the context of the collection of the tax-yield. Under the VAT system, the tax revenue is yielded in the form of 'fractional payments' at each transaction stage, which would be added up to the same amount as the 'one-shot' yield under the single-stage retail system (CRCT, 1967b, p. 245). VAT differs from a sales tax in that the

payment, who deducts from his own tax liability the amount of tax he has paid the wholesaler supplier on his purchases and a large portion of the tax is collected from the relatively large wholesale suppliers on the goods passing through the hands of such firms to the retailers). In early seventies, Due (1972) mentioned that the *universal retail sales tax* was applicable in the states of the United States and the Canadian provinces and several Indian states; the *tax applying on sales by larger retailers and sales to small retailers* in Honduras, Costa Rica and Paraguay; and the third variant *retail-wholesale level with value added technique* was applicable in Finland and the State of Louisiana (*vide* Bird and Oldman, 1975, pp. 315-317).

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revenue is collected at all stages in the process of production and distribution, including retail stage, whereas a sales tax is collected at the retail stage (Bannock and Peacock, 1989, p. 109). As shown in Table 2.02, at a uniform rate of 10 per cent, VAT and single-stage retail tax are both amounted to Tk. 20, but the amount has been collected at one-point (only from retailer) in case of single-stage retail tax, and at three points (Tk. 10 from manufacturer, Tk. 3 from wholesaler, and Tk. 7 from retailer) in case of VAT.

VAT vs. Turnover Tax: Both the forms of taxes are imposed at each stage of production and distribution systems. But due to the cascading effect of turnover tax, it would produce a very higher volume of revenue than under the VAT system, at a uniform and equal (or even at a lower) rate of tax. As shown in Table 2.02, VAT is amounted to Tk. 20, but the amount of turnover tax is Tk. 43 (considering tax-exclusive value of product as the tax-base) or Tk. 46.40 (considering tax-inclusive value of product as the tax-base, i.e. as the real cascade tax). But both VAT and turnover tax have been collected at all the three points (from manufacturer, wholesaler, and retailer) at a uniform rate of 10 per cent, and turnover tax is 115 or 132 per cent higher than VAT. To yield the same amount of revenue with the rate of VAT at 10 per cent, the rate of turnover tax would be 4.652 per cent (considering tax-exclusive value of product as the tax-base) or 4.495 per cent (considering tax-inclusive value of product as the tax-base, i.e. as the real cascade tax).

Table 2.02: Comparative Operation of General Turnover Tax, Single-Stage Tax, and Value Added Tax, with 10% Rate

Economic Stages (Three separate business firms are assumed, one at each stage)	Value of Product Excluding Tax	General Turnover Tax[a]	Single-Stage Retail Tax	Value-added Tax	
				Value Added Excluding Tax	Value-Added Tax
Manufacturing	Tk. 100	Tk. 10	Exempted	Tk. 100	Tk. 10
Wholesaling	Tk. 130	Tk. 13	Exempted	Tk. 30	Tk. 3
Retailing	Tk. 200	Tk. 20	Tk. 20	Tk. 70	Tk. 7
Final Value of Product (FV)	Tk. 200			Tk. 200	
Tax at 10% on FV		Tk. 43	Tk. 20		Tk. 20

[a] The general turnover tax is here calculated ignoring the tax collected at prior stages for simplicity, but in practice, the turnover tax is applied on tax-inclusive value, and in that case, the turnover tax at the wholesaling level would have amounted to Tk. 14.00 and the tax at the retail stage to Tk. 22.40, with the total burden equaling Tk. 46.40.

Source: Compiled from Sullivan (1964), p. 334.

2.06 Computation of Value Added

In order to compute the tax (VAT) liability of a taxpayer, the 'value added' as determined either under additive or subtractive method corresponding to the respective VAT-category followed (Table 2.03) would be multiplied by the VAT rate. In addition to additive or subtractive method, there is another important VAT computation method namely 'Tax Credit Method' which is relatively simple and used comprehensively. Under the tax credit method, a tentative gross tax on a firm is computed by applying the VAT rate to its sales of goods and services and the net tax is then found by subtracting from this gross tax the sum of the VAT taxes already paid at earlier stages on this goods and services (Shoup, 1990b, pp. 7-8). The tax-base (i.e., value-added) of these three types of VAT can be computed in the following way as shown in Table 2.03.

[7] Musgrave (1971), of course, has mentioned that a good case can be made for considering them direct under most of the criteria (cited in section 2.03) (p. 174). Dalton (1995) has mentioned 'taxes on property' as direct tax without any qualification (p. 24).

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Table 2.03: Computation of Tax-Base under Different Types of VAT

Tax-base / Types of VAT	VALUE ADDED	
	Additive Method*	Subtractive Method
GNP-type	$I_g + C = CC_{WIPR} + D$	$GR_{FG} - CC_{IntG}$
Income-type	CC_{WIPR} = wage + interest + profit + rent	$GR_{FG} - (CC_{IntG} + D)$
Consumption-type	*NOT READILY APPLICABLE*	$GR_{FG} - (CC_{IntG} + CP_{CapG})$

Where,
CR_{ConG} = current receipt from sale of consumer goods
CR_{IntG} = current receipt from sale of intermediate goods
CR_{CapG} = current receipt from sale of capital goods
CC_{WIPR} = current cost for wage, interest, profit and rent
CC_{IntG} = current cost of intermediate goods
CP_{CapG} = cost of purchasing capital goods = Investment
GR_{FG} = gross receipts from all final goods and services produced and sold during a given period in a country
= $CR_{ConG} + CR_{IntG} + CR_{CapG}$.

* Under additive method, where CP_{CapG} is absent, the method can be applied and the tax-base will be "$CC_{WIPR} + D$", that is equal to the GNP-type tax-base. But in general, as some application of this additive method shown, value added is the sum of the value of a trader's wage and salaries bill and profits (Doshi, 1990, p. 33).

Clara K. Sullivan (1964) has termed the 'additive method' as 'addition procedure'[8] and the 'subtractive method' as 'cost-subtraction procedure'/'purchase subtraction procedure' (since 'purchases of intermediate products are subtracted from sales to arrive at value added') or 'basis on basis method' (due to 'subtraction of previously taxed purchases from sales' to calculate value added). Assuming that the total value of a finished product is $200 and assuming further for simplification of presentation that it consists of 'only wages and profits' as the payments made to various factors of production, Sullivan (1964) has exemplified the computation of value added in Table 2.04.

Table 2.04: Computation of Value Added

Economic Stages and Components of Value	Value (excluding tax) of Products and its Components		Computation of Value Added through	
			Addition Procedure	Cost-Subtraction Procedure
Manufacturing				
Value of product	$ 100			$ 100
Intermediate product		$ 0		– 0
Wages		60	$ 60	
Profit		40	40	
Value added by manufacturing			100	100
Wholesaling				
Value of product	$ 125			$ 125
Intermediate product		$ 100		– 100
Wages		15	$ 15	
Profit		10	10	
Value added by wholesaling			25	25
Retailing				
Value of product	$ 200			$ 200
Intermediate product		$ 125		– 125
Wages		50	$ 50	
Profit		25	25	
Value added by retailing			75	75
Final value of product or total value added	**$ 200**		**$ 200**	**$ 200**

Source: Sullivan (1964), pp. 335-336.

[8] John F. Due has called it 'direct method' (Due, 1957, p. 66).

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The International Monetary Fund's VAT-expert Alan A. Tait has delineated the *value added* concept in a very simplistic way. According to him,

> Value added is the value that a producer (whether a manufacturer, distributor, advertising agent, hairdresser, farmer, race horse trainer, or circus owner) adds to his raw materials or purchases (other than labour) before selling the new or improved product or service. That is, the inputs (the raw materials, transport, rent, advertising, and so on) are bought, people are paid wages to work on these inputs and, when the final good or service is sold, some profit is left. So value added can be looked at from the additive side (wages plus profits) or from the subtractive side (output minus inputs) (Tait, 1988, p. 4).

2.07 Computation of Value Added Tax

Considering the conceptualization of 'value added' just mentioned above (value added = wages + profits = output – input), Tait (1988, p. 4) has mentioned four basic forms of VAT-computation by applying a tax rate (t) on the value added:

(1) t(wages + profits): the additive-direct or accounts method;
(2) t(wages) + t(profits): the additive-indirect, so called because value added itself is not calculated but only the tax liability on the components of value added;
(3) t(output – input): the subtractive-direct (also an accounts) method, sometimes called the business transfer tax; and
(4) t(output) – t(input): the subtractive-indirect (the invoice or credit) method.

Table 2.05 demonstrates how to compute the VAT in the United Kingdom (UK) where the VAT rate is 15 per cent and the tax paid to Her Majesty's Customs and Excise (C&E). The VAT is levied on the 'markup *over* cost of goods sold *less* the VAT recoverable from suppliers' (Table 2.05). The VAT is not listed separately to the consumer. The cost of goods to consumer (i.e., £23.00) is the VAT-inclusive price and the consumer would not pay VAT on this price (Radebaugh and Gray, 1997, p. 612).

Table 2.06 compares the cost-subtraction and tax-credit procedures of computing VAT under a general uniform 4 per cent tax rate, and then under rate differentiation, first when a 10 per cent rate is imposed at manufacturing stage (with a 4 per cent rate at succeeding stages) and secondly, when a 10 per cent rate is imposed at retailing stage (with a 4 per cent rate at previous stages). It is evident that the cost-subtraction procedure, and hence the addition procedure, give different results than the tax-credit procedure, in the absence of a uniform tax rate. Assuming the objective is imposition of a planned rate of tax on the total value of the final product or on the value of the product through some particular stage, the *tax-credit* procedure is the preferable method, for it gives the same result as a single-stage tax collected at the final taxable stage (Sullivan, 1964, p. 336).

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Table 2.05: Computation of Value Added Tax in the UK

	Manufacturer	Wholesaler	Retailer	Consumer
(a) Cost of goods	Ignored	£11.50	£16.10	£23.00
(b) Input VAT recoverable	–	(1.50)	(2.10)	–
(c) Net cost of goods	–	10.00	14.00	23.00
(d) Markup	–	4.00	6.00	–
(e) Net selling price	£10.00	14.00	20.00	–
(f) Output VAT chargeable [15%×(e)]	1.50	2.10	3.00	–
(g) Gross selling price	11.50	16.10	23.00	–
Accounting for VAT				
Due to C&E* (f)	£1.50	£2.10	£3.00	–
Recoverable from C&E* (b)	–	(1.50)	(2.10)	–
Net paid to C&E*	1.50	0.60	0.90	–
VAT borne				£3.00

*C&E – Her Majesty's Customs and Excise.

Source: Arthur Andersen & Co. (1990), *Guide to UK Value Added Tax* (London, January), p. 12.

Table 2.06: Comparison of the Cost-Subtraction Procedure and Tax-Credit Procedure of Computing VAT under Three Situations: (1) a Uniform 4% Tax Rate, (2) a 10% Rate at Manufacturing Stage with a 4% Rate at Other Stages, and (3) a 10% Rate at Retailing Stage with a 4% Rate at Other Stages

Economic Stage	Value of Product at Each Stage	Value Added at Each Stage	Tax Paid at Each Stage Under the Cost-Subtraction Procedure			Tax Paid at Each Stage Under the Tax-Credit Procedure		
			Uniform 4% Rate	10% Rate at Manufacturing Stage	10% Rate at Retailing Stage	Uniform 4% Rate	10% Rate at Manufacturing Stage	10% Rate at Retailing Stage
Manufacturing	$ 100	$ 100	$ 4.00	$ 10.00	$ 4.00	$4 – 0 = $4	$10 – 0 = $10	$4 – 0 = $4
Wholesaling	125	25	1.00	1.00	1.00	5 – 4 = 1	5 – 10 = –5[a]	5 – 4 = 1
Retailing	200	75	3.00	3.00	7.50	8 – 5 = 3	8 – 5 = 3	20 – 5 = 15
Filial value of product	$ 200	$ 200						
Tax on final value of product			$8.00	$14.00	$ 12.50	$8.00	$8.00	$20.00

[a] The negative tax of $5 means that $5 reimbursement should be granted the wholesaling firm, which invoices a tax of only $5 on its sales to the retailer.

Source: Sullivan (1964), p. 337.

2.08 Use of the Concept "Value Added" in Accounting: A Historical Perspective

As mentioned by Riahi-Belkaoui (1999b), value added is a "measure of wealth that can be easily derived from published accounting numbers" (Riahi-Belkaoui, 1999b, p. 394). However, the concept "value added" was first used in accounting during the mid-seventies of the twentieth century in the United Kingdom (UK) as a useful way of explaining the affairs of the business entities through a new form of accounting statement – the *value added statement* (VAS). In 1975, several forces in the UK joined in giving a great fillip to the use of value added. In that year, the Accounting Standards Steering Committee (ASSC) of the Institute of Chartered Accountants in England and Wales (ICAEW) submitted the very important discussion document *The Corporate Report.* In the field of industrial relations, both the Industry Act and the Employment Protection Act said what kind of information companies should be prepared to disclose to employees and their trade unions. This was followed in 1976 by the setting up of the Advisory, Conciliation and Arbitration Service (ACAS) by the UK Government to which industrial disputes were to be referred. A detailed code of practice was issued by ACAS, spelling out the information trade unions were entitled to have. Coincident with this legislation came the publication of *The*

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Corporate Report by the ASSC of the ICAEW in July 1976. The inclusion of the *value added statement* in the corporate annual reports was offered as a first step in *The Corporate Report.* Following the publication of *The Corporate Report,* the UK Government (Department of Trade) issued a preliminary draft paper 'Aims and Scope of Company Reports', which was circulated on an informal basis to a number of professional, industrial and commercial associations. The comments received by the Government were taken into account when producing the green paper 'The Future of Company Reports', a consultative document, published in July 1977. The green paper picked up most of the suggestions made in the ASSC's *The Corporate Report.* It suggested that Annual Reports should include *inter alia* a *value added statement* (Cox, 1979, pp. 24-25). The reason for suggesting a VAS by *The Corporate Report* was as follows:

> The simplest and most immediate way of putting profit into proper perspective vis-à-vis the whole enterprise as a collective effort by capital, management and employees as by presentation of a statement of value added (that is, sales income less materials and services purchased). Value added is the wealth the reporting entity has been able to create by its own and its employees' efforts. This statement should show how value added has been used to pay those contributing to its creation. ... profits are an essential part of any market economy, and ... in consequence their positive and creative function should be clearly recognized and presented. But profit is a part only of value added. From value added must come wages, dividends and interest, taxes and funds for new investment. The interdependence of each is made more apparent by a statement of value added (ASSC, 1975, p. 49; *vide* Meek and Gray, 1988, p. 258).

Meek and Gray (1988) have mentioned that the VAS is useful in measuring wealth by a company, emphasizing stakeholder interdependence, conditioning employee expectations regarding pay and prospects and forming the basis for productivity incentive schemes (Meek and Gray, 1988, pp. 262-263). And for reporting purpose, a VAS shows 'taxes' as the 'amount of value added distributed to government' and these taxes may be limited to corporate income taxes. The employee-related taxes are seen as a benefit enjoyed by employees, paid by the company to the government. 'Sales and excise taxes' paid on materials and services purchased from outside may be included or excluded from value added. Excluding sales and excise taxes from value added is consistent with the idea that the government has no role in the wealth creation. By contrast, including these sales and excise taxes as a part of the value added amount and, correspondingly, as a distribution to government represents the "government as a public sector" view and thereby the presence of government is seen as contributing to the firm's success in creating wealth, just as capital and labour do (Meek and Gray, 1988, p. 264).

Morley (1978a) observed that a survey of the 110 largest industrial companies in the UK showed that 22 had published statements of the value added type up to September 1977 (quoted by Cox, 1979, p. 26). However, the green paper also pointed out that it was not the intention in any way to use the *value added statement* as a basis for the value added tax (quoted by Cox, 1979, p. 27). Riahi-Belkaoui (1999a) has mentioned this presumed linking of VAS with VAT as a misconception as follows:

> ... the value added statement is wrongly assumed to deal with the administration of value added tax. Value added taxation and value added reporting are not the same. In the British case, for example, various modifications are needed to create

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> a correspondence between value added tax (VAT) and value added reporting because (a) productions of certain goods and services are zero rated or exempt for VAT purposes, (b) value added outside the United Kingdom is not liable to VAT whilst the value added reported by a large U.K. group will usually incorporate the results of overseas subscriptions and branches, (c) the concept of depreciation of fixed assets does not apply to VAT as the taxpayer pays all the VAT when he buys the long-lived assets, and (d) the headings for bought-in items in the value added statement include goods and services used, while VAT is levied as these goods are purchased (Morley, 1978b, pp. 15-16; *vide* Riahi-Belkaoui, 1999a, pp. 10-11).

Morley (1979b) has also mentioned that the administration of the VAT, which was introduced in the UK in April, 1973 as a point-of-sale tax, did not require production of a VAS, and the Statement could not be used for tax verification due to complicated rules on goods and services which were exempted or zero-rated. However, the tax has led to increased awareness in the business world of the meaning of Value Added (Morley, 1979b, p. 620).

2.09 The History of Value Added Tax

As an indirect tax, VAT belongs to the group of sales taxation that includes *turnover tax,* and *sales taxes* at different levels of the production and distribution processes and at state or provincial or national levels. The modern use of the principle of taxing sales at all levels finds antecedents in ancient Rome, in fourteenth-century France and in medieval Spain, in which this form of levy first attained the status of a major, continuing revenue source. One of the earliest sales taxes in the world was that imposed by King of France Phillipe le Bel (Philip IV of France or Philip the Fair, who reigned during 1285-1314) in the late thirteenth century. The Spanish multiple-stage sales tax, the *alcabala*, was first developed as a local tax, during the 13th century and it was taken over by the national government to introduce it on a national scale in 1342. Adam Smith and other economists blamed the tax for the economic decline of Spain and the last vestige of *alcabala* was eliminated from the world in 1911 (Due, 1957, pp. 115, 256-257). The modern general multiple-stage sales tax is basically a German invention;[9] the German *Umsatzsteuer*, introduced in 1918; although the German government imposed *Warenumsatzstempelsteuer*, a tax on all commodity transfers, in June 1916 in seeking a new source of tax to finance the World War I (Due, 1957, pp. 51-52). France imposed *turnover tax* in 1920, eliminated it in 1936, reinstated in 1939, and finally abandoned it in 1955. It was used in Canada from 1920 to 1923, when it was replaced by Canada through first establishing the *manufacturers sales tax* in 1923. The *wholesale sales tax* or *purchase tax* was first introduced by Australia in 1930; *retail sales tax* was first introduced in the USA at state level in Mississippi in 1932 and at national level, in Norway in 1940 by replacing a turnover tax (Due, 1970, pp. 79, 90, 101, 118).

In the history of taxation, value added tax (VAT) can be seen as an outcome of the effort to refinement of existing multipoint sales taxation based on turnover. Although the use of national level multiple-stage *turnover tax* as a source of public revenue dates back to 1342, but its

[9] Sales taxes had been used by German cities at a very early date, and by Bremen from 1862 to 1884 (Due, 1957, p. 51).

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cascading nature was first indicated only in 1918 (i.e., after more than a period of five and a half centuries) by Thomas S. Adams, an American Professor at Yale and its refinement was proposed not in the name of VAT but through its multi-stage application (IBFD, 1983; quoted by Bannock and Peacock, 1989, p. 113). The manufacturers sales taxes for several countries eventually gained *partial value-added* elements – for example, Argentina in 1935, and France in 1948. The tax, instead of applying only to sales of finished products was imposed on all sales by manufacturers, but each manufacturer could deduct amounts paid for materials and parts from sales in calculating his tax (Due, 1970, p. 125). This *value added techniques* in some form were also used before World War II (1939-1945) by some other countries including The Netherlands and Finland (Bannock and Peacock, 1989, p. 113).

The VAT in its present multi-stage form was first introduced in Japan in 1950 at local government level in the name of *Fuka-Kachi-Zei* (VAT) only for a while, as a result of the effort of the American Taxation Mission led by Carl S. Shoup, a Professor of Columbia University.[10] After the defeat of Japan in World War II (1939-1945), the United States sent a group of tax experts to Japan to assist in the development of a democratic Japanese tax system. The Shoup Mission of 1949-1950 proposed a radical reform of Japan's tax system including a value-added tax (VAT) to be collected by the prefectures (local governments) as a substitute for the enterprise tax assessed on net profits of business activities in the prefecture. This was the first proposal of an income-type VAT anywhere in the world. In 1950 the government presented various bills faithfully incorporating tax reform along the lines of the Shoup Mission's recommendations and most of them were passed by the Japanese Diet, but implementation of the value-added tax was postponed. Introduction of a VAT has encountered serious opposition based on comprehensive income taxation and delay became an annual occurrence until the VAT was repealed in 1954. However, Japan finally re-introduced a VAT in 1989 (Kaizuka, 1992, pp. 221-222; Lindholm, 1982, p. 944). The service of Prof. Carl S. Shoup as an adviser to government through the Tax Mission to Japan was so helpful to the Government of Japan that the Japanese Government honoured Prof. Shoup with the Order of Sacred Treasure (Editors of *Public Finance,* 1982, p. v). The VAT was used in Michigan state of the United States from 1953 to 1968 (Lindholm, 1982, p. 944).[11] But due to a very short-term introduction in Japan at local government level without any implementation and for the same reason of the use of VAT at state level in the USA, France is considered to be the first country to introduce VAT in 1954 (although France adopted *manufacturing level* VAT from January 1948 and extended up to *wholesale level* from January 1954 and extended up to *retail level* from January 1968) and French author Maurice Lauré for his

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[10] Carl S. Shoup's proposal to introduce VAT in Japan was mentioned in the *Report on Japanese Taxation by the Shoiip Mission, Vol. II, 1949* (Tokyo: General Headquarter, Supreme Commander for the Allied Powers). According to Emilio Albi (1982, p. 153), during the second half of the twentieth century the field of tax reform has been the subject not only of an increasing number of studies but also of constant attempts lo change fiscal systems, in good part brought about by the influence of the dominating figure of Professor Shoup. Albi has enumerated, for example, five published research books on tax systems by Prof. Shoup – two on Japan (1949 and 1959), one on Venezuela (1959), one on Brazil (1965), and one on Liberia (1970) – to mention the continuous significant contribution of Prof. Shoup in fiscal reform in several countries (*vide* Albi, 1982, p. 161).

[11] But according to Harold M. Groves and Robert L. Bish (1973), "Michigan adopted, and later eliminated, a type of value-added tax called the Michigan Business Activities Tax. This tax had so many different rates and. exceptions that it did not resemble a value-added tax in so far as neutrality is concerned" (Groves and Bish, 1973, p. 259, *vide* footnote).

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famous book entitled *La taxe sur valeur ajoutée*[12] published in 1952 is considered as the proper person to whom the credit for the invention of the Value Added Tax (VAT) or *taxe sur valuer ajoutée* (TVA) is given. However, for the conceptualization of the idea of VAT, the name of German industrialist-cum-writer and government consultant Dr. Werner von Siemens[13] has been mentioned usually as the first person, who pointed out the distortions by a cascade sales tax in 1919 (Muten, 1982, p. 263).[14] von Siemens recommended VAT for Germany in 1919 to replace the *umsatzsteuer* (multi-stage sales tax).[15] The proposal of Siemens was not in the name of VAT. Actually his proposal was for a 'refined turnover tax', which in its essentials was an income-type VAT. But according to the research-findings of the International Bureau of Fiscal Documentation (IBFD), Professor Thomas S. Adams had made similar proposals for a business tax in 1918, i.e., one year before Siemens (IBFD, 1983; quoted by Bannock and Peacock, 1989, p. 113). According to Prof. Richard W. Lindholm (1982), "The early favourable reception given to VAT by the US tax profession can trace its origins to the writings of T. S. Adams, who pioneered the 1913 federal individual income tax legislation. An article he wrote for the *Quarterly Journal of Economics* [1921] supported VAT as the best approach to the taxation of businesses. He had previously supported the basic concept of VAT in 1911 (Lindholm, 1982, p. 944). Lindholm has proudly stated that the roots of the VAT idea and the theoretical support of the concept of value added as a tax base are American. In pursuance to Lindholm's evaluation, "the VAT was initiated by those with a desire to generate a neutral tax that would provide substantial revenues without reducing the effectiveness and efficiency of the market system in allocating capital, labour, and land. Because the US is a free-market nation, it was appropriate that the early examining, explaining, and advocating of VAT be American. Also, US economists were more interested in business statistics and analysis based on these data than were their European counterparts. German interest in VAT has always been considerable, but the concept did not attract German tax scholars as it did US fiscal experts" (Lindholm, 1982, p. 943). Hence the American Professor Thomas S. Adams should be given the credit of innovating the idea of VAT.

In the USA, after the contributions of Prof. Thomas (in 1911 and 1921), the Brookings Institutions, in 1932 and 1933, recommended the adoption of VAT in the states of Alabama and Iowa. Thereafter Dr. Gerhard Colm, a fiscal expert and leading tax specialist, in a 1934 article recommended and described VAT as an ideal tax (Colm, 1934). In 1940, Paul Studensky, a distinguished business taxation scholar, also concluded VAT was the ideal business tax (Studensky, 1940). But only in 1953, the VAT was first introduced in the state of Michigan and used till 1968. It was reintroduced as the single business tax in 1975. The VAT has proposed by a number of other states, including Hawaii, Oregon, and West Virginia. The Federal government in 1965 and again in 1972 gave serious consideration to the introduction of VAT. Such was the case in 1979 as well (Lindholm, 1982, pp. 943-944).

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[12] The meaning of the title of Lauré's work is *The Tax on Value Added*, which, was published by Receuil Sirey, Paris.

[13] Werner von Siemens (some authors mentioned the full name of Siemens as Wilhem von Siemens; *vide* Bannock and Peacock, 1989, p. 113) had conceptualized the VAT idea in his book *Veredelte Umsatzsteur*, 1921 (published in Germany by Siemensstadt). The title of the book *Veredelte Umsatzsteur* means *Improved Turnover Tax*.

[14] Madam George Egret of France, in a paper submitted to a business economists group conference in England, mentioned. Mr. Lauré as the father of VAT (Tyagi, 1999, pp. 208-209).

[15] Due (1970) has mentioned 1918 as the year of recommendation made by von Siemens (pp. 124-125).

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The French enactment of VAT was made in 1954 by imposing at the rate of 20 per cent at the manufacturing and wholesaling stages (with the retailing stage exempted), and the tax at each transaction on the buyer, who may credit the tax paid previously by the seller (Musgrave, 1971, p.205). It was in 1968, France extended the VAT to the retail level (Due, 1970, p. 125).

In 1962, five years after the Treaty of Rome agreement to form the customs union, the VAT was recommended for member countries by the fiscal committee (headed by Professor Fritz Neumark of the University of Frankfort) of the European Economic Community [IBFD (1963) for the Neumark Report] and the VAT was affirmed as mandatory for member states of the European Economic Community (EEC) in two Directives in 1967. Germany introduced the tax on 01 January 1968[16]; Belgium and The Netherlands on the same date in 1969; Luxembourg in 1970; and the United Kingdom (UK) in April 1973, following its accession to membership of the EEC or European Community (EC)[17] in January of that year (Due, 1970, p. 125; Bannock and Peacock, 1989, pp. 113, 183). However, the twenty-seven members of the European Economic and Monetary Union (EMU), the present form of former EC, took more than fifty years (1948 to 1999) to adopt VAT, where France did it in 1948 at manufacturing level and extended to wholesale level in 1954 after which Denmark took thirteen years to be the second country adopting VAT in the EMU. In six years from 1967 to 1973, ten member countries of the EMU (Denmark, Germany, the Netherlands, Sweden, Luxembourg, Belgium, Ireland, Austria, Italy, and the United Kingdom) introduced VAT. After thirteen years, another four member countries become the VAT-adopting countries (Portugal and Spain in 1986, Greece in 1987, and Hungary in 1988). Out of the current member countries of the EMU, Estonia, Latvia, Lithuania, and Cyprus introduced VAT in 1992, Czech Republic, Slovak Republic (Slovakia), Romania and Poland in 1993, Bulgeria and Finland in 1994, Malta in 1995 and finally, Slovenia in 1999 (Table 2.07). Carl S. Shoup (1990b) has mentioned that the first country to impose the VAT in its comprehensive form in 1967 (although at state-level) was Brazil; later in 1967 Denmark became the first country to employ a comprehensive VAT at national level (Shoup, 1990b, p. 4). The first socialist economic system to adopt VAT has been Hungary in 1988 (Tait, 1988, p. 25).

Prest (1972) has mentioned that following the rapidly growing acceptance of *value added taxation* in Western Europe, around 1970 there has been a good deal of interest in this area in developing countries. This interest has been partly at government level (e.g., in various Latin American

[16] The advisory council to the West German minister of finance, called the *Beirat* (created in 1949), in its first paper on the tax reform proposal (made in 1953 and known as *Organische Steuerreform*), made the most remarkable recommendation with respect to indirect taxes, which was a shift from the pyramiding and production distorting turnover-tax to a value-added-tax (Roskamp, 1974, pp. 214-215).

[17] The European Economic Community (EEC) set up under the Treaty of Rome in 1957 is also called the European Community (EC) or the European Union (EU). The EU has already been transformed into the European Economic and Monetary Union (EMU) in which among the fifteen member countries of the EU, *eleven* countries – Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal, and Spain – have introduced a single-currency *Euro* by replacing their national currencies since 01 January 1999. Of the other four member countries, three (Denmark, Sweden and the UK) have decided not to participate at the first stage despite they fulfilled the economic criteria for joining the EMU, while Greece didn't meet the required criteria (see Bangladesh Institute of Bank Management, 1999, *Euro: Issues and Opportunities for Bangladesh*, Dhaka, August, p. 6). In a recent referendum, the people of Denmark have voted against joining to Euro (The *Prothom Alo*, 30.09.2000, p. 3). However, currently, there are 27 member countries in the EMU (Purohit, 2007, p. 37).

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countries and in Taiwan) and partly in academic level (Prest, 1972, p. 78).[18] In Eastern Asia, South Korea is the first country, which introduced VAT in 1977 (Khadka, 1997, pp. 12-13).

Table 2.07: Chronology of VAT Adoption in the EMU Countries

Rank in			Date of		Comment on Adoption
Accession to EU	VAT-Adoption	Country	Accession to EU	VAT-Adoption	
1	1	France[a]	March 1957	Jan. 1954	Early
7	2	Denmark	January 1973	July 1967	Early
1	3	Germany	March 1957	Jan. 1968	Late
1	4	Netherlands	March 1957	Jan. 1969	Late
13	4	Sweden	January 1995	Jan. 1969	Early
1	6	Luxembourg	March 1957	Jan. 1970	Late
1	7	Belgium	March 1957	Jan. 1971	Late
7	8	Ireland	January 1973	Nov. 1972	Early
7	9	United Kingdom	January 1973	April 1973	Late
1	10	Italy	March 1957	Jan. 1973	Late
13	10	Austria	January 1995	Jan. 1973	Early
11	12	Portugal	January 1986	Jan. 1986	Same date
11	12	Spain	January 1986	Jan. 1986	Same date
10	14	Greece	January 1981	Jan. 1987	Late
16	15	Hungary	May 2004	Jan. 1988	Early
16	16	Estonia	May 2004	Jan. 1992	Early
16	16	Latvia	May 2004	Jan. 1992	Early
16	16	Lithuania	May 2004	Jan. 1992	Early
16	16	Cyprus	May 2004	July 1992	Early
16	20	Czech Republic	May 2004	Jan. 1993	Early
16	20	Slovakia	May 2004	Jan. 1993	Early
16	22	Poland	May 2004	July 1993	Early
26	22	Romania	January 2007	July 1993	Early
26	24	Bulgeria	January 2007	April 1994	Early
13	25	Finland	January 1995	June 1994	Early
16	26	Malta	May 2004	Jan. 1995	Early
16	27	Slovenia	May 2004	July 1999	Early

[a] France adopted *manufacturing level* VAT from January 1948 and extended up to *wholesale level* from January 1954 and extended up to *retail level* from January 1968.

Sources: Due (1970), p. 125; Schenk and Oldman (2007), pp. 552-555; Purohit (2007), pp. 37-40; and http://en.wikipedia.org/wikl/European_Union_member_state (accessed 20.2.2009).

Among the seven SAARC (South Asian Association of Regional Cooperation) countries, Pakistan has become the first nation to introduce VAT in 1990 under the Sales Tax Act 1990 with effect from 01 November 1990.[19] After around one year, Bangladesh has introduced VAT as the second

[18] However, Prest (1972) has mentioned one book of Carl S. Shoup *et al.* (*The Tax System of Liberia*, New York, Columbia University Press, 1970) and one article of A. G. Hart ("Fiscal Policy in Latin America," *Journal of Political Economy*, July-August 1970, *Supplement)* for examples of interest of value added taxation in academic level.

[19] Value added tax was introduced by the Government of Pakistan under the Sales Tax (Amendment) Act 1990, which was legislated as a part of the Finance Act 1990. Although the Finance Act 1990 was generally effective from 01 July 1990, but the Sales Tax (Amendment) Act 1990 was enacted to be effective from such date as might be notified by the Federal Government. On 28 October 1990, the Federal Government made the Sales Tax (Amendment) Act 1990 effective from 01 November 1990 and the Sales Tax (Amendment) Act 1990 was changed as the Sales Tax Act 1990 by the Finance Act 1991 (SAFA, 2005, pp. 122-123).

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country in the SAARC area with effect from 01 July 1991. India adopted a MODVAT (Modified Value Added Tax) with effect from 01 March 1986 and this Modvat was renamed as CENVAT (Central VAT) in 2000 with effect from 01 March 2000 (Gururaj, 2006, p. 128; SAFA, 2005, p. 33), but Modvat/Cenvat is not recognized as a VAT because of its single-stage nature, i.e., at manufacturer-level even with not including all goods. Alan A. Tait (1991) has mentioned that the so-called Indian MODVAT is "not a VAT at all, but rather a form of modified excise duty" (Tait, 1991, p. 30). However, since 1993, India has been trying to convert the Central level Modvat/Cenvat into a full-fledged manufacturer-level VAT covering all goods and few selected services and also to convert the State-level sales tax into a broad-based VAT (SAFA, 2005, p. 42). Haryana is the first Indian State to introduce VAT with effect from 01 April, 2003. Up to 01 April 2006, twenty Indian states have already introduced VAT (Mitra, 2007, pp. iv-vi).[20] In the SAARC region, Nepal adopted VAT in 1997 as the third country and lastly Sri Lanka introduced VAT in 1998, although VAT is currently being levied and collected under the Value Added Tax Act 2002 (SAFA, 2005, pp. 2, 82).

The 1980s has been a period when "a wave of tax reforms and reform proposals swept in the globe" and from one country to another, these reforms have exhibited several common features (Ardito-Barletta, 1990, p. xiii). Charles E. McLure, Jr. (1990b), in reviewing the experience of tax reforms around the world, also had little hesitation in labeling the 1980s 'the decade of tax reform' (p. 279). Tanzi (1988) pointed out that these changes were more significantly changes in the *structure* of tax systems, rather than in the general *level* of taxes imposed. The first of the main features of these structural changes was mentioned to be "*Increased reliance on the value added tax (VAT)*" (*vide* Das-Gupta and Mookherjee, 1997, p. 150).[21] According to the remark made by Sijbren Cnossen of Erasmus University in Rotterdam, USA, "the nearly universal introduction of the value-added tax should be considered the most important event in the evolution of tax structure in the last half of the twentieth century" (Cnossen, 1998, p. 399; *vide* Slemrod and Bakija, 2000, p. 201). Table 2.08 shows the list of 142 current VAT-adopting countries in terms of different decades.

Table 2.08: Decade-wise Chronology of VAT Adoption in the World

Period	Countries Adopting the VAT			Number of Countries	Total VAT Countries
1954-1959	France[a]			1	1
1960-1969	Brazil Colombia Côte d'Ivorie	Denmark Germany Netherlands	Senegal Sweden Uruguay	9	10
1970-1979	Argentina Austria	Belgium Bolivia	Chile Costa Rica		

[20] On 28 February 2005, the then Union Finance Minister mentioned in his budget speech that "All States have agreed to introduce the value added tax (VAT) with effect from April 1, 2005" (SAFA, 2005, p.51). However, twenty states, namely, Andhra Pradesh, Assam, Bihar, Chattisgarh, Delhi, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Uttaranchal and West Bengal have introduced VAT up to 01 April 2006. Tamil Nadu has agreed to implement VAT from 01 January 2007, whereas Uttar Pradesh has not committed any date to implement VAT (Mitra, 2007, pp. iv-vi).

[21] Ardito-Barletta (1990) has mentioned the common features of tax reforms of the 1980s as: a focus on making taxation economically "neutral" (that is, ensuring that the tax system does not distort people's economic decisions), a trend toward lower marginal tax rates, a response to international tax pressures, and a consideration–particularly in many developing countries–of the value-added tax as a broad-based source of revenue (p. xiii).

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Table 2.08: Decade-wise Chronology of VAT Adoption in the World ... *cont'd*

Period	Countries Adopting the VAT			Number of Countries	Total VAT Countries
1970-1979 (cont'd)	Ecuador Honduras Ireland Israel Italy	Korea Luxembourg Nicaragua Norway Panama	Peru United Kingdom West Bank & Gaza	19	**29**
1980-1989	Dominican Rep. Greece Grenada Guatemala Haiti Hungary Indonesia	Japan Malawi Mexico Morocco New Zealand Niger	Philippines Portugal Spain Taiwan Tunisia Turkey	19	**48**
1990-1999	Albania Algeria Armenia Azerbaijan Bangladesh Barbados Belarus Belize Benin Bulgeria Burkina Faso Cambodia Cameroon Canada China Congo Croatia Cyprus Czech Republic Egypt El Salvador Estonia Fiji Finland French Polynesia	Gabon Georgia Ghana Guinea Iceland Jamaica Kazakhstan Kenya Kyrgyz Rep. Latvia Lithuania Madagascar Mali Malta Mauritania Mauritius Moldova Monaco Mongolia Mozambique Nepal Netherlands Antilles Nigeria Pakistan	Papua New Guinea Paraguay Poland Romania Russia Samoa, W. Singapore Slovakia Slovenia South Africa Sri Lanka Suriname Switzerland Tajikstan Tanzania Thailand Togo Trinidad & Tobago Turkmenistan Uganda Ukranie Uzbekistan Vanuatu Venezuela Vietnam Zambia	75	**123**
2000-2007	Australia Bosnia-Herzegovina Botswana Cape Verde Cen. African Rep. Chad	Ethiopia Guynea India[b] Jordan Lebanon Lesotho Macedonea	Namibia Rwanda Serbia & Montenegro[c] Sudan Yugoslavia Zimbabwe	19	**142**

[a] France introduced manufacturer-level VAT in 1948 and this was extended to wholesale-level in 1954 and retail-level in 1968 (Due, 1970, p. 125). However, few authors have mentioned 1948 as the year of introduction of VAT in France. See Purohit (2007, p. 37) and "The Value Added Tax: Experience and Issues," Background Paper prepared for the International Tax Dialogue Conference on the VAT held at Rome, March 15–16, 2005; available at www.itdweb.org/VATConference/, accessed 19.2.2009. But since the French enactment of VAT was made in 1954 by imposing at the manufacturing and wholesaling stages (Musgrave, 1971, p.205), and due to its coverage over single-stage as was in 1948, January 1954 had been taken as the date of introduction of VAT by France.

[b] India introduced federal VAT (in the name of CENVAT) from April 1, 2001 and state-level VAT from April 1, 2005.

[c] Serbia & Montenegro introduced VAT from April 2003 in Montenegro and from January 2005 in Serbia.

Sources: Compilation is based on information from Due (1970), p. 125; Tait (1988), pp. 10-14; Ebril *et el.* (2001), pp. 9-12; Schenk and Oldman (2007), pp. 552-555; Purohit (2007), pp. 37-40; www.sgsb.edu.ba; www.parlzim.gov.zw; www.barnaclegrenada.com/content/view/207/51/ (accessed 19.2.2009).

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As shown in Table 2.08, whereas there was only one country (France) in 1950s, which adopted a two-stage VAT, it grew to 10 countries in 1960-1969, to 29 countries in 1970-1979, to 48 countries in 1980-1989, to 123 countries in 1990-1999 and to 142 countries up to January 2007. Thus, the last decade of twentieth century (1990-1999), the highest number of countries (75) adopted VAT. On 10 September 2004, through 2005 budget, the Malaysian government announced that value-added type 'goods and services tax' (GST) would be introduced in January 2007. However, in February 2006, the Malaysian government has decided to defer the implementation of the GST from January 1, 2007 to a new date to be announced.[22] In 1986, VAT was introduced in Grenada but was short-lived and Grenada Government announced to introduce the VAT once again on October 1, 2007, but not yet introduced.[23] After January 2007, there is no new country which has adopted VAT till February 2009.

Table 2.09 shows the year-wise adoption of VAT in 142 countries. Out of 54 years over 1954 to 2007, a maximum of 20 countries adopted VAT in 1992; eight countries in 1993, 1998 and 1999; seven countries in 1991 and 1994; six countries in 1986, 1995 and 2000; five countries in 1973 and 2001; four countries in 1975, 1990 and 1996; three countries in 1970, 1976, 1988, 1997 and 2003; two countries in 1967, 1968, 1969, 1977, 1983, 1985, 1987, 1989 and 2004; and one country in 1954, 1960, 1961, 1965, 1971, 1972, 1980, 1982, 2002, 2006 and 2007. However, there was no adoption of VAT by any country over 16 years (1954-1959, 1962-1964, 1966, 1974, 1978 and 1979, 1981, 1984 and 2005); although, State-level VAT in India and VAT in Serbia part of Serbia and Montenegro were introduced in 2005.

Table 2.09: Year-wise Chronology of VAT Adoption in the World

Year	No. of Countries	Year	No. of Countries	Year	No. of Countries
1954	1	1977	2	1994	7
1960	1	1980	1	1995	6
1961	1	1982	1	1996	4
1965	1	1983	2	1997	3
1967	2	1985	2	1998	8
1968	2	1986	6	1999	8
1969	2	1987	2	2000	6
1970	3	1988	3	2001	5
1971	1	1989	2	2002	1
1972	1	1990	4	2003	3
1973	5	1991	7	2004	2
1975	4	1992	20	2006	1
1976	3	1993	8	2007	1

Sources: Compilation is based on information available in Due (1970), p. 125; Tait (1988), pp. 10-14; Ebril, Keen, Bodin and Summers (2001), pp. 9-12; Schenk and Oldman (2007), pp. 552-555; Purohit (2007), pp. 37-40; www.sgsb.edu.ba; www.parlzim.gov.zw; www.barnaclegrenada.com/content/view/207/51/ (accessed 19.2.2009).

Table 2.10 shows the region-wise distribution of 142 VAT-adopting countries. Of these countries, 41 are African, 28 are Asia and Pacific, 27 are European Union, 14 are Central America and

[22] *Vide* www.gstmalaysia.com:9080/gstproj/gstindex.jsp; accessed 20.2.2009.
[23] *Vide* www.barnaclegrenada.com/content/view/207/51/, accessed 22.2.2009.

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Caribbean, 12 belonged to previous USSR, 10 are South American, 9 are European but not members of the EU and 1 is North American.

Table 2.10: Region-wise VAT Adoption in the World

Location of the Countries	No. of Countries
Countries in European Union	27
Non- European Union Countries	09
North American Countries	01
Asia and Pacific Countries	28
Central America and Caribbean Countries	14
South American Countries	10
Countries belonged to Previous USSR	12
African Countries	41
Total VAT Adopting Countries	**142**

Sources: Compilation is based on information available in Due (1970), p. 125; Tait (1988), pp. 10-14; Ebril, Keen, Bodin and Summers (2001), pp. 9-12; Schenk and Oldman (2007), pp. 552-555; Purohit (2007), pp. 37-40; www.sgsb.edu.ba; www.parlzim.gov.zw; www.barnaclegrenada.com/content/view/207/51/ (accessed 19.2.2009).

Of the 142 countries, France introduced two-stage VAT in January 1954 as the first European Union (EU) country. Then Côte d'Ivorie is the first African country to adopt VAT from January 1960. Second EU country adopted VAT was Germany, which did it from January 1968, when France extended the existing VAT to retail level. Colombia introduced VAT from January 1965 as the first South American country. Norway is the first non-EU country in Europe which adopted VAT from January 1970. Out of the Central America and Caribbean countries, Costa Rica became the first country in introducing VAT from January 1975. Israel is the first Western Asian country in Asia, which introduced VAT from July 1976. Canada is the only North American country which introduced VAT from January 1991. Of the countries belonging to the previous USSR (Union of Soviet Socialist Republic), all of them, except Serbia and Montenegro, introduced VAT from January 1992. South American country Guynea is the 142nd country which introduced VAT from January 2007. All the 27 EU countries adopted VAT by July 1999, but of the 30 OECD (Organization for Economic Cooperation and Development) countries,[24] the only one without a VAT is the United States (Schenk and Oldman, 2007, p. 27).

2.10 Merits of Value Added Tax

In 1990, Arnold C. Harberger has mentioned the value added tax as "a fiscal innovation that has swept over half the world in the course of a mere three decades and or so" (Harberger, 1990, p. 25) and "it is difficult for contemporary economists to believe that, barely fifty years ago, there was no such thing as a value-added tax" (Harberger, 1990, p. 27). The conquest of widespread territory by the value added tax is, as opined by Harberger (1990, p. 27), "the testimony to the

[24] Thirty (30) OECD countries are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. Thus, they are 18 EU countries (*except* Bulgeria, Cyprus, Estonia, Latvia, Lithuania, Malta, Romania and Slovenia), and Australia, Canada, Iceland, Japan, Korea, Mexico, New Zealand, Norway, Switzerland, Turkey, United States.

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power of rational analysis" and the VAT came into being in so much territory as "a result of people's simply becoming convinced that it was a better tax than the existing alternative." According to Harberger, VAT is "a robust and good tax, which can be designed to raise substantial revenues at small economic cost" (Harberger, 1990, p. 26).

The most important attraction of value added tax (VAT) to the initiators was the consideration of VAT as a neutral tax that would provide substantial revenues without reducing the effectiveness and efficiency of the market system in allocating capital, labour, and land (Lindhohn, 1982, p. 943). Bhatia (2006) has mentioned the neutrality feature of VAT as "neutral to the resource allocation forms of production and business organization" and "neutral between factor costs" (Bhatia, 2006, p. 149). However, Surrey (1970) has satirically mentioned that the VAT is said to be neutral to every business – whether a business makes or loses money, whether efficient or inefficient, whether in corporate form or proprietorship form, whether labor-intensive or capital-intensive, whether debt-financed or equity-financed, and so on (Surrey, 1970, p. 88). Thus, the VAT is imposed as a cost of doing business, regardless of how the business is organized, how efficiently it is carried on, or how it is financed. In other words, tax factors are minimized in business decisions; inherent advantages and relative efficiencies are allowed to operate in the market economy with 'minimum tax distortions' (Smith, 1970, p. 79). Referring to the consumption type of VAT, Harberger (1990, p. 27) has mentioned another virtue of being neutral with respect to the decision between consumption and saving – a virtue highly appreciated by the modern generation of public finance economists, because both capital goods and current inputs are deductible in calculating the taxable base of a consumption-type VAT and hence one need not worry about distinguishing a current input from a capital item and in addition, depreciation issues (along with the regulations governing the pattern and speed with which capital assets may be depreciated) can be avoided. The non-consideration of depreciation has an inherent administrative benefit in terms of complexity and compliance. Since as a neutral tax VAT is imposed on all firms, whether making or losing money, Bhatia (2006) has mentioned this as "conducive to efficiency" because a firm is not VAT-exempted even if it runs into a loss and it, therefore, tries to improve its performance and reduce the cost of production (Bhatia, 2006, p. 150).

"The working of VAT is quiet simple" is mentioned as one of the reasons by a 2005 study of SAFA (South Asian Federation of Accountants) on VAT in SAFA countries (Bangladesh, India, Nepal, Pakistan, and Sri Lanka) as to why a host of countries adopted the VAT system. Given a single rate of VAT and absence of exemption for accruing the full measure of the merits of VAT, SAFA has also stated following benefits: neutrality, certainty and transparency, harmonized system of taxation, better revenue collection and stability, and better accounting system. The VAT system is neutral with regard to choice of production techniques, as well as business organization, and all other things remaining the same, the issue of tax liability does not vary the decision about the source of purchase. The VAT is certain and transparent due to its computation based on transaction and no complicated definitions of sales, sales price, turnover of purchases and turnover of sales are needed to go through. Due to the basic feature of credit of earlier-stage tax will influence the buyer to ask for invoice and hence, tax avoidance or evasion will be much less and the disputes will be fewer. Thus the amount of tax at each stage is known with certainty and

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transparency. VAT has become popular because of its built-in advantage of harmonizing the tax structure. Due to a minimum possibility of revenue leakage, VAT ensures better revenue collection. Besides VAT based on consumption is an exceptionally stable and flexible source of government revenue, because of the fact that if the consumption is less volatile, the income system provides a flexible instrument of taxation, since it is collected on a current basis. The VAT system also promotes better accounting systems, since the tax paid on an earlier stage is to be received back (SAFA, 2005, pp. 14-16). John Fitzgerald Due (1972) has also claimed that, if the value added tax is carried through the retail level, a large portion of the tax – perhaps two-thirds – will be collected prior to the retail level and thus evasion will be minimized. If retailers do evade, tax will be lost only in their margins. If evasion occurs at pre-retail link, the entire amount will be recovered at another stage, since there will be less to deduct. Thus, the VAT registered firms gain nothing if their suppliers fail to collect tax except delay in payment and they will pay more to the government themselves (Due, 1972, pp. 318-319).

The VAT has been primarily considered as a better option for replacing some other *indirect tax,* such as 'turnover tax', due to the increasing likelihood of effective 'tax bite' at least somewhere along the line of production, and at the same time due to the fact that the implicit *ad valorem* rate on various products under turnover taxation differs arbitrarily with the number of turnovers involved, and vertical integration of firms is encouraged. There is no "tax-on-tax" feature of turnover tax in VAT and this "prevents the pyramiding effect of the amount of tax required to be paid on a given commodity from being in a direct relationship to the number of turnovers. Value added tax is a visible element of cost and is separately charged on the invoice. It is merely a fiscal item which assumes no importance in cost or price negotiation between suppliers and customers" (Garner, 1977, p. 14). Through the scope of crediting the tax paid previously under the VAT system (except for final consumer, for whom no recovery of tax is provided), a degree of self-enforcement in administration is introduced. Besides a business entity under VAT audit must have invoices to back up the credit it claims and it needs to prove that the VAT has been remitted on its purchases and hence, firms have "an incentive to purchase goods from tax-law-abiding suppliers" (Slemrod and Bakija, 2000, p. 203). J. F. Due (1972) has also mentioned the "cross-audit" feature of VAT (tax paid by one firm is reported as a deduction by the firms buying from the firm, except on the final sale to the consumer) as a significant advantage. Cross auditing is possible with other forms of sales tax, but the tax-credit feature emphasizes and simplifies it and likely to make firms more careful not to evade because they know of the possibility of cross check. J. F. Due has also mentioned another advantage of VAT as "the likelihood that exclusion from tax of various producers goods" is easier with a VAT than with other forms of sales tax. With a retail tax, for example, the vendor must determine at the time of sale whether the goods are purchased for production or consumption use, which is often difficult, if not possible. With the value added approach, the sales of all producers goods are taxed; the purchaser makes the deductions of tax paid on such goods that are authorized in calculating his own tax liability (Due, 1972, p. 319). The value added tax has been recommended by the Neumark Report, which looks toward a *uniform rate value-added taxation of production at origin* in the Common Market in order to introduce the "coordination of product taxes" by eliminating "fiscal frontiers" (Musgrave, 1971,

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pp. 205-206, 279-280). Due (1972) has considered the use VAT in a common market as another significant merit, because then the tax yield on each commodity is automatically distributed among the various countries on the basis of the value added in each country if there is no rebate on exports (Due, 1972, pp. 319-320). W. A. P. Manser (1968) has also argued that under certain conditions, value added tax creates advantages for capital intensive industry and the multi-stage tax payment in case of value added tax is often considered as a psychological advantage in a VAT system in which the legal taxpayer pays out in installments (Manser, 1968, p. 65-66).

The VAT can be considered a better option as an alternative to some other *direct tax*, such as the corporation income tax, with respect to give an incentive to export in the form of suspension or refunding of tax. Under the General Agreement on Tariffs and Trade (GATT) regulations, exports may be freed only from the burden of indirect taxes. Suspension or refunding of direct taxes previously imposed on goods and services at the time of export is considered as an export subsidy which is disallowed by Article XVI of GAAT. Since, the VAT is an indirect tax, and under the VAT system, the export is usually zero-rated and the VAT paid as input tax at previous transaction stages is refunded, the countries relying heavily on indirect taxes are placed at an export advantage relative to the countries which rely primarily on direct taxes (CRCT, 1967a, p. 245).

Assuming prices to rise with its imposition, a general product tax is equivalent to appreciation and tends to have a detrimental balance of trade effect. The same holds for selective taxes on traded goods. Imposition of an export rebate and compensating import duty neutralizes this effect. In this regard, Musgrave (1971) mentioned as a frequently-cited-argument that the United States would be improved (with respect to balance of payment position) if the corporation tax (which is not eligible for credit) were replaced by a *value-added tax* (which is eligible). In appraising this argument, Musgrave stated that the proposition is "correct only if the corporation tax was not only shifted in the first place (in which case it should have been eligible for rebate all along) but would in fact be reverse-shifted (reflected in reduced prices) if the tax were repealed." A 1964 British report on turnover taxation (HMSO, 1964) was unwilling to make this assumption, thus rejecting substitution of the *value-added tax* for the company tax on these grounds. Kaldor (1964), arguing that removal of the company tax would lower prices, took the opposite view. However, according to Musgrave, substitution of a *value-added tax* for a turnover tax may be export-increasing if it leads to a fuller allowance, but should be neutral otherwise (*vide* Musgrave, 1971, pp. 285-287).

The USA does not have a VAT and some Members of Congress have expressed interest in the feasibility of levying a value-added tax (VAT) to reduce large budget deficits (Bickley, 2003, p. 1). There were a good number of Congressional Research Services on VAT,[25] and the VAT is seen as "the most likely and appropriate way to reduce the troubling federal budget deficit," but the USA has never had one seriously advocated in a government-sanctioned document (McLure, 1990, p. 281). Refereeing to the debates on American interest in VAT during 1979 to 1987, Alan

[25] See for examples: U.S. Congressional Budget Office (1992), *Effects of Adopting a Value-Added Tax* (Washington: U.S. Government Printing Office) and U.S. Library of Congress, Congressional Research Service (1993), *Value-Added Tax: Revenue Estimates for FY95* (Report No. 93-687 E, Washington). *Vide* Bickley, 2003, pp. 8-9.

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A. Tait (1988) has selected five reasons for advocating a US VAT: (i) net revenue increase;[26] (ii) finance social security;[27] (iii) replace corporate income tax;[28] (iv) replace personal income tax;[29] and (v) finance defense[30] (*vide* Tait, 1988, pp. 31-32). Professor Dan Throop Smith of Harvard Business School, in his article titled "Value-added Tax: The Case for," has mentioned:

> A "least bad" tax must be considered as the "best available" tax in the real and somewhat unpleasant field of tax policy. A value-added tax appears to be the least bad, and hence the best available, tax for additional revenue or as a partial substitute for the corporation income tax or the payroll taxes when one balances the various relevant criteria of economic effects, equity, administrative feasibility, and perhaps–when the chips are finally down–political acceptability (Smith, 1970, p. 77).

Normally, the single-rate VAT along with a zero-rate for exports is often considered as an administrative advantage for its simplicity. Smith (1970) has argued that "If a value-added tax at a flat rate and with no exemptions were the sole or principal source of revenue, it would generally be regarded as inequitable" (Smith, 1970, p. 81). But since "no one has proposed the value-added tax as the sole or even the principal source of revenue," and the problems on "inequities from a value-added tax on those with the lowest incomes" can be handled readily by adopting adjustments in addition to "try to devise a set of exemptions and differential rates in a value-added tax" (Smith, 1970, p. 81). The multiple-rates (including the zero-rate) commonly found in practice as well as the exemptions impart "a great deal of administrative flexibility to VAT so that its exact contents can be modified to suit different policy objectives of the authorities" (Bhatia, 2006, p. 150).

J. F. Due (1972) has mentioned another somewhat incidental benefit of VAT. The value added form of sales tax would provide statistics of sales by sector (not, unfortunately, by individual commodity) to aid in the preparation of input-output tables and other data of significance for economic planning in developing countries (Due, 1972, p. 320).

Thomas G. Evans, Martin E. Taylor, and Oscar J. Holzmann (1994) have mentioned the following 'generally said' advantages of the VAT in a summary manner:

- It increases the cost of consumption, thus stimulating savings and investment.
- It does not distort relative prices or the discounted value of consumption – that is, it affects neither the consumer's choice between different goods and services nor the choice between current or future consumption.
- It is used to stimulate exports; the exporter gets a rebate for the tax paid.
- It catches service companies, which historically have been exempt from sales taxes. A service company has to charge the tax to its customers in order to recover the tax paid on its purchases of supplies and equipment.

[26] Suggested by Walker in 1986 (Walker and Bloomfield, 1987) and McLure (1987).
[27] Suggested by McLure (1980b), Galvin (1983), Lindholm (1984) and Roth (1985).
[28] Suggested by McLure (1980b), Lindholm (1984) and Roth (1985).
[29] Suggested by McLure (1980b).
[30] Suggested by Galvin (1983).

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- Importers pay the VAT based on the prices of their imports. The tax is paid on goods purchased, whether manufactured domestically or imported. Thus, imported goods are not given an advantage over locally manufactured products.
- The government gets its money earlier; it doesn't have to wait until after the final sale.
- It's more resistant to chiseling; purchasers before the consumer want their money back, so they are unlikely to just accept cash and forget about the tax (Evans, Taylor and Holzmann, 1994, pp. 442-443).

In the statement of objects and reasons for bringing the *Value Added Tax Bill, 1991*, the then Finance Minister terming the VAT as a modern, progressive and dynamic taxation system, has also mentioned a number of merits of VAT: help in removing inconsistency and defects of the existing indirect taxation in the country; a more elastic tax; possibility of cascading taxation to be reduced compared to other taxation system; a transparent taxation system; possibility of tax evasion to be reduced; having no effect on the value stage or income distribution; administrative complexity to be reduced; easier method of tax collection; and greater collection of internal resources (*The Bangladesh Observer*, July 2, 1991, p. 1).

2.11 Demerits of Value Added Tax

Against the merits are some obvious demerits of value added tax in terms of complexity, higher compliance and administrative costs, regressivity, questionable neutrality characteristic, possibility of politicians' fiscal irresponsibility and likely reduction of a country's rate of capital formation, etc.

The VAT system "seems to spread the direct impact of the tax over a large number of firms, and therefore to add unnecessarily to the complexity of collecting a given amount of revenue" (CRCT, 1967a, p. 244). Then it would seem that there are overwhelming disadvantages in attempting to run value added tax system in the absence of a large cadre of reliable and knowledgeable tax administrators. The consequences of multiplying the number of collection points (not to mention those operating multiple rates or allowing exemptions from tax) are so serious to outweigh heavily the arguments in favour (Prest, 1972, p. 78). To avoid the 'limitation of greater complexity,' very small vendors – in practice must, in a developing economy – be excluded from tax. This exclusion causes partial loss of the advantages of extending the value added tax through the retail level and favours the small firms. Any exclusions from a value added tax interfere with its effective operation more than they do with other forms of sales tax because of the tax deduction feature. If a registered firm sells to a non-registered one, and then the latter in turn sells to a registered firm, carry through of tax for deduction is impossible, and multiple application of tax will occur (Due, 1972, p. 320).

To receive the input tax credit under the VAT system, it would be necessary for each taxpayer to keep full records in respect of both purchases and sales in order to substantiate the credit; and in some cases, where a substantial proportion of zero-rated sales (as may be in the case of export sales) are made creating a tax refund, the tax administration would have to process tax refund

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(CRCT, 1967b, p. 245). All these cause a heavy compliance and administrative costs both from the parts of the taxpayers and the tax administration.

While a consumption-type of VAT is adopted, as is the general case, "it may well be that there is one overriding consideration which will outweigh any other for a long time–the tendency for consumption-based taxes to 'stick to the fingers' of tax collectors, to borrow Professor Hart's phrase" (Hart, 1970, p. 878; *vide* Prest, 1972, p. 78).

The VAT is often adopted at a uniform rate for simplification. But if no exemption is allowed, then "a uniform tax on all commodities and services would at best imply a *proportionate* tax on personal expenditure; and a proportionate tax on expenditure (as distinct from a progressive tax) would mean from a social point of view a more regressive form of taxation than a proportionate tax on income" (Kaldor, 1977, p. 191). The 'simplicity' is also counter-argued by W. A. P. Manser (1968) by saying that the value added tax is 'far from simple to administer,' because the multiple stages of the tax involve a complicated process both for the revenue authorities and business. Manser has also mentioned that VAT is less flexible in defining differential imposts, when it is compared with the single-stage purchase tax and any allowance of exemptions causes further complications, especially at tax stages midway in the production process (Manser, 1968, pp. 66-67).

Surrey (1970) has nullified the 'neutrality' characteristic of VAT (VA tax), the most claimed virtue of VAT. According to him, the VAT is "neutral as to businesses because it does not apply to business; rather it is a retail sales tax on the consumers of goods and services, and not a tax on the producers or sellers of goods and services. For the business sector, the neutrality of VA tax simply means the *neutrality of the nontaxpayer*, because it casts the business firm in the role of a collector of taxes from the ultimate consumer" (Surrey, 1970, p. 89). Even Surrey has not viewed VAT as a neutral tax on consumers. A VAT would be neutral only if it taxed *all* consumer goods and services at the *same* rate. But he has claimed that no such tax "actually" exists by mentioning the evidences from Europe–multiple tax rates (e.g., French VAT rates in 1970s–a normal rate; an increased rate for luxury items; an intermediate rate for certain utilities; and a reduced rate for widely consumed goods and services); exemptions; a favour for small business; avoidance of differential rates by reducing tax for certain sectors of the economy by taxing only a percentage of the sales price. According to Surrey (1970), the list of separate tax rates, differentials, exclusions, and discriminations is endless and no mass tax can be a simple, neutral tax (Surrey, 1970, p. 89).

John F. Due (1972) has also claimed that questions relating to shifting of tax burden under VAT have not been answered adequately because shifting is done but it is not guaranteed due to varying ratios of purchases to taxable sales for competing firms and impossibility of direct and immediate shifting in a perfectly competitive market since the firms have no control over price and the time lag before adequate reduction in supply occurs may be substantial. J. F. Due has also argued that value added tax places a heavier direct impact of tax on the labour-intensive firm compared to capital-intensive competitor, since the ratio of value added to selling price is greater

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for the former. The labour-intensive firms are also typically the smaller firms, and when they evade, the loss in tax will be greater and when some services are taxed,[31] the labour-intensive nature of the service enterprises results in a very heavy direct impact on these. J. F. Due has further mentioned that the advantage of cross-audit may be less significant than would appear due to direct sales by small artisans to consumers – a common practice – that may escape tax, as well as many sales by artisans to small retail vendors who also evade (Due, 1972, pp. 320-322).

The 2005 study of SAFA on VAT in South Asian countries has mentioned another adverse impact of VAT as the increase in working capital requirement (although this position depends upon the facts of each case and if the VAT is not at a full scale), since the tax is to be imposed or paid at various stages and not on last stage, and thus frequent arrangement of tax-financing and the interest burden on the same (SAFA, 2005, pp. 17-18).

The VAT is 'sometimes referred to as a money-making machine for governments' (Evans, Taylor and Holzmann, 1994, p. 442) and thus often objectionable to the business community. Thomas G. Evans, Martin E. Taylor, and Oscar J. Holzmann (1994) have listed the following negative features of VAT as its demerits:

- It is a regressive tax; like sales taxes, its impact on the taxpayer decreases as income increases and the portion of income spent in consumption decreases. However, exemptions on basic necessities such as foodstuffs are often given in order to aid the poorer taxpayers.
- It is a tax that can raise a large percentage of government's revenues on other sources of revenue which reduces the pressure on politicians to maintain fiscal responsibility.
- It may be administratively difficult to enforce particularly when a large number of classes of taxpayers are given exemption from the tax.
- It is also difficult to administer in applying it to large numbers of small taxpayers, who are usually themselves administratively ill-equipped to comply with the tax.
- It is unpopular with state and local governments, since it competes with sales taxes as a consumption tax, and sales taxes are an important source of state and local government revenues.
- An additional tax may reduce a country's rate of capital formation, leading to a relatively decreased competitiveness of the economy and a reduction in exports (Evans, Taylor and Holzmann, 1994, p. 443).

In the context of the adoption of VAT in the USA, Professor Stanley S. Surrey of Harvard Law School, in his article titled "Value-added Tax: The Case against," has argued, that "the adoption of this regressive tax would not only worsen our present domestic tax situation, but also fail to bring us any significant international trade advantages" (Surrey, 1970, p. 86). To Surrey, the adoption of value added tax in the USA through "a shift from the corporate tax to a sales tax" would mean "the substitution of a regressive tax for a progressive tax, and on equity grounds this would be distinct step background" (Surrey, 1970, p. 90). The United States Treasury

[31] In many countries, many of the services are exempted, in terms of the objectives of the tax structure, and if some producer goods are exempted, "the universal structure of the value added tax destroyed" or multiple application of tax and economic distortion will occur (Due, 1972, p. 321).

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Department, in its 1984 tax reform proposals to President Ronald Reagan, devoted an entire volume to the analysis of the VAT, but did not propose its enactment. Among the reasons, as mentioned by Charles E. McLure, Jr. (1990b), the United States has no VAT (or other form of federal sales tax) are: the fear of federal encroachment on the fiscal preserve of state and local governments, the fear of conservatives that it would turn into a "money machine" that would fuel the growth of public spending, and the fear of liberals that it would be regressive (McLure, 1990b, p. 281). Alan A. Tait (1988) has also summarized the objections of introducing a VAT in the USA in five points: (i) liberals' objection on the ground of regressivity; (ii) conservatives' fear about VAT to be a "money machine'; (iii) worry of both liberals and conservatives that VAT would be inflationary; (iv) concern of state and local officials about a VAT's intrusion into their traditional preserve for raising revenue; and (v) fear of both federal and state officials that the VAT would be an administrative nightmare (Bloomfield, 1987, p. 174; *vide* Tait, 1988, p. 34). Professor Stanley S. Surrey is highly critical about the advocates of a value added tax ('VA tax' referred to by Surrey) in the USA, because they "simply have a distinctly lower regard for progressivity and tax equity as factors in shaping a tax system" (Surrey, 1970, p. 90) and he has mentioned the following potential negative aspects of a VA tax:

> "The substitution of a sales tax would cause prices of consumer goods to rise, which is the underlying purpose of the tax. This rise in price would, in all likelihood, set off a round of wage increases as the price index rose, and thus the substitution of the tax would have an inflationary potential. The addition of a new mass federal tax also would have its costs in taxpayer compliance and IRS administration. A proposal for a value-added tax would involve a political and legislative battle for the first order. The country would not be well served by provoking such a battle for a tax that has so little to offer to our tax system" (Surrey, 1970, pp. 90-91).

Mentioning that the European countries adopted national level VAT "to replace the undesirable turnover taxes and to harmonize their tax systems under the European Economic Community," Surrey (1970) has argued that "there is no need for the United States, with an already effectively functioning retail sales tax structure at the state level, to have at the federal level a value-added structure that collects, in more complex fashion, the amounts which could otherwise be collected under a retail sales tax" (Surrey, 1970, pp. 87, 94).

Slemrod and Bakija (2000), in the context of US federal and state taxation systems, has criticized the 'mechanical feature' of a VAT that involves rebate of VAT on exported goods and imposition of VAT on imported goods. To them, "At first glance this might seem like an ingenious export promotion scheme, but in fact it is nothing of the sort" (Slemrod and Bakija, 2000, p. 121). Prof. Surrey, in 1970, has evaluated this international trade advantage as inadequate, due to absence of VAT's full shifting forward in domestic prices because of market conditions and supply-and-demand elasticities of the product concerned; and insufficiency of the potential trade advantage without at a quet high rate of VA tax (Surrey, 1970, pp. 92-93). Slemrod and Bakija (2000) have depicted the state-level sales tax, where applicable in the USA, as similar to European VAT, in terms of its imposition at state level irrespective of the place of production and no charge of sales tax on goods exported to foreigners. Besides they have argued that even if a temporary edge is

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given to the domestically produced goods of the USA through the tax system, it would be soon be dissipated by adjustments in exchange rate. An apparent advantage to the US exports would be offset by "a combination of strengthening the U.S. dollar, which makes dollar-priced exports less attractive to foreigners, and domestic price level increases, which make U.S. markets more attractive to both foreign exporters and U.S. manufacturers" (Slemrod and Bakija, 2000, pp. 121-122). Consequently, Prof. Surrey (1970) has mentioned that "there is no need for the United States, with an already effectively functioning retail sales tax structure at the state level, to have at the federal level a value-added structure that collects, in more complex fashion, the amounts which could otherwise be collected under a retail sales tax" (Surrey, 1970, p. 94).

2.12 Summary

As stated earlier, the value added tax is defined as a tax on value added by a business entity through its own activities to the bought-in goods and services. It is usually a consumption tax with multi-stage collection throughout the production and distribution process. On the basis of coverage of stages of the production and distribution, VAT may be a comprehensive tax covering all stages or confined to at least two stages (e.g., manufacturing *plus* wholesale, or wholesale *plus* retail). On the basis of the computation method, VAT may be of tax credit method, subtraction method, or addition method; and on the basis of tax treatment of final-product capital goods, VAT may take the consumption form, the income form, or the product variety. The economists often classify VAT into three major types such as GNP-type (gross investment *plus* consumption), income type (GNP *minus* capital consumption allowance) and consumption type. Sometimes a wage-type of VAT is also considered. With a restricted assumption about some sets of choices about VAT-form (broad types of VAT, regime for international trade, methods of computing tax liability, area to be kept free of VAT, techniques of freeing from VAT, taxable area for which special rules or regimes required, number of VAT rates, and VAT base for applying tax rate), however, Prof. Shoup has shown that VAT might be of five hundred seventy six kinds. This shows the wide range of practical cross-country variations in the implementation of VAT.

A consumption-type of is an indirect tax, but the income-type or GNP-type VAT might be considered as a direct tax, but even then since the VAT is assessed on *objects* rather than on individuals, it is obviously an indirect tax.

If multi-stage VAT is compared with other indirect taxes, it is economically equivalent to the single-stage retail sales tax, yielding similar revenue; but the cascading turnover tax is expected to produce a very higher volume of revenue than under the VAT system, at a uniform and equal (or even at a lower) rate of tax.

The tax-base 'value added' can be determined either under additive or subtractive method. The value added is also an important concept in accounting used since 1970s for preparing the value-added statement. However, VAT can be ascertained using any of four methods (the additive-direct or accounts method; the additive-indirect method; the subtractive-direct or accounts method; and the subtractive-indirect or the invoice/credit method).

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The VAT has been developed as an outcome of trying to refine the existing multipoint cascading sales taxation. The manufacturers sales taxes with partial value-added elements was first introduced by Argentina in 1935, and then France in 1948. The VAT in its present multi-stage form was first enacted by Japan in 1950 at local government level but its implementation was postponed and it was repealed in 1954. The US state Michigan used a local VAT from 1953 to 1968. But national level VAT (manufacturing and wholesale levels) was first introduced by France from January 1954, which was extended up to retail level from January 1968. However, the credit for conceptual development of the VAT idea is given to French author Maurice Lauré for his book on VAT (1952), to German industrialist-cum-writer Dr. Werner von Siemens (for his pointing out the cascading effect of turnover tax in 1919) and also to Professor Thomas S. Adams (for his proposal to introduce a business tax similar to VAT in 1918). Whereas there was only one country (France) in 1950s, now there are 142 VAT-adopting countries up to January 2007. During the last decade of twentieth century (1990-1999), the highest number of countries (75) adopted VAT.

The VAT, as the most popular tax, has a good number of merits including its neutrality providing substantial revenues without reducing the effectiveness and efficiency of the market system in allocating capital, labour, and land. Given a single rate of VAT and absence of exemption for accruing the full measure of the merits of VAT, there are other benefits such as certainty and transparency in tax computation and documentation, harmonized system of taxation in a trade area, stability in revenue collection, better accounting system, no "tax-on-tax" feature of turnover tax in VAT, self-enforcement and self-policing system due to input-tax crediting facility and cross-audit feature, encouraging export by zero-rating, automatic incentive to purchase goods from tax-law-abiding suppliers, a psychological advantage for taxpayers for tax payments in installments, stimulus to savings and investment, no distortion in relative prices, easy scope of taxing services and earlier collection of tax before final sale.

However, a host of demerits of value added tax also often become obvious in terms of complexity, higher compliance and administrative costs, regressivity, questionable neutrality characteristic, possibility of politicians' fiscal irresponsibility for its working as a 'money machine,' likely reduction of a country's rate of capital formation, less flexible in defining differential imposts, etc.

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CHAPTER THREE
A SURVEY OF RELATED LITERATURE

3.1 Introduction

Although Keen and Lockwood (2007) have acknowledged that the "literature on the VAT is surprisingly sparse, given that it has now become a core part of the most countries' tax systems" and the "(e)mpirical work on the VAT is also scant" (Keen and Lockwood, 2007, pp. 4-5), but the fact is that extensive academic literature on regulatory framework of the VAT system in practice and a good number of research publications are now available on VAT from the international perspectives. In this regard, the latest book by Schenk and Oldman (2007) titled *Value Added Tax: A Comparative Approach* is a very comprehensive volume[1] on VAT mainly written as a law school text book. The book uses extensive commentary, extended quotes from other authors, materials from statutes and administrative regulations, important cases and discussion questions. The book explains the VAT in comparison with other consumption taxes and has given a detailed outline of different VAT variants–real or hypothetical–with numerical examples. Schenk and Oldman conclude with a chapter (Chapter 14) with various proposals for U.S. Tax on Consumption. The following sections first discuss the literature survey available from international sources and then those from various studies on VAT system in Bangladesh.

3.2 Literature Survey in the International Context

Schenk and Oldman (2007) have recognized the global adoption of the VAT as a spread around the world "more quickly than any other new tax in modern history" (p. 1). Alan A. Tait (1988) has mentioned the rise of VAT as "an unparalleled tax phenomenon" and noted the unusual innovation in the fiscal history about VAT by saying that "no other tax that has swept the world in some thirty years, from theory to practice" and the exceptional simile Tait has mentioned is: "VAT may be thought of as the Mata Hari[2] of the tax world–many are tempted, many succumb, some tremble on the brink, while others leave only to return, eventually the attraction appears irresistible" (Tait, 1988, p. 3). According to Schenk and Oldman (2007), the extreme of a country that left, only to return, is Japan. It enacted a VAT in 1950, delayed its effective date for several years, repealed it in 1954, and then enacted a different version of VAT [the Japanese Consumption Tax (CT), a credit-subtraction VAT without invoices] in 1988 (Schenk and Oldman, 2007, pp. 1, 67-69).

As referred to by Schenk and Oldman (2007), article 33 of the EU Sixth VAT Directive allowed Members to adopt or continue "any taxes, duties, or charges which cannot be characterized as turnover taxes," but they are prohibited from imposing a tax comparable to VAT. According to the European Court of Justice (ECJ) in the *Solisnor-Estaleiros Navais SA* case (Case 130/96,

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[1] The book (updated up to March 2007) contains xxxvi-page initial materials including contents, foreword etc., 524-page main text materials and 8-page index.

[2] Mata Hari was the stage name of Margaretha Geertruida "Grietje" Zelle (7 August 1876, Leeuwarden, Friesland, the Netherlands – 15 October 1917, Vincennes, France), a Dutch-Frisian exotic dancer and courtesan who was executed by firing squad for espionage during World War I (1914-1919) (*vide* http://en.wikipedia.org/wiki/Mata_Hari, accessed 05.09.2009).

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[1997] ECR I-5053), Member States were free to maintain indirect taxes without violating Article 33 of the Sixth Directive so long as the tax could not be characterized as a turnover tax. The ECJ listed as the characteristics of a VAT:

1. "VAT applies generally to transactions relating to goods and services;"
2. "it is proportional to the price of those goods or services, irrespective of the number of transactions which take place;"
3. "it is charged at each stage of the production and distribution process;" and
4. "it is imposed on the added value of goods and services, since the tax payable on a transaction is calculated after deducting the tax paid on the previous transaction" (Schenk and Oldman, 2007, p. 65).

Although about two decades' old, the edited volume titled *Value Added Taxation in Developing Countries* (edited by Malcon Gillis, Carl S. Shoup and Gerardo P. Sicat) is also a wonderful collection of resources on VAT. This is an output of a conference organized by the World Bank, published by the Bank in June 1990. Twenty-five specialist contributors across the globe have authored eighteen distinct chapters, along with a "Summary" by Carl S. Shoup and in the conclusion part, the nineteenth chapter ("Lessons for Developing Countries") has been contributed by the three editors themselves. The chapters in the volume fall into four groups. The first three chapters are on general issues in value added taxation: choices to be made in selecting a particular type of VAT, effects of VAT on the price level and on the balance of payments, and tax incidence and income distribution theory applicable to such taxation. The *second* group of six chapters deals with certain lessons from, and certain unresolved problems shown by, experience in developed countries with the VAT: border tax adjustments, treatment of farmers and small firms, services in general, the financial sector, housing, and the possibilities for a VAT at the state level. *Third* is a group of five chapters on lessons learned in certain developing countries in Asia, Africa and Latin America, that have used a VAT. The *fourth* group covers certain administrative and compliance problems in implementing a VAT. A general survey is followed chapters on the experience under Colombia's VAT, the development of a computer-supported VAT information system in Indonesia, and the chief administrative issues in the UK, with data on compliance and administrative costs (Shoup, 1990a, p. xi).

Just after less than one and a half year of the preceding publication by the World Bank (Gillis, Shoup and Sicat, 1990), the International Monetary Fund (IMF) has published another edited volume titled *Value-Added Tax: Administrative and Policy Issues* (edited by Alan A. Tait) in October 1991, as an *Occasional Paper*. This is also a publication which reflects the discussions of a seminar on "The Value-Added Tax in Asia" held in March 1990 at Jakarta, Indonesia, jointly sponsored by the Fiscal Affairs Department of the IMF and the United Nations Development Program (UNDP). Six authors have contributed seven chapters of the volume. Chapter I deals with the general policy issues of VAT (structure, regressivity, inflation, and exports). Planning for VAT has been discussed in Chapter II, whereas the guidelines for administering a VAT are outlined in Chapter III. Chapter IV considers the compliance obligations of the taxpayers; the need to establish invoices, keep books of account, and make returns. Chapter V returns to the

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staffing needs to run a VAT and the different possible structures. In Chapter VI, the role of computers in running a VAT has been explained. Finally, Chapter VII examines the crucial role of audit in VAT and gives some details of how audits for VAT might be concluded (Tait, 1991, pp. vii-viii).

In an attempt to find out the reasons of "Why Adopt the VAT?" by fifty countries, Alan A. Tait (1988) has mentioned: "Countries introduce a VAT because they are dissatisfied with their existing tax structure. This dissatisfaction falls broadly into one, or possible all, of four categories: (1) the existing sales taxes are unsatisfactory; (2) a customs union requires discriminatory border taxes to be abolished; (3) a reduction in other taxation is sought; or (4) the evolution of the tax system has not kept pace with the development of the economy" (Tait, 1988, p. 9).

Schenk and Oldman (2007) have mentioned that the Treaty of Rome (made on March 25, 1957 to establish the European Economic Community, the present European Union) is the main reason in adopting VAT by the EU countries (the EEC's Fiscal and Financial Committee recommended in 1962 that all member countries would shift to the VAT form and the EU's Sixth Council Directive of May 17, 1977 is the major EU document on the harmonization of VATs in the EU). The General Agreement on Tariffs and Trade (signed in 1947 and now the World Trade Organization from 1995) permitted the signatory countries (contracting parties) to rebate indirect taxes (sales tax or VAT), but not direct taxes (income or payroll taxes) on exports and the United States (a nation without federal broad-based consumption tax) did not object to this provision. The International Monetary Fund's technical assistance in the area of finance to member countries over last two decades of twentieth century was also very influential factors in converting different sales taxes into VATs by a significant number (95 countries adopted VATs over 1981-2000) of developing and emerging economies (Schenk and Oldman, 2007, pp. 26-27; Tait, 1988, p. 20). Bannock (2001) has also mentioned that "Value added tax (VAT) was introduced in the UK on 1 January 1973 when it became the full member of the European Economic Community" (p. 33). Bannock (2001) has also further supported the preceding views of Schenk and Oldman (2007) and pointed out that "In the European Union, VAT is a requirement of membership. Outside Europe, both the International Monetary Fund and the World Bank have been influential in the adoption of VAT as part of their efforts to improve public finances in developing and emerging economies" (p. 33).

As also confirmed by the findings of the empirical study by Keen and Lockwood (2007), the widespread perception that the IMF itself has played a significant role in the spread of the VAT and indeed—as one might expect given that adoption of the VAT is a major structural reform, not a quick revenue-raiser—it is participation in a program of the IMF focused on structural adjustment rather than a crisis-related program that is associated with a greater likelihood of adoption (Keen and Lockwood, 2007, p. 18). In the paper titled "Summary of IMF Tax Policy Advice," Stotsky (1995b) has also mentioned that "The IMF has provided extensive assistance to countries engaged in both the introduction or restructuring of an existing VAT" (Stotsky, 1995b, p. 280).

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Assibey-Mensah (1999), in his article titled "The Value-Added Tax in Ghana," has mentioned that there were four specific reasons of introducing VAT in Ghana on March 1, 1995: (1) generating revenue, (2) broadening the tax base, (3) simplifying the tax base, and (4) improving the domestic tax administration. Although the institutional influences by the IMF and World Bank were also important factor. Ghana's attending the Asian Development Bank (ADB) seminar held in Kenya in 1995, where most attention was focused on the restructuring of indirect tax regimes, could be one of significant events to recognize the 'relative importance of the VAT in current tax reform programs on the African continent' (pp. 77-81). However, the VAT was enacted by Ghana in December 1994, made effective on March 1, 1995, dropped after 3 months from its adoption and reintroduced in 1998 (p. 76). The reasons of 'short-lived experience with the VAT', as identified by Assibey-Mensah (1999) include: (i) very high tax rate of 17.5 percent, huge tax base exemptions due to 'intense lobbying from businesses to have their commodities included in the list of exempt products', (ii) peculiar problem due to confusion on meaning of exemption particularly in the import substitution industries, where some food items, health and educational materials were exempted, but the imported raw materials to prepare those goods were taxable under the VAT, (iii) record keeping anxieties due to the apprehension on the part of the business circles about the requirement of 'excessive record keeping beyond the capability of small-scale retailers in the country', (iv) establishment of a separate VAT Service as a third revenue institution besides the Internal Revenue Service or IRS (charged with administering and collecting indirect taxes on selective service) and the Customs Excise and Preventive Service or CEPS (controlling the administering and collection of taxes on very expensive imports and sales on goods only) and consequent 'rivalry between the new VAT Service and the CEPS' that adversely affected the execution of the tax, (v) delay in appointing a VAT Governing Board, (vi) staffing problem, (vii) lack of public education campaign, and (viii) very short six-month preparatory period for VAT implementation and lack of coordination (Assibey-Mensah, 1999, pp. 82-86).

John L. Mikesell, in his paper "Changing the Federal Tax Philosophy: A National Value-Added Tax or Retail Sales Tax" (1998), has proposed the introduction of a national value-added tax as one of options as a replacement of income tax.[3] He has stated that "Most industrialized nations of the world have chosen the value-added tax as the way that they collect substantial amounts of revenue from a national tax on consumption expenditure" (p. 66). Mikesell (1998, pp. 54-56) has mentioned some problems of the US income taxation system (e.g., difficult issues in accurate measurement of tax-base; distorting the decision to save by taxing both income saved and the return from that saving; due to "complex maze of calculations", unawareness of the general taxpayers of the cost of government when tax is added; turning the income tax system into a "monstrous complexity" for individuals and businesses), and then he proposed the two "great indirect taxes" (the VAT and the single-stage retail sales tax) for judging as the options for indirect consumption taxation. The reasons offered by Mikesell (1998) in favour of a VAT included: (1) taxing household consumption at a uniform rate for achieving the economic and equity advantages, (2) ensuring transparency by informing the buyers/consumers about the tax

[3] Similar discussions are frequent and a lot of scholarly debates are available. See Smith (1970), Surrey (1970), McLure (1987), McCaffery (2002), Slemrod and Bakija (2000) and Ballard, Scholz and Shoven (1986).

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payment through documenting it on invoices/receipts since it can provide "a persistent, constant reminder that government services are not free, in spite of their availability to all," (3) simplicity of administration and compliance from the viewpoint of households, but not the businesses, (4) greater protection of the tax base from tax evasion in hostile compliance environment due to its "self-policing" characteristics, and (5) international trade advantage of VAT through imposition on imports and rebate on exports (pp. 58-66). However, according to Mikesell, "...VAT is not a separate category of tax (like a levy on income, wealth, or consumption), but is a different administrative alternative for doing what is or might be done through other sales taxes (Mikesell, 2002, p. 132).

Pagán, Soydemir and Tijerina-Guajardo (2001) have mentioned three reasons of introducing VAT in Mexico (legislated in 1978 and implemented in 1980): first, to avoid the cascade effect on prices, which resulted from the application of the existing excise tax in a period when inflation had started to rise; second, to reduce widespread tax evasion resulting from the structure of the excise tax; and third, to harmonize taxes between federal and local governments by substituting more than 300 local taxes with the VAT (p. 426).

Barlow and Snyder (1994), in their article titled "The Tax That Failed: The VAT in Niger," have mentioned that Niger, a Francophone country in Africa being independent from French rule in 1960, introduced a comprehensive VAT in January 1986, to "recoup the lost revenue by replacing the turnover taxes with" (p. 79). The decline in Niger's uranium revenue and the concurrent economic recession were the direct cause of the initial decline in tax revenue after 1980 due to two events – first, the world market for uranium ore weakened as the major industrial countries scaled back their plans for nuclear energy plants and second, the worldwide recession of 1981-83 had impact on Niger's other exports. Together, these factors led to a decrease in GDP, which was accompanied by an even larger decrease in tax revenue. After 1982, the yield of Niger's turnover taxes declined steadily, mostly due to the uranium slump and eventually, in January 1986, the government decided to try to raise the tax revenue (Barlow and Snyder, 1994, p. 79).

Barlow and Snyder (1994) have found three factors that explain the VAT's failure as a revenue-raising instrument in Niger: (1) *Incapability of the government and underdeveloped accounting practice:* The government administration was not capable of implementing a 'tax technology' which was developed where accounting skills and techniques were far more advanced than in Niger. The VAT could not be successfully applied because a fundamental element was missing, namely an extensive network of business with interlocking records of transactions to make the self-checking aspect of the VAT successful. (2) *Diversion of administrative capacity to nontax activities:* The ongoing budget crisis has diverted limited administrative capacity towards activities other than tax collection, and, as a consequence, the VAT network has not only failed to expand in the years since its introduction, but also actually decreased the number of VAT taxpayers. (3) *Switch of investment from taxable to tax exempt areas:* Being connected with economic crisis, there was a switch from privately financed investment which is at least partially subject to VAT, to international financial aid which is tax exempt. This alone probably accounts for nearly one-quarter of the absolute decrease in tax receipts, which has occurred since the VAT

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was first introduced in 1986 (p. 87). Barlow and Snyder (1994) have also mentioned some other reasons of the VAT failure. One of the most important reasons for the failure of the VAT was that the vast majority of the registered firms were from informal sector, which were unable or unwilling to document their purchases and sales. Due to its comprehensive nature from the very beginning, the attempt to extend the VAT through the retail level created "the danger of spreading Niger's limited administrative resources too thinly" (p. 80). Additional grounds of the VAT failure include: absence of "a meticulously planned campaign of taxpayer education", very short preparatory time (less than a year after the decision was made), least benefit from foreign consultants/advisors since they were mostly provided through French aid and hence the collaboration was from a undiversified expert group, no alternative tax/nontax benefit for the taxpayers to hail the new tax, high resistance to the new tax vis-à-vis little or no enforcement against non-compliance, multiple tax rates and very high initial tax rates (standard rate at 25%, higher rate of 35% on luxury items and a lower rate of 15% for necessities) and consequent disadvantages in comparison to a single rate, which is "preferable to multiple rates because it is simpler to administer, reduces compliance costs for small firms and avoids distortions of consumer choice" (Barlow and Snyder, 1994, pp. 80-81).

As claimed by Barlow and Snyder (1994), the heart of the VAT system is the extensive set of records, books, and accounts that each business must keep in order to justify its declarations and receive credit for VAT payments by its suppliers. In Niger, companies in the formal sector complained that they are at a disadvantage because their competitors in the informal sector pay little or no VAT (Barlow and Snyder, 1994, p. 84).

Thomson (1974), in his paper titled "The Value Added Tax and the Cost of Change," has given a historical note on the evolutionary process of indirect taxes in the Europe towards a Value Added Tax (VAT) as the latest, most sophisticated of the turnover taxes and has also elaborated the potential cost of changes of the existing tax system of South Africa[4] to the VAT system. Giving the example of sequential VAT adoption in Germany and France, he found five specific steps followed to arrive at the final version of the VAT taking around fifty years. These steps are:

Step 1. *Cascade Tax* (a general tax on turnover, introduced by Germany in 1918 at a rate of 0.5 percent and France in 1920 at a rate of 2.0 percent)
Step 2. *Single Stage Selective Taxes (Taxes Unique)* introduced by France in 1926 to avoid the disadvantages of the cascade taxes;
Step 3. *Single Stage General Tax (Regime Suspensif)*, introduced by France in 1936, under which all products were subjected to tax but actual payment was suspended until the last stage in the production chain;
Step 4. *Fractional Payments (VAT)*, introduced by France in 1948, under which each producer paid his share, but was allowed to deduct the tax included in the purchase cost of his input and thus tax paid on the value added only; and
Step 5. *Financial Deduction (VAT)*, introduced by West Germany in January 1968 although the EEC directive required them to adopt it only in January 1970 (Thomson, 1974). France also adopted the comprehensive VAT in 1968 (Gillis, Shoup and Sicat, 1990, p. 219).

[4] South Africa introduced VAT in September 1991.

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Thomson (1974), has found this "historical and logical development" (where France is the only country which followed all the five steps) as a continuous refinement of the tax system for being "evolved to a more advanced stage" considering the problems associated with the preceding stage (Thomson, 1974).

Mertens and Tesche (2002) have mentioned that most of the successor states of Soviet Union adopted in 1992 a version of Soviet VAT, which was introduced in the Soviet Union in December 1991, immediately before the breakup (p. 89) and hence the introduction of VAT in these countries previously belonging to the USSR (Union of Soviet Socialist Republics) is a retention of the existing system through its adoption by succession.

As mentioned by Mikesell (1998) a tax with fewer exemptions would, of course, require a lower rate, while one with broader exemptions would require a higher rate. However, international experience offers the rule of thumb ("Cnossen's rule") that each percentage of value-added tax yields 0.37 percent of gross domestic product (Mikesell, 1998, p. 57; *vide* Tanzi and Shome, 1993, p. 823).

VAT was introduced in the Philippines in January 1988. The IMF Working Paper titled "Distributional Implications of the VAT Reform in the Philippines" by Newhouse and Zakharova (2007) assesses the distributional impact of the VAT reform in the Philippines during 2005-2006 (in November 2005, the VAT base was extended to energy products and selected professional services, and in February 2006, the VAT rate was increased from 10 to 12 percent) and evaluates alternative methods to mitigate the effects of the reform on poor households. According to the findings of the study, the reform was progressive and relatively well targeted. To alleviate the impact of the reform on the poor, several mitigating measures were introduced (three health related programs: improving existing public health facilities, expanding access to health facilities, and uniformly expanding access to health insurance; and two education programs: improving existing educational facilities and expanding access). Although these measures reduced the adverse impact of the VAT reform for all households, a sizable amount of the benefit accrued to high-income households. Targeted four transfer schemes (transfer to the poorest municipalities; transfer to a community-driven development project; transfer to poor households based on a proxy means test that identifies key socio-economic characteristics that are strongly correlated with economic status of a household; and transfer to poor barangays[5]) have the potential to deliver a much higher percentage of benefits to the poor.

Pagán, Soydemir and Tijerina-Guajardo (2001) have reported that the introduction of VAT allowed the Mexican government to increase federal tax collections during the initial periods (1980-1983) through the reduction of fiscal evasions, and thus the second objective of introducing VAT in Mexico (reducing tax evasion) was achieved (p. 426).

[5] A barangay is the administrative unit below the municipality level, roughly equivalent to a subdistrict.

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Niger is a country where the VAT was failed significantly. Barlow and Snyder (1994) have shown that in 1990, after the VAT had been in place for five years, tax collections on domestically produced goods and services were reduced by more than 40 percent from 1985, the final year of the former turnover taxes (p. 81) and thus the failure of the VAT contrasts sharply with its reputation as a "money machine"[6] (Barlow and Snyder, 1994, p. 86).

In the dissertation study of Luitel (2005), there are three essays. Using a panel data from 1972 to 1999, the *first* essay of this dissertation analyzes how VAT evasion has changed as reliance on VAT in the sample of 25 OECD countries increased. The VAT ratio and VAT share are used as alternative measures of VAT reliance as independent variables. The results show that an increase in the VAT ratio and VAT share decreases VAT evasion. Overall, the results are quite robust to the various regression specifications. Proponents argue that tax amnesties raise revenues both in the short run and the long run, by bringing former non-filers back into the tax system. Opponents contend that amnesties produce little short-run revenue and weaken incentives for long-run tax compliance. Over the last 23 years, 27 states offered tax amnesties for a second or third time. While previous research has estimated the impact of specific tax amnesties, none have estimated how the impact changes when they are offered repeatedly. The results from the *second* essay of this dissertation show that these additional tax amnesties generate less short-run revenue than predecessors and tend to magnify revenue losses associated with disincentives for long-run tax compliance. The *third* and the last essay utilizes time series methods to analyze the Colorado, Maine and West Virginia tax amnesties, using quarterly total tax revenue data for the period from 1980 to 2002. The results show that the Colorado amnesty had no short run or long run impact on tax collections. At the same time, the results also show that the Maine and West Virginia tax amnesties raised revenues in the short run but that revenue collections actually fell in these states in the long run (Luitel, 2005).

In her dissertation study titled "Essays on Value-Added Taxation," El-Ganainy (2006) evaluates the empirical relation between the VAT and aggregate consumption. The study also develops a theoretical framework and empirical analysis to study the impact of VAT, as a form taxing consumption, on capital accumulation, productivity growth, and overall economic growth. Using a panel data of 15 EU countries, she finds that (1) the VAT exerts a negative impact on the level of aggregate consumption, (ii) the VAT affects physical capital accumulation positively, which feeds through to overall GDP growth, and (iii) productivity growth seems to be a less relevant channel for VAT to influence economic growth (El-Ganainy, 2006).

In the dissertation study titled "The Introduction of Value Added Tax in Mexico: A Study on Tax Evasion," Pascual (1982) has analyzed the effect of substitution of the VAT for the commercial receipts tax in Mexico in 1980. The researcher has taken the base for VAT (i.e., final consumption) from the national accounts and then the base is multiplied by the tax rate to get an estimate of how much tax should have been collected in the absence of tax evasion. By comparing this estimate with observed tax collection, an estimate of tax evasion for the VAT has been

[6] Gillis, Shoup and Sicat (1990) have referred to VAT as a "money machine" (p. 220).

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obtained. According to the researcher's estimation, if the commercial receipts tax had been replaced by the VAT in 1977, tax collection would have been increased by 13.14 percent. In 1977, the estimated tax evasion with respect to commercial receipts tax was 39.1 percent and if the VAT had been introduced in place of commercial receipts tax, the level of evasion would have become 29.7 percent. The difference between both estimates of tax evasion is high enough to conclude, with complete certainty, that tax evasion decreased with the substitution of VAT for commercial receipts tax. The study concludes that the introduction of the VAT improves income distribution, but this improvement is very small. Therefore, the researcher concludes that the effect of the substitution of the VAT for the commercial receipts tax on evasion is more relevant than the effect on income distribution (Pascual, 1982).

A primary purpose of Garner's dissertation study (1977) on "The Value Added Tax," was to determine the feasibility and desirability of the enaction of a value added tax in the United States in addition to or as a replacement, in whole or in part, for the USA's present corporate or individual income tax structure. His study presents a brief history of the United States corporation profits tax is presented and followed by an examination of the philosophical concept of the value added tax including its theoretical justification, nature, administration, incidence and effects on the economic system. A study is made of the value added tax laws enacted by members of the European Economic Community, Norway and Sweden including rates, scope, territorial limits and effects on prices. According to the estimate by Garner (1977), an estimated rate of 2 percent of VAT would appear to be required in order to produce the equivalent revenue produced by the corporation income tax for the calendar year 1972. If the VAT is considered as a replacement for the personal and corporation income tax, an estimated rate of 11.5 percent is required to generate the revenue produced by these taxes for the calendar year 1972. The conclusion is that a single rate VAT is the most feasible method of raising additional revenue for the United States Government, if required, rather than increases in the corporation or individual income tax rates. There are many valid and desirable reasons for substituting a value added tax for the corporation income tax (Garner, 1977).

Cnossen (1990) argues that "purely from a revenue point of view, VAT is probably the best tax ever invented" (*vide* Keen and Smith, 2007, p. 3).

Henry Aaron (1982) has mentioned that VAT is considered as one effective device to reduce the taxation on savings and VAT is simpler to administer than the personal income tax and possibly than the corporation income tax (Aaron, 1982, p. 4).

According to Bannock (2001), the structure of VAT suggests two main advantages over other types of taxes. The first advantage, which appeals to economists, is that VAT does not, in theory at least, enter into the costs of production and does not distort the pattern of production or consumer choices. The second advantage of VAT, which appeals to tax authorities, is that to some extent at least, it is self-policing in that the registered traders have an incentive to ensure their supplier invoices correctly so that they can reclaim input taxes (Bannock, 2001, p. 33).

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Keen and Lockwood (2007) have stated that the principal claim made by advocates of the VAT (and indeed by some of its opponents) is that, if well-designed, this structure makes it a particularly efficient tax. There are several potential sources of efficiency gain associated with adoption of a VAT. In practice, the VAT often replaces either a turnover tax (bearing on all transactions) or a single-stage sales tax (levied at retail or some other level). Turnover taxes, however, bear on intermediate transactions, and so induce production inefficiencies; sales tax often do so too (since it is hard to distinguish these from final sales) and, moreover, can be particularly vulnerable to evasion and avoidance (because revenue is lost completely if, for some reason, the tax is not properly imposed at the single point of sale), and so tend ultimately to levy high rates on narrow bases. In other cases, the VAT has been adopted as part of a package of trade liberalization, compensating for the revenue loss from the reduction of tariffs whilst preserving the gains in production efficiency from moving producer prices closer to world prices. At a more general level—and especially in developing countries—adoption of the VAT is often seen as the central element in a program of modernizing tax administration, developing the use of methods of self-assessment whose generalization is expected ultimately to ease administration and compliance in relation to other taxes too (Keen and Lockwood, 2007, pp. 5-6).

In the study by Kim (2008), titled "A Value Added Tax (VAT) and the Federal Income Tax Reform," it has been tried to find out whether or not a VAT can work to positively reform the current federal income tax for individuals in the USA. Identifying the current federal tax system as plagued by complexity, inefficiency, and unfairness, he suggested a federal VAT as a reform option and claimed that it may work well to simplify the tax code and help reduce tax evasion, provided that VAT is properly drafted (Kim, 2008).

In his paper on "VAT Attacks!", Keen (2007a) has observed that like the theory of the second best that the 2006 US Congress marks, the VAT is now fifty years old. Judged by the extent and speed of its spread around the world, and the revenue that it raises, the VAT would seem to have been a remarkable success. Over the last few years, however, it has come under a series of attacks. According to Keen (2007a), in terms of stock-taking, some form of mid-life crisis is natural enough when one reaches 50. Keen's paper (2007a) considers three of the most prominent of these attacks. One is the fear (raised mainly in the United States) that the VAT actually does too good a job of raising tax revenue. The second is the view that the VAT does a bad job of taxing the informal sector—and that tariffs might be a better revenue-raising instrument for many developing countries. The third attack is the most literal, by criminals rather than theorists: in the European Union and elsewhere, sophisticated VAT fraud, targeting its refund provisions, has become a serious concern.

Keen (2007a), in his paper, has tried to identify the reasons of the receipt of so little attention about VAT in the USA. According to him, the first reason is the relative lack of interest in the tax in the United States. Second and more prosaic reason may be the relative lack of comparable data on VAT revenues and design (other than the basics of rate structure). There is also, perhaps, a third reason. Tolstoy has it that all happy families are alike, but every unhappy family is unhappy

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after its own fashion.[7] Much the same is true of the VAT with its extensive presence with imperfections, where "VAT is an analytical mess" (Keen, 2007a, p. 18).

Aaron (1982) has mentioned the regressivity and inflationary effect of VAT, a tax that is usually proportional to consumption, as the reasons of opposing VAT (Aaron, 1982, p. 4).

Keen and Lockwood (2007) have argued that the VAT can reduce efficiency, for it clearly has potential weaknesses. When the VAT chain is broken—as, for many reasons, it commonly is, production inefficiencies may be created, which could in principle offset the benefits of greater assurance of revenue collection. The VAT has also proved vulnerable to high profile criminal attack: 'carousel fraud,' for example, which exploits arrangements for the taxation of intra-community trade within the European Union. And imperfections in the refund system, and/or excessive statutory exemptions, may have meant that the VAT has in practice functioned largely as a tax on exports and intermediate production, and so tended to reduce exports and national output. Referring to some other studies, Keen and Lockwood (2007) have also mentioned that informality can also have an important bearing on the impact of the VAT. Expanding the base of a consumption tax can reduce welfare by increasing the scale of inefficient informal production and the VAT may be inferior to tariffs in the presence of an informal sector, because most of the VAT collected in developing countries is in fact levied on imports, and so functions precisely as a tariff for purchasers in the informal sector (Keen and Lockwood, 2007, p. 6).

As shown by the findings of the study by Keen and Lockwood (2007), since direct international spillovers from the VAT are relatively limited—the gain from adopting a VAT is not obviously greater if one's trading partners also have a VAT—the answer seems likely to lie in some form of yardstick competition, with countries noting the stronger performance of neighbors with a VAT in place (Keen and Lockwood, 2007, p. 18).

Gendron (2007) in his paper on "Value-Added Tax Treatment of Financial Services: An Assessment and Policy Proposal for Developing Countries," has observed that no convincing conceptually correct and practical solution for capturing the bulk of financial services under the VAT has yet been developed anywhere. Developing and transitional economies (DTEs) face constraints that make the taxation of financial services an even more formidable challenge. Since even developed economies with sophisticated financial institutions and markets and capable tax administrations have opted with few exceptions to exempt such activities, it is not surprising that exemption also rules in almost all DTEs. Surprisingly, however, it may not be that difficult to collect at least some VAT on financial services even in such countries, particularly those are based on fees or commissions. This paper examines the current VAT treatment of financial services (exemptions or reduced exemption or taxing prescribed services), as well as its rationales and economic effects. It then outlines alternatives to that treatment, focusing on DTEs and their tax policy constraints. Finally, the paper outlines best practices for tax reform and then proposes

[7] In the opening line of Tolstoy's novel *Anna Karenina* (vide Keen, 2007a, p. 18).

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an alternative to the exemption system in the form of a *hybrid system* to capture VAT revenues in developing and transitional economies (Gendron, 2007; Gendron, 2006).

The paper by Huizinga (2002) is also on "A European VAT on Financial Services?" EU financial services are exempted of VAT for technical reasons. The reason is that exemption has hereto been judged as the only practicable way of dealing with the peculiar problems of measuring value added in the financial sector. Because for most businesses, calculating total sales and purchases is straightforward, but the problem with financial services, however, is that a major input is financial capital, and pricing such capital is difficult. This paper argues that the changed nature of bank–client relationships and advances in information technology have opened the door to a practical way of redressing this exemption. The proposed solution is to charge the regular VAT on services supplied to households, but no VAT on those supplied to businesses, while allowing financial institutions the normal VAT credit for all of their purchased inputs. Financial services would, as a result, be priced differently for households and businesses so banks would have to verify their customers' VAT status. While this may be burdensome, the OECD-wide fight against tax evasion and the international struggle against terrorism have forced financial institutions to know much more about their clients. Verifying clients' VAT status should thus be fairly simple. The paper also evaluates the economic impact of reform and finds that reform would significantly increase VAT revenues, while having little impact on overall welfare. Households would see an increase in the price of financial services but given the relatively high incomes of mortgage takers, the burden of the tax would be approximately proportional across income classes (Huizinga, 2002).

Auerbach and Gordon (2002), in their paper on "Taxation of Financial Services under a VAT," have observed that in attempting to determine how a VAT should treat financial transactions, various authors have attempted to apply results from simpler models. Unfortunately, these results can lead to conflicting, ambiguous, and misleading prescriptions. In this paper, Auerbach and Gordon argue that one needs to rely more on the fundamental objectives of a VAT to decide how it should treat financial transactions. Adopting this approach, they find that, in principle, the VAT should apply to resources devoted to financial transactions in the same manner that it does in other sectors. However, the authors have recognized that there are real problems in implementing such a tax on the financial sector which were not addressed in this paper (Auerbach and Gordon, 2002).

Rege (2003) in his paper titled "A General Equilibrium Analysis of VAT in India," has observed that Indian industry is under pricing pressure after the government cut tariffs in a phased manner as per the WTO (World Trade Organization) agreements. In order to be competitive, the consensus opinion in government, academics and industry is the implementation of a VAT in India. The paper evaluates the welfare implications of a VAT in the static and a sequentially dynamic context after accounting for the political and administrative constraints facing the Indian Government in implementing a VAT. Replacing the old indirect tax structure with a VAT is welfare worsening. The increase in final consumer prices on account of reduced tax base leads to higher prices of essentials, causing welfare loss (Rege, 2003).

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In the advent of introduction of VAT in Croatia on January 1, 1998, Dalić (1997) has examined the price effects of VAT introduction in Croatia. As a single rate tax of 22 percent with the very narrow scope of exemptions, the VAT will replace the current retail sales tax on goods and services. The nature of the price effects caused by the introduction of VAT is an issue with which all countries that currently apply VAT were faced both during preparations for its introduction and during the period immediately following. The requirement to study the possible price effects of VAT introduction is particularly important in a country such as Croatia, where memories of inflation and hyperinflation are still fresh, and inflationary expectations are still present. Depending on the degree of cascading prior to the wholesale stage (which they were not able to capture) it is possible to conclude that there is certain amount of room for the aggregate price increase. Taking into account that in the first months of VAT introduction there will be some difficulties, and assuming that prices will not display perfect downward rigidity, the forecast shows that the aggregate rise of prices (measured by the retail price index) could be a maximum of 3.27% (optimistic scenario) or a maximum of 5.2% (pessimistic scenario) – both on the assumption of zero cascading before the wholesale stage (Dalić, 1997).

The paper by Boeters *et el.* (2006) addresses the question to what extent VAT differentiation can be rationalized on distributional grounds. The researchers' quantitative analysis for Germany indicates that such concerns are misplaced. They find that the abolition of VAT differentiation has only negligible redistributive effects. Instead, reduced VATs are found to act as industry-specific subsidies. Whereas the overall welfare effects of pure VAT reforms are very small, a revenue-neutral introduction of a harmonized VAT combined with reductions in the marginal income tax rates or social security contributions turns out to produce substantial welfare gains for all households (Boeters et el., 2006).

The study by Bye, Strøm and Åvitsland (2003) analyses welfare effects of different reforms in the Norwegian system of indirect taxation. The main reform studied is the introduction of a uniform VAT rate on all goods and services. The Norwegian political VAT reform of 2001 is also analysed. The reforms are analysed by using an intertemporal CGE (computable general equilibrium) model for the Norwegian economy. A non-uniform VAT system gives a welfare loss compared to a uniform VAT system (Bye, Strøm and Åvitsland, 2003).

Go *et al.* (2005), in their paper on "An Analysis of South Africa's Value Added Tax," have found that the VAT for South Africa is mildly regressive. Low-income households pay a higher share of their income to VAT than do high-income households. It is also evident that the VAT is more regressive or at least no better than the other indirect taxes in South Africa. For this reason, there is room for changes to the tax system that would make the VAT less regressive (Go *et al.*, 2005, p. 5).

The paper by Carbonnier (2007) studies the economic impact of sales tax reforms (specifically French VAT reforms), and attempts to provide visual evidence of tax shifting and to measure the distribution of the sales tax burden between consumers and producers. For that purpose, two

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French reforms are studied. These reforms entail steep decreases of the VAT rate. September 1st 1987, the VAT rate on car sales went down from the luxury-rate of 33.33% to the full-rate of 18.6%. September 1st 1999, the VAT rate on housing repair services went down from the full-rate of 20.6% to the reduced-rate of 5.5%. The consumer share of the sales tax burden is 57% in the new car sales market and 77% in the housing repair services market. Analyzing huge VAT variations, Carbonnier's study provides sharp consumer shares estimates for two very different markets. The estimations find for both markets that taxes are under-shifted on prices. Moreover, the consumer share in the housing repair service market– a close to perfect competitive market– is very significantly higher than the consumer share in the car market– a quite closed oligopoly with very few firms competing. These empirical results are consistent with theoretical results. Under perfect competition hypotheses, more fixed capital implies less supply elasticity, which leads to a lower tax shifting on prices (Carbonnier, 2007).

John L. Mikesell (1998), in his paper on "Changing the Federal Tax Philosophy: A National Value-Added Tax or Retail Sales Tax," has cautioned that the reliance of any tax is "itself some cause for concern because we know that efficiency and equity effects of any tax become more acute the more heavily that tax gets used. Distortions and perversions that are irritants at low rates can major problems when rates rise as taxpayers get trapped in big-ticket tax consequences, the financial advantage of tax evasion and avoidance makes those strategies worth pursuing and the economic loss from distorted choices rises" (Mikesell, 1998, p. 54).

The paper by Liberati (2001) on "The Distributional Effects of Indirect Tax Changes in Italy," evaluates the distributional and welfare effects of two recent changes of VAT and excise taxes in Italy. According to the findings there is no evidence that the reforms have redistributed purchasing power among households. But the most striking result is that a simpler two-rate VAT structure, set according to the European directives on VAT coordination, could have replaced the present system producing the same revenue and increasing welfare. The result provides a clear instance in which reducing the number of VAT rates can be welcome even in the presence of distributional concerns (Liberati, 2001).

Iorwerth and Whalley (2002), in their paper on "Efficiency Considerations and the Exemption of Food from Sales and Value Added Taxes," using simulation models, have concluded that, on efficiency grounds, exemption of foods from VAT emerges as a socially costly policy, especially under increasing returns to scale (Iorwerth and Whalley, 2002).

Pundey, Markov and Ackrill (2001), in their paper, analyze the possible VAT reforms in Bulgaria, evaluating revenue-neutral reallocations of goods to tax bands within the existing 2-rate structure. They find a weak case for the use of non-uniform VAT rate structures for redistributional purposes. According to the findings, selective VAT exemptions can produce approximate welfare gains equivalent to a general price fall of much less than 1 percent of plausible specifications of social welfare (Pundey, Markov and Ackrill, 2001).

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Ballard, Scholz and Shoven (1986) have examined the efficiency and distributional consequences of a VAT whose revenues are used to reduce personal or corporate income taxes in the USA. They have found that the introduction of a VAT and an equal yield reduction in the personal income tax would improve the efficiency of the economy. This is true because those who are made better off by the tax swap would gain more than those who are made worse off. The magnitude of the improvement in efficiency is significantly larger for a flat VAT than for one with a differentiated rate structure.

Referring to the findings of six studies on the experience of six countries (Italy, Germany, France, the Netherlands, England, and Sweden) with the VAT in around 1980, Aaron (1982) has mentioned that the biggest surprise among the reports was that the value added tax was not regressive in any of the six countries. Rather, it was reported to be roughly proportional with respect to income. Instead of imposing the tax at a uniform rate on all consumption goods, the Europeans exempt some commodities and impose lower rates of tax on others. In effect, they have superimposed some positive and negative excise taxes on the VAT. They impose lower than average taxes on necessities, items that are consumed disproportionately by people with low incomes. They tax commodities consumed disproportionately by people with higher incomes at higher than average rates, with the degree of variation varying from country to country (Aaron, 1982, p. 4).

Pagán, Soydemir and Tijerina-Guajardo (2001), using a four-variable vector auto-regression (VAR) model and quarterly data over 1981-1997 (during this period, VAT rate was increased from 10% to 15% in April 1995), analyze the connection between real federal government spending, the rate of inflation, real VAT revenue and the general VAT rate. The results of the study suggest that increases (decreases) in the VAT rate substantially increase (decrease) the Government tax receipts and small increases (decreases) in the VAT rate result in larger (smaller) tax revenue. The increases (decreases) in the VAT rate with high (low) inflation offset each other in such a way that VAT collections remain almost constant. The results also show that the response of VAT revenue towards Government spending is positive, which is consistent with the view that increases in government spending stimulate the economy, which in turn results in higher VAT revenues.

As mentioned by Narayan (2003, p. 226), charging VAT as a percentage of price means that the actual tax burden is traceable at each stage in the production and distribution process. VAT is usually regarded as a more efficient form of taxation than direct taxation because the efficiency is embedded in the fact that VAT entails little distortionary economic behaviour. Further, VAT is seen as generating greater revenue than income taxes because it minimizes the scope of evasion.

In his study, Narayan (2003) has shown the macroeconomic impact of the IMF recommended VAT policy for the Fiji economy. In September 2002, in the face of mediocre economic performance, deteriorating government finances and stagnant investment levels – all due to the political coups of 2000 – an increase in VAT was recommended to Fijian policymakers by the

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IMF as a remedy to Fiji's problems. Following this policy recommendations, the Fiji Government announced a 25% increase in VAT in its 2003 budget and beginning from January 1, 2003, all goods and services were levied a 12.5% VAT. Using a 'computable general equilibrium' (CGE) model, Narayan (2003) has examined the economy-wide effects of this VAT policy. The results of the study show that while the VAT policy improves the government revenues (VAT revenue is expected to increase by 19% and while revenue from other sources is expected to fall, total government revenue is still expected to rise by over 4%) and brings about a small 0.6% increase in real GDP (gross domestic product), it fails to address investment levels. VAT actually leads to a decline in investments and a reduction in real consumption and national welfare (private disposable incomes and real consumption will both fall leading to a worsening of the real national welfare by 1.1%). The study also highlights that large amounts of tax revenues are owed to government (outstanding tax revenue has increased rapidly from F$107.9 million in 1997 to F$142.1 million in 2001) and hence, this is three times more than what government will collect from the 25% in VAT. In this light, an alternative to VAT is to upgrade government's tax collection mechanism. The study concludes that the IMF VAT policy of an increase in VAT to boost government revenue and investment will fail to deliver on its objectives.

Regarding the inflationary effect of introduction of VAT, Thomson (1974) has given several extreme European examples, where both insignificant and significant inflation was noticed along with a declining trend in some cases. He has mentioned that Germany experienced no noticeable inflation as a result of the VAT and the net price effect may actually have been a decrease. The overall price increase of 0.9 percent in the six months to July 1968 is believed to have been caused by other factors. France also attributes little of her inflation to the VAT. Denmark and the Netherlands, however, suffered substantial price rises after the introduction of the VAT. In the Netherlands there was a sharp reaction to these price rises but in Denmark it did not lead to any serious discontent, largely because there had been substantial wage increases shortly before the introduction of the VA T and it was also accompanied by various tax concessions and allowances. In general, foreign experience tends to indicate that problems of increased prices can be largely overcome by careful planning and educating the public for the changeover to VAT (Thomson, 1974).

Fourie and Owen (1993), in their paper on "Value-Added Tax and Regressivity in South Africa," have examined only the distributional effects and dimensions of the value-added tax in South Africa. The main conclusions of their study are: (a) VAT is regressive with respect to household income. The VAT burden decreases from 7.6 percent of total household income for the group of poorest households to 4.3 percent for the highest income households (with zero rating taken into account). (b) It is possible to select goods for zero rating so that the equity gain and, therefore, the efficiency of zero rating as a distributional measure are maximized. (c) Higher VAT rates on luxury goods will have limited distributional effects and generate limited extra revenue. (d) Zero rating has been effective in reducing the degree of VAT regressivity, and contributes significantly to a more equitable tax system. Without zero rating the VAT burden of the poorest households

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would be 9.3 percent. (e) While they do receive the biggest relative relief, however, the tax relief is not focused on the poorest households alone. It is spread across the income spectrum.

Mertens and Tesche (2002), in their article titled "VAT Revenues in the Russian Federation: The Role of Tax Administration in Their Decline," analyze the experience with the VAT in the Russian Federation (RF) and provide evidence that poor tax administration both contributed to the decline of VAT revenues in 1993 and continues to hamper VAT revenue collection in 2000s. The researchers have noted that the VAT in the Russian Federation (RF) had "an auspicious beginning, raising around one-third of total tax revenues in 1992" (p. 90) and within 18 months of introduction, VAT revenues accounted for only one-fifth of total tax revenue (p. 88). Mertens and Tesche (2002) have mentioned several structural anomalies of VAT having serious revenue implications, such as asymmetrical treatment of VAT credits on input and VAT liabilities on output until April 1995, cash basis accounting (the old Soviet accounting system, which is inferior to accrual basis accounting) for determining both VAT credits and liabilities, the invoice/credit method not required of all VAT taxpayers (retailers and service providers require to calculate VAT not on actual sales, but on gross margins based on predetermined percentage of costs or allowable profit levels) and destination principle for all non-CIS (Commonwealth of Independent States) trade whereas origin principle for all CIS import and exports (pp. 90-93). However, the authors believe that the poor tax administration is the major reason of the 'precipitous decline' in VAT revenue of the RF and have discussed several possible administrative explanations for the poor revenue performance of the VAT: reduced subsidized credits (the firms were willing to pay taxes as long as Government came through with subsidized or cheap loans from the Central Bank of Russia), poorly drafted tax law (for which the initial high level of taxpayer compliance declined by understanding that the State Tax Service lacked capacity to enforce the law), poor administrative capacity (mainly due to shifting from few large state-owned enterprises to many small businesses), and insufficient forethought and planning for quick implementation of VAT (Mertens and Tesche, 2002, pp. 103-105).

Keen and Lockwood (2007), in their paper on "The Value-Added Tax: Its Causes and Consequences," have mentioned that a key claim made by proponents of the VAT, especially for developing countries, has been that it would enhance efforts to mobilize much needed tax revenue, not only directly but through wider improvements in tax administration and compliance. The same argument is sometimes turned around (particularly from the US perspective), however, by those distrustful of the uses to which government would put additional revenue, where the VAT would be a 'money machine'. Considering both views—of the VAT as a beneficial expansion of the armory of tax instruments available to governments, or as all too easy a source of revenue—the researchers, in their paper, have tried to address the question: Has the VAT proved, as its proponents claim, an especially effective form of taxation? For this purpose, on the basis of using an unbalanced panel dataset for 143 countries over 26 years, this paper first shows that a tax innovation—such as the introduction of a VAT—reduces the marginal cost of public funds if and only if it also leads an optimizing government to increase the tax ratio. This leads to the estimation, on a large panel, of a system of equations describing the probability of VAT adoption

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and the revenue impact of the VAT. The sign of the revenue impact is generally ambiguous, but most countries that have adopted a VAT seem to have gained a more effective tax instrument in doing so.

Mackenzie (1991), in his paper "Estimating the Base of the Value-Added Tax (VAT) in Developing Countries: The Problem of Exemptions," has given a brief overview of the rationale of exemption of VAT on various goods and services, noting that they are most readily justified on the grounds of either administrative expediency or equity. But as a result of exemption, the procedure to estimate the base of a VAT when there are significant exemptions can be quite complicated. Exemption of VAT on basic foodstuffs from the equity grounds, exempting the had-to-tax sectors (such as the output of agricultural sector) to avoid administrative difficulty and also exempting expenditure on few basic commodities representing an important share of the household budget of the poor are more common in the developing countries. Sometimes VAT restricted to the manufacturing-import stage and exempting the trading stages is adopted as a means of reducing the tax collection points and hence the costs of administration and taxpayer compliance, but the danger is that the manufacturer can connive with the wholesalers or retailers to understate the true of sales at manufacturing stage or integrate vertically and practice transfer pricing. An additional difficulty is the problem created by direct sales by the manufacturer to retailers or final consumers. Alternatively, exemption by size (i.e., exempting traders whose sales or value added fall below some stipulated minimum, which is deliberately set at a high level) can be provided, which can put pressure on small manufacturers and wholesalers to register as taxpayers so that their larger customers can receive an invoice stating the tax paid on their purchases and credit this tax against their liability to tax on their sales. Policing the exemption limit can prove difficult, however (Mackenzie, 1991, pp. 1-3).

The paper by Mackenzie (1991) also derives a formula that, with the aid of an input-output table, may be used to determine the impact of a given list of exempt activities on the size of the tax base. Two basic adjustments must be made to the base of a VAT with no exemptions: the value of sales to consumers of exempt goods and services must be subtracted, and the value of the sales of taxable inputs in the production of exempt goods and services must be added. The paper concludes by using the formula to obtain an expression for the elasticity of a VAT with exemptions with respect to aggregate consumption and to illustrate the implications of changes in an economy's productive structure for the VAT base.

Chao, Yu and Yu (2006), in their paper, have evaluated China's import duty drawback and VAT rebate policies using a general equilibrium analysis. China's duty drawbacks and VAT rebates play important roles in promoting exports. Simulations from a computable general-equilibrium (CGE) model, characterized by a dual production (domestic sales and export processing) and dual import structure (imports used in export processing and for other purposes), confirm the theoretical results on China's exports that (a) such policies are generally export promoting; (b) a small part of the export expansion comes at the expense of a slight decline of the domestic activity through factor reallocation and input substitution, whereas a larger portion of the

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expansion is attributed to cheaper access to foreign inputs; (c) export processors use more imported inputs and less domestic inputs; and (d) export intensive sectors are positively affected by these policies, whereas traditional agriculture sector is impacted adversely. These policies generate welfare gains for China.

Creedy (2001), in his paper on "Indirect Tax Reform and the Role of Exemptions," has mentioned that arguments are usually made for exemptions on distributional grounds. A consumption tax (like 'goods and services tax' or GST in Australia) imposed at a uniform rate on *all* goods and services has no redistributive effect since the real incomes of all households are reduced by the same proportion. A consumption tax is most progressive, or inequality-reducing, when it taxes most heavily those goods that form a systematically higher proportion of the budgets of high-expenditure households. This lies behind the argument that some goods, such as food, should be exempt from a general consumption tax. But there is a cost of such redistribution, since the tax rate imposed on other goods must be higher to raise the same revenue, and this may lead to large excess burdens. Rational debate requires information about both the costs and the benefits of such differentiation (Creedy, 2001, p. 458). Creedy's paper examines the question of whether indirect tax rates should be uniform, using four different modeling strategies based on the Australian pre-2000 tax system and several hypothetical reforms, using household budget data. The consistent result of the study is that only a small amount of inequality aversion is sufficient to generate support (an increase in social welfare) for the exemption of food from a general consumption tax, despite the efficiency costs involved (Creedy, 2001, p. 481).

In the UK, there are three key questions I want to address in this assessment of the temporary VAT cut stimulus policy that was announced on 24 November 2008 and came into effect on 1 December 2008. Three consecutive papers have been published recently in the *Fiscal Studies*, the UK Institute of Fiscal Studies (Vol. 30, No. 1, 2009) on this 'temporary VAT cut' or "a reduction in VAT" (see Crossley, Low and Wakefield, 2009; Barrell and Weale, 2009; Blundell, 2009). The paper by Crossley, Low and Wakefield (2009), "The Economics of a Temporary VAT Cut," analyses the likely implications of the temporary cut in VAT in the UK to 15 per cent, with a return to 17.5 per cent in place for the end of 2009. The study distinguishes between the income effect of the cut and the (intertemporal) substitution effect. The former (income effect) is likely to be small because the change in lifetime income is minimal. The second effect (substitution effect) is likely to be much more important because the reduction in the price of goods bought in 2009 compared with 2010 gives an incentive to increase consumer spending this year. With an elasticity of intertemporal substitution of about 1, the researchers would expect the cut in VAT to boost consumer spending by about 1.2 per cent over what it would otherwise be. The distributional consequences of the VAT cut are regressive because goods subject to VAT tend to be luxuries. Unlike a cut in interest rates, there is no difference in the distributional consequences for borrowers compared with savers (Crossley, Low and Wakefield, 2009).

Barrell and Weale (2009), in their study on "The Economics of a Reduction in VAT," explore the effects of a temporary cut in VAT, identifying three possible effects: an *income effect* as people

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benefit from a lower cost of living during the period of the reduction, a *substitution effect* as people bring their consumption forward and an *arbitrage effect* as people buy non-perishable goods before the end of the period of low VAT for consumption after the VAT rate has been raised. International evidence suggests a clear overall impact on consumption, although the nature of the pattern depends on the way in which the data are analyzed. However, the key policy issue is the impact of the VAT change on output and, to examine that, a simulation model of the whole economy is needed. Evidence from the National Institute's Global Economic Model suggests that the impact of the recent VAT reduction is likely to build up during the course of 2009. The reduction in VAT from 17½ per cent to 15 per cent is likely to result in consumption being augmented by less than 1 per cent by the fourth quarter of 2009. However, GDP is likely to be raised by less than half a per cent relative to what would have happened without the VAT increase. After the temporary reduction is over, both consumption and GDP are depressed as a result of the policy (Barrell and Weale, 2009).

The paper by Blundell (2009) on "Assessing the Temporary VAT Cut Policy in the UK," concerns the likely impact of a temporary VAT cut stimulus policy on consumer demand in the UK. It suggests that around 75 per cent of the VAT reduction will be passed on to consumers and that consumers will react by maintaining their expenditure levels and therefore increasing their demand for consumption goods. The uncertainty caused by the downturn makes this a more muted impact than the researcher might have hoped, especially on the demand for durable goods. Nevertheless, it is a substantive impact. In general, the uncertainty caused by the recession will tend to reduce the impact of any stimulus package. It is also argued that synchronizing the subsequent rise with the economic upturn is critical (Blundell, 2009).

McLure (2000) has dealt with the problem of VAT evasion in a federal system by suggesting the destination-based CVAT (compensating VAT) that would allow the exporting state to zero-rate interstate sales and the importing state to defer payment of tax on imports from other states, without breaking the chain of credits that is the administrative hallmark of the VAT. According to McLure (2000), the CVAT is vastly superior to both the incredibly complicated proposal for a tax credit clearinghouse and the revenue-sharing "definitive" solution proposed by the Commission of the EU, which involves total loss of state autonomy over VAT rates. McLure also believes it is also superior to the Keen-Smith 1996 proposal of VIVAT ("viable integrated VAT"), which requires vendors to distinguish between sales to registered traders and other sales.

Bannock (2001), in his paper on "Reforming Value Added Tax," has mentioned a "new source of fraud–the reclaim of fictitious input taxes–which does not exist in a simple, single-stage tax." In his opinion, "Unlike a sales tax, VAT provides an additional incentive for producers to avoid taxation altogether and join the black economy" (p. 33).

While discussing the tax-base of VAT, Schenk and Oldman (2007) have given arguments why the normative base for a tax on consumption like the VAT cannot be used and they have enumerated five methods of altering the tax-base of VAT mentioning reasons of those alternatives: (i) entity

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exemptions, (ii) zero rating, (iii) transaction exemption, (iv) alteration of base by granting or denying credits, and (v) multiple rates (pp. 46-55). As stated by Schenk and Oldman (2007), a normative base for a consumption VAT (one that taxes final consumption of all goods and services including services rendered by government, an isolated sale to a neighbor of a used refrigerator, toys, or an automobile, or the sale of a personal residence and under the destination principle, the tax should be imposed on all imported goods and services and returned by credit/refund on all exported goods and services) is not employed by no nation for administrative as well as political or social reasons. They (Schenk and Oldman, 2007) have also stated that as a tax generally imposed on domestic consumption, a seller's quarterly or annual total sales activities should not be relevant. However, for administrative and compliance reasons, it is impractical to impose a collection and reporting requirement on every seller of any product or service. Every wage earner provides services and could be regarded as a taxable supplier of them, but no existing VAT does this. The quantum and nature of the sales activity therefore is used in most countries to define the persons or entities that are subject to VAT (Schenk and Oldman, 2007, pp. 46-47).

According to Schenk and Oldman (2007), under *entity exemptions*, there are *two* different kinds of entity exemptions granted: (1) The *first* is the small business exemption that does not depend upon the kind of goods or services provided by the seller, rather, countries with VATs typically remove from the tax base firms with annual sales at or below the small business exemption threshold. (2) The *second* is the exemption provided for all sales or particular sales made by an entity because of the nature of the entity (e.g., essential governmental services rendered by a unit of government or charitable services provided by or sales of donated goods by nonprofit organizations). These entities, even if outside the VAT registration system because of exemption, still must pay tax on their inputs and imports. Others may be taxable on services that compete with services rendered by the private sector. However, an exempt entity that is denied credit for VAT on inputs may attempt to avoid tax on some purchased services by providing them in-house rather than purchasing them from outside taxable suppliers. To prevent this incentive toward vertical integration, some countries treat certain self-supplies by exempt entities or organizations as taxable sales to themselves, reportable on VAT returns, notwithstanding their general exemption from VAT (Schenk and Oldman, 2007, pp. 48-50).

Under *zero rating*, the tax can be completely removed from a particular product or service or from a particular transaction. Under a credit-invoice method, the seller is entitled to recover as input credit the tax included in the cost of taxable purchases attributable to that sale. Under the destination principle to tax international transactions, zero-rate is typically applied to exports of goods (regardless of the nature of the goods exported) and specified services because those exports will be consumed outside the taxing country. This zero rating is not a preference, because the export sales are merely beyond the jurisdictional reach of the tax. The destination principle reflects the near universal understanding that in geographically assigning VAT burdens and revenues, the country of consumption gets both; the country of production gets neither. Consistently, most countries do not tax sales of goods located abroad for delivery abroad because these sales are beyond the scope of the VAT. Some countries include item or transactional zero

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rating of particular goods or services for social or political reasons (such as sales of food, water, books and other printed matter, recording aids for the blind and disabled, fuel and power, drugs and medicines). Many VAT systems zero rate certain otherwise taxable domestic transactions between registered businesses both for administrative convenience and to avoid cash flow burdens on the parties to the transactions (e.g., the sale of a going business between two VAT-registered firms, which usually involves no net change in revenue to the government because the tax otherwise reportable by the seller is offset by an input credit or deduction to the purchaser or transferee). Some transactions are not subject to VAT (a treatment comparable to zero rating) because legal ownership to property is not transferred (e.g., transactions involving property seized or repossessed by a creditor to satisfy a debtor's obligation, or transactions involving property transferred to an insurer in satisfaction of an insurance claim). Some zero-rating may be based on treaties or international agreements (Schenk and Oldman, 2007, pp. 48, 50-52).

Under *transaction exemption*, the sale is not taxed and the seller is denied an input credit for the tax paid on purchases used in that exempt activity. The grant of exemption for domestic sales substantially increases the administrative and compliance costs of a VAT, especially if a business makes both taxable and exempt sales. In the latter situation, the business must allocate credits between taxable and exempt activities because it is denied credit for input tax on purchases attributable to this exempt activity. An exemption granted under the invoice VAT at an intermediate stage of production or distribution may increase the price paid by the final consumer and increase revenue to the fisc over the situations where this exemption is not provided. A retail stage exemption reduces revenue and, to the extent the tax saving is passed on to consumers, reduces retail prices as well. Under a sales-subtraction VAT, transactions are exempted by removing the sales from taxable gross receipts and by denying the deduction for the cost of purchases attributable to those exempt sales. Of course, the prices charged by sellers on exempt transactions may include tax paid by them on purchases used in that exempt sales activity. Some exemption may be based on treaties or international agreements, such as diplomatic exemptions (Schenk and Oldman, 2007, pp. 48, 52-54).

Under *alteration of base by granting or denying credits* (having limited use only), the tax base of a credit-invoice VAT or a credit-subtraction VAT without invoices can be altered by granting extra input credits or denying otherwise available credits to promote some social, economic, or other nonrevenue goal (e.g., disallowing input credits on purchases for luxuries, amusement, or entertainment; or granting more input credit than can be accounted for or was paid with respect to some purchases such as purchases from exempt small businesses to claim input credit imputed from the full cost of those purchases) (Schenk and Oldman, 2007, p. 54).

Under *multiple rates*, a nation may employ multiple VAT rates rather than grant exemption or zero rating to particular categories of goods or services to achieve political or other nonrevenue goals. A higher rate may be employed to discourage the consumption of particular goods (alcohol and tobacco) or to attempt to make the tax more progressive (luxuries). A lower rate may be imposed on a variety of goods and services (e.g., on chocolate by France; on some labor-intensive

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services by EU countries as a means to promote employment; on the sale of camels and goats by Argentina. However, under the tax credit method, if it is desired to reduce the VAT rate at some stage in the productive and distributive process for administrative reasons, the total tax paid on total value added should not be reduced. The reduced tax at the earlier stage simply gives rise to an equally increased tax at a later stage (Schenk and Oldman, 2007, pp.54-55).

However, as the VAT base is narrowed, especially by multiple rates and grants of exemptions and zero-rating, the costs increase for business to comply with and for the tax authorities to administer the tax (Schenk and Oldman, 2007, p. 48). Fourie and Owen (1993) have also given a number of strong arguments against multiple rates. Multiple rates distort consumer and producer choices. Traders may mark up low-taxed items to cross-subsidize higher taxed goods. Multiple rates are an inefficient way to protect the poor as they also benefit the rich. Borderline disputes are created, and a huge potential is opened up for lobbying. The time of high-quality staff is wasted in dealing with demarcation disputes. The tax base is eroded. The high rates yield little revenue yet involve administrative costs. The strength of VAT uniformity is undermined. Finally, differential rates rarely reflect genuine consumer choices and weights (Fourie and Owen, 1993, p. 315).

Gendron (2005), in his paper titled "Value-Added Tax Treatment of Public Sector Bodies and Non-Profit Organizations: A Developing Country Perspective," has observed that the application of the value-added tax to public sector bodies, non-profit organizations and charitable organizations substantially departs from full taxation in most VAT regimes around the world. The problems with the mostly exempt regime for those organizations are reviewed. Options to modify or replace the regime are reviewed and assessed from the perspective of developing and transitional economies. The Australian-New Zealand model, where all goods and services supplied by those organizations are within the scope of the tax, emerges as the preferred option. Nevertheless, a gradualist policy may be better suited to the circumstances of many developing and transitional economies (DTEs) (Gendron, 2005).

Harrison and Krelove (2005), in their empirical paper, have discussed on VAT refunds. A key feature of the invoice-credit form of VAT is that some businesses—notably exporters—will pay more tax on their purchases than is due on their sales, and so can seek refunds of excess credits from government. While refunding is straightforward in principle, serious problems arise in practice, including opportunities for fraud and corruption, and denial of refunds by governments with cash shortages. This makes the refund process the "Achilles heel" of the VAT. This paper examines the refund approaches of tax administrations in 36 developing, transitional, and developed countries. According to the findings, the amount of VAT refunds as a percentage of gross VAT collections averages 30 percent or more in half the regions surveyed. A country's VAT refund level (in percent of gross VAT collections) is influenced by a number of factors, including (1) the nature of the economy (e.g., extent to which investment generates excess VAT credits, value-added of export industries, and proportion of taxable and zero-rated sales in the economy); (2) the design of the VAT system, particularly the extent of zero-rating and use of multiple rates; (3) taxpayer compliance behavior and extent of VAT fraud; and (4) the system and

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culture of the tax administration (e.g., level of corruption, capacity to detect and prevent VAT fraud, and commitment to taxpayer service in meeting statutory payment deadlines). The level of VAT refunds is likely to be *higher* in countries with more open and faster-growing economies, as well as in countries with modern tax systems and administration that apply self-assessment procedures and respect taxpayers' rights, including minimizing tax compliance costs. Conversely, refunds will be *lower* where countries have adopted specific schemes to reduce the number and size of refund claims such as zero-rating supplies to exporters, and deferring VAT liabilities on imported capital equipment. Refund levels will also be lower in countries where tax administrations and treasuries deny refund claims during periods of government cash shortages. Most VAT refund claims are made by exporters, both in number and value of claims. In many countries, VAT laws limit entitlement to refunds to exporters, requiring other (nonexporting) enterprises to carry forward their excess credits to subsequent tax periods. Ninety (90) percent of survey respondents report that their tax authorities are required to make refunds within a prescribed timeframe, ranging from 24 hours (as in the case of Peru) to 90 days (in France). The most common statutory period for making refunds is 30 days (40 percent of the survey countries have a 30-day refund period). In around 40 percent of the countries surveyed, VAT laws provide for interest to be paid on late refunds. *De minimus* rules may apply (e.g., in Singapore and the United Kingdom, no interest is payable if the interest calculation is less than a prescribed statutory amount). VAT laws in 80 percent of the surveyed countries allow tax authorities to offset VAT refunds against other tax debts (e.g., income tax) owed by the taxpayer (i.e., the amount due for refund may be used, with or without the taxpayer's consent, to pay off the taxpayer's other tax debts) (Harrison and Krelove, 2005, pp. 7-15).

As suggested by Harrison and Krelove (2005), to eliminate the losses from refund abuse and other VAT fraud and evasion, tax administrations need to strike a balance between applying effective controls to protect revenue, while ensuring that compliant taxpayers are not overburdened with compliance costs. This calls for a comprehensive VAT compliance strategy and program that applies risk-management principles, and encompasses critical taxpayer service and enforcement (audit, investigations, and sanctions) components (Harrison and Krelove, 2005, p. 21).

The paper by McLure (2003) on "The Value Added Tax on Electronic Commerce in the European Union," discusses application of the value added tax (VAT) to electronic commerce (e-commerce) in the European Union (EU). The paper concludes that any failure to apply VAT to electronic commerce crossing borders between EU Member States and other countries should not affect the VAT liability of registered traders, even if the reverse charge rule (taxation in the hands of recipients) is not applied. The only type of e-commerce that is problematic involves sales of digital content to consumers and unregistered traders. However, such sales constitute a minuscule fraction of purchases by households and unregistered traders (given the extremely low level of small business exemptions). Thus, while many believe that the question of how to tax e-commerce under the VAT is urgent, how it is resolved may not be very important (McLure, 2003).

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Schenker (2000) in his report on "VAT on Fatty Foods," has mentioned the recommendation of Dr. Tom Marshall from the department of public health and epidemiology at Birmingham University, who proposed a radical way to persuade people to change their diet and preserve their health. Dr. Marshall recommended that placing 'fatty' foods, to increase their price, would discourage people from buying them. He estimated if such foods were taxed at present VAT rate of 17.5%, the rate of heart disease would be reduced by 1.8–2.6%, saving 900–1000 lives per year among people under the age of 75 years (Schenker, 2000, p. 101).

Cnossen (1998b), in his paper on "VAT in CEE Countries: A Survey and Analysis," has observed that a number of Central and Eastern European (CEE) countries have applied for membership of the European Union (EU). The adoption of the VAT is a nonnegotiable condition. Accordingly, all these countries have introduced the VAT which, in principle, is a highly product-neutral, factor-neutral and revenue-productive tax. A review of the structures of the various VATs indicates that more can be done to tax public sector bodies and cultural services. In some countries, immovable property and the agricultural sector can be treated more even-handedly. However, the most important structural weakness of the VATs is the exemption and lower taxation of so-called essential products. VATs are ill-suited to enhance progressivity in tax burden distribution. It is concluded that policymakers should now focus their attention on improving the administration of their VATs. As in many other countries, tax policy often is tax administration (Cnossen, 1998b).

Bannock (2001) has focused on heavy compliance cost of VAT. According to the estimate of Bannock (2001), for the revenue authority, the collection costs (administrative costs) of VAT are quiet high at 0.66% of revenue and considerable less than those for direct taxes such as income tax. However, the revenue authority accounts for only 20% of the total gross operating costs of VAT (compliance costs plus the government's administrative costs), 80% being borne by business. Of the business share of the operating costs, 67% of gross compliance costs in 1992 were borne by the 1.4 million registered traders with a turnover below £500,000, although these smaller firms accounted for only 30% of the VAT revenue collected (Bannock, 2001, p. 34).

Hansford and Hasseldine (2002), in their paper titled "Best Practice in Tax Administration," have provided their views and recommendations based on a UK study of tax advisors, who are members of the Chartered Institute of Taxation, and tax officers, working for HM Customs & Excise, who are responsible for administering VAT. They sent questionnaires in 1997 to 1,000 tax advisors and 529 tax officers and the response rate for both groups was approximately 50%. The findings of their study show that the tax officers were more positive in their assessment about the quality of advice provided by tax advisors than vice versa. In particular, tax officers were more likely to assess tax advisors as having greater confidence and knowledge, in comparison to tax advisors' rating of the confidence and knowledge of tax officers. Less than half of the tax advisors agreed that tax officers provide confident, knowledgeable or consistent advice. A further concern is that 20% of each group assessed the quality of advice they received on most occasions as confusing. Regarding the perceived knowledge base of both groups, the findings show

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considerable differences. The poorest assessment of tax officers was in their perceived inability to relate to business and legal issues/problems. The highest rating was for their technical knowledge—which may have been expected. In contrast, tax advisors were rated quite highly by tax officers, particularly for their ability to relate to business issues/problems. Hansford and Hasseldine (2002) believe that tax advisors and tax officers are key players in securing overall tax compliance and communication problems and inconsistent advice may lead to higher tax compliance costs borne by VAT traders. To improve the situation, they suggested for active measures to increase clear communication between the two groups, pro-active management by HM Customs & Excise, staff training to reduce tax officers' perceived inadequate knowledge, and tax advisors' clearer understanding of HM Customs & Excise department procedures.

The paper by Agha and Haughton (1996) on "Designing VAT Systems: Some Efficiency Considerations" undertakes a cross-country analysis of the determinants of VAT compliance, using data from a sample of 17 OECD countries for 1987. An index of compliance is constructed and regressed against variables which represent characteristics of the countries and their VAT rates. It is found that (a) a higher VAT rate is associated with lower compliance, and this tradeoff limits the revenue-maximizing VAT rate to under 25%; (b) compliance is substantially lower with multiple VAT rates; and (c) an extra dollar spent on administration raises revenue by $12, and longer experience with administering a VAT also raises compliance. Several OECD countries are ranged along a frontier, collecting about 8% of GDP through a VAT, but with rates of 14% to 22% on bases between 60% and 40% of GDP. For these, the base could only be broadened if the tax rate were lowered (Agha and Haughton, 1996, p. 303).

Terra (1990) has referred to the Canadian Goods and Services Tax, a form of VAT, as "the most perfect money machine there is" (1990, p. 21); Cnossen (1990, p. 5) has written that "purely from a revenue point of view, VAT is probably the best tax ever invented.' The VAT's strength is that it is more difficult to evade than a general retail sales tax. Brooks (1992) argues that this may be the only justification for the VAT which stands up to serious scrutiny, although an important consideration in European countries was a desire to have a tax which would permit the tax content of goods and services to be identified at any stage of production (*vide* Agha and Haughton, 1996, p. 303).

Keen and Mintz (2004), in their paper titled "The Optimal Threshold for a Value-added Tax," have mentioned that one of the key features of a VAT—and often one of the most contentious—is the threshold level of turnover at which firms are obliged to register for the tax or above which firms are required to charge VAT on their outputs (and entitled to reclaim tax on their inputs). Despite its importance, however, the question of the appropriate level at which to set this threshold has received little analytical attention. This paper first develops a simple rule characterizing the optimal threshold (when firms' sizes are fixed) in terms of a trade-off between tax revenues and collection costs. It then considers, in principle and by simulation, the implications for the optimal threshold of the production inefficiencies implied by the differential treatment of those above and below the threshold. The analysis in the paper by Keen and Mintz

Dhaka University Institutional Repository

(2004) has focused on the central trade-offs to be faced in choosing the threshold for a VAT: between the desires to increase tax revenue, reduce administration and compliance costs, and minimize the distortions arising from the differential treatment of firms above and below the threshold. The researchers have also indicated other considerations. *First*, there are links to be made with the design of optimal audit strategies. *Second*—a related point—are the potential connections to be made with the administration of the income tax, because VAT will yield information useful for enforcement of the income tax and hence the threshold amounts for both income tax and VAT should be chosen jointly. *Third*, important interaction effects arise when firms trade with one another (precluded here by the assumption that the intermediate good is wholly imported): for then a low threshold increases the likelihood that a firm not registered for the VAT—either because it is too small or because it is an outright evader—will find itself selling to registered firms, and so see a commercial advantage in registering (because they can then reclaim the tax paid on their inputs without increasing the net price to their customers (since the latter, being registered, can also reclaim tax on their inputs)). *Fourth*, the focus here has been on efficiency aspect of the threshold choice. In practice, distributional effects are naturally a major concern. Much emphasis is often given, in particular, to the regressive nature of the compliance costs associated with the VAT, generally thought to be more burdensome, relative to value added, for smaller traders than large. Against this, however, must be borne the competitive advantage enjoyed (at least in respect of sales to final consumers) by those who remain below the threshold. The equity aspects of the threshold choice are thus somewhat subtle (Keen and Mintz, 2004).

The paper by Keen (2007b) on "VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries," explores the implications of a distinctive feature of the VAT that is stressed by practitioners but essentially ignored by theorists: that it functions, in part, as a tax on the purchases of informal operators from formal sector businesses and, not least, on their imports. The paper stresses too the potential importance of the creditable withholding taxes that are levied by many developing countries—which have also been ignored. If both of these instruments are optimally deployed, it is shown, then the usual prescription that a small economy should not deploy tariffs remains valid even in the presence of an informal sector; and indeed a simple strategy is established—generalizing the standard prescription developed in models without informality—for deploying these instruments so as to preserve government revenue and increase welfare in the face of efficiency-improving tariff cuts. Conditions are established under which a VAT alone is fully optimal, precisely because it is in part a tax on informal sector production. But they are restrictive: more generally, an efficient tax structure requires deploying both a VAT and withholding taxes (Keen, 2007b).

In their paper on "VAT Fraud and Evasion: What Do We Know, and What Can be Done?" Keen and Smith (2007) have stated that like any tax, the VAT is vulnerable to evasion and fraud. But its credit and refund mechanism does offer unique opportunities for abuse, and this has recently become an urgent concern in the European Union (EU). Their paper describes the main forms of noncompliance distinctive to a VAT such as missing trader fraud, "artificial" tax avoidance arrangements instituted solely to reduce VAT liability, nonregistration by firms with turnover

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above the VAT registration threshold, and general noncompliance by VAT-registered firms (e.g. by understating sales or overstating purchases, either intentionally or by mistake). Then the paper by Keen and Smith (2007) considers how the noncompliances vis-à-vis can be addressed. Against the VAT noncompliances and the possible evasion and fraud, in addition to the common enforcement strategies for a self-assessed tax like VAT [the identification and registration of those required (or choosing) to pay the tax; collection and processing of amounts spontaneously remitted with periodic returns; audit to ensure accuracy of returns; and enforcement action on delinquent payers], Keen and Smith (2007), have also suggested some different measures. According to them, the first level of usual administrative response is the defensive measures on registration (such as tighter checks on would-be registrants and requiring guarantees in dubious cases), because registration is a prerequisite for these frauds. Other administrative measures include adopting or strengthening joint and several liability rules by which traders can be held responsible for fraud elsewhere in the chain that they might reasonably have been expected to be aware of; and establishing better and quicker information exchange between national tax authorities (so that the country of import can promptly become aware that exports to it that have been reported in another member state have not shown up in its own VAT system). More radical administrative proposals include: (1) The use of '*reverse charging*' for business-to-business (B2B) transactions, placing VAT liability on the buyer rather than the seller (with the amount thus paid fully creditable against the purchaser's liability on any subsequent sales). (2) The use of "*reverse withholding*" in vulnerable sectors, that has some similarity with *reverse charging*, in that the purchaser is again required to remit payment of VAT in respect of its purchases—but the seller remains liable for output VAT, with a credit given for the amount withheld by the purchaser (which may be at lower than the normal VAT rate). (3) Adoption of a system of "*VAT accounts*" (as implemented in Bulgaria) under which traders would be required to open a distinct bank account into which they would transfer the amount of VAT charged to their customers. In the event of suspicious refund claims, the authorities could then simply check whether the amount claimed had in fact been paid. (4) The *compulsory use of a third party* to guarantee VAT payments, either in general or for particular sectors, as set out by Ainsworth (2006), who labels this "D-VAT" (for "digital"). (5) Introduction of the "*P-VAT*" of Poddar and Hutton (2001), under which goods would simply not be allowed to clear customs until the authorities had received confirmation (or an appropriate guarantee) that import VAT has been paid (Keen and Smith, 2007).

However, Keen and Smith (2007) have observed that administrative solutions have their weaknesses, whether in creating other opportunities for fraud or/and in increasing the compliance costs of honest traders. More radical proposals go to the heart of the problem by fixing the break in the VAT chain as goods pass between countries (or states within a federation): that is, they eliminate the zero-rating of exports. There are three main proposals of this kind to handle a sub-national problem of VAT: (1) *"Clearing house" system*: A system of 'exporter-rating' may be introduced: intra-Union (as may be in EU) exports would bear VAT at the rate of the exporting country, with full credit then provided to the importer. To ensure the same allocation of revenue as under zero-rating, a corresponding transfer would be made by the authorities of the exporting

Dhaka University Institutional Repository

country to those of the importing country. The adjustment may be on the basis of individual transactions: a "clearing house" system. (2) *"CVAT"(compensating VAT):* Under the "CVAT"—proposed by Varsano (1999) and further developed by McLure (2000)—exports would be formally zero-rated in the exporting country but then immediately subjected to a special 'compensating' VAT that would be fully creditable in the importing country. Thus the net revenue collected by this tax would in principle be zero (leaving aside complications created by exemptions and sales to final consumers). (3) *VIVAT ("viable integrated VAT"):* The "VIVAT"—developed by Keen and Smith (1996, 2000)—instead charges a single rate—common to all participating countries (or states)—on all business-to-business (B2B) sales, whether domestic or across borders, while leaving the rate applied to final sales to the discretion of each. Under such a scheme, a trader in Munich would treat customers in Berlin and Paris in exactly the same way: so long as they are registered for VAT, she would charge the EU-wide B2B rate (Keen and Smith, 2007). The paper by Keen (2000) on "VIVAT, CVAT, and All That–New Forms of Value-Added Tax for Federal Systems" is a good summary of the above VAT variants.

Harrison and Krelove (2005) have given a list of VAT fraud and evasion: (a) *inflated refund claims*, (b) *underreported sales*, (c) *fictitious traders* (that involves creation of short-lived sham enterprises that register for VAT and create the illusion of trading in goods and services and a common ploy is to invent fake export invoices on nonexistent goods and claim VAT refunds), (d) *domestic sales disguised as exports*, (e) *missing trader intra-EU fraud* (typically, a fraudster registers for VAT in an EU country purchases goods VAT-free from another EU member state, sells those goods at VAT-inclusive prices for home market consumption and then ceases operations after a period of intense trading and disappears without paying the VAT due), and (e) *other forms of evasion and fraud* include: nonregistering by traders that are liable to VAT; claim of credit for taxable supplies used in exempt activities, and on private purchases; claim of credit for invoices from unregistered suppliers; sale of illegally imported goods with VAT added without remittance of the VAT to the tax authorities; and barter arrangements hidden from the authorities (Harrison and Krelove, 2005, p. 22).

The paper by de Mello (2007) on "The Brazilian 'Tax War': The Case of Value-Added Tax Competition among the States," tests for horizontal tax competition in the VAT for a sample of Brazilian states in the period 1985-2001. The states have considerable autonomy to set their VAT rates and bases, often using this tax as an industrial policy tool. The empirical findings, based on the estimation of a tax reaction function in an error-correction set-up, confirm the hypothesis of horizontal tax competition: the states react strongly to changes in their neighbours' VAT code, especially those that belong to the same geo-economic region (de Mello, 2007).

Briskin (1982), in his brief communicative viewpoint on "Value Added Taxes and Foreign Competition," has reacted severely on the zero-rating of exports under the VAT system calling it as "a pernicious discrimination against American products which no reasonable amount of productivity improvement can overcome" (p. 1474). He also claims that through this benefit, "many foreign governments subsidize their exports through forgiveness of internal taxes, usually

Dhaka University Institutional Repository

Value Added Taxes (VAT). They forgive the tax on products being exported" and thus it is nothing but a "dumping" (p. 1474). Briskin (1982) has offered a solution of imposition of "a countervailing tax" with respect to the basic rule for the operation of the VAT (i.e., its imposition on domestically manufactured goods, excusing on exports, and imposition on imports). However, Briskin is not proposing an American VAT tax, rather he claims that foreign goods should be sold in the U.S. at full cost including home country taxes to ensure that "free trade must be fair trade" (p. 1475).

According to Aaron (1982), with rate differentiation (exempting some commodities and impose lower rates of tax on items that are consumed disproportionately by people with low incomes; and taxing commodities consumed disproportionately by people with higher incomes at higher than average rates), the Europeans have managed to pull the regressivity out of the value added tax, but they paid a price for it: the loss of administrative simplicity. Once there are different rates of tax on different classes of commodities in a broad-based consumption tax, there are serious definitional problems (Aaron, 1982, p. 4).

With respect to solve the heavy administrative burden of VAT for the UK small firms Bannock (2001) has provided some possible solutions. One proposal is to abolish the VAT charges between the registered because due to invoicing and collecting tax from each other and reclaiming input tax in a self-canceling process the registered traders are not actually paying taxes. But this abolition would, in effect, convert the tax into a sales tax, which is ruled out by the concerned EU Directive on VAT. Bannock has suggested two other alternatives, which are mutually exclusive. The first is to simplify the tax within the EU directive and this simplification from the context of the UK might be narrowing the scope for exemptions and zero-rating, which complicate the tax and the increase in the tax-net would allow a welcome reduction in the standard rate of VAT. The second one is to compensate small firms for their work as unpaid tax collectors at a flat annual payment to provide a 'rough justice' (Bannock, 2001, pp. 36-38).

In the context of predominant existence of informal sector, for the purpose of implementing a successful VAT, Barlow and Snyder (1994) have suggested to adopt a long-run plan to "raise the level of business literacy" with a view to changing the situation of inability or unwillingness of documentation of transactions. According to their opinion, the Ministry of Finance could play a positive role in educating business about modern accounting practices. However, as long as businesses perceive that their taxes will remain lower if they can avoid moving to the formal sector, the problem of raising VAT collections will continue to plague the administration (p. 73).

Thomson (1974) has suggested few solutions against some problems. Administrative complexity at the beginning stage of VAT introduction can be made easier through learning the VAT system by both the authorities and taxpayer-entities and also through refining the 'interpretation of the legislation'. The problem of inspection with reduced "manpower requirement of the State" can be solved through the adoption of the simpler accounts system whereby sales and gross figures are to be checked as part of the firm's annual audit by the income tax department, keeping the control on

Dhaka University Institutional Repository

VAT in the hands of the indirect tax wing (may be, the Department of Customs and Excise) without eroding the policing function of the VAT since invoices would continue to be kept. Thomson (1974) has indicated one problem of credit mechanism in the European VAT system. Citing the French operated "decalage" (which means that in any given month the taxpayer is credited with the purchases of the previous month and may deduct this figure from current sales), he has stated the problem of delayed input tax credit where purchases exceed sales and the firm is not given a cash credit, but has to wait until it has sufficient sales to derive the benefit of preceding month's surplus credit. To solve this problem, Thomson (1974) has suggested the allowance of cash credit to "alleviate working capital shortages, especially where the company has bad debts or slow paying debtors." To simplify the administration, Thomson (1974) has also suggested the application of a single rate and certain exemptions (or zero rates).

Steenekamp (2007), in his paper on VAT in a borderless SA-BLNS Region (South Africa, Botswana, Lesotho, Namibia and Swaziland constitute the SA-BLNS countries), focuses on introducing the VAT policy implications of further economic integration within Southern Africa as a prelude to an African Economic Community, drawing on the experience of the EU in particular. The SA-BLNS Customs Union with its existing institutional structures may serve as a building block or laboratory for such a Community. VAT is already levied in South Africa (1991), Botswana (2002), Namibia (2000) and Lesotho (2003), and Swaziland aims to introduce VAT sometime in 2008/09. The study has briefly surveyed the VATs of SACU (Southern African Customs Union) and existing institutional structures for facilitating cross-border movement of goods. When the critical factors that may impact on VAT policy (such as national VAT rate autonomy, incentive compatibility in VAT administration, avoidance of breaks in the VAT chain within the internal market, compliance symmetry (meaning that traders should not have to deal with different tax systems for cross-border transactions when the intention is to have a single market), VAT revenue allocation in line with national consumption, harmonized VAT base, harmonized VAT rates, harmonized revenue-sharing mechanism, and harmonized VAT control) are viewed together with the Southern African Customs Union's long history of customs cooperation, a form of clearing-house regime seems appropriate, in comparison to other alternatives such as the viable integrated VAT (VIVAT), the compensating VAT (CVAT), and dual VAT. However, the clearing-house system may not be politically appropriate, thus clearing the way for a more conventional approach, such as the transitional EU-VAT regime.

Cnossen (1992) in his paper on "Key Questions in Considering a Value-Added Tax for Central and Eastern European Countries," has mentioned six basic requirements for a good VAT: (1) The VAT should be productive of revenue and responsive to changes in revenue needs. (2) Under the VAT, unintended distortions of producer choices, with respect to the form and the methods by which business is conducted, and of consumer choices for one good over another should be minimized. (3) The VAT should permit the unequivocal application of the destination principle. (4) The VAT should be simple and easy to understand. (5) Costs of collecting and enforcing the VAT should be kept low. (6) The VAT should be easy to comply with and should interfere as little as possible with the free functioning of business and trade (Cnossen, 1992, pp. 250-251).

Dhaka University Institutional Repository

Cnossen (1992) has concluded that "Efficiency in resource allocation and, by extension, the neutrality advantages of the VAT cannot be attained if prices continue to be controlled by the government and enterprises continue to be subject to undue regulation and direction from the center. If a VAT is not to resemble the kind of bookkeeping exercise of the old turnover taxes, then its introduction should be preceded by a substantial degree of price liberalization and enterprise autonomy. Finally, a VAT is a "democratic tax," in the sense that, in the main, taxpayers have to comply voluntarily with the obligations imposed on them. Also, they have the right to disagree with the tax liability as ascertained by the tax office. This requires carefully crafted procedures and sustained efforts to elicit tax-payer cooperation" (Cnossen, 1992, p. 251).

VAT expert Prof. Mahesh C. Purohit has a good number of publications on VAT (see Purohit, 1993; 1997; 2001a; 2001b; 2006; 2007). In his paper on "Adoption of Value Added Tax in India: Problems and Prospects" (1993), he has acknowledged the adoption of the Value Added Tax (VAT) by a rapidly growing number of countries as "one of the most remarkable events in the evolution of commodity taxation in this century" and also as "a praire fire". His paper examines the general trends in the structure of VAT–rates, tax base and exemptions–in the countries which have adopted it. The author then presents his assessment of the existing system of commodity taxation in India. His analysis of the existing structure of the three important taxes (Union excise duties, customs duty, and sales tax) suggests that the present system of commodity taxes in India is an unintegrated one. It is not a system in itself but a juxtaposition of a number of systems. Also, services are generally excluded from the purview of taxation. Against that background, he discusses the likely problems in introducing VAT (such as staff requirements; training of personnel; suitable computational technology; TIN numbers, a unique identification number, known as TIN (Tax Identification Number); and auditing of VAT) in the context of the country's federal structure (Purohit, 1993).

Purohit (2001a), in his paper on "National and Sub-National VATs: A Road Map for India," has observed that the adoption of a European-style VAT has been slow in India. This paper also examines the problems and prospects of introducing VAT taking account of the experience of states' experiments in adopting VAT in some form or other (such as introduction of VAT by Andhra Pradesh with effect from April 1, 1995 and abolishing it prior to its introduction; and also introduction of VAT by Kerala with effect from April 1, 1997 and subsequent withdrawal) (Purohit, 2001a).

Purohit (1997), in his case study of Brazilian VATs, has mentioned that Brazil has the distinction of being the only federal country in the world with independent value added taxes (VATs) at the federal and state levels. This paper of Purohit seeks to present the salient features of the structure of the VATs in Brazil, mentioning the exclusions and exemptions (not-taxed, exempted and zero-rated) and to discuss issues related to the management of the state VATs in that country with the possible reforms of VAT to avoid the multiplicity of taxes (Purohit, 1997).

Dhaka University Institutional Repository

Other published books/monographs of Purohit [*Sales Tax and Value Added Tax* (2001b); *Sate-Value Added Tax* (2006); *Value Added Tax: Experiences of India and Other Countries* (2007)] are wonderful resources on VAT covering all aspects of VAT structures and management from the perspectives of a federal country or a country without a federal government. In his latest study (Purohit, 2007), all the earlier studies have been referred in several contexts with updated information. As stated by Purohit (2007), VAT has emerged as one of the most important fiscal innovations of the present century. As many as 90 countries have switched over to VAT during the last decade & a half bringing the total number of VAT countries to more than 141. India has adopted a system dual VAT: CenVAT (Central VAT) at the federal level and State-VAT at the State level. Haryana was the first State to replace its sales tax by VAT on April 1, 2003. Majority of states (18 states) introduced VAT on April 1, 2005. The remaining States, except for Uttar Pradesh, have introduced VAT since then. In this context, this book presents evolution of VAT, analyses its rationale and brings out the reasons for its popularity as a fiscal measure. In the Indian context, it presents up-to-date developments in introduction of VAT by the Union and by all the States. The coverage includes an in-depth analysis of the rates, base, exemptions, taxation of services and harmonization of tax rates. Due emphasis is given to organization for tax administration, operations of VAT in India and other countries and to the MIS (Management Information Systems) for tax administration. Special emphasis is laid on Tax Information Exchange System (TINXSYS) of India for having information on dealers entering into interstate trade. The book presents an extremely informative account of the management of VAT in France (specially of the *forfeit* system for small dealers), GST (Goods and Services Tax) in Canada, and federal and state VAT in Brazil. In the light of the experiences of all the VAT countries, the study aims at drawing attention towards the key issues in implementation of VAT (Purohit, 2007).

3.3 Literature Survey in the Context of Bangladesh

There is a dearth of study in the area of taxation in Bangladesh. There were some studies relating to revenue history of early Bengal or some part thereof. For instance, Serajuddin (1971) has dealt with revenue administration of the East India Company in Chittagong during 1761-1785[8] and from his work and from other direct sources, some other references of studies relating to early revenue history of Bengal have been found (Prasad, 1970[9]; Ascoli, 1917[10]), early land revenue system in Bengal (Banerjee, 1936[11]) and revenue history of Chittagong (Cotton, 1880[12]). After independence, the comprehensive study on taxation is the study made by the Taxation Enquiry Commission (TEC) formed on 23 October 1976. The Commission had submitted its first and second interim reports in May 1977 and May 1978 respectively and the final report in April 1979 (*vide* TEC, 1979, pp. 3-7). The Taxation Enquiry Commission has evaluated the option of imposition of VAT, but in 1979, the TEC has thought that "time is not yet ripe for the

[8] The study of Serajuddin was done for the degree of Doctor of Philosophy of the University of London, approved in February 1964.

[9] Prasad, Rajeshwari (1970), *Some Aspects of British Revenue Policy in India 1773-1833 (The Bengal Presidency)* (Delhi: S. Chand & Co.).

[10] Ascoli, F. D. (1917), *Early Revenue History of Bengal and the Fifth Report, 1812* (Oxford).

[11] Banerjee, D. N. (1936), *Early Land Revenue System in Bengal and Bihar, Vol. 1, 1765-1772* (London).

Dhaka University Institutional Repository

introduction of the VAT," because of 'not yet fully geared and preoccupied tax administration with other taxes', and 'unsatisfactory standard of maintenance of accounts by the business community due to widespread illiteracy' (TEC, 1979, pp. 255-256).

However, through a comprehensive study, the World Bank prepared in October 1989 an 'agenda for tax reform' for Bangladesh (1989a, 1989b, and 1989c) which proposed the introduction of value added tax (VAT) in Bangladesh. The VAT system was however finally introduced by the newly elected Bangladesh Nationalist Party (BNP) government during their very first budget, which was presented on 12 June 1991. The introduction of VAT has been considered as 'a major tax reform' in the fiscal history of Bangladesh (Chowdhury, Omar Haider, 1995, p. 108). Regarding the scanty availability of research materials on VAT, Rouf (2005a) has commented that "The academicians find the area difficult for conducting research since people concerned do not like to answer tax-related questions with ease and the practitioners remain occupied with the activities of revenue target realization" (Rouf, 2005a, p. 42). Each year just after passing the budget by the end of June, few publications on the bare VAT laws amended to date are available, but even they are not useful in many cases as and when the NBR issues new SROs (Statutory Rules and Orders) or other general or special orders. In the following sections, a summary of some related literature on the study of VAT in Bangladesh has been presented.

3.3.1 Study on Revenue Effects of the VAT System in Bangladesh

The study made by Ahsan H. Mansur and Bazlul Haque Khonder (1991b) is on "revenue effects of the VAT system in Bangladesh" before introducing VAT in Bangladesh. In their paper, Mansur and Khondker (1991b) derive alternative scenarios to draw some inferences about the revenue implications of alternative rates. The issue is approached in three broad ways: starting from a simple heuristic approach, the study has used the inter-sectoral material flows in a static input-output (IO) approach and finally the conclusions of both the heuristic and IO approaches with a computable general equilibrium (CGE) based approach to the estimation of revenue. According to the findings of the study, at 15 per cent uniform VAT-rate, the estimated net gain in revenue would be Tk. 248 crore under the CGE approach, Tk. 315 crore under the IO approach, and Tk. 280 crore under the heuristic approach. But at 12 per cent uniform VAT-rate, the estimated net gain in revenue would be Tk. 18 crore under the CGE approach, Tk. 52 crore under the IO approach, and Tk. 13 crore under the heuristic approach (Mansur and Khondker, 1991b, p. 26; *vide* Table X). Thus, at the time of introduction, the VAT would be broadly revenue neutral at uniform rate of 12 per cent and at 15 per cent the VAT would be moderately revenue augmenting (Mansur and Khondker, 1991b, p. 28).

3.3.2 Study on Revenue Neutral VAT in Bangladesh

The study made by Osman Haider Chowdhury (1991) on "revenue neutral value added tax in Bangladesh," which is heavily based on the author's unpublished Ph.D. dissertation "Tax Policy

[12] Cotton, H. J. S. (1880), *Memorandum on the Revenue History of Chittagong* (Calcutta: Bengal Secretariat Press).

Dhaka University Institutional Repository

Analysis in Bangladesh: A Computable General Equilibrium Approach," approved in 1990 for the degree from the University of Philippines. Using the applied general equilibrium model, two sets of policy experiments have been carried out with VAT and the existing excise taxes to evaluate the efficiency and equity consequences of the VAT if it replaces excise tax (Chowdhury, Osman H., 1991, p. 55). According to the findings, "there may not be a trade-off in efficiency and equity in the short run if proper tax mixes can be instituted. Allocational impacts can be favourable with a VAT even when equity is improved" (Chowdhury, Osman H., 1991, p. 55).

3.3.3 Study on Equity Aspects of the VAT System in Bangladesh

Ahsan H. Mansur and Bazlul Haque Khondker have made a study in 1992 on the "equity aspects of the VAT system in Bangladesh." To evaluate the equity aspect of VAT, Mansur and Khondker (1992) have measured the concept of regressivity by computing the incidence of a tax instrument (or the tax system as a whole) on different income groups in society. On the basis of their findings, they argue that the indirect tax system in Bangladesh, both pre- and post-VAT, is indeed quite progressive (*vide* Ahsan, 1995, p. 219, footnote 5).

3.3.4 Study on a Systemic Analysis of the VAT Policy of Bangladesh

Rouf (2005a; 2005b)[13] has examined the VAT policy of Bangladesh in terms of the systems approach. As stated by Rouf (2005a), *systems theory* describes public policy as system output. Fiscal policy of a country is a major public policy. VAT policy of Bangladesh is an important ingredient of our fiscal policy. From structural and functional aspects of systems theory VAT system has been highlighted considering four of its features. The first two features: hierarchy and homeostasis falls under structural features and the other two features equifinality and non-summativity falls under the functional features. ***Hierarchy*** refers to an ascending order by which the components of a system remain arranged. In human organizations, hierarchy means the vertical authority structure or a pyramidal structure of management. There is an administrative hierarchy, a policy hierarchy, and so on in the VAT system of Bangladesh. The administrative hierarchy may be said to have started from VAT Circle Offices and goes upwards to Divisional Offices, VAT Commissionerttes, National Board of Revene (NBR) to the Internal Resources Division (IRD) of the Ministry of Finance. There is such five-tier administrative hierarchy in the VAT system. There is both top-down and bottom-up relations among these administrative hierarchical levels (Rouf, 2005a, pp. 46-47). ***Homeostasis*** refers to the tendency of a system of maintaining steady state. It is a dynamic self-regulation and the condition of a system when it is able to maintain its essential variables within limits acceptable to its own structure in the face of unexpected disturbances. It refers to a process of interaction or mechanism which balances various influences and effects in a manner that a stable state or a stable behavior is maintained. In the VAT system, the accounting method more specifically the credit mechanism has been such a regulation mechanism, a rigorous control of which can lead to dynamic equilibria in the system (Rouf, 2005a, pp. 47-48). ***Equifinality*** means final equality–different initial causes may lead to

[13] Md. Abdur Rouf did his Ph.D. on "The Value Added Tax Policy of Bangladesh: A Systemic Analysis," from Jahangir Nagar University in May 2006 and his major findings have been published in these papers.

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equal, final outcome. Equifinality or multicausality has been a principle of systems which states that the same final condition of a system (output) may be reached from different initial conditions (inputs) and in different ways (transformations). Equifinality can be related with the VAT system. In the VAT system, more revenues are desired to be generated with less effort, costs, and less reaction from the people. How such objective can be achieved with different inputs? Alternative inputs (increase in manpower or increase in logistics support or motivation of the VAT concerned people at a minimum cost) can lead to increased revenue target (final output) (Rouf, 2005a, pp. 48-49). The principle of ***non-summativity*** of systems emphasize upon understanding the whole. It is the assertion that the system output is greater than the sum total of the outputs of its parts, due to the functional relationships among the components of the system. In the VAT system if such relations among components or levels can be properly established, the total revenue generated by the VAT system can be much higher than the revenue given by all units in totality. Applying this conceptual framework, the VAT system can be analyzed. All VAT paying units pay certain amount of VAT at different sequential stages of production and distribution chain. All these amount added together may be smaller than the total collection of the VAT system, if the relations among these units can be understood other than understanding those units in isolation. But measures can be suggested to make non-summativity stronger in the VAT system of Bangladesh to generate more VAT with no reaction from the VAT payers (Rouf, 2005a, pp. 49-51). The paper is concluded with the observation that general systems theory can be applied to the VAT system of Bangladesh for better functioning of VAT system.

3.3.5 Studies on VAT in Operation, VAT Administration, Input Tax Credit System, and VAT System in Bangladesh

In his study on "Value Added Tax in Operation: A Bangladesh Perspective," Khan (1997) has provided mainly different theoretical aspects of VAT with numerical instances. In his opinion, "The introduction of VAT may very well be the beginning of evolving starting point for a transparent economy which we all know how badly we need. When the businesses get used to the transparency of the system, there will not only be a larger take of revenues from VAT alone, its immediate effect will also be reflected in increased yield of income taxes making its difficult to avoid" (Khan, 1997, p. 130).

Islam (1997), in his study titled "Value Added Tax Administration and Its Potential in Bangladesh," has given a very comprehensive overview (72-page paper) covering many aspects of VAT in theory and practice with special contexts of Bangladesh, but the administrative aspects of VAT have been evaluated in details including the revenue administration modernization and reform program, fraud and evasion control, auditing, and reporting (VSTAT or VAT Statistics). Islam (1997) has provided a methodology to compute the VAT compliance coefficient and according to his estimate in FY 1993-94, the compliance coefficient was 52 in comparison to an average of 69.2 in 20 selected countries (Islam, 1997).

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The paper by Saleheen (2003) on "Input Tax Credit System in Bangladesh VAT," has discussed the principles of input tax credit, irregularity and anomaly therein, problems encountered by the taxpayers in taking the credit, and timing issues. According to his findings, input tax is not creditable fully or partially in some selected situations and he has some glaring examples of irregular credit claims detected: claiming credits for non-creditable purchases; claiming credits for purchases of goods for staffs; claiming credits for purchases from unregistered suppliers; claiming credits for VAT paid against entertainment bill in hotel; claiming credits for non-VAT taxes (customs duty and supplementary duty); deducting input taxes credits against bills of entry issued in favour of persons other than the taxpayers; claiming credits for purchases of finished goods that have not undergone by any manufacturing process (Saleheen, 2003, p. 11). However, Saleheen (2003) has found that the ideal VAT principles that "all excess of input tax over output tax should be refunded at once" is not followed in Bangladesh except in 10 VAT units in Chittagong Commissionerate (Saleheen, 2003, pp. 13-14). He suggested for appropriate changes in the Account Current register (Musak-18) so that proportionate tax credit can be taken only against output tax (Saleheen, 2003, pp. 16-17).

Md. Farid Uddin (2004), in his writing in vernacular language on "Value Added Tax System in Bangladesh: Expectation, Reality and Required Actions," mainly covers different aspects of VAT in Bangladesh based on his personal field experience. He has mentioned several characteristics and merits of value added taxation, for which Bangladesh has introduced VAT. These include: (a) allowing independence to taxpayers under a self-assessing and self-clearance based tax system; (b) successively reducing the excessive dependency on import duties through a modern, transparent, revenue-yielding and investment-friendly domestic indirect tax; and (c) attractive features of value added tax such as (1) expanding 'tax network' under value added tax being much more elastic than excise duty, (2) no such 'cascading effect' of excise duty in the VAT arrangement due to being single rated and having scope of 'input tax credit/adjustment,' (3) very high revenue collection from innumberable taxpayers with a highly extended tax base although lesser amount of tax net of input tax credit payable at each stage, (4) an 'accounting based and transparent' tax system due to maintaining unambiguous and appropriate accounts of purchases and sales or expenses and incomes to take advantage of input tax credit and hence little scope of defrauding buyers in taking dishonesty in pricing, (5) easier to ascertain national income for transparent accounts of purchases and sales, (6) voluntary issuance or accepting tax invoices by both the buyers and sellers to claim input tax credit in their self interest, and hence the system becomes self-enforcing and self-policing and is essential in manifestation of a 'tax culture' of the country, (7) a 'neutral tax' from the viewpoint of investment due to uniform tax rate and thus an 'investment-friendly' tax for its neutrality in case of deciding on investment in different sectors of the economy, and additionally, since there is least tendency of tax evasion due to self-enforcement and self-policing feature, consequent fair competition among the sector-wise industrial and business enterprises facilitates trade, commerce and investment in other way, and (8) political advantage of introducing a consumption-type VAT due to easily convincing the manufacturers or sellers of goods or the providers of services because they would be the 'tax collector' from

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ultimate buyers/consumers who will be the bearers of the final incidence of the tax (Uddin, 2004, pp. 22-24).

Alam and Chowdhury (2003), in their paper titled "Tax Policy Making in Bangladesh: 1985-2000," have given the overview of tax policies adopted in Bangladesh over sixteen consecutive years and hence VAT has been discussed over a decade since its inception in FY 1991-92 up to FY 2000-2001. They have mentioned the introduction of VAT in 1991-92 as "a landmark in the history of Tax Policy of Bangladesh" (Alam and Chowdhury, 2003, p. 89). They have observed that "even the role of the Parliament in shaping the budgetary measures have not been significant. Tax policy making has largely been bureaucratic in nature" (Alam and Chowdhury, 2003, p. 103). They have further claimed that while the NBR (National Board of Revenue) has played the major role in formulating the tax policy of the country, the role of external forces needs to be noted. They have given examples in support of their claim that " ... major reformative efforts like the introduction of self-clearance system in Excise in 1985, **introduction of VAT in 1991**, introduction of pre-shipment inspection system in Customs first in 1992 and then in 2000, all emanated from sources like foreign aid donors. In this regard, the role of IMF and the World Bank has been substantial in bringing about epoch making changes. NBR's role has largely been reactive in nature" (Alam and Chowdhury, 2003, p. 103).

3.4 Summary

As evident from the preceding discussion, the literature on the VAT is now available in a countable size from the international perspective, but the research on VAT system in Bangladesh is surprisingly few. The findings of a number of nine studies in the context of Bangladesh have been stated in the last section, which reflects the urgent need for regular research in this important fiscal instrument having significant impact on public revenue, resource allocation, stabilization and so on.

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CHAPTER FOUR
METHODOLOGY OF THE STUDY

4.1 Introduction

Since there is dearth of empirical researches on the VAT system in Bangladesh, the study has been primarily an exploratory study. The researcher has attempted to explore the VAT system in Bangladesh from its genesis with its initial vehement challenge of enactment and public acceptance through direct interaction and face-to-face interview with some of the initiators, their memoirs in the magazines and periodicals, particularly published by the BCS (Customs & Excise) Cadre. Due to huge personal opportunity of providing supports through instructional services to the VAT-payers and extensive scope of counter-learning from them in understanding and attempting to solve their real-life critical problems originating from VAT, the researcher has also undertaken the experience survey of top tax executives in the head office of National Board of Revenue (NBR) and its Dhaka-based field offices. Then a mixed methods approach has been followed for the purpose of the study. This chapter has discussed the framework of research design, and the specific issues concerning this design.

4.2 The Framework of Research Design

The framework of research design of this study has been delineated below from the context of three elements of inquiry–theoretical perspectives, approaches to research (or methodology followed), and research methods ([*vide* Creswell, 2003, pp. 4-6; Crotty, 1998, pp. 2-9).

4.2.1 Theoretical Perspectives

As a 'critical appraisal' of the value added taxation in Bangladesh over around two decades, the study has covered multidimensional aspects of this specific fiscal system. Thus, the study has used the objectivism in the eye of a positivist as well as it has provided a reflective overview of the laws and practice on the different issues of VAT. Based on quantitative data and statistical techniques, some research hypotheses developed through literature and experience surveys have been tested (*vide* the next section). Besides the existing legal framework of value added taxation as practiced in Bangladesh over the study periods has been appraised using a theoretical lens of the standard practice of the VAT system in the European Community (EC). A theoretical lens of group differences has also been used to evaluate the extent of differences regarding some aspects of the VAT system (such as problems experienced, difficulties faced and the solutions desired by them to mitigate those difficulties and problems) between different groups of VAT-payers.

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A Note on Critical Appraisal

Adrian Carr (2006), in an attempt to explain the "critical perspective" of the Emerald journal *Critical Perspectives on International Business*[1] has discussed the common usage of the term "critical." In the social sciences, the word *critical* is used in a context where what is meant is that something is timely or essential. The term *critical* is also found in a context in which what is being described is a turning point in some historical period or sequence of events. Another context in which the term *critical* is used is in questioning some proposition, argument or orthodoxy. In the latter use of the term, critical can be read or understood as criticism or offering a critique. Being critical in the sense of offering criticism might seem to be a negative expression of the term, but this is a narrow interpretation that is to ignore a long tradition of criticism and critique as being a positive act. Carr has also mentioned that the term "critical" is sometimes construed as being destructive. In the context of the journal *Critical Perspectives on International Business*, the term "critical" has been used in a manner that invokes reflexivity and engages a form of logic called *dialectics*[2]. He argues that the act of criticism is a positive act because through negation, it reveals presuppositions contained in text and narrative (Carr, 2006, pp. 73-75). Kvasny, and Richardson (2006) have mentioned some central tenets of critical research such as advancing a political agenda, exhibiting an empirical sensitivity, and uncovering systems of institutional repression and human resistance. In the context of critical research in information systems (CRIS), they have mentioned that this research demands reflexivity, and draws attention to power relations in human contexts. According to them, perhaps most importantly, critical research should be praxis oriented–combining theory and action (praxis) to create a scholarship which may lead to more equitable social change (Kvasny, and Richardson, 2006, p. 197).

Critical research centers around the critical theory. *Critical theory*, often referred to as "ideologically oriented inquiry," has been explained by Willis (2007) as a response to inequities in society and as a multidisciplinary paradigm "a major focus of the critical approach is the analysis of data through the lens of an ideology" (Willis, 2007, pp. 44-48). Because the heart of critical theory is ideological rather than methodological, the research from this paradigm is not limited to a narrow range of methods. Each step of the research process is based on the values and beliefs of the researcher. Subjective inquiry based on ideology and values is the acceptable method of critical research, and both quantitative and qualitative data are acceptable in the research of this tradition. The interpretation of data from a critical perspective entails thoughtful

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1 Published by Emerald Group Publishing Limited (available at www.emeraldinsight.com/1742-2043.htm).

2 "Dialectics" is an "art of investigating the truth by discussion and logical argument" or a "process whereby contradictions merge to form a higher truth" or "any situation or discussion involving the juxtaposition or conflict of opposites" and "dialectical materialism" is the Marxist theory that political and historical events are due to the conflict of social forces arising from economic conditions. [*vide The Pocket Oxford Dictionary* (March 1994) (Oxford University Press, Walton Street, Oxford)]. Combining the "dialectics" of German philosopher George Wilhelm Friedrich Hegel (1770-1831) and the "materialism" of another German philosopher Ludwig Feuerbach (1804-1872), Karl Marx (1818-1883) produced *dialectical materialism*. According to 'dialectics', the world is not a static entity; instead, it is active and ever changing. In that process, development happens through contradictions in which some things are destroyed, and from which new things emerge. It is thus a *dia-electic* process. Under 'materialism', the world is believed to be made up of matter and matter is seen as primary rather than ideas (Willis, 2007, p. 29). According to 'historical materialism' (a derivation for social science from *dialectical materialism*), the changes in human and social behaviour across history are caused by material things and the efforts of different groups to obtain more material goods at the expense of other groups (Willis, 2007, p. 31).

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analysis and reflection. Critical theorists believe current social and political systems distort reality and create in individuals a false consciousness that keeps them from seeing the real structure of the society. It is only through critical self-reflection that we can free ourselves of these distortions and move toward a truly emancipated society (Willis, 2007, pp. 83-87).

For the purpose of the study, the term "critical" has mainly been used as a 'self-reflection' on the basic structure and administrative aspects of VAT in Bangladesh as a chronological and evolutionary process of intended refinement by the fiscal policymakers through continuing and frequent legal enactment on the amendments (insertion of new provision, and contraction or deletion of existing provisions). Based on the achieved fiscal performance expressed in quantitative figures, the intended objectives and goals of the VAT system have also been examined through a critique but as being a positive act for the ultimate purpose of its further fine-tuning towards an idealistic system.

4.2.2 Approaches to Research

In the study, the strategies of inquiry (i.e., the approaches to research) followed are the mixed methods, employing the data collection associated with both quantitative and qualitative forms of data. As explained by Creswell (2003), a *mixed methods* approach "employs strategies of inquiry that involve collecting data either simultaneously or sequentially to best understand research problems. The data collection also involves gathering both numeric information ... as well as text information ... so that the final database represents both quantitative and qualitative information" (Creswell, 2003, p. 18, 20). As explained by Creswell (2003), recognizing that all methods have limitations, the mixed methods approach can neutralize the biases inherent in any single method (either quantitative or qualitative method). Mixing quantitative and qualitative methods starts from the *triangulation*[3] (i.e., triangulating data sources as a means for seeking convergence across quantitative and qualitative methods) and due to several other reasons (e.g., the results of one method can be of further help in developing or informing other method; providing insights into different levels or units of analysis through one method's nesting within other method; or serving a larger, transformative purpose to change and advocate for marginalized groups) mixed methods have been increasingly used by researchers (Creswell, 2003, pp. 15-16).

For the analytical part of the study, numeric data have been collected extensively for the long 18-year study period from published and archival sources. Quantitative data have been gathered also through field survey by using questionnaire. Text data have been collected from unstructured interview and interactive exchange of views with a dozen of top and mid-level tax executives, a couple of tax professionals, ten executives dealing VAT in their offices and sixty-seven registered taxpayers under the VAT system. The documented and published sources of personal experience

[3] As an aid to verification, triangulation is cross-checking in the form of researcher-subject corroboration, conformation from other sources, use of two or more methods of data collection, and *researcher convergence* (i.e., using another researcher to analyze the same raw data) (Cavana, Delahaye, and Sekaran, 2001, p. 136).

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and memoirs of tax careers of the key persons involved in implementing the VAT system have been collected from various magazines, periodicals and newspapers.

According to availability and requirement of data, sometimes priority is given on text data or descriptive opinions (qualitative data) collected through interviews/survey (for instance, in case of analyzing the actions treated as default or offence under the VAT laws and the chronological expansion of the enumerated deeds; or in case of obtaining desired solutions for the difficulties faced by the taxpayers), and sometimes the emphasis is given of quantitative data (e.g., fiscal performance, collection efficiency, extent of uncollected outstanding amount of VAT, etc.).

4.2.3 Research Methods

According to Willis (2007), popular methods of qualitative research include ethnography[4], case study, interviewing, and historiography[5] (Willis, 2007, p. 231). For the purpose this study, out of these popular methods, case study and interviewing are followed. A *case study* is "an examination of a specific phenomenon such as a program, an event, a person, a process, an institution, or a social group" (Merriam, 1988, p. 9; *vide* Willis, 2007, p. 238). The advantages of *case study* include: (i) it allows to gather rich, detailed data in an authentic setting; (ii) it is holistic and thus supports the idea that much of what we can know about human is best understood as lived experience in the social context; and (iii) unlike experimental research, it can be done without predetermined hypotheses and goals (Willis, 2007, p. 240). *Interview research* involves forming questions, asking them, and getting answers; where interview may be highly structured (the participants are asked to select answers to questions from a list of options), semistructured, or open (Willis, 2007, pp. 244-247).

Case Study

Usual non-response from the taxpayers on confidential tax related information in details was the main reason for case studies. For case study purpose, eight companies were selected initially, but ultimately the findings of six companies have been delineated in the relevant section in the chapter on empirical findings and due to non-availability of sufficient data and information, the findings on other two companies have not been given. Due to strict confidentiality on identity disclosure, the case studies have been described by using Code for Case Study (CS) and Code Name of the Company, which are as follows: CS-1: EGMCL; CS-2: CDL; CS-3: NPL; CS-4: DCL; CS-5: FCL; and CS-6: EPDCL.

Interview Research

For the purpose of interview research, unstructured face-to-face interviews have been taken initially. Then formal research instruments (questionnaires with both open-ended and closed-

[4] In its broad sense, *ethnography* is an umbrella term for fieldwork, interviewing, and other means of gathering data is authentic (e.g., real-world) environment (Willis, 2007, p. 235).

[5] All the methods of the history researcher are called *historiography* (Willis, 2007, p. 259).

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ended questions) have been used to collect information for the VAT registered persons and also for executives dealing with VAT in companies only for withholding VAT.

4.3 Hypotheses

To view the research problem on the basis of a sound theoretical framework, the researcher has surveyed a substantial part of the extensive literature available on VAT. Then the following hypotheses have been developed based primarily on literature survey, then on unstructured consultation with the VAT administrators including some of them in charge of VAT policy of the country and the VAT-payers, and then on the researcher's personal working experience and intuition. The study has tested the validity or otherwise of the following six hypotheses:

Hypothesis 1

The first hypothesis can be stated in the null and alternate as follows:

$H1_O$: There is no inflationary implication of VAT.

$H1_A$: There does exist inflationary implications of VAT.

Hypothesis 2

Hypothesis 2 can be stated in the null and alternate as follows:

$H2_O$: The VAT has no incremental contribution to the internal revenue generation in compared to other types of taxes.

$H2_A$: The VAT has significant contribution to the internal revenue generation in compared to other types of taxes.

Hypothesis 3

The third hypothesis can be stated in the null and alternate as follows:

$H3_O$: The problems experienced by the taxpayers in relation to VAT are not common and hence they are specific to individual taxpayer.

$H3_A$: The problems experienced by the taxpayers in relation to VAT are mostly common.

Hypothesis 4

Hypothesis 4 can be stated in the null and alternate as follows:

$H4_O$: There is no difference between the various groups of respondents about the difficulties faced by them related to VAT.

$H4_A$: There exists difference between the various groups of respondents about the difficulties faced by them related to VAT.

Hypothesis 5

The fifth hypothesis can be stated in the null and alternate as follows:

$H5_O$: There is no difference between the various groups of respondents about the solutions desired by them to remove the problems and difficulties related to VAT.

$H5_A$: There exists difference between the various groups of respondents about the solutions desired by them to remove the problems and difficulties related to VAT.

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Hypothesis 6

The last hypothesis can be stated in the null and alternate as follows:

$H6_O$: The VAT-payers have no harmful effect on their cash flows due to the VAT collection and payment of VAT.

$H6_A$: The VAT-payers have significant harmful effects on their cash flows due to the VAT collection and payment of VAT.

All the hypotheses have been tested in chapter 10 (section 10.04 for test of first hypothesis; section 10.07 for second hypothesis; and section 10.11 for other hypotheses).

4.4 Sources of Information and Database of the Study

Since the study follows a mixed methods research design, so both the primary data and secondary data in their numeric and text forms have been collected and used. Below is an elaboration of the database and sources of information.

Numeric Database

Quantitative data have been collected from both primary and secondary sources. The annual reports of the NBR so far published (from 1992-93 to 2002-2003 and 2006-2007 and 2007-2008) or prepared as mimeo (from 2003-2004 to 2005-2006) are the main published *secondary* sources of the numeric database. The first two annual reports of the NBR (*Annual Report 1992-93* published on 1 January 1994 and *Annual Report 1993-94* published on 1 January 1995) were published by its Research and Statistics Section (*Gobeshana O Parisangkhyan Shakha*) (NBR, 1994; NBR, 1995). In other annual reports (*Annual Report 1994-95* published on 5 June 1996 to the latest *Annual Report 2007-2008* published on 6 April 2009), the Research and Statistics Wing (*Gobeshana O Parisangkhyan Anubibhag*) of the NBR has been mentioned as the publisher (NBR, 1996b; NBR, 2009). Commissionerate level field information on VAT and others has been collected from the responsible VAT officials. Macroeconomic quantitative data have been taken from the *Bangladesh Economic Survey* (published annually in June by the Finance Adviser Wing, Finance Division, Ministry of Finance, Government of the People's Republic of Bangladesh); *Statistical Yearbook of Bangladesh* (published annually usually in December by the Bangladesh Bureau of Statistics (BBS), Statistics Division, Ministry of Planning, Government of the People's Republic of Bangladesh) and some other special publications of the BBS [e.g., *Twenty Years of National Accounting of Bangladesh (1972-73 to 1991-92)*]; the *Economic Trend, Monthly* (published by Statistics Department, Bangladesh Bank); the budget documents (annual *Budget in Brief, Annual Financial Statement*, and *Consolidated Fund Receipts*), earlier five-year plans (FYPs), medium-term budgetary frameworks (MTBF), the poverty reduction strategy papers (PRSPs) and the budget speeches. Other secondary information has also been collected, in addition to those public sources, from various research organizations, particularly from the Centre for Policy Dialogue (CPD) and Shamunnay, the Bangladesh Institute of Development Studies (BIDS) and practical transaction documents from personal purchases of goods and services.

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The *primary* numeric data have been mainly collected through the surveys using the questionnaire. The case studies and filed visits of some taxpayer companies have also helped in obtaining some important data.

Archival Sources of Text/Qualitative Data

For the purpose of collecting text data, archival survey has been made mainly on huge legal materials on VAT and amendment thereof, including 18 Finance Acts/Ordinances, 525 SROs and voluminous pages on orders, circulars, letter of explanations, office memoranda, etc. available in published form or in soft version mainly in the websites of the Finance Division of the Ministry of Finance, of the Internal Resources Division of the Ministry of Finance, and the National Board of Revenue (NBR) up to June 30, 2009. The writings and documented memoirs of the VAT implementing executives have been surveyed from a couple of magazines, of which the *Souvenir* [published on inauguration of the Centre for TAX Training & Research (CTTR), Dhaka on 23 March 2004]; the *Renaissance* [a souvenir published on the occasion of foundation training of Assistant Commissioners of BCS (Customs and Excise) Cadre on 08 April 2004]; the *Pratibhas* [a souvenir published on the occasion of initiating reception of BCS (Customs and Excise) Association on 15 January 2005]; and the *Sagarika* (a souvenir published on the occasion of 14th Inter-Commissionerate Sports Competition '05 of Bangladesh Customs Sports Council on 04 March 2005) are notable. Besides a number English/Bangla dailies (such as *The Daily Star*, the *New Age*, *The Financial Express*, *The Bangladesh Observer*, the *Prothom Alo*, etc.), and a couple of periodicals (such as the *Dhaka Courier*, an English weekly; and the *Bichitra*, a vernacular weekly) have also been surveyed.

Reliability and Validity of the Database

As stated earlier, since 1992-93 (i.e., after one year of the introduction of VAT), the NBR has been publishing its annual reports, the main source of information for the study. In many cases, the reports are very comprehensive containing numerous types of tax-related quantitative and qualitative data on every aspects of taxation under the control of the NBR. But the problem is that the annual reports have not been published for three years (2003-04, 2004-05 and 2005-06). Thus there is a missing link in many cases, although the researcher has ultimately managed to get the dummy (mimeo) copies of those three annual reports. The regularity in publishing the annual reports has never been maintained except for the initial two volumes in brief shape. The information is not provided in a consistent fashion and hence a serious problem of intra- and inter-comparability has arisen in many cases. After developing a database based on those sources, the inconsistencies found in the database have been removed with the recent generous assistance of the Research and Statistics Wing of the NBR. In many cases, data validation has been made by cross-comparison of alternative sources and also by consulting both the published information in the print media and the authoritative source in the NBR.

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4.5 Scope of the Study

As the VAT has been implemented since July 1991, the study period is mainly from FY 1991-92 to 2009-10. But for the financial year 2009-10, only the budget data and the amendments of the VAT Act by the Finance Act 2009 and the VAT Rules finally by two SROs in June 2009 (SRO No. 103-Ain/2009/511-Musak, dated 11.06.2009 and SRO No. 174-Ain/2009/527-Musak, dated 30.06.2009) have been considered. Some earlier years' information has also been taken for a comparative evaluation of VAT as a replacement of other taxes (sales tax and business turnover tax replaced; and excise duty substantially replaced at initial years of VAT-implementation). Other legal documents and administrative circulars have been considered up to 30 June 2009. From the context of SROs, the dates range from June 2, 1990 to June 30, 2009. Some information has been updated latest by October 14, 2009.

For initial part of the first objective of the study (identification of the reasons and objectives of introducing VAT), the policy documents concerning fiscal reforms at pre-implementation stage of VAT (starting from the report of the Taxation Enquiry Commission in 1979) have mainly consulted. For other part of the first objective of the study (evaluating the extent of achievement of these reasons and objectives), the numeric database developed for the study at post-implementation phases have mainly been used along with the budget documents reflecting the assessment of macroeconomic performances. For the second objective (providing a critical account of the evolutionary progress of the implementation of VAT over the years) and third objective (the extent of revenue collection from VAT and measurement of the effects of VAT) of the study, the numeric database from the NBR's annual reports and the macroeconomic data from different published documents have been used. The fourth and fifth objectives of the study (identification of the problems of VAT to the taxpayers and the solutions desired by them) have been achieved mainly from the interview research using the questionnaire during May-June 2009 and the respondents have provided the last year's information about their purchases, sales and other issues on their business centering VAT management and last year was 2007-08 (for a financial year) or 2008 (for a calendar year). The respondent groups consist of providers of various vatable services.

4.6 Sampling Procedure

Empirical survey has been undertaken on randomly selected 38 taxable services provided by 67 taxable entities. A stakeholder consultation was organized by a chamber body where the researcher was the moderator. Case studies have been undertaken on six companies over four to six years with detailed verification of the copies of actual VAT returns, VAT books of accounts and other tax documents. These case study companies include manufacturer (producer of electronic durables), importer (importer of different health and cosmetic products), traders (trader of imported health and cosmetic products; trader of beverages; distribution of electric products), and also providers of services (fast food seller; printing and publication).

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Another small empirical survey has been conducted on ECR (electronic cash register) or computer generated invoices of 10 retailers or service providers through direct purchasing during April-June 2009 (the results shown in section 6.05 in chapter 6).

The Random Sample for Questionnaire Survey

For the purpose of analysis and presentation, the statistical software *SPSS® 12.0*[6] developed by SPSS Inc., Chicago, Illinois, USA has been used. All the 86 taxable services [86 service codes with specific service title under 68 Heading Numbers] as prescribed with the statutory definition and scope under the updated SRO[7] (as on 30 June 2008) were entered into the SPSS package. Then using the Data menu of the package, a random sample of an exact number of 46 cases has been selected randomly. The initial size of the sample represents 37 Heading Numbers (54.4 percent of total heading numbers) and 46 service codes (53.5 percent of total service codes) including the following 8 services under 7 heading numbers, which were not included in the finalized database for the sample.

Heading No.	Service Code	Name of the Service
S008	S008.20	Binding Firm
S011	S011.30	Video-Audio Recording Shop
S015	S015.10	Freight Forwarders
S017	S017.00	Community Center
S021	S021.00	Plant or Capital Machinery Rental Firm
S038	S038.00	Organizer of Entertaining Cultural Program with the help of Foreign Artists
S055	S055.00	Seller of Land
S067	S067.00	Immigration Adviser

Two services [Binding Firm (S008.20) and Seller of Land (S055.00)] have been deleted since they were exempted and no relevant information could be collected. Other six (6) services were not included in the database for statistical analysis, due to insufficiency of the information. Thus, the final list contains 38 taxable services (44.2 percent of total service codes) under 32 Heading Numbers (47.1 percent of total heading numbers) as follows:

Heading No.	Service Code	Name of the Service
S001	S001.10	Hotel
S001	S001.20	Restaurant
S002	S002.00	Decorators & Caterers
S003	S003.10	Garage of Motor Vehicle and Workshop
S003	S003.20	Dockyard
S005	S005.10	Warehouse
S007	S007.00	Advertising Firm
S008	S008.10	Printing Press
S010	S010.10	Land Development Firm
S011	S011.20	Video Game Shop
S012	S012.10	Telephone, Teleprinter, Telex, Fax or Internet Firm

[6] SPSS stands for "Statistical Package for the Social Sciences," which is a package of programs for manipulating, analyzing, and presenting data, widely used in the social and behavioral sciences (Landau and Everitt, 2004, p. 1).

[7] SRO 189-Ain/2008/491-Musak, dated 29.06.2008; effective from 01.07.2008; which has already been amended by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009.

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Heading No.	Service Code	Name of the Service
S012	S012.20	SIM Card Supplier
S015	S015.20	Clearing & Forwarding Firm
S019	S019.00	Photographers
S022	S022.00	Sweetmeat Store
S023	S023.10	Film Exhibitor (Cinema Hall)
S023	S023.20	Film Distributor
S029	S029.20	Dental Treatment Center
S029	S029.30	Pathological Laboratory
S030	S030.00	Beauty Parlour
S034	S034.00	Audit and Accounting Firm
S036	S036.20	Air-Conditioned Launch Service
S037	S037.00	Procurement Provider
S040	S040.00	Security Service
S044	S044.00	Specialist Doctor
S049	S049.00	Rent-a-Car Service
S050	S050.10	Architect, Interior Designer or Interior Decorator
S053	S053.00	Board Meeting Participant
S056	S056.00	Provider of Banking & Non-Banking Services
S061	S061.00	Credit Card Issuing Firm
S062	S062.00	Money Changer Firm
S063	S063.00	Tailoring Shop & Tailors
S064	S064.10	Amusement Park and Theme Park
S064	S064.20	Picnic Spot, Shooting Spot & Tourist Spot or Establishment
S066	S066.00	Lottery Ticket Seller
S068	S068.00	Coaching Center
S069	S069.00	English Medium School
S070	S070.00	Private Medical and Engineering College

After randomly selecting the 38 vatable services, then the questionnaire has been administered on field-level actual providers of these services. For each of the services, an attempt has been made to collect data at least from two providers located in Dhaka City Corporation area. Without having a prior list of these service providers, the method of convenience has been applied to find out a respondent. Finally, 67 providers of these 38 taxable services have been interviewed using the questionnaire, which consist of 29 sole proprietorship entities, 9 partnership firms, 15 private limited companies, 5 public limited companies, 2 trusts, 4 individuals, 1 special public entity, and 2 non-profit entities, as shown in Table 4.1.

Data have been collected mainly by the researchers through face-to-face arrangement of getting replies to the questions set in the structured questionnaire. In some cases the respondents have filled in the questionnaire in front of the researchers with necessary clarifications, if asked by the respondents. In some sensitive cases (e.g., beauty parlour), enumerator has helped to get the questionnaire filled in. Thus, from the context of filling up of the questionnaire, both questionnaire (filled in by the respondent) or schedule (filled in by the researcher/enumerator) have been used.

As an area of confidential and sensitive information, the sample size has been determined following the 'rules of thumb' proposed by Roscoe (1975): (1) sample sizes larger than 30 and smaller than 500 are appropriate for most research; and (2) where samples are to be broken into

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Table 4.1: Sample Respondent Service Providers

Service Code	Form of Organization								
	Sole Proprie-torship	Part-nership	Private Limited Company	Public Limited Company	Trust	Indiv-idual	Special Public entity	Non-profit entity	Total
S001.10	1	1	--	--	--	--	--	--	2
S001.20	1	--	1	--	--	--	--	--	2
S002.00	2	--	--	--	--	--	--	--	2
S003.10	1	--	--	1	--	--	--	--	2
S003.20	2	--	--	--	--	--	--	--	2
S005.10	--	1	--	--	--	--	--	--	1
S007.00	2	--	--	--	--	--	--	--	2
S008.10	2	--	--	--	--	--	--	--	2
S010.10	--	--	2	--	--	--	--	--	2
S011.20	--	1	--	--	--	--	--	--	1
S012.10	--	--	2	--	--	--	--	--	2
S012.20	--	--	1	--	--	--	--	--	1
S015.20	--	--	2	--	--	--	--	--	2
S019.00	2	--	--	--	--	--	--	--	2
S022.00	--	1	1	--	--	--	--	--	2
S023.10	--	--	2	--	--	--	--	--	2
S023.20	2	--	--	--	--	--	--	--	2
S029.20	2	--	--	--	--	--	--	--	2
S029.30	--	--	--	1	1	--	--	--	2
S030.00	2	--	--	--	--	--	--	--	2
S034.00	1	--	--	--	--	--	--	--	1
S036.20	1	2	--	--	--	--	--	--	3
S037.00	--	--	1	--	--	--	--	--	1
S040.00	1	--	1	--	--	--	--	--	2
S044.00	--	--	--	--	--	2	--	--	2
S049.00	2	--	--	--	--	--	--	--	2
S050.10	1	--	--	--	--	--	--	--	1
S053.00	--	--	--	--	--	2	--	--	2
S056.00	--	--	--	2	--	--	--	--	2
S061.00	--	--	--	1	--	--	--	--	1
S062.00	2	--	--	--	--	--	--	--	2
S063.00	1	1	--	--	--	--	--	--	2
S064.10	--	--	1	--	--	--	--	--	1
S064.20	1	--	--	--	--	--	1	--	2
S066.00	--	--	--	--	1	--	--	--	1
S068.00	--	2	--	--	--	--	--	--	2
S069.00	--	--	--	--	--	--	--	2	2
S070.00	--	--	1	--	--	--	--	--	1
Total (Percent)	**29 (43.3)**	**9 (13.4)**	**15 (22.4)**	**5 (7.5)**	**2 (3.0)**	**4 (6.0)**	**1 (1.5)**	**2 (3.0)**	**67 (100.0)**

Source: Database of the empirical survey.

subsample, a minimum sample size of 30 for each category is usually necessary (*vide* Cavana, Delahaye and Sekaran, 2001, p. 279).

The randomly selected 38 sample taxable services yielded revenue of Taka 26,606 million representing about 56 percent of total service sector VAT in 2007-08. As stated in the above table

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(Table 4.1), out of 38 services, two (2) providers of each of 27 services have been interviewed. There is single respondent for each of following 10 services: Warehouse (S005.10), Video Game Shop (S011.20), SIM Card Supplier (S012.20), Audit and Accounting Firm (S034.00), Procurement Provider (S037.00), Architect, Interior Designer or Interior Decorator (S050.10), Credit Card Issuing Firm (S061.00), Amusement Park and Theme Park (S064.10), Lottery Ticket Seller (S066.00), and Private Medical and Engineering College (S070.00). And three respondents have been interviewed for one service: Air-Conditioned Launch Service (S036.20). Sample respondents were taken from all the three VAT Commissionerates applicable for Dhaka area: Dhaka (North), Dhaka (South), and Large Taxpayer Unit (LTU), a Dhaka-based country-wide special Commissionerate Office. Since the respondents have been selected from Dhaka Metropolitan area, spatial representation covers 8 Divisional Offices (out of 14 Divisional Offices including the LTU) and 18 Circles (out of 52 Circles including the LTU). As service providing enterprises, where the density of employment is related to extent and scale of services provided by a specific organization, these are divided into two groups: small and large entities. Based on the modal number of employees (which is 35 in number), out of 67 respondents, 37 are small entities (entity having up to 35 employees) and 30 are large entity (entity having above 35 employees).

4.7 Survey Instruments

In this section, the instruments of the interview research have been described, which are questionnaires containing both open-ended and structured questions. The questionnaires have been administered on two types of respondents: (a) 67 registered providers of vatable services; and (b) 10 executives dealing with VAT in companies where VAT registration is not required and but the withholding VAT.

The questionnaire administered on registered taxable services (i.e., Questionnaire-I given in Annex-I) consists of the following details:

- *Section A* is on "Overview of the Sample Firm", where questions regarding service code and name, date of establishment, form of organization, registration particulars (date of VAT registration, VAT circle and divisional office), total number of employees, capital invested, total assets, and average annual sales or turnover.
- *Section B* is on "Compliance of VAT", where the questions regarding "showing VAT registration in the office in a conspicuous place," "maintenance of statutory books of accounts and other documents and the procedure of maintaining those, frequency of submission of VAT return, documents submitted with VAT return, applicability of VAT deducted at sources (VDS) and extra time and effort (in annual man-hours) and extra annual cost for VAT and VAT-related activities.
- *Section C* is on "Fiscal Performance", where four (4) open-ended and one (1) structured questions have been asked to know last year's annual turnover, amount of VAT, treasury deposit, VAT deducted at source (VDS) and the frequency of VAT payment.
- *Section D* is on "Problems Relating to VAT", where the respondents have been requested to select one or more problems faced out of a list of relevant problems, along with a scope of open-ended space for any entity-specific problem.
- *Section E* is on "Difficulties Experienced vs. Expected Solutions", where the respondents have been requested to provide a rank-order on six (6) difficulties enumerated with open-

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ended scope, against which seven (7) solutions listed also with open-ended space for any new suggestion).

- *Section F* is on "Opinion on VAT" (two opinions–one on effect of VAT on cash flows; and another one on simplicity or complication using a five-point response scale).

The second questionnaire (i.e., Questionnaire-II given in Annex-I) has been administered on executives in unregistered entities dealing with VAT. Based on one question from Section B (frequency of submission of VAT return), one question from Section C (frequency of VAT payment), and the last three sections (Section D, Section E, and Section F), Questionnaire-II was administered on the executives dealing with VAT in companies where VAT registration was not required and but the withholding VAT was to some extent pervasive.

4.8 Statistical and Other Measurement Techniques Used

Using the widely used standard statistical software (*SPSS® 12.0*), both descriptive and inferential statistics have been used to analyze the data pertaining to the study. Descriptive statistics include frequencies, percentages, mean, mode, range and standard deviation. Inferential statistics include nonparametric rank correlations. Econometric technique has been applied in one situation (for computation of buoyancy of tax) using a simple exponential regression model or linear form regression taking the natural logarithm. For testing the hypotheses, relevant test (t-test) has been applied depending on the nature of hypotheses and that of data.

Rank Correlations

For testing the significance of ranking the perceptions the bivariate nonparametric rank correlations procedure has been used by computing the rank correlation coefficients in terms of Spearman's *rho*, and Kendall's tau-*b* with their significance levels.

Kendall tau-b coefficient

Kendall tau-*b* tests the strength of association of the cross tabulations when both variables are measured at the ordinal level. It makes adjustments for ties and is most suitable for square tables. Values range from −1 (100% negative association, or perfect inversion) to +1 (100% positive association, or perfect agreement). A value of zero indicates the absence of association. Kendall tau-*b* coefficient is defined as follows:

$$\tau = \frac{n_c - n_d}{\frac{1}{2}n(n-1)}$$

where n_c is the number of concordant pairs, and n_d is the number of discordant pairs in the data set. In statistics, a concordant pair is a pair of a two-variable (bivariate) observation data-set

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$\{X_1,Y_1\}$ and $\{X_2,Y_2\}$, where: $\text{sgn}(X_2 - X_1) = \text{sgn}(Y_2 - Y_1)$. Correspondingly, a discordant pair is a pair, as defined above, where: $\text{sgn}(X_2 - X_1) = -\text{sgn}(Y_2 - Y_1)$.

Spearman's rank correlation coefficient

Spearman's rank correlation coefficient or Spearman's *rho* (ρ) or as r_s, is a non-parametric measure of correlation. In principle, ρ is simply a special case of the Pearson product-moment coefficient in which two sets of data X_i and Y_i are converted to rankings (assigning the same rank to each of the equal values) x_i and y_i before calculating the coefficient. In practice, however, a simpler procedure is normally used to calculate ρ. The raw scores are converted to ranks, and the differences d_i between the ranks of each observation on the two variables are calculated. If there are no tied ranks, then ρ is given by:

$$\rho = \frac{6\sum d_i^2}{n(n^2-1)}$$

where: $d_i = x_i - y_i$ = the difference between the ranks of corresponding values X_i and Y_i, and
n = the number of values in each data set (same for both sets).

Measurement of Elasticity and Buoyancy of VAT

The concept of elasticity of a tax (i.e., automatic or natural responsiveness of tax yields with respect to changes in income) signifies the effectiveness of the tax in mobilizing the resources for public fund. It is specifically defined as the percentage change in total yield (or yields of individual taxes) associated with a given percentage change in Gross Domestic Product (or the relevant GDP component) without any changes in the tax-base, in the statutory rates of existing taxes, in administrative efficiency, or the introduction of a new taxes. Buoyancy measures the total response of a tax to a change in income and it shows the growth that results from the automatic growth of the base caused by the increase in Gross Domestic Product (GDP) and from discretionary tax changes (Jeetun, 1980, p. 20; Chowdhury and Hossain, 1988, pp. 9-11). Using the following standard formulae (Jeetun, 1980, pp. 21-23; Chowdhury and Hossain, 1988, pp. 9-11), the elasticity and buoyancy of VAT and other taxes have been computed.

Elasticity of a tax has been computed by using the following formulae:

$$E_{VAT} = \frac{\Delta VAT}{VAT} / \frac{\Delta NAG}{NAG} \quad \text{(Equation 4.1)}$$

$$E_{NBRT} = \frac{\Delta NBRT}{NBT} / \frac{\Delta NAG}{NAG} \quad \text{(Equation 4.2)}$$

$$E_{AllT} = \frac{\Delta AllT}{AllT} / \frac{\Delta NAG}{NAG} \quad \text{(Equation 4.3)}$$

where, E_{VAT} = *elasticity of VAT* VAT = *value added tax yield*
E_{NBRT} = *elasticity of NBR taxes in total* $NBRT$ = *NBR taxes in total*
E_{AllT} = *elasticity of all taxes (both NBR and non-NBR taxes)*
$AllT$ = *all taxes (both NBR and non-NBR taxes)* NAG = *non-agricultural GDP.*

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Buoyancy is measured by a simple exponential regression model as follows:

$$Y = a X^b \quad \text{.....} \qquad \text{(Equation 4.4)}$$

or in the following linear form taking the natural logarithm (ln):

$$\ln Y = \ln a + b.\ln X \quad \text{.....} \qquad \text{(Equation 4.5)}$$

where, Y = *yield from a particular tax*
X = *the GDP or its relevant component.*

The slope of the function directly gives the measure of buoyancy (Jeetun, 1980, p. 23).

Measurement of "C-efficiency" and VAT Revenue Productivity (VRP)

Following the IMF's methodology [developed by Ebrill, Keen, Bodin and Summers (2002)] the effectiveness of VAT in raising revenue has been measured in two ways:

C-efficiency ratio (CER)

This is the ratio of VAT revenue to consumption, divided by the standard tax rate. This measure seeks to avoid the problems encountered in the general *efficiency ratio*[8] of VAT (where GDP is considered as the base of VAT), since consumption is a more appropriate VAT base than GDP (Ebrill, Keen, Bodin and Summers, 2002). The equation for C-efficiency ratio (CER) is as follows:

$$CER = \frac{TVR \div C}{VSR} \quad \text{.....} \qquad \text{(Equation 4.6)}$$

where, *CER = C-efficiency ratio*
TVR = Total VAT revenue
C = Consumption in total
VSR = VAT standard rate.

449272

For example, TVR for FY 2004-05 was Taka 104,585 million and C for the same financial year was Taka 2,965,100 million. TVR as a percent of C for FY 2004-05 becomes 3.53 percent (= Taka 104,585 million ÷ Taka 2,965,100 million). Using the VSR of 15 percent the CER for FY 2004-05 becomes 0.24 (= 3.53 percent ÷ 15 percent).

[8] *Efficiency ratio* of a VAT, in general, is the ratio of VAT revenue to GDP, divided by the standard VAT rate. However, this measure is said to be flawed since measurement errors in GDP can contaminate results. Keen and Smith (2007) have called the "efficiency ratio" as "VAT productivity" (Keen and Smith, 2007, p. 21). Newhouse and Zakharova (2007), in their IMF Working Paper, called both efficiency ratios (efficiency ratio and C-efficiency ratio) as "VAT Revenue Productivity" – one based on consumption and other based on GDP (Newhouse and Zakharova, 2007, p. 20).

ঢাকা বিশ্ববিদ্যালয় গ্রন্থাগার

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VAT revenue productivity (VRP)

This is the total VAT revenue (TVR) as percentage of GDP (gross domestic product), divided by the VAT standard rate (VSR). Equation for VAT Revenue Productivity (VRP) is as follows:

$$VRP=\frac{TVR \div GDP}{VSR} \quad \text{..... (Equation 4.6)}$$

where, *TVR = Total VAT revenue*
GDP = Gross domestic product at current market price
VSR = VAT standard rate.

For example, TVR for FY 2004-05 was Taka 104,585 million and GDP for the same financial year was Taka 3,707,070 million. TVR as a percent of GDP for FY 2004-05 becomes 2.82 percent (= Taka 104,585 million ÷ Taka 3,707,070 million). Using the VSR of 15 percent the VRP for FY 2004-05 becomes 0.19 (= 2.82 percent ÷ 15 percent).

4.9 Limitations of the Study

Due to dearth of researches on VAT in Bangladesh, the study primarily depends on the literature survey on international perspectives where a great number of variations exists in real practice of value added taxation. Here also the practical limitation of access to full coverage of relevant literature was undeniable. General data constraints and/or inconsistencies within the available data have been handled with utmost care through cross-validation and application of multiple research methods. The case study findings are affected by imposed bar on identity disclosure and for that reason, many of the case specific insight findings cannot be incorporated in the part of empirical findings. Randomness cannot be ensured in case of selecting the final respondent service providers or VAT-dealing executives due to absence of such a list, although the services have been chosen randomly and due endeavour has been applied to make the sample representative covering the spatial attributes and the minimum desired size of the sample. However, out of all the VAT registered persons geographically dispersed throughout the year, the spatial coverage and sample size might seem to be very small. In terms of temporal coverage, actual data of recent years (2008-09 and 2009-10) can rarely be used due to their non-availability.

Given the limitations, the researcher has taken every attempt to ensure the quality of the research and wherever necessary, the limitation has been mentioned in the relevant context.

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CHAPTER FIVE
IMPOSITION OF VAT IN BANGLADESH

5.1 Introduction

This chapter deals with the main features of value added tax system in Bangladesh. It has started with a prehistoric glimpse on the taxation in Bangladesh and has provided a detailed historical account of the imposition of value added tax in Bangladesh as a milestone fiscal reform. Then the reasons of introducing value added tax in Bangladesh have been enumerated along with a highlight on the preparatory situation before the implementation of VAT. The subsequent section has accounted the initial reactions of different sections of the community towards the value added tax after its implementation. This follows the delineation of the basic aspects of value added tax in Bangladesh in terms of its variant and methods of computation of the tax, the taxpayers and the tax points. Then the structure of value added tax in Bangladesh has been elucidated covering the taxable event on supply of taxable goods and rendering of taxable services, the taxable persons, rate structure, tax base, special issues in considerations, tax-net at import, manufacturing, wholesale and retail stages, right to take input tax credit, taxation of private use, adjustment for capital goods, and regional limits. Finally, a summary of the chapter contents has been given.

5.2 Taxation in Bangladesh: A Historical Perspective

About 2500 years before the Christ, 1900 years before the Buddha, and 3100 years before the Prophet Muhammad, there lived on the Indian subcontinent a people of Mongoloid, Austria, or Dravidian descent. Then came the first great Aryan invasions of 2000 to 1500 B.C. and it was the marriage of the Aryan culture and the local culture that produced the broad cultural outlines that one day would give rise to Buddhism and grasp Islam to its bosom and ultimately spawn the complex society of modern India, Bangladesh, Pakistan, Sri Lanka, and Myanmar. During the five-and-a-half centuries that the Muslims ruled Bengal (A.D. 1200 to 24 June 1757), Hindus and Muslims lived in a united province including Bihar and Orissa. So wealthy was Bangladesh under the Muslims that Vasco da Gama sailed there at the end of fifteenth century and he reported to Portugal's king Bengal as a country that could export "grain and very valuable cotton goods, a country that abounds in silver." By 1536 the Portuguese were trading at Chittagong. The Dutch came in 1615, the British in 1651, and the French in 1674. So great was Bengal's trade that the four European countries fought for supremacy. Taking Bengal in 1757, Britain set the stage for conquering all of India. While the land that is now called Bangladesh is a very old nation, only in 1971 did its escape from foreign domination. From 24 June 1757 to 13 August 1947, the country was controlled by the British Empire. From 14 August 1947 to 26 March 1971, though Bengalis in East Pakistan were the majority, they were ruled from remote and distant West Pakistan. However, Bangladesh's development clock really began ticking only in January 1972 (Novak, 1994, pp. 15, 19, 58-59, 75, 77; Prasad, 1987, pp. 4-11).

In the early Vedic period, the king's power was not well established and taxation seems to have been occasional and voluntary. In the later Vedic period, the nature of taxation changed and the

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king was described as the 'eater of his subjects' *(Viśāmattā Samjani)*. In the post-Vedic period, the *Jātakas*[1] testify that the tax collectors raised mainly voluntary contributions (Prasad, 1987, pp. 15-17). In the *Kautiliyam Arthasastram* (circa 321-300 B.C.), Kautilya propounded a comprehensive theory of public finance containing almost all the sources of revenue which can be imagined of and it is interesting to note that there was a tax as like as sales tax– *Klrpta* (fixed tax, or 'sale tax' mentioned by D.C. Sircar) (see Prasad, 1987, pp. 7-38 and 78-107; Bandyopadhyya, M, 1997, pp. 120-129; Bandyopadhyya, D., 1997, p. 43).

Of the three main indirect taxes (customs duty, excise duty and sales tax), sales tax was the last to be introduced in British India. The first *sales tax* (levied in the name of 'Petrol-tax') was introduced in the former Central Provinces of India in 1938. In Bengal, sales tax was adopted in 1941 on a single point system. Following the creation of Pakistan in August 1947, the Bengal sales tax of 1941 continued to be followed by the province of East Bengal. In 1948, sales tax was transformed as a central tax and Pakistan General Sales Tax Act of 1948 was enacted. It was a multipoint tax on the retail prices of goods at the rate of six pies in the rupee. Pakistan General Sales Tax Act of 1948 was repealed in 1951 by enactment of the Sales Tax Act 1951 (Act III of 1951) with effect from 01 July 1951 and this 1951 Act was adopted in independent Bangladesh in 1972 (TEC, 1979, pp. 243-244).

5.3 History of Introducing VAT in Bangladesh

Following the declaration of independence made by Bangabandhu Sheikh Mujibur Rahman on 26 March 1971 and then through a historic struggle for national liberation, the people of Bangladesh established the Independent Sovereign Republic of Bangladesh and gave to themselves a Constitution which was adopted on 4 November 1972. For the transitional period between 26 March 1971 and the commencement of the Constitution, in the article 150 of the Constitution, "Transitional and temporary provisions" are set out in the Fourth Schedule to this Constitution. As per paragraph 13 of this Fourth Schedule, "All taxes and fees imposed under any law in force in Bangladesh immediately before the commencement of this Constitution shall continue to be imposed but may be varied or abolished by law" (GOB, 1998a).

From the *Final Report of the Taxation Enquiry Commission* (1979), it is also evident that just after independence of 1972, there were different sorts of taxes or public revenue effective in Bangladesh under various regulations, usually as they were before independence.[2] These were: (i) income tax and capital gains tax under the Income-tax Act, 1922, (ii) wealth tax under the Wealth-tax Act 1963, (iii) gift tax under the Gift-tax Act 1963, (iv) customs duty under the Customs Act 1969, (v) excise duty under the Excise and Salt Act 1944, (vi) estate duty under the

[1] Stories that offer a picture of the narrative literature and the conditions of civilization of an earlier period or at the time of the Buddha, who was born in the sixth century B.C. just a few hundred miles north and west of Mahasthan, an ancient city near district town of Bogra in northern Bangladesh and a part of Ashoka's Indian kingdom of Magadha (Prasad, 1987, pp. 15-17).

[2] According to the *Laws Continuance Enforcement Order* (made on 10 April 1971 at Mujibnagar by Syed Nazrul Islam, the Vice President and Acting President of Bangladesh), "all laws that were in force in Bangladesh on 25th March, 1971" were taken to be continued in Bangladesh "with such consequential changes as may be necessary on account of the creation of the independent State of Bangladesh" (*vide* Mahmudullah, ed., 1999, *History and Documents of Liberation War of Bangladesh (1905-1971): First Volume*, Dhaka: Gatidhara, p. 418).

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Estate Duty Act 1950, (vii) sales tax under the Sales Tax Act 1951, (viii) land revenue under the State Acquisition and Tenancy Act, 1950, (ix) stamp duty under the Stamp Act 1899, (x) court fees under the Court Fees Act 1870, (xi) registration fees under the Registration Act 1908, (xii) entertainment tax under the Amusement Tax Act 1922, (xiii) electricity duty under the Electricity Duty Act 1935, (xiv) motor vehicle tax under the Motor Vehicle Tax Act 1932, and (xv) other taxes including urban immovable property tax, advertisement tax and travel tax, taxes levied by *paurashavas* or municipalities. In 1972, the then government exempted all owners having land up to 25 *bighas* (8.33 acres) from paying land revenue and *except* this land revenue, other revenue/taxes were imposed almost exactly as they were in pre-independent East Pakistan (*vide* TEC, 1979). But elimination of land taxes produced a steep decline in government resources not readily replaceable by *taxes on other sources of revenue* (O'Donnell, 1984, pp. 116-117, 125).

After independence, there was no tax in Bangladesh under the head 'value added tax' (VAT). Since VAT is comparable to a multi-point sales tax (turnover tax) having no cascade-effect, and the sales tax which was in operation in the Province of East Bengal as a multi-point central tax during 1948-1951 can be said to be a tax similar to VAT, but with the very cascade-effect, for which the VAT has been popularly introduced elsewhere in the world. The *Sales Tax Act 1951* was made effective in Bangladesh after independence under which a single point sales tax on producers or manufacturers, importers and exporters was imposed. According to the Taxation Enquiry Commission (TEC) of 1976 (*Final Report* given in 1979), the single point sales tax at the import, export and manufacturers' level is easier and less costlier to administer than the multi-stage tax or tax on retailers and thus it seems to suit our conditions more than the other multi-point tax (TEC, 1979, pp. 243-244). In support of the TEC's argument, it has assessed the scope of introducing 'value added tax' as the other multi-point tax in place of existing single point sales tax. According to the TEC's observations on VAT, it has been described as "an indirect, *ad valorem* tax on goods and services borne ultimately by the consumer" mentioning the various aspects of VAT in different countries. At the end, the TEC has concluded as follows:

> The VAT has some obvious advantages over other systems of indirect taxes in so far every seller pays tax only on his share of the value added to the goods, and the government also receives a higher revenue on a broader base of sales down to the consumer's level. The chief disadvantage of the system, however, lies in the administrative difficulty in keeping control over a large number of sellers in the chain of distribution from the manufacturer to the consumer. Besides, the maintenance of proper accounts recording the correct sales is *sine qua non* of the success of the system, else there will be the compliance problem and the consequent evasion of the tax. The Commission is, therefore, of the view that in Bangladesh where the tax administration is not yet fully geared and is preoccupied with other taxes, and owing to widespread illiteracy the standard of maintenance of accounts by the business community is unsatisfactory, time is not yet ripe for the introduction of the VAT. *The Commission, therefore, recommends the continuance of the present system of single point sales tax at the level of the manufacturers/wholesalers, importers or exporters with a wider base constituted by the inclusion of the service sector and exclusion of a number of exemptions* ... (*vide* Paragraph 37 of Chapter XVII on Sales Tax; TEC, 1979, pp. 255-256).

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Thus, it was only in April 1979, the concept of VAT was discussed for the first time in Bangladesh as a possible fiscal instrument and as an alternate to sales tax. Until 1982, sales tax was being collected under the *Sales Tax Act 1951*, which was repealed in that year and two taxes namely *business turnover tax* and *sales tax* were introduced by promulgating the *Business Turnover Tax Ordinance 1982* and the *Sales Tax Ordinance 1982* respectively. The value added tax was first mentioned in the budget speech of 1982-83 (on June 30, 1982) as follows:

> Many have talked about the value added tax. Although the tax is very much logical and progressive but its administration is extremely complex. The introduction of VAT is difficult in our socio-economic structure. Instead we have arranged the introduction of a new tax in the name of turnover tax (Muhit, 1982, p. 20; translated from the Bengali version of the *Budget Speech (Part-II) of 1982-83*).

It is the World Bank that has played the pioneering role in initiating the process involved in the introduction of VAT in Bangladesh (Rahman, 1999, p. 7). A World Bank Mission visited Bangladesh for preparing an agenda for tax reform in Bangladesh in December 1986. On the basis of their subsequent extensive research-work, preparation of draft report and revision of the draft report after due discussions with the Government, the final report by the World Bank Mission titled ***Bangladesh–An Agenda for Tax Reform*** was published in three volumes on 15 October 1989 (World Bank, 1989a, p. i). The World Bank report recommended (a) introduction within ***three years*** (i.e., within October 1992) of a manufacturing-cum-import stage VAT at a single standard rate to the organized sector of the economy and replacing existing excise taxes on domestic production, sales taxes on imports, and customs duties on a range of imported items for which there is no domestic production and which are therefore primarily revenue-raising; (b) supplementary levies on imports and domestic production of selected luxuries; (c) zero rating of exports; and (d) customs duties that, though contributing to revenue, are primarily protective in intent and are not creditable under the VAT (World Bank, 1989a, p. ii).

In accordance with recommendations of the World Bank in October 1989, it was decided that a delegation would be sent abroad to physically examine the success of VAT systems and the initial problems associated with its introduction (Rahman, 1999, p. 8). The delegation was formed with three representatives from the National Board of Revenue (NBR) and one representative from each of five bodies, viz., he Bangladesh Chamber of Industries (BCI), Board of Investment (BOI), the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), the Dhaka Chamber of Commerce and Industry (DCCI) and the International Monetary Fund (IMF). They visited four Asian countries during November–December 1989.[3] The delegation held threadbare discussions with concerned officials in those countries and obtained first hand knowledge on the following: (a) situation which led to the introduction of VAT in these countries, (b) basic characteristics of their VAT system, and (c) operation of the VAT system and transitional problems in these countries (Rahman, 1999, pp. 7-10). The delegation of the *Bangladesh Tax Mission* submitted their report in January 1990 (Rahman, 1999, p. 17). The recommendations of the Bangladesh Tax Mission were as follows:

[3] The delegation visited India, Indonesia, the Philippines and Thailand during 13 November–04 December 1989. India adopted the "Modvat" (modified value added tax) system with effect from 01 March 1986, Indonesia adopted VAT in April 1985, the Philippines in January 1988 and Thailand in January 1992.

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1) Initially VAT should be introduced at the manufacturing and import levels.
2) VAT shall replace Sales Tax on import and most Excise duties on domestic production.
3) Supplementary Duty shall be introduced on luxury or non-essential items.
4) Rate of VAT both on import and manufacturing levels for all items shall be one and single, not exceeding 15 per cent.
5) Export shall be zero-rated and all duties paid on import used in the production of exportable items shall be refunded to the exporter.
6) The tax base should be as broad as possible. All items, excepting unprocessed primary agricultural products, shall be brought under the VAT system.
7) All manufacturers under the excise system shall automatically come under the VAT system and there should be instantaneous credit mechanism for self-assessment.
8) Very small enterprises shall be excluded from the VAT system which might be subject to a Business Turnover Tax at 2.50 per cent.
9) The VAT rate and supplementary duty shall be determined in such a manner that the new system shall be more elastic with respect to tax base and will generate more revenue than the Excise and Salt Tax system.
10) Services shall be brought under VAT system on a case by case basis (Rahman, 1999, pp. 9-10).

Having the recommendations from the *Bangladesh Tax Mission* in January 1990, the Government discussed the issues relating to introduction of VAT with all related private and public agencies including the FBCCI and other chamber bodies from time to time (Rahman, 1999, p. 10). A draft statute, the *Value Added Tax Act 1990 (Draft)*, was prepared in English some time before mid-June of 1990 (Shome, Holland and O'Sullivan: 1990). A May 1990 IMF mission to Bangladesh finalized a policy framework paper for 1990-91 to 1992-93 and negotiated *ad referendum* the first year program of a three-year Extended Structural Adjustment Facility (ESAF) arrangement to begin on 1 July 1990. The 1990-91 program envisaged the announcement of the introduction of a VAT from January 1991 (Shome, Holland and O'Sullivan, 1990, pp. 1-2). The then Finance Minster in his budget speech of 1990-91 (on 14 June 1990) announced the following:

> The Government is considering the introduction of Value Added Tax (VAT) in the country from January 1, 1991 with a view to increasing the realization of revenue and simplifying the tax collection procedure. Initially VAT will replace the existing sales taxes on imported goods and the excise duties on domestically produced goods and services. In principle, all domestically produced goods except unprocessed agricultural goods and all imports except unprocessed agricultural goods will be brought under the operational purview of VAT (*The Bangladesh Observer*, 15.06.1990, p. 8).

However, another subsequent IMF technical assistance mission[4] to Bangladesh proposed 01 April 1991 as the earliest introduction date of VAT (Shome, Holland and O'Sullivan, 1990, pp. 1-2). The initial English version of the VAT Act was drafted in Bangla as a precondition to place it in the Parliament and in March 1991, the Ministry of Law gave its vetting to the VAT Act (Hannan, 2004, p. 12). At that time the new BNP (Bangladesh Nationalist Party)-led Government assumed power on 20 March 1991 and they, after careful consideration at all appropriate levels accepted the recommendations of the Bangladesh Tax Mission.

[4] It was a two-week mission during June 18-July 2, 1990.

Dhaka University Institutional Repository

The Value Added Tax Bill was placed in the Meeting of the Council of Ministers on 20 May 1991, where the proposed VAT Act was vehemently opposed since the ministers had no explicit idea on VAT, because of its non-existence. But the then Finance Minister Mr. Saifur Rahman played a strong role in favour of VAT. He said that if the value added tax system is not accepted, then the tax-net of excise duty had to be expanded significantly and there would be no reform in taxation and consequently the tax burden would be augmented. Acting President Justice Shahabuddin Ahmed also mentioned that commitment was given to different international agencies for fiscal reforms and if the VAT system was not introduced, there would be difficulties in future. Then the Council of Ministers decided to enact a law in order to introduce value added tax system from July 1, 1991 (Hannan, 2004, p. 12; *The Daily Star*, 21.05.1991, p. 10). Although this was the formal legal step for implementation of value added tax system, astonishingly very few newspapers or periodicals (e.g., *The Daily Star* on 21.05.1991 and the *Weekly Bichitra* on 31.05.1991) even reported the news and there were no public reactions on this revolutionary fiscal move of the country.

The NBR planned to introduce VAT at import and manufacturing stages from 1 July 1991, on which date, sales tax was not to be collected and all the excisable items except a few to be brought under the VAT-net. As stated by Hannan (2004), these few items were kept under the excise duty since the imposition of 15 percent VAT was not possible or feasible at that time. As there was no session of the Parliament[5] before the budget session and few provisions regarding registration of VAT-payers were required to make effective from June for VAT collection from July, the VAT law was proceeded to be enacted as an Ordinance (Hannan, 2004, p. 12). On 29 May 1991, publicly the final date of introduction of VAT was announced by the then Finance and Planning Minister Mr. Saifur Rahman as 01 July 1991, the beginning day of the fiscal year 1991-92 (*The Bangladesh Observer*, 30.05.1991, pp. 1 & 8). On this very day, the NBR took steps for the promulgation of the Ordinance on value added tax. But the President gave the required official note on 30 May 1991, and then the Ministry of Law promulgated the *Value Added Tax Ordinance, 1991* (Ordinance No. 26 of 1991) on 31 May 1991 (Hannan, 2004, pp. 12-13; GOB, 1991a). Mr. Shah Abdul Hannan mentioned the 31st May 1991 as the historical day in the tax administration system of Bangladesh (Hannan, 2004, p. 13). Under constitutional obligation, there was an obligation to lay the VAT Ordinance in the forthcoming session of the Parliament (which was held from 10 June to July 15, 1991).

On 01 June 1991, the *Value Added Tax Ordinance, 1991* was published in the Official Gazette as a 55-page document (pages 6763-6817 on *The Bangladesh Gazette, Extraordinary*). The VAT Ordinance had initially 73 sections and three schedules. The First Schedule enumerated the goods exempted from value added tax, the Second Schedule enumerated the services subject to value added tax and the Third Schedule enumerated the goods and services subject to supplementary duty. According to sub-section (2) of section 1, the Ordinance or any of its section was effective from such date as may be prescribed by the Government through notification in the Official

[5] The first session of the fifth Parliament commenced on 5 April 1991 and adjourned on midnight of 15 May 1991 (practically at 01.09 am on 16.05.1991) (*The Daily Star*, 18.05.1991).

Dhaka University Institutional Repository

Gazette (GOB, 1991a, p. 6763). On June 2, 1991, an SRO (Statutory Rule and Order) [S.R.O. No. 142-Ain/91/1-Musak, dated 02.06.1991] was issued by Mr. S. M. Akram, Additional Secretary, in pursuance of an order of the President under section 1(2) of the Value Added Tax Ordinance 1991. According to this SRO, provisions on registration (sections 15-18) and the VAT authority (sections 20-22, 72) were made effective from 2 June 1991 and other sections from 1 July 1991. The *VAT Ordinance 1991* was promulgated–

(a) by repealing the *Business Turnover Tax Ordinance 1982* (XVII of 1982) and the *Sales Tax Ordinance 1982* (XVIII of 1982) with effect from 01 July 1991;
(b) by imposing Turnover Tax (TT) at the rate of 2 per cent on annual turnover of less than Tk. 15 lakh from sale of taxable goods and services;
(c) by imposing Value Added Tax (VAT) at the rate of 15 per cent on annual turnover of Tk. 15 lakh or more from sale of taxable goods and services and on imported taxable goods and services;
(d) by imposing Value Added Tax (VAT) at zero-rate on export sales of any goods and services;
(e) by limiting the scope of excise duty to a very minimum and shifting the excise dutiable goods under the VAT net; and
(f) by imposing Supplementary Duty (SD) at the rate of 10 to 85 per cent on goods and services which are luxurious and non-essential and are socially undesirable (GOB, 1991a).

Under another SRO of 2 June 1991 [S.R.O. No. 143-Ain/91/2-Musak, dated 02.06.1991], the persons being manufacturers of taxable goods and providers of taxable services, whose annual turnover was below Taka 2 lakh were exempted from mandatory registration under section 16(1) of the VAT Ordinance with an effect from 3 June 1991.

On 09 June 1991, the National Board of Revenue (NBR) published for the first time an advertisement in the first page of a national daily *The Dainik Bangla* with an "Instruction for Registration under the Value Added Tax System to all Domestic Producers and Manufacturers, Service Providers, Importers and Exporters" and the NBR requested to complete registration before 01 July 1991. The same advertisement was published in the first page of another national daily *The Bangladesh Observer* on 10 June 1991 (see *The Dainik Bangla* and *The Bangladesh Observer* on the concerned dates). The forthcoming legal implementation of VAT was taken into attention of the general businessmen and the cautious public by these advertisements.

On 12 June 1991, the then Minister for Finance and Planning placed the first national budget of the new government in the Parliament with a revenue target of Tk. 8,503 crore. In the budget speech, the Minister proposed Tk. 250 crore of additional tax revenue from the newly introduced Value Added Tax (Rahman, 1991, p. 22).[6] There was no separate section on 'value added tax'

[6] However, if the *Detailed Estimates of Revenue & Receipts 1991-92* and *Annual Budget 1991-92: Budget Summary Estimates* (Dhaka: Ministry of Finance, Finance Division, Government of Bangladesh; 12.06.1991) are checked, the overall increase in three VAT-related taxes (Excise Duty, Sales Tax, and Turnover Tax) was only Tk. 204 crore in comparison to the revised budget of 1990-91.

Dhaka University Institutional Repository

(VAT) in the Minister's budget-speech, since the tax was not effective then, but VAT was mentioned a couple of times while stating the 'new fiscal measures' under import duties and excise duty. In the section on 'new fiscal measures' of the budget speech, the Minister mentioned, "..... the **value added tax (VAT)** which is in existence in many developed and developing countries, is going to be introduced in Bangladesh from 1st of July, 1991. It is a modern and progressive tax system. This will expand the tax base, simplify the tax collection procedure and will help in curbing the tax evasion" (Rahman, 1991, p. 3). In the section on "Import Duties" in the budget-speech of 1991-92, the Minister also mentioned the following regarding VAT:

On the budget-date (12 June 1991), the *Value Added Tax Rules 1991* was published in the Bangladesh Gazette (pages 6959-7020 on *The Bangladesh Gazette, Extraordinary*) as a 62-page S.R.O. (Statutory Rule and Order) after it was prepared by the National Board of Revenue (NBR) having the power provided to it under section 72 of the *Value Added Tax Ordinance 1991* (the S.R.O. of the *Value Added Tax Rules* being S.R.O. No. 178-Ain/91/3-Musak dated 12 June 1991/28 Jyaishtha 1398). Initially, the *Value Added Tax Rules 1991* had 42 rules and there were 27 prescribed forms [Form Musak-1 to Musak-27].

On 18 June 1991, the NBR again re-published its previous advertisement in the first page of some national dailies (e.g., *The Bangladesh Observer* and *The Daily Ittefaq*) with the same instruction for registration under the value added tax system to all domestic producers and manufacturers, service providers, importers and exporters for completing it before the same deadline of 01 July 1991 (see *The Bangladesh Observer* and *The Daily Ittefaq* on 18.6.1991). The NBR re-published the same advertisement in the first page of the national daily *The Dainik Bangla* on 26 June 1991 (*The Dainik Bangla*, 26.06.1991, p. 1).

Within June 1991 (i.e., before the imposition of VAT), in addition to the above-mentioned 3 SROs (two on 2 June and one on 12 June), another 5 SROs (three for special rules, one for giving power to VAT Officials and one for exemption) were also issued by the NBR.

On 30 June 1991, the *Finance Bill 1991* was passed by the Parliament. Winding up the debate on the Finance Bill, Mr. Sairur Rahman, the then Finance Minister, told the House, "The value added tax (VAT) will be introduced and the VAT system will stay. If there is any problem in implementing this, the Government will make efforts for removal of the problems." Terming the VAT system as the most progressive and modern one, the then Finance Minister said that it would bring about self-reliant development in the country. This system will also help curb evasion of income tax, the Finance Minister added. The Opposition parties claimed that the Opposition could not be a party to the imposition of VAT and other taxation measures which could affect the common-man. They also demanded the withdrawal of VAT and other taxation measures (*The Bangladesh Observer*, 01.07.1991, p. 1).

The *Value Added Tax Bill 1991* was placed by the then Finance Minister in the Parliament on 01 July 1991 (i.e., after 30 days of the promulgation of the VAT Ordinance), the very date on which sections excluding previously-mentioned 8 sections (sections 15-18, 20-22, and 72 effective from 2 June 1991) of the *Value Added Tax Ordinance 1991* were made effective under this *Ordinance*.

Dhaka University Institutional Repository

The Opposition protested the introduction of the VAT Bill (*The Bangladesh Observer*, 02.07.1991, p. 1). As a routine process of the Parliament, the *Value Added Tax Bill 1991* was passed by the Parliament as the 22nd Act of 1991 on 09 July 1991 (*The Bangladesh Observer*, 10.07.1991, p. 1). Acting President gave his assent to the *Value Added Tax Bill 1991* on the next day (i.e., 10 July 1991) and it came into effect as *The Value Added Tax Act 1991 (Act No. 22 of 1991)*. The *Value Added Tax Act 1991* was published in the Official Gazette as a 55-page document [pages 7531-7584(Ka) on *The Bangladesh Gazette, Extraordinary*] on the same day, i.e., on 10 July, 1991 (GOB, 1995, p. 1).

5.4 Reasons of Introducing VAT in Bangladesh

As mentioned in chapter 3, the dissatisfaction with the existing tax structure was the main reason of introducing VAT in most of the VAT-adopting countries (Tait, 1988, p. 9). Under the Treaty of Rome the European Union countries shifted their sales or turnover taxes to the VAT form. Most of the signatory countries to the GATT adopted VAT to allow rebate on export and the technical assistant of the IMF to several developing countries in converting different sales taxes into VATs was also another influential factor of spreading VATs over about hundred countries in last two decades in the nineteenth century (Schenk and Oldman, 2007, pp. 26-27; Tait, 1988, p. 20).

As stated in the preceding section of this chapter, VAT was considered for possible adoption in Bangladesh in April 1979 as an alternate to sales tax at policy-level only by the Taxation Enquiry Commission. But the World Bank's pioneering role through its ***Bangladesh–An Agenda for Tax Reform*** (October 1989) might be the pressure factor to introduce VAT as an instrumental fiscal reform. This pressure is substantiated by an immediate foreign tour of the Bangladesh Tax Mission during November-December 1989 and submission of their report in January 1990; the Government's successful discussions with the chamber bodies; and preparation of the draft VAT statute by mid-June of 1990. Thereafter, the IMF's policy pressure through the ESAF arrangement for 1990-93 also made the Government agreed to introduce VAT from January 1991 and the then Finance Minister announced in the budget speech of 1990-91 that VAT would be introduced from January 1, 1991 with the following objectives: (i) increase in tax elasticity and rise in revenue; (ii) simplification of the tax collection procedure; (iii) replacement of the existing import-stage sales taxes and the local-stage excise duties to reduce the 'cascading' problem and restrain the rise in production costs; (iv) expansion of the tax base; and (v) introducing transparency in tax system (*The Bangladesh Observer*, 15.06.1990, p. 8). But in next month, another IMF technical assistance mission proposed to introduce VAT from 01 April 1991 and due to the preparatory lacking, the NBR finally planned to introduce VAT from 1 July 1991. Thus, the World Bank/IMF technical assistance in the area of finance to Bangladesh as one of the member countries might be the strongest reason why Bangladesh has adopted VAT.[7]

[7] In 2007, Alan Schenk and Oliver Oldman have mentioned that over the past couple of decades, the IMF has assisted developing countries and emerging economies of eastern Europe to convert their turnover taxes, manufacturer's tax, retail sales tax, and other indirect taxes to VATs (Schenk and Oldman, 2007, p. 27).

Dhaka University Institutional Repository

Accepting the recommendations contained in the report of the Bangladesh Tax Mission (dated January 1990), the Government set forth the following goals for the VAT system:

i) To do away with the cascading effects that happens because of taxation of inputs.
ii) To generate more internal resources than that Excise Duties and Sales Tax used to provide.
iii) To introduce VAT as the main vehicle for resource mobilization.
iv) To adopt a flat rate of taxation on a broader base, covering a wide range of goods excepting the primary agricultural products (Rahman, 1999, p. 17).

In the budget speech of FY 1991-92 (on 12 June 1991), the then Finance and Planning Minister mentioned that the introduction of value added tax (VAT) from 1 July, 1991 "will expand the tax base, simplify the tax collection procedure and will help in curbing the tax evasion" (Rahman, 1991, p. 3). However, according to the National Board of Revenue (NBR), the objectives behind introducing the value added taxation were: (a) bringing transparency in the taxation system, (b) prohibiting cascading taxation at different stages of production, (c) thoroughly consolidating the tax administration, (d) activating the overall economy by mobilizing more internal resources, and (e) bringing the consistency in the tax-GDP (gross domestic product) ratio (NBR, 1994, p. 14). The *Final Report of the Revenue Reforms Commission* (2003) also documented these reasons for introducing VAT in Bangladesh as a replacement of the sales tax (GOB, 2003, p. 347).

According to a former high-ranked tax-official Mr. Abdul Latif Sikder (1997), it was expected that the introduction of VAT in Bangladesh would achieve the following objectives:

(a) This tax would unveil the door of unthinkable possibility of acquiring required resources for the social and economic development of the country.
(b) This tax would facilitate the improvement of equitable and efficient distribution of resources.
(c) As a result of broadening the base of this tax pervasively, distortion in production and consumption would be resisted.
(d) It would abolish "tax on tax".
(e) As a result of developing input tax credit chain, cross-checking would be easier for the tax administration.
(f) This tax system is more transparent and simplified than other taxes.
(g) The inherent efficiency of this tax system would facilitate in reducing commodity prices, in increasing production and in supplying more consumable products.
(h) This system would be effective automatically (Sikder, 1997, p. 1).

Another top-ranked tax official Mr. Md. Farid Uddin[8] (2004) has stated that being fascinated by several attributes and virtues, which are recognized and visible under the value added tax system prevailing in international theory and practice and which are inexistent and impossible to achieve

[8] Mr. Md. Farid Uddin Ahmed was the Commissioner, Customs, Excise and VAT Commissionerate, Dhaka (South), Dhaka at the time of expressing his write-up in March 2004 and now he is the Member, NBR (September 2008).

Dhaka University Institutional Repository

in many cases under the excise duty system and considering the achievement of these virtues as a national expectation, Value Added Tax was introduced in Bangladesh in 1991.[9]

According to another customs, excise and VAT official Mr. Margoob Ahmed (2004), value added tax was introduced in Bangladesh due to the characteristics of the then excise system (vary narrow base; many rates; absence of credit mechanism; prevalent cascading effect; lack of harmony to the tax treatment; and the lowest tax-GDP ratio), for which the excise system was "inefficient, distortionary, inelastic" and the "relatively complicated indirect tax system" of Bangladesh was "failed to provide domestic resources needed for achieving the macro economic goals of the government" and hence VAT was introduced as it has "the potential of bringing additional revenue through bringing more goods and services under the VAT network" (Ahmed, 2004, p. 47).

However, the then Finance Minister in his statement of objects and reasons for bringing the VAT Bill (placed in the Parliament on 1 July 1991) said that it was being considered proper and necessary to introduce VAT in place of present sales tax at the import level and excise duty at the local production and service levels in order to remove inconsistency and defects of the current indirect taxation system in the country (*The Bangladesh Observer*, 02.07.1991, p. 1).

5.5 Preparation Before the Implementation of VAT

In France, the first country introducing VAT, *partial value-added element* (where tax, instead of applying only to sales of finished products, was imposed on all sales by manufacturers, but each manufacturer could deduct amounts paid for materials and parts from sales in calculating his tax) was introduced in January 1948, and then VAT was introduced at manufacturing and wholesale stages in January 1954, and it was extended to retail level in 1968 (Due, 1970, p. 125). The EC (European Community) directives of April 1967 called for the introduction of VAT (at its comprehensive form) in all (at the time) six member states by January 1970, a lead time of *two years and eight mouths*, but two countries took more time (Belgium took 3 years 8 months and Italy 5 years 8 months) (Bannock and Peacock, 1989, p. 121):

Argentina introduced the partial value-added element in 1935, but the full-fledged VAT was introduced after four decades in 1975 (Due, 1970, p. 125; Khadka, 1997, p. 13). In South Korea, the first Asian country introducing VAT, the question of introducing VAT was conceived in 1971 which was debated and painstakingly rehearsed for five years before it was finally introduced in 1977 (TEC, 1979, pp. 49-50). However, Bangladesh is a country where VAT was recommended in October 1989 for implementation by the World Bank with a preparatory period of *three* years, but due to other reasons, the then Finance Minister through his budget speech of 1990-91 (on 14 June 1990) announced the Government's consideration of introducing the VAT from January 1, 1991. Finally the VAT law (*the Value Added Tax Ordinance 1991*) was promulgated on 31 May

[9] See the characteristics and merits of value added taxation, as mentioned by Uddin (2004), in section 3.3.6 of chapter 3 (*vide* Uddin, 2004, pp. 22-24).

Dhaka University Institutional Repository

1991 (i.e. *one year and four and a half months* earlier than the recommended World Bank deadline) with a given preparatory period of *only one month* (GOB, 1991a). Even it was not one month. On June 2, 1991, the legal step to enforce the VAT law was made by making eight sections (sections 15-18, 20-22 and 72, relating to VAT registration and appointment and powers of VAT authorities) effective and only on June 9, 1991, the would-be registrants were notified through a newspaper advertisement for completion of the registration by July 1,1991.

5.6 Basic Aspects of VAT in Bangladesh

In this section, fundamental features of the value added tax in Bangladesh have been highlighted, which includes the variant of the tax, the method followed in computing the tax, the taxpayers and the tax points under the tax system. Under the Value Added Tax Act 1991, the Government does not impose only value added tax, but also other two taxes in the name of the *supplementary duty* and the *turnover tax*. The supplementary duty is levied under section 7 on luxury, non-essential and socially undesirable goods and other goods and services on which imposition of supplementary duty is justified in the public interest (prescribed in the Third Schedule of the VAT Act). The turnover tax is imposed under section 8 and rule 4 on any producer or manufacturer or trader of taxable goods or provider of taxable services, who is not liable to be registered for VAT and whose annual turnover is less than forty lakh taka from FY 2009-10 (previously twenty four lakh taka for FY 2008-09 and twenty lakh taka from FY 1999-2000 to FY 2007-08) at the rate of four percent (earlier rate was two percent from FY 1991-92 to 1996-97). However, the following discussion has primarily been focused on the value added tax.

5.6.1 Variant of VAT

From the viewpoint of different angles, the variant of VAT implemented in Bangladesh is explained below.

Comprehensive-Type

In 1991, at the beginning of introducing the VAT, on the basis of coverage of stages in the production and distribution chain, the variant followed by Bangladesh was a VAT confined to import *plus* manufacturing of goods *plus* provision of services. Under the original version of section 3 in the VAT Ordinance 1991 (which was also in the VAT Act 1991 in same language), VAT was imposed and payable at standard rate (15 percent) on the import and supply of all taxable goods and on all taxable services rendered in Bangladesh, and the actual or deemed exports (including food and other things supplied to any transport leaving Bangladesh, for consumption in the transport outside Bangladesh) were zero-rated. Under section 15, a supplier of taxable goods or a provider of taxable service or an importer of any goods or an exporter of any goods or service was liable to be registered, if not exempted under section 16 (GOB, 1991a; GOB 1991b). Thus, at the commencement in July 1991, VAT was not a comprehensive form of value added tax and was limited to only import and manufacturing stages and thus supply by manufacturers only, and although the exporters were subject to VAT registration, but they were effectively outside the VAT-net through zero-rating. From 1994-95, a provision was made to

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expand the VAT-net up to wholesale and retail stages by allowing optional registration by any seller, transferor or lessor of any goods, manufactured, produced in or imported into Bangladesh.[10] This provision was introduced as an alternative to "making VAT compulsory in both wholesale and retail distribution of goods and services" to make the VAT system "fully operative" (*vide* Budget Speech 1994-95; Rahman, 1994, pp. 18-19). However, during FY 1994-95 and FY 1995-96, there was no optional registration taken by any wholesaler or retailer (Kibria, 1996, p. 69). Then statutory amendments were made expansively in the VAT Act by the Finance Act 1996 to extend the tax-net of VAT up to wholesale and retail stages. In the Act, the "traders" were added with "manufacturers or producers" and "goods manufactured or produced" were replaced by "goods imported, purchased, acquired or procured in any manner."[11] A statutory definition was inserted in section 2 at clause (qq) to define "trader" as "a person who sells or otherwise transfers to any other person in exchange of consideration any goods imported, purchased or otherwise acquired by him without changing its shape, feature, characteristics or quality."[12] Amendments were also made in the VAT Rules by adding "suppliable" with "produced," "business place" with "production place," "sales" with "production," "trader" with "manufacturer or producer," to give the effect of VAT-expansion to wholesaler and retailers.[13] Thus, since the FY 1996-97, VAT in Bangladesh has been a broad-based tax by covering all stages in the production and distribution process including the wholesale and retail levels.

Consumption-Type

Under standard definition, the VAT is a tax on final consumption, but it is charged between businesses throughout the production and distribution chain and collected as a multi-stage tax. The final incidence of VAT falls on ultimate buyers/consumers and the incidence is forwardly shifted through input tax credit subject to provision of no exemption within the distribution process. If the initial coverage is considered, the VAT in Bangladesh was not a comprehensive tax up to FY 1995-96 and thereby, the tax was not statutorily a consumption tax. But even then, being an import-cum-manufacturer-level VAT, from the very beginning (July 1991) it was a consumption-type of VAT due to the extent of the tax-base computed by considering the "input" as follows: 'input' means all types of raw materials, services and machinery; but does not include labour, land, building, spare parts, part of machinery, office equipment and conveyance [*vide* original section 2(c) of the VAT Ordinance or Act 1991; GOB, 1991a; GOB 1991b].

Under the consumption-type VAT, the VAT shall amount to "a tax on consumer goods only and thus not tax capital goods" (Shoup, 1990b, p. 5). When the tax-base is equivalent to the gross value of output *minus* 'full amount fixed investment,' then it is considered as a consumption-type VAT (Bhatia, 1999, pp. 147-148). As explained by James M. Bickley (2003), under the consumption VAT, capital purchases are treated the same way as the purchase of any other input

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[10] See sub-section (2) inserted in section 17 (Voluntary registration) by section 9(5) of the Finance Act 1994.

[11] The amendments were made in sections 2(c), 2(y), 3(3), 5(2), 6(2), 7(2)(b), 8(1), 9(1), 35, 38(1), 72(2)(d), and 72(2)(h).

[12] Clause (qq) has been re-numbered as (qqqq) by the Finance Act 2004 for the same definition of "trader."

[13] Amendments were made in rules 3(1), 3(8), 9(4), 9(5), 15(1), 16(1), 16(2), 18(1), 19(2), 19(3), 22(1), 24(1), 24(2), 39(1), and 41(1) by the SRO No. 126-Ain/96/128-Musak, dated 28.07.1996.

Dhaka University Institutional Repository

and this tax treatment of capital purchases is equivalent to expensing which makes the payment of the tax come from consumer expenditure (Bickley, 2003, p. 89). But the definition of "input" as used in Bangladesh at starting is not a comprehensive one but yet the VAT was a consumption-variant during FY 1991-92 to FY 1995-96, due the scope of 'input' covering 'machinery' along with 'raw materials' and 'services.' Besides the personal, commercial or non-commercial use of goods was categorically treated as a taxable supply by a manufacturer, and hence, in the VAT Act [u/s 2(y)], VAT was a consumption tax.

Since the FY 1996-97, when the VAT was imposed on 'traders' (wholesalers and retailers), input tax credit facility was broadened to ultimate sellers to consumers. From then the VAT has become a broad-based consumption expenditure tax and the total incidence is expected to be borne by the final consumers. In FY 2000-01, to remove the ambiguity of treating the VAT as a consumption-type (and thereby realizing it from the buyers of taxable goods and services through forward-shifting), a separate legal provision was enacted by inserting sub-section (3A) to section 3 of the VAT Act, under which the VAT registered persons shall collect VAT with the price of the goods or services while they are supplied or provided [see section 86(b) of the *Finance Act 2000*; Budget Speech 2000-01, *vide* Kibria, 2000, pp. 20-21]. But in the next year, this legal provision was repealed [see section 72 of the *Finance Act 2001*], since VAT is such a type of tax which is collected by the Government from the VAT registered persons, who have to mention the VAT element in the transaction invoices as a component of the total price to be paid by the buyer. However, even in the absence of this type of explicit provision in the VAT statute, since the present VAT is a full-fledged tax covering all the levels in the distribution chain – the raw materials supply (including import), production, wholesale, retail and consumption – the tax is obviously a consumption type of VAT, but a tax on domestic consumption only.

Destination Principle

In Bangladesh, the VAT regime uses the destination principles. As a consumption tax, this 'destination system' is used "to describe a VAT system which deems consumption to occur in the country of destination of the goods and services" (Ogley, 1998, p. 16). Since the inception, the imports are taxable and the exports are zero-rated and thereby tax-exempted. Section 3 of the VAT Act prescribes the imposition of value added tax in relation to international trade. Under this section, VAT shall be imposed and payable at 15 percent on all vatable[14] goods imported into Bangladesh (*except* the goods listed in the First Schedule of the Act, which contains the list of tax-exempted goods). But the value added tax is not applicable on services imported, if any. Value added tax shall be imposed at zero rate on any goods or services exported or deemed to have been exported from Bangladesh, *except* (a) any goods intended to be re-imported into Bangladesh; and (b) such goods as have been presented for export but not exported, within thirty days or duly extended time of submission of the bill of export. As per the definition of the "zero-rated taxable goods or services" under section 2(v), they are subject to exemption of VAT or,

[14] This word is borrowed from Adrian Ogley, who has mentioned it as a qualifying word as "Vatable Output" and "vatable supply" (Ogley, 1998, p. 204). Generally, "taxable" is the equivalent word for "vatable."

Dhaka University Institutional Repository

where applicable, supplementary duty (SD) and also subject to refund of all earlier-stage taxes (except advance income tax and in case of use of natural gas, SD paid thereon). A manufacturer being domestic supplier as well as exporter can take the refund of the earlier-stage taxes through taking input tax credit, but when the input tax for a tax period is higher than the output tax or in case of a hundred-percent exporter, the tax is refunded as duty drawback (rules 19, 25, and 28-30). Thus, the imports of taxable goods (and not imports of taxable services) are taxable under the VAT system in Bangladesh. In case of exports, exports of both goods and services are applicable and not only actual foreign exports of taxable goods and services are exempted through zero-rating, but also "deemed exports" through supply of goods or provision of services within the domestic boundary of Bangladesh are considered at par. Hence, the variant of VAT in practice in Bangladesh uses the destination principle.

Tax Credit Method

Under standard practice, Bangladesh follows an invoice or tax credit method, which is also known as the subtractive-indirect method. Under the usual working of the tax credit or invoice method, the sum of the VATs already paid at earlier stages is shown on the purchase invoice; each invoice will give, separately, the price and the seller's gross tax on that price. Given the absence of any break in the chain of the credit system, this gross VAT on supplier's invoice must be the sum of VATs paid at earlier stages. For a tax period, the firm assembles all such purchase invoices and aggregates the value added gross taxes shown on them. This is the amount to be credited against that firm's own gross tax on taxable supply to reach the net VAT payable (Shoup, 1990b, p. 8). For a comprehensive VAT, this tax credit or invoice method is universally preferred and has been adopted by the European Community with few exceptions and described as "the only practical method" (Ogley, 1998, p. 5). There are *five* principal reasons of this preference: (1) the invoice method attaches the tax liability to transactions, making it legally and technically far superior to other forms and the invoice becomes the crucial evidence for the transaction and for the tax liability; (2) the transaction is linked to an invoice and this provides a good audit trail which is absent under any other method and this linkage is reinforced by the desire of any business to receive a valid VAT invoice in support of its own claim to a credit resulting an element of self-policing within the system; (3) a multiple rate VAT can easily be applied, which is difficult to use under an accounts-based method where sales and purchases are unlikely to be analyzed to coincide with different categories of goods and services to which different VAT rates apply; (4) tax calculation for any period can be done without any inconvenience and (5) exports can be relieved of VAT by exempting them from VAT through zero-rating while preserving the right to recover VAT incurred at an earlier stage in the production or distribution chain (Tait, 1988, p. 5; Ogley, 1998, pp. 5-6). Purohit (2007) has also mentioned that under the invoice method, (i) it makes cross-checking of tax paid at earlier stages more amenable; (ii) since tax burden is dependent upon the tax rate at the final stage, firms at intermediate stages do not have any incentive to seek special treatment in tax rate; and (iii) it facilitates border tax adjustments and in case of zero-rated exports, refundable tax can be easily calculated (Purohit, 2007, pp. 10-11).

Dhaka University Institutional Repository

In Bangladesh, every registered person shall, at the time of supply of taxable goods or rendering of taxable service or export of goods or service or sale of taxable imported goods, issue *chalan* or invoice with consecutive serial number, in the form and manner prescribed by rules or in any other form and manner approved by the National Board of Revenue (NBR) in this behalf through notification in the official Gazette. The invoice shall be not more than one invoice for a single transaction; or in case of loss of original invoice, a copy of the invoice with the distinct mark of "Copy Only" (section 32). Under the standard procedure, a VAT registered person, in the case of every supply of taxable goods supplied by him or in the case of rendering or exporting service, shall prepare an invoice in triplicate in Form "Musak-11" by using double-faced carbon and these three copies to be issued or preserved as follows: the *original copy* to accompany the goods up to the final destination mentioned in the invoice or in case of services, to be given to the recipient or buyer of the service and the *second copy* to reach the local value added tax office within three working days of the supply of the goods or and the *third copy* to be maintained for not less than four years in the place of manufacture or production or business or the premises of rendering service (rules 16 and 17).

In this Form "Musak-11", there will be *five* columns for values and taxes, when the SD is applicable (value on which SD to be imposed, SD, value on which VAT to be imposed, the amount of VAT, and total value including SD and VAT), and three columns in other cases (value on which VAT to be imposed, the amount of VAT, and total value including VAT). In the Form "Musak-11Ka" [Sales Cash Memo, to be issued by a trader to unregistered persons, since 2002-03 u/r 16(1)] and Form "Musak-11Ga" [Invoice of Inputs Sent for Production from the Supply-Place of the Proprietor, to be issued by a proprietor of goods to the manufacturer under a contract-based manufacturing, since 2008-09 u/r 16(3C)], the value to be mentioned is the total value (inclusive of VAT). However, in the Form "Musak-11Gha" [Value Added Tax (VAT) Invoice] for provider of six selective services, both the value for imposition of VAT and the total value (inclusive of VAT) have to be mentioned. In case of issuance of the Form "Musak-11Ka", the VAT-inclusive value will be multiplied by 3/23 to ascertain the VAT payable [u/r 23(2)]. Where the amount of VAT is not shown separately in the invoice given by the supplier of goods or the renderer of service, the amount of the VAT payable shall be determined by multiplying by 15/115 the gross sale price, inclusive of the amount of VAT due or received [u/r 23(4)] or dividing with the VAT-divisor 7.6666[15]. The computerized invoice [since 2002-03 u/r 16(3A) and 17(2A)], if allowed by the tax authority, must also show the VAT element of the total value separately of each transaction along with the value on which the VAT is to be imposed and the total value inclusive of VAT. The "invoice at own format" must contain all the information of Form "Musak-11" and hence the pre-VAT value, the VAT and the VAT-inclusive must be shown in this invoice.

The input tax credit is usually taken by a VAT registered person through recording in the Account Current in Form "Musak-18." The account current has four columns for taka: treasury deposit, credit, payable, and closing balance; and these amount columns are entered against a description

[15] Once the NBR prescribed the VAT divisor (7.6666), which should be 7.6667 under the correct mathematical approximation. See the File No. NBR/VAT/51/91/170, dated 27.07.1991 (NBR, 2001c, p. 19).

Dhaka University Institutional Repository

of transaction in third column for all types purchases, sales, purchase returns, sales returns, fines, treasury deposit, balance of account current, etc. The input tax mentioned in the bill of entry for imported inputs or in the purchase invoice for other inputs is recorded in the "credit" column of the Account Current at the time of the inputs having entered into the production or business place along with the bill of entry or purchase invoice (rule 19). This input tax credit is finalized when the registered person submits the VAT return in Form "Musak-19" (which has every details of information relating to sales, payables, purchases, credit or drawback, and final account after considering the opening balance and treasury deposit) for each tax period along with the original copy of account current register and the bill of entry or invoice relating to acquisition of inputs or raw material during the concerned tax period (rule 24).

Thus, in all cases of taxable transactions, an invoice must be issued, on which the amount of VAT is usually categorically written with the details of other particulars, but if it is not mentioned separately, the total value is deemed to be inclusive of VAT and the amount of VAT is determinable by multiplying with the VAT-factor 15/115 or 3/23 or dividing with the VAT-divisor 7.6666. Through maintaining the account current register, the input tax credit is adjusted against output tax and this is settled on assessment by the tax authority after submission of the tax return for each tax period along with the copy of the account current register and other purchase invoices. The requirement of mandatory issuance of invoice has made the VAT system in Bangladesh to an invoice method (the subtractive-indirect method) to compute the VAT liability in case of each taxable transaction and these invoices and the bill of entry are the basis of allowing the input tax credit.

5.6.2 Methods of Computation of VAT

As stated in the preceding sub-section, the method of followed in Bangladesh is a subtractive-indirect method, which can also be called "the credit-invoice method." But the VAT invoices do not specify the VAT in all cases of transactions. The bill of entry on importation of inputs must contain the VAT registration number of the importer and the amount of VAT at import-stage to be acceptable for input tax credit. Here, the VAT is imposed under section 5(1) of the VAT Act at a tax-base determined by adding the amount of import duty, SD and all other duties and taxes, (if any), *except* advance income tax (AIT) payable, to the assessable value (AV) for import duty determined under section 25 of the Customs Act 1969 (open market unbiased transaction value) or section 25A of the Customs Act (value certified by a pre-shipment agency, where applicable).

The standard VAT invoice to be issued in any other taxable transactions (other than imports) must be in the Form "Musak-11," where the VAT is separately mentioned, which is computed by applying the VAT rate with the tax base for VAT (i.e., value on which SD to be imposed *plus* SD). This is also equally applicable for the computerized invoice, where it is allowed by the tax authority, and the "invoice at own format" (containing all the information of Form "Musak-11"). In some cases, when a single value (inclusive of VAT) is to be mentioned, then the VAT is to be computed by applying the VAT factor (15/115 = 3/23) on the VAT inclusive value. In other

Dhaka University Institutional Repository

prescribed VAT invoice [in the Form "Musak-11Gha"] to be issued by the provider of six selective services, both the vatable value and the VAT inclusive value shall be mentioned. Then the VAT can be easily computed by subtracting "the value on which the VAT to be imposed" from "the total value (inclusive of VAT)." In any situation of taxable transaction, if the invoice does not show specifically the amount of VAT, then also the value is to be taken as inclusive of VAT and the VAT element is to computed by applying the VAT factor (15/115). In 2009-10, a new provision [new sub-section (2C) inserted in section 5 by the *Finance Act 2009*] has been given regarding 'price fixed by the Government'. In order to keep the commodity price under control, the provision to accept the unit price of some goods and services fixed by any Government office or other agencies has been incorporated in the VAT Act [under the new sub-section (2C) of section 5]. The VAT and SD are then collectible through back calculation from the unit price of the good or service. For example, if the Government fixes the price of a small bottle of cold drinks at Taka 15.87 per bottle (where 15 percent SD under SRO No.112-Ain/2009/520-Musak, dated 11.06.2009 at local stage and 15 percent VAT are applicable), the amount of VAT is Taka 2.07 (= $15.87 \times {}^{15}/_{115}$) and the amount of SD is Taka 1.80 [= $(15.87 - 2.07) \times {}^{15}/_{115}$].

The VAT liability under the invoice-credit method is ascertained by taking the difference between the 'output tax' and the 'input tax', where 'output tax' means the VAT imposed under the VAT Act [u/s 2(b)] and 'input tax' means VAT paid on inputs imported by registered person or purchased by him from any other registered person [u/s 2(d)]. However, the final tax liability depends on a host of factors and it is a combination of actual input tax, output tax, loss on input tax recovery, fines and penalties for enforcement on non-compliance, adjustments of tax due to purchase/sales returns, treasury deposit, drawback received and the balance of tax payable or receivable at the beginning of a tax period and all these are to be recorded in the account current.

In the case of rendering service, VAT is usually imposed on the total receipts by applying the standard rate, but it can be determined for prescribed services on the basis of actual value addition or on the basis of specific rate of value addition fixed by the NBR through notification in the official Gazette [u/s 5(4)]. This NBR-fixed rate of value addition is often known as "truncated value-base."[16] Presently (2008-09 and also 2009-10), there are six bases of fixed rate of value addition (10 percent, 15 percent, 30 percent, 33.35 percent, 60 percent and 100 percent) and corresponding six rates of net VAT (1.5 percent, 2.25 percent, 4.5 percent, 5.0025 percent, 9 percent and 15 percent) for imposition of VAT on 47 coded services under 40 service headings in 2008-09[17] and 52 coded services under 45 service headings in 2009-10[18]. In these cases, the rate of net VAT for a service is equal to the base of fixed rate of value addition multiplied by the standard rate of 15 percent and no input tax credit is allowed. For instance, the base of fixed rate of value addition by an audit and accounting firm through its service (coded by S034.00) is prescribed at 30 percent, so the net rate of VAT would be 4.5 percent (30 percent × 15 percent) to be applied on total receipts of the firm from a specific audit and accounting job. Since 1 October

[16] See the General Order No. 10/Musak/2000 of the NBR dated 27.8.2000 (Khan, 2005, p. 549).
[17] SRO No. 197-Ain/2008/499-Musak, dated 29.06.2008 for FY 2008-09 repealed by SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009.
[18] SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009.

Dhaka University Institutional Repository

2004, the Advance Trade VAT (ATV) has been collected from the commercial importers at trade-stage and this ATV is computed by applying the standard rate of 15 percent on a pre-defined base, which is equal to 115 percent of "assessable value for import duty *plus* import duty *plus* SD (if any) *plus* other taxes (if any)."[19] For traders (wholesalers and retailers), there is also another truncated value-base of 10 percent and then the net VAT will be 1.5 percent of the value of goods. But the small retailers or shops can pay a minimum annual VAT of Taka 4,200 (for Dhaka and Chittagong City Corporation area), Taka 3,600 (for other City Corporation areas), Taka 2,400 (for municipal areas of the district cities) and Taka 1,200 (for other areas of the country) without any input tax credit and these amounts of VAT payable are also to be computed based on the prescribed minimum annual value addition at the standard VAT rate of 15 percent.[20] In case of some selective taxable goods (such as refined soybean oil, refined palm oil, hard rock, etc.) and one service [SIM Card Supplier having service code of S012.20], the NBR has fixed tariff value for the purpose of determining VAT through various orders published in the official Gazette [u/s 5(7)] and here, the VAT payable is to be computed by applying the standard rate of VAT with the tariff value and no input tax credit will be allowed. For example, the tariff value of refined palm oil is prescribed at Taka 3,700 per metric ton and then the VAT payable per metric ton of refined palm oil will be Taka 555 (Taka 3,700 × 15 percent).[21]

Thus, the method of computing VAT in Bangladesh is the *invoice-credit method*, which is also a *subtraction-indirect method*, except for special situations where the VAT is not mentioned in the invoice and it is included in the total value, then the VAT (as output tax or input tax) is to be backwardly computed by applying the VAT factor. For selective services, where the truncated base-value or tariff value or minimum annual value addition has been prescribed as a pre-fixed rate of value addition, then VAT payable is to be computed by using a *fixed-direct method*, a unique ad hoc method applied in Bangladesh, where the VAT computed is the net VAT payable and input tax credit is not applicable.

5.6.3 VAT Taxpayers

As a consumption-type VAT, the final incidence of VAT is borne in Bangladesh by the final consumer of taxable goods or services, being the buyer of those goods and services. But according to the provision of sub-section (3) of section 3 of the VAT Act, VAT shall be paid by (a) in the case of imported goods, the importer of the goods imported at import stage; (b) in the case of goods manufactured or produced in Bangladesh, the supplier at production or manufacture stage; (c) in the case of service, the provider of service; and (d) in other cases, the supplier. Thus, the importers of taxable goods, manufacturer or producer of taxable goods, and traders (wholesaler and retailer) of taxable goods at trade stage and the providers of taxable services are the statutory taxpayers under the VAT system. Up to 1995-96, the VAT was payable by the

[19] The pre-defined base was 110% up to 10.06.2009 under SRO No. 260-Ain/2004/431-Musak, dt. 30.08.2004 and Order No. 21/Musak/2004 of the NBR, dt. 22.07.2004. SRO No. 260-Ain/2004/431-Musak, dated 30.08.2004 has been amended by SRO No. 110-Ain/2009/518-Musak, dt. 11.06.2009 by enhancing this pre-defined base to 115%.

[20] SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

[21] See Hossain, 2008, pp. 289-311 for all the valid and updated orders of the NBR prescribing the tariff values.

Dhaka University Institutional Repository

importers of taxable goods, the manufacturer of taxable goods (as the supplier in case of goods manufactured or produced) and the providers of taxable services. Thereafter the wholesalers and retailers are brought under the tax-net covering "all the levels of consumption—import, production, wholesale and retail" (Kibria, 1996, p. 69). But due to the provision of section 3(3) for realizing the VAT from the business communities (importer, producer and trader of taxable goods and provider of taxable services) by the tax authority and in the absence of any specific provision in this section 3 that the VAT is payable by the buyers or consumers of taxable goods or services, the businessmen, particularly the wholesalers and retailers, demanded to incorporate a specific provision in section 3 to ensure the collection of VAT from the retail buyers in the market.[22] So in 2000-01, following sub-section (3A) is inserted in section 3 of the VAT Act:

> "(3A) a person registered under section 15 shall collect VAT imposed in sub-section (1) from the buyer along with the price of goods or services at the time of supply of goods and provision of services" [*vide* section 86(b) of the *Finance Act 2000*].

However, this legal provision was withdrawn in the next FY 2001-02 by repealing sub-section (3A) of section 3 [*vide* section 72 of the *Finance Act 2001*]. Thus, for only one year (2000-01), retail-level final buyers were also the legal taxpayers of VAT. Although the persons enumerated in section 3(3) are the legal taxpayers, but in reality, they do not pay VAT on final account. They pay VAT imposed at each import/purchase stage and subsequently adjust those import/purchase-level VAT at the time of sales through adjustment as credit. According to the inherent connotation of the VAT statute, the final consumers are the value added taxpayers and the statutory taxpayers are the tax collectors on behalf of the government (Hossain, 2008, p. 236).

This collection of VAT from final buyers/consumers of goods and services is also decided in the Supreme Court. In a writ petition case in the High Court Division (HCD), *Dr. Ahmed Hossain vs. Chairman, T&T Board*[23] (judgment on 12.11.1997) [50 DLR (1998), 115], the petitioner being a telephone subscriber, filed the petition contending that he is not required to pay VAT on his personal telephone set, as he is not a registered taxable person rendering service to others, but using the telephone set for own purpose and hence, he questioned the legality of charging VAT by the Bangladesh Telegraph and Telephone Board (BTTB) against the bill of telephone. The HCD interpreted the VAT statute and declared the VAT a consumption tax and opined that the charging of VAT by the organization or person rendering service to others cannot be objected to by its customer or by the person who is receiving service rendered by organization or person who is required to pay VAT to the Government at the prescribed rate fixed by the Government. The petitioner sought leave to appeal in the Appellate Division (AD) against the judgment of the HCD and in the case *ABM Bayezid vs. Chairman, BTTB*[24] (judgment on 16.02.2002) [8 BLC (AD) (2003), 112], the AD maintained the judgment of the HCD and concluded that VAT on its subscribers and having had done so, as in the case of petitioner, it cannot be said, as contended by the petitioner, that inclusion of VAT in the bill that was sent to the petitioner by BTTB was unauthorized and illegal.

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[22] Information obtained from personal interviews with some business and merchant leaders in October 2001.

[23] *The Dhaka Law Reports* (DLR), Vol. 50 (1998), High Court Division (HCD) Part, pp. 115-121.

[24] *The Bangladesh Law Chronicles* (BLC), Vol. 8 (2003), Appellate Division (AD) Part, pp. 112-115.

Dhaka University Institutional Repository

In case of withholding VAT on selective services (provision made in section 6 in FY 1993-94, but effected from FY 1996-97 through an SRO[25]), the VAT deducting/collecting entities (government and semi-government organizations, autonomous bodies, non-government organizations, banks, insurance companies and limited companies) are the recipient of the services and hence consumers of the services and they are the direct taxpayers also having the obligation to deduct/collect the VAT at source at the time of paying the bills of the providers of services at a prescribed rate (1.5 percent, 2.25 percent, 4.5 percent, 9 percent, or 15 percent) and deposit the same to the treasury [u/s 6(4C)(iii)].

5.6.4 Tax Points under VAT System

Under the VAT system of Bangladesh, tax points in terms of timing of tax payment or collection as well as timing of depositing to the treasury against the VAT payable, depend on the stage in the production and distribution chain. Under section 6 of the VAT Act, the timing of payment of VAT is as follows:

(a) *VAT on taxable goods:* In case of goods manufactured or produced or goods imported, purchased, acquired or procured in any other manner by a registered or registerable person for carrying out or for expansion of business, the VAT is payable at the time of any of the following activities, whichever occurs first, namely: (a) when the goods are delivered or supplied; (b) when an invoice relating to supply of the goods is issued; (c) when any goods are used personally or supplied for use of any other person; (d) when part or full payment is received [u/s 6(2)]. However, for imported goods, VAT is payable at the same time and in the same manner as import duty is paid in accordance with the provisions of the Customs Act [u/s 6(1) of the VAT Act], which is the date of presentation of a bill of entry or the date of payment of import duty [u/s 30 of the Customs Act].

(b) *VAT on taxable services:* In case of taxable services, VAT is payable at the time of any of the following activities, whichever occurs first, namely: (a) when the service is rendered; (b) when an invoice relating to the service is issued; and (c) when part or full payment is received [u/s 6(3)].

(c) *Advance Trade VAT (ATV) by the commercial importer of goods:* Since October 1, 2004, in case of importation of goods by a commercial importer, VAT is payable in the form of Advance Trade VAT (ATV) at import-stage along with other taxes [u/s 6(4) and NBR's Order No. 21, dated 22.9.2004].

(d) *Stamp or banderole system on selective goods:* Since September 1, 2001, the "stamp or banderole" system of collecting VAT was introduced through affixing 'stamp' on 'hard and soft packet of cigarette containing tobacco.' Under the provision of section 4(4A),[26] for the

[25] SRO No. 128-Ain/96/130-Musak, dated 28.07.1996, under which two services—consultancy firm and supervisory firm (S032.00) and procurement provider (S033.00) were prescribed for withholding VAT.

[26] Sub-section (4A) of section 6 was initially inserted by the Finance Act 1993 on 'VAT deducted at sources" and then it was re-numbered as (4AA) by the Finance Act 2000 and this sub-section (4A) on "stamp or banderole system" has been inserted by the Finance Act 2000.

Dhaka University Institutional Repository

purpose of realizing VAT and/or SD, the NBR may direct the producer of any goods or class of goods, through notification in the official Gazette, to use on the body of the package or container or pot of the goods stamp or banderole or special sign or mark of specified size and design manifesting measures of security. Now, there are *four* types of goods under this system—cigarette containing tobacco (effective for stamp on 'hard and soft packet' from 03.9.2001 and banderol on 'shell and slide packet' from 01.1.2002), *biri* made manually (effective for banderol on packet of *biri* from 12.6.2003), soft drinks and mineral water (effective for banderol on bottle, can, jar, on cap or cork of cylinder from 01.6.2004) and toilet soap (effective for stamp on soap packet from 15.8.2004).[27] Here, VAT is to be considered as paid equivalent to the value of the stamp or banderole used. Although there is provision for affixing "special sign or mark or design," but these were not yet used.

The time for depositing the VAT to the treasury is as follows:

(a) *VAT on goods:* Here, the VAT is paid through adjustment from the Account Current before delivery or supply of goods and these adjustments include not only the deposit to the treasury, but also other adjustments relating to input tax on import/purchase, output tax on sales, adjustments due to sales return or purchase return, fines and the deposit to the treasury must ensure sufficient balance (receivable on the part of the VAT registered person) in the account current [u/s 6 and 37(2), rule 23]. That is, the taxpayer has to pay such amount of money in the treasury time to time through *Treasury Chalan*, so that net liability of VAT (after due input tax credit and other adjustments) can be paid out of that balance.

(b) *VAT on services:* The VAT is to be deposited by a provider of services to the treasury within ten working days of the month following the tax period (in the case of an Insurance company 20 working days) [u/r 24(1)].

(c) *VAT realized or deducted at source:* The entities which deduct or collect VAT at sources shall deposit the tax within two months from the date of deduction or realization of VAT at source [u/s 6(4C)(iii)].

5.7 Structure of VAT in Bangladesh

The following sub-sections deal with an examination of the structural framework of the existing VAT system in Bangladesh. The description includes mainly the taxable events regarding the supply of taxable goods and services, the taxable persons, the tax rate structure, the tax base, some special issues in the considerations of a transaction, and the coverage of VAT at different levels including import, manufacturing, wholesale and retail levels. It also highlights the right of a business entity to take input tax credit, the degree of taxation of private use of goods and services, the adjustment for capital goods and the regional limits of extent of the VAT.

[27] Sub-section (4A) in section 4 containing the provision of "stamp or banderol" system was inserted by the Finance Act 2000. As per SRO No. 330-Ain/2000/296-Musak, dated 02.11.2000, the provision of affixing 'stamp' on 'hard and soft packet of cigarette containing tobacco' was made effective from 01.9.2001, and 'banderol' on 'shell and slide packet of cigarette containing tobacco' from 01.1.2002, but practically the stamp and banderol system started to work from 03.9.2001 due to notification of the relevant rules on 03.9.2001 (SRO No. 247-Ain/2001/324-Musak, dated 03.9.2001 and the issuance of relevant order (NBR's General Order No. 07/Musak/2007, dated 03.9.2001) after two days. For the relevant SROs and orders, see Hossain, 2008, pp. 510-555).

Dhaka University Institutional Repository

5.7.01 The Taxable Event

There is no prescribed definition of a taxable event in the VAT laws of Bangladesh. As defined in Article 2 of the Sixth Directive of the European Community (EC), a taxable event shall be the following: "the supply of goods or services effected for consideration within the territory of the country by a taxable person acting as such", and "the importation of goods" (Ogley, 1998, p. 43). Thus, Ogley (1998) has mentioned *four* elements which must be present in a transaction, other than an importation, to trigger a liability to VAT—(i) the supply of goods or services; (ii) the involvement of a taxable person in the supply; (iii) the geographical location – 'within the territory of the country'; and (iv) the receipt of consideration. But before triggering a liability to VAT, the transactions undertaken by a taxable person must exceed the registration threshold (Ogley, 1998, p. 43).

In the VAT Act, sub-section (1) of section 3 prescribes the following three events subject to payment of VAT: (i) import of taxable goods in Bangladesh; (ii) supply of taxable goods; and (iii) rendering of taxable services in Bangladesh. The registration threshold before triggering a liability to VAT is annual turnover of forty lakh taka from FY 2009-10 (previously twenty four lakh taka for FY 2008-09, and twenty lakh taka from FY 1999-2000 to FY 2007-08) below which the concerned person will be a taxable person for turnover tax (TT), if not liable to get mandatory registration.

In the light of the elements of a taxable event mentioned by Ogley (1998), below is a brief analysis of the two taxable events other than the importation of goods.

Supply of Taxable Goods

Regarding goods, the VAT is payable on supply of goods, which are not listed in the First Schedule of the VAT Act. The First Schedule contains the list of "goods exempted from value added tax". By definition, the "taxable goods" also means goods not included in the First Schedule [u/s 2(f)], but the exempted goods might be outside the First Schedule. Here, "goods" means all kinds of movable property, *excluding* shares, stocks, coins, securities and recoverable claims [u/s 2(p)]. These goods may be used as input or supplied as output. The "supply" is very comprehensively defined in the VAT Act. Here, "supply" means sale, transfer, lease or disposal in any manner, for a consideration, of goods manufactured or produced by a manufacturer or producer or of goods imported, purchased, acquired or otherwise procured by a trader and shall include the following activities, namely: (i) use for personal, commercial or non-commercial purpose of goods acquired, produced or manufactured during the operation of a business; (ii) auction or disposal of any goods in order to repay the debt of any person; (iii) possession of any taxable goods by a person immediately before the cancellation of his registration; (iv) clearance or removal of goods from the place of manufacture or production; and (v) any other such transaction, as may be specified by the government by notification [u/s 2(y)]. Thus, the supply of taxable goods has so far three elements of a taxable event enumerated by Ogley (1998)—(i) the supply of

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goods; (ii) the involvement of a taxable person in the supply – the manufacturer or producer or trader; and (iii) the receipt of consideration. The only element – the geographical location – is not specifically mentioned in the definition of "supply" and also not in sub-section (1) of section 3, where Bangladesh has been mentioned as the place of import and place of providing services, but nothing is mentioned as the place of supply.

Rendering of Taxable Services

Regarding services, the VAT is payable on rendering of all services in Bangladesh, which are not listed in the Second Schedule of the VAT Act. By definition, the "taxable services" also means any service not included in the Second Schedule [u/s 2(g)], but the exempted services are also available outside the Second Schedule. However, there are no statutory definitions of "services" and "rendering" (or rendition). The service is also included in the definition of "input" as an input, and due to exclusion, 'labour' is not a service to be considered as an input [see section 2(c)]. Although in the EC's Directive, the 'supply of services' has been used to mean the 'rendering of services', but in the VAT Act of Bangladesh, the statutory definition of "supply" is only for "goods". From FY 1991-92 to FY 1999-2000, the Second Schedule contained the list of taxable services. Since FY 2000-01, the Second Schedule lists the services exempted from VAT and for the purpose of imposition of VAT on services, there is another list of taxable services (SRO No. 491) defining the limits of taxability of an individual service.[28] There might be apparent confusion in identifying some activities as manufacturing ones (e.g., sweetmeats, furniture-making, etc.), but the activities defined in this list (SRO No. 491) must be considered as taxable services, if not exempted otherwise. Thus, the rendering of taxable services has so far three elements of a taxable event enumerated by Ogley (1998)—(i) the supply (i.e., rendering) of services; (ii) the involvement of a taxable person in the supply (i.e., rendering); and (iii) the geographical location – in Bangladesh. But the fourth element "the receipt of consideration" is not specifically mentioned in the preceding discussion so far. But regarding the tax-base for imposition of VAT, "total receipts" is to be taken [sections 5(4) and 2(x)], which is the 'consideration' to be received by the provider of a taxable service from the recipient of the service. Thus, the rendering of a taxable service for a consideration (total receipts) within Bangladesh with an involvement of a taxable person is a taxable transaction for services.

5.7.02 The Taxable Persons

No statutory definition of a 'taxable person' is given in the VAT laws of Bangladesh, who are legally accountable to the VAT authority. According to the definition in Article 4 of the Sixth Directive of the EC, a taxable person is any person who independently carries out in any place any specified economic activity, whatever the purpose or results of that activity. The economic

[28] The current list (effective from 2008-09) is provided by SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008. In 2000, the first list was provided by SRO No. 170-Ain/2000/269-Musak, dated 08.6.2000, which was amended by SRO No. 117-Ain/2002/342-Musak, dated 06.6.2002, SRO No. 163-Ain/2003/371-Musak, dated 12.6.2003, SRO No. 171-Ain/2004/417-Musak, dated 10.6.2004, SRO No. 159-Ain/2005/450-Musak, dated 09.6.2005, SRO No. 137-Ain/2006/465-Musak, dated 08.6.2006, and SRO No. 129-Ain/2007/474-Musak, dated 27.6.2007; and finally repealed by SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008.

Dhaka University Institutional Repository

activity is defined as "all activities of producers, traders and persons supplying services, including mining and agricultural activities and activities of the professionals. The exploration of tangible or intangible property for the purpose of obtaining income therefrom on a continuing basis shall also be considered an economic activity" (Ogley, 1998, pp. 43-44). But in the VAT Act of Bangladesh, there are definitions of "person", "manufacturer" or "producer", "commercial importer", and "trader", who are included in the list of the taxable persons.

As mentioned in a preceding sub-section of this chapter (sub-section 5.6.3), the VAT taxpayers are the importer of taxable goods at import stage, the supplier of produced taxable goods at production stage, the provider of taxable services, and the supplier of taxable goods (traders) in other cases [u/s 3(3)]. The "person" for VAT purpose includes any business organization, group of persons and association [u/s 2(t)]. From the definition of "supply", supplier can be defined as the supplier of taxable goods being a manufacturer or producer or a trader [u/s 2(y)]. An inclusive definition of the "manufacturer" or "producer" [u/s 2(q)] is given to signify a wide range of activities, such as transforming or reshaping any matter by main or incidental or complimentary processing; printing, publication, lithography or enameling process; adding, mixing, cutting, liquefying, bottling, packaging, or repackaging; work of an assignee or trustee, liquidator, executor or superintendent or disposer, in case of bankruptcy; and manufacturing of other person's goods [u/s 2(q)]. The "trader" means a person who sells or otherwise transfers to any other person in exchange of consideration any goods imported or acquired by him without ant change [u/s 2(qqqq)]. For the purpose of 'advance trade VAT', "commercial importer" means a person who imports taxable goods and sells or transfers in anyway without any change [u/s 2(qq)]. Thus, considering the above definitions, the economic activity of a taxable person can be defined to include the importation of goods, supply (sale, transfer, lease or disposal) of goods, rendering of services, and wide range of activities of the manufacturer/producer.

In another way, the taxable persons can be referred to those persons who are liable to be registered under the VAT laws—(i) supplier of taxable goods (manufacturer), (ii) supplier of taxable goods (trader), (iii) provider of taxable services, (iii) importer of taxable goods, and (iv) exporter of taxable goods or services [u/s 3, 8(4) and 15 and u/r 9].[29]

The VAT laws also confer a right of recovery of input VAT on a taxable person and then taxable persons are the supplier and trader of taxable goods and providers of taxable services (who recover the input VAT as input tax credit taken against output tax u/s 9) and the exporters (who recover the input VAT as a input tax credit or drawback u/s 13). There is no distinction between a public authority and a private entity to be a taxable person, although in the **seventh section** (on

[29] Under rule 9, the persons who are liable to be registered under the VAT laws—(i) supplier of taxable goods (manufacturer or trader) crossing the registration threshold (minimum annual turnover of twenty-four lakh taka in 2008-09 and Taka forty lakh in 2009-10), (ii) provider of taxable services crossing the registration threshold, (iii) importer, and (iv) exporter. Under section 8(4), selective suppliers of taxable goods (manufacturer) and providers of taxable services shall require mandatory registration irrespective of the amount of annual turnover and the list of these manufacturers of goods in FY 2008-09 (mineral water, cold drinks, all types of cigarette, *biri*, *jarda* and *gul*, and toilet soap) and the providers of services (63 service codes under 51 service heading numbers) is given in SRO No. 191-Ain/2008/493-Musak, dated 29.6.2008, replaced by SRO No. 115-Ain/2009/523-Musak, dated 11.6.2009. In 2009-10, "lozenge, biscuits *chaanachur*, juice, medicine (including Homeopathic, Ayurvedic,Unany and herbal medicines), cosmetics, and hair care item" have further been included in the list of goods subject to mandatory registration, but 2 services (S015.10 and S017.00) have been deleted and hence 61 service codes under 50 service heading numbers are subject to mandatory registration.

Dhaka University Institutional Repository

"Other Services") of the Second Schedule (VAT exempted services) the services provided by the Government, the local authority, the association or organization of the local authorities who work for the Government are exempted *except* the services by WASA (Water Supply and Sewerage Authority–S025.00), electricity supplier (S057.00), construction firm (S004.00), land development firms (S010.10) and building construction organization (S010.20), land seller (S055.00), bank and insurance organization (S056.00).

5.7.03 Rate Structure

In order to ensure the neutrality of the tax, the VAT should be in its comprehensive form with minimum exemption and the tax rate is expected to be a single uniform one at a low level. A single rate is preferable to the multiple rates, because the numerous rates are subject to a number of limitations including increased the costs of administration and compliance; disputes around the borderline of the definitions of goods and services distorting consumer and producer choices; and erosion of the tax base for lower rates or avoidance of consumption for higher rates (Ogley, 1998, p. 13; Tait, 1988, pp. 42-44). But practically both single rate and multiple rates are adopted by the VAT countries. According to a survey of 141 countries regarding VAT rates applied in those countries in February 2007, Purohit (2007) has mentioned that 71 countries (50 percent) have adopted a single rate (minimum 5 percent in Japan to maximum 20 percent in Albania and some former USSR countries), 29 countries (21 percent) have two rates, 28 countries (20 percent) have three rates and the remaining 13 countries (9 percent) have four or more rates. Within the multiple rates, the differential rates are adopted to avoid higher tax burden on the poor through imposition of a low tax rate on the necessities and a higher rate on luxuries. Besides the *lower tax rate* than the *standard rate*, the tax treatment of essential commodities or 'merit' goods, may also be *zero-rating* or *exemption* (Purohit, 2007, pp. 34-40). In case of *zero-rating*, there will be no tax and also the earlier stage input tax will be refunded and hence the suppliers of zero-rated goods and services are taxable persons to get the input VAT refund, but in case of *exemption*, there will be no tax, no input VAT refund and not a taxable person (Purohit, 2007, pp. 36, 41; Ogley, 1998, p. 13). Thus, the taxonomy of VAT rates includes standard rate, low rate, and high rate. The use of zero-rate or exemption does not prevent to call the tax rate a multiple rate tax system.

As stated earlier, the Bangladesh Tax Mission proposed a single rate of VAT "not exceeding 15 percent", zero-rating of export, SD on luxury or non-essential items, exclusion of very small enterprises from the VAT system and taxing them with a business turnover tax at 2.5 percent and determination of the VAT rate and SD in a judicious manner to make the tax system more elastic with respect to tax base (Rahman, 1999, pp. 9-10). In a study done before the introduction of VAT, Mansur and Khondker (1991b) have shown that at the beginning, a 12 percent uniform VAT rate would be broadly revenue neutral at a revenue of Taka 13 to 52 crore and 15 percent VAT rate would generate moderately higher revenue at an amount of Taka 248 to 315 crore (Mansur and Khondker, 1991b, p. 28). At 15 percent rate, the then Finance Minister expected an additional revenue of Taka 250 crore from the VAT for 1991-92 (Rahman, 1991, p. 22).

Dhaka University Institutional Repository

In Bangladesh, from the very beginning, if the VAT is only considered, a standard rate of 15 percent and the zero-rate are in force and hence it is a tax system with a single uniform rate. This rate is never adjusted over a period of nineteen years up to FY 2009-10. High tax rates and reduced tax rates are adopted using additional different taxes (supplementary duty and turnover tax) and allowing the computation of VAT liability in case of selective taxable services on the basis of turnover, but still showing the computation on value addition by applying the standard VAT rate (i.e., truncated rate of value addition *multiplied by* turnover *multiplied by* standard VAT rate = turnover *multiplied by* net VAT rate). But here the input tax cannot be claimed as a credit. Up to 2002-03, only the truncated value additions (TVA) were provided, but from 2003-04, both the TVA and the net VAT rates (NVR) are also being given, where NVR equals to "TVA multiplied by standard VAT rate." Table 5.01 is a summary of the number of taxable services for which the truncated value additions were provided.

From table 5.01, it is observed that from the very beginning, the *Imposition of Tax on the Basis of Actual Value in Case of Specified Services (Special) Rules 1991*[30] was prescribed to give an easy way of computing the value addition and consequent VAT payable. In the first year (1991-92), out of 29 taxable services, 11 services were brought under this system with only a single rate of TVA (100 percent—'entire money received', or 'total receipt'). On September 07, 1993, in case of sale of flat or building by a land development firm, it was prescribed that the construction cost would be considered as 40 percent of the total receipt and 33 percent of these construction cost would be considered as the base of the VAT.[31] Starting from a single rate of TVA, six rates (10, 20, 30, 33, 35 and 100 percent) were prescribed for 1997-98 and 1998-99, ten rates (10, 15, 20, 30, 33, 35, 40, 45, 50 and 100 percent) were prescribed from 1999-2000 to 2001-02, four rates (15, 30, 33.35 and 100 percent) were prescribed for 2002-03 and then six rates (10, 15, 30, 33.35, 60 and 100 percent) are in effect from 2003-04 to 2009-10.

In 2008-09, out of 86 taxable services, 47 services are subject to imposition of VAT at six net VAT rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent). Currently (2009-10), out of 93 taxable services (including only three new services with last year's 86 services and with five new re-coded existing services from one services), 52 services are subject to imposition of VAT at six net VAT rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent). In the list provided for 2008-09, six new services [Restaurant (S001.20), Indenting Firm (S014.00), Travel Agency (S016.00), Program Organizer (S071.00), Human Resource Supply and Management Organization (S072.00), and Manpower Exporting Organization (S073.00)] have been included in the list for 2009-10 and one newly exempted service [Specialist Doctor (S044.00)] has been withdrawn from the list.

These net VAT rates are not at all 'reduced VAT rates', although some authors have claimed so (see Hossain, 2008, p. 7). Because if the taxpayer maintains overall accounts and then both the output VAT and the input VAT as well as the net VAT payable can be computed under the standard system. At traders stage, since 1997-98, there is another rate truncated value addition (10

[30] SRO No. 192-Ain/91/16-Musak, dated 30.06.1991.
[31] SRO No. 213-Ain/93/81-Musak, dated 07.09.1993.

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Table 5.01: Truncated Value Addition and the Net VAT Rate for Services

FY	No. of Taxable Service Codes		No. of TVA	TVA (%)	No. of NVR	NVR (%)
	Total	Under TVA				
1991-92	29	11	1	100	n.g.	n.g.
1992-93	36	11	1	-do-	n.g.	n.g.
1993-94	36	13	2	33, 100	n.g.	n.g.
1994-95	37	13	2	-do-	n.g.	n.g.
1995-96	37	13	2	-do-	n.g.	n.g.
1996-97	41	13	2	-do-	n.g.	n.g.
1997-98	48	17	6	10, 20, 30, 33, 35, 100	n.g.	n.g.
1998-99	53	20	6	-do-	n.g.	n.g.
1999-2000	69	27	10	10, 15, 20, 30, 33, 35, 40, 45, 50, 100	n.g.	n.g.
2000-01	70	26	10	-do-	n.g.	n.g.
2001-02	70	26	10	-do-	n.g.	n.g.
2002-03	72	25	4	15, 30, 33.35, 100	n.g.	n.g.
2003-04	75	28	6	10, 15, 30, 33.35, 60, 100	6	1.5, 2.25, 4.5, 5.0025, 9, 15
2004-05	80	37	6	-do-	6	-do-
2005-06	81	37	6	-do-	6	-do-
2006-07	82	38	6	-do-	6	-do-
2007-08	86	47	6	-do-	6	-do-
2008-09	86	47	6	-do-	6	-do-
2009-10	93[32]	52	6	-do-	6	-do-

Note: TVA means "truncated value addition," NVR means "net VAT rate", and "n.g." means "not given".

Sources: (1) *Imposition of Tax on the Basis of Actual Value in Case of Specified Services (Special) Rules 1991, 1997, 1999, 2000, 2002* and *2003* and (2) *Imposition of Tax on the Basis of Actual Value in Case of Specified Services Rules 2004, 2008* and *2009*.

percent TVA or 1.5 percent net VAT rate since 2001-02) and from the commercial importers (with effect from October 1, 2004) also another VAT (as 'Advance Trade VAT') has been collected on the basis of 10 percent TVA or 1.5 percent net VAT rate up to 2008-09 and thereafter on the basis of 15 percent TVA or 2.25 percent net VAT rate to be applied on the tax-base on which the import-stage VAT is applicable (see Table 5.02). For 1999-2000, there was also another 10 percent TVA only for wholesale traders as a provider of service being "Trade Service" by SRO No. 134-Ain/99/215-Musak dated 10.06.1999 on entire amount of money received for wholesale sale, exchange and transfer of vatable goods.

If the other two taxes imposed under the VAT Act—the *supplementary duty* and the *turnover tax* (TT)—are considered simultaneously as taxes in the VAT-group, since they are the taxes imposed under the same fiscal statute, then the higher tax rate and the lower tax rate can be found with reference to these taxes also. Table 5.03 has provided the rates of turnover tax and the rates of supplementary duty on taxable goods over the VAT-regime. The turnover tax rates are currently low at 4 percent (since FY 1997-98). In case of supplementary duty, normally there are two types of rates prescribed by the Finance Acts or the Finance Ordinances—basic rates and higher rates.

[32] Including **5 newly recoded existing services** [existing one service "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.10) has been re-classified and re-named into five (5) services as Telephone (S012.10), Teleprinter (S012.11), Telex (S012.12), Fax (S012.13) and Internet Firm (S012.14)] and **3 new services** [Program Organizer (S071.00), Human Resource Supply and Management Organization (S072.00), and Manpower Exporting Organization (S073.00)] by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.

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Table 5.02: Truncated Value Addition and the Net VAT Rate for Traders and Commercial Importers

Financial Year (FY)	Truncated Rate of Value Addition (%)		
	Trader with self-declaration of annual turnover[a]	Trader with declaration of annual turnover under tripartite VAT Management Approach[b]	Commercial Importer for Advance Trade VAT (ATV)[c]
1997-98	15[d]	–	–
1998-99	20	20	–
1999-2000	15	20	–
2000-01	13.35	20	–
2001-02 to 2002-03	10[e]	10	–
2003-04	10[f]	–	–
2004-05 to 2008-09	10[f] in general or minimum annual volume of value addition for small retail traders or shop	–	10
2009-10	-do-	–	15

[a] (1) SRO No. 137-Ain/97/154-Musak, dated 12.06.1997 (amended by SRO No. 238-Ain/97/171-Musak, dated 21.10.1997, SRO No. 118-Ain/98/179-Musak, dated 11.06.1998, SRO No. 135-Ain/99/216-Musak, dated 10.06.1999, SRO No. 167-Ain/2000/266-Musak, dated 08.06.2000; and repealed by SRO No. 151-Ain/2001/316-Musak, dated 07.06.2001): (2) SRO No. 143-Ain/2001/308-Musak, dated 07.06.2001 (repealed by SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004); (3) SRO No. 173-Ain/2003/381-Musak, dated 12.06.2003; (4) SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

[b] SRO No. 116-Ain/98/177-Musak, dated 11.06.1998 (repealed by SRO No. 144-Ain/2001/309-Musak, dated 07.06.2001); and (2) SRO No. 144-Ain/2001/309-Musak, dated 07.06.2001 (repealed by SRO No. 174-Ain/2003/382-Musak, dated 12.06.2003).

[c] SRO No. 260-Ain/2004/431-Musak, dated 30.08.2004, with effect from 01.10.2004, amended by SRO No. 110-Ain/2009/518-Musak, dated 11.06.2009.

[d] On 12.06.1997, the rate was proposed at 30% and on 21.10.1997, it was reduced to 15% with effect from 12.06.1997.

[e] This was 10% of price of goods excluding VAT.

[f] This was 10% of price of goods. Since nothing was mentioned about whether the price was inclusive or exclusive of VAT, it would be VAT-inclusive price.

Up to FY 2004-05, the basic rates of SD ranged from 2.5 percent to 30 percent and the range of the higher rates was from 35 percent to 350 percent. Thereafter the higher rates remained at 100, 250 and 350 percent. In 2005-06, the basic rates were three-tier rates (20, 35 and 65 percent) and in the next year the basic rates were different 3-tier rates (15, 25 and 65 percent). For FYs 2007-08 and 2008-09, the basic rates were only 2-tier rates (20 and 60 percent). In 2009-10, the basic rates have been enhanced to 4-tier rates (20, 30, 45 and 60 percent) [see Table 5.03].

The taxable services are also subject to SD and the current SD rates for only selective services (five services since 2005-06) are three-tier rates (10, 15 and 35 percent in FY 2008-09 and 10, 25 and 35 percent in 2009-10). Table 5.04 has provided the rate of supplementary duty on concerned taxable services from the year of introducing VAT in Bangladesh (see Table 5.04). The SD is an additional tax under the VAT laws on luxury, non-essential and socially undesirable goods and services and within the SD rate structure the higher rates are applied in consideration of the socio-economic realities and the harmful effects of certain items on health and environment.[33]

[33] Arguments in favour of higher supplementary duty rates were frequently mentioned by the Finance Ministers in their budget speeches. For example, the then Finance Minister in his Budget Speech of FY 2005-06, mentioned his argument of higher supplementary duty rates as: "..... considering the negative impact of some goods on health and

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Table 5.03: Rates of Turnover Tax (TT) and Supplementary Duty

FY	TT Rate (%)	Supplementary Duty on Goods	
		Basic Rate (%)	Higher Rate (%)*
1991-92	2	4-tier rates (10, 15, 20 and 25)	–
1992-93	2	4-tier rates (10, 15, 20 and 25)	35, 40, 50, 150 and 350
1993-94	2	5-tier rates (5, 10, 15, 20 and 25)	35, 40, 50, 120, 150 and 350
1994-95	2	6-tier rates (5, 10, 15, 20, 25 and 30)	40, 50, 90, 150 and 240
1995-96[a]	2	6-tier rates (5, 10, 15, 20, 25 and 30)	35, 50, 100, 105, 250 and 350
1996-97	2	6-tier rates (5, 10, 15, 20, 25 and 30)	35, 50, 55, 105, 115, 120, 150, 270 and 350
1997-98	4	7-tier rates (5, 10, 10.25, 15, 17.25, 24.25 and 25)	35, 40, 45, 50, 55, 60, 105, 115, 120, 150 and 270
1998-99	4	8-tier rates (2.5, 5, 10, 10.25, 15, 20, 25 and 30)	45, 50, 55, 105, 115, 120, 125, 150, 270 and 350
1999-2000	4	11-tier rates (2.5, 5, 7.5, 10, 12.5, 15, 20, 22.25, 25, 27.5 and 30)[b]	35, 40, 50, 52.5, 55, 57.5, 72.5, 92.5, 100, 105, 112.5, 120, 127.5, 152.5, 270 and 350[b]
2000-01	4	11-tier rate (2.5, 5, 7.5, 10, 12.5, 15, 17.5, 22.25, 22.5, 25 and 30)	35, 37.5, 40, 45, 50, 57.5, 60, 65, 85, 100, 105, 110, 115, 120, 150, 200, 270 and 350
2001-02	4	12-tier rate (2.5, 5, 7.5, 10, 12.5, 15, 17.5, 20, 22.25, 22.5, 25 and 30)	35, 40, 42.5, 45, 50, 57.5, 60, 65, 85, 100, 105, 110, 120, 270 and 350
2002-03	4	3-tier rates (10, 20 and 30)	50, 60, 100 and 250
2003-04	4	2-tier rates (15 and 25)	40, 50, 75, 100, 250 and 350
2004-05	4	3-tier rates (15, 25 and 30)	35, 60, 90, 250 and 350
2005-06	4	3-tier rates (20, 35 and 65)	100, 250 and 350
2006-07	4	3-tier rates (15, 25 and 65)	100, 250 and 350
2007-08	4	2-tier rates (20 and 60)	100, 250 and 350
2008-09	4	2-tier rates (20 and 60)	100, 250 and 350
2009-10	4	4-tier rates (20, 30, 45 and 60)	100, 250 and 350

* Higher rates are in consideration of the socio-economic realities and the harmful effects of certain items on health and environment.

[a] A second list was also provided *Finance Act 1995* for subsequent implementation with same rate structure.

[b] A second list was provided in the *Finance Act 1999* for subsequent implementation with a 12-tier basic rate (2.5, 5, 10, 12.5, 15, 17.5, 20, 22.25, 22.5, 25, 30 and 32.5) and a 19-tier higher rate (35, 37.5, 40, 45, 50, 52.5, 57.5, 60, 65, 72.5, 92.5, 100, 105, 112.5, 120, 127.5, 152.5, 270 and 350).

Sources: The *Finance Acts* or *Finance Ordinances* from 1992 to 2009.

Table 5.04: Rates of Supplementary Duty for Taxable Services

Financial Year (FY)	Rate of Supplementary Duty (%) on Taxable Services				
	S001.10 (Hotel)	S001.20 (Restaurant)	S012.20 (SIM Card Supplier)	S023.00 [Film Exhibitor (Cinema Hall)]	S039.20 (Satellite Channel Distributor)
1991-92	10	10	–	85	–
1992-93 to 1998-99	05	05	–	85	–
1999-2000 to 2001-02	10	10	–	85	–
2002-03 to 2004-05	10	10	–	35	15
2005-06 to 2008-09	10	10	35	35	15
2009-10	10	10	35	35	25

Sources: The *Finance Acts* or *Finance Ordinances* from 1992 to 2009.

environment, I propose to continue with the existing higher rate of supplementary duty on those goods" (Rahman, 2006, p. 36).

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5.7.04 Tax Base

Although the tax rate of the VAT is uniform and single in its standard form, but the tax base for the computation of VAT is not at all uniform. By definition, the 'base of a tax is the *legal description* of the object with reference to which the tax is payable' (Bhatia, 1999, p. 39). Since the supplier of taxable goods and services are required to prepare the tax invoices where the amount of tax is usually to be mentioned separately and/or the specific amount of the tax base is to be mentioned either in tax-inclusive form or tax-exclusive form or both, so the tax-base can easily be identified from these tax invoices.[34] Under section 3 of the VAT Act, the VAT shall be imposed and payable on the value specified in section 5. Thus, this 'value specified in section 5' is the legal tax-base of VAT. However, the Bengali term "*mulya*" is used here to signify the tax base, which may be translated as "price" or "value".[35] However, the declaration of price in "Form Musak-1" for the purpose sections 5(2) and 7 and rule 3 and getting the declared price approved are the general basis of identifying the tax base for computing VAT. Below is a summary of the tax bases of VAT at different stages of distribution chain.

(a) *Import stage for the import of taxable goods:* In case of importation of goods, the amount on which the VAT shall be payable shall be determined by adding the amount of import duty, SD and all other duties and taxes (if any), except advance income tax (AIT) payable, to the assessable value (AV) determined under sections 25 or 25A of the Customs Act [u/s 5(1) of the VAT Act]. The value for the imposition of customs duty (CD) is the "actual price, that is, the price actually paid or payable, or the nearest ascertainable equivalent of such price, at which such or like goods are ordinarily sold, or offered for sale, for delivery at the time and place of importation or exportation, as the case may be, in course of international trade under fully competitive conditions, where the seller and the buyer have no interest in the business of each other and the price is the sole consideration for sale or offer for sale, shall be the value" [u/s 25(1) of the Customs Act], but the Government may, by notification in the official Gazette, fix, for the purpose of levying customs duties, *tariff values* or *minimum values* for any goods imported as chargeable with customs duty *ad valorem* [u/s 25(3) of the Customs Act]. The "assessable value" under section 25(1) of the Customs Act is called the "transaction value" to be determined under the *Customs Valuation (Determination of the Value of Imported Goods) Rules 2000*.[36] Under section 25A of the Customs Act, the assessment of customs duty will be on the basis of the certificate issued by a pre-shipment inspection agency (PSI) appointed under the *Pre-Shipment Inspection Ordinance 1999* and the *Pre-Shipment*

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[34] In the standard tax invoice (in Form "Musak-11"), value on which VAT to be imposed, the amount of VAT, and total value including SD and VAT; in other one invoice (in Form "Musak-11Gha"), the value for imposition of VAT and the total value (inclusive of VAT), without mentioning any separate amount for VAT; and in other two types of invoices (in Form "Musak-11Ka" and "Musak-11Ga"), only a single value (inclusive of VAT) are to be mentioned.

[35] The "*mulya*" means "price; rate; cost; value; worth; charge; wages; fee; remuneration; hire-charge; hire; freight" (See *Samsad Bengali-Engali Dictionary*, Kolkata: Sahitya Samsad; 3rd ed. in 2000, reprinted in 2005, p. 877).

[36] The then Finance Minister Mr. Shah A. M. S. Kibria in his budget speech of 2000-2001 (on 8 June 2000) mentioned: "Bangladesh is a signatory to the Agreement on Valuation Principle of GAAT. In compliance with the agreement, we have introduced Transaction Value Method for the valuation of imported goods this year in place of the former Brussels Value Method" (Kibria, 2000, p. 4). This valuation method has been adopted in concordance with the introduction of the mandatory PSI for imports from 15 February 2000. The Customs Valuation Rules have been prescribed as SRO No. 57-Ain/2000/1821/Shulka, dated 23.02.2000.

Dhaka University Institutional Repository

Inspection Rules 2002. Under section 25B of the Customs Act, it is mandatory for the importers to have their importable goods inspected by a PSI agency before or at the time of shipment of those goods on board a vessel, aircraft or other conveyance, if not exempted otherwise from this compulsory inspection by a PSI agency.[37] Then, the import duty shall be imposed on the basis of price certified by a PSI agency through the "Clean Report of Findings (CRF)". In this CRF, the PSI has to mention the CIF (cost, insurance and freight) value.[38] However, the Review Committee constituted by the NBR u/s 193C of the Customs Act can review any matter related to the CRF issued by the PSI agencies. The 'assessable value' (AV) for imposition of import duty u/s 25 or 25A of the Customs Act is added with the ***duties and taxes at import stage*** such as 'customs duty' (CD) u/s 18(1) of the Customs Act, 'regulatory duty' (RD) u/s 18(2) of the Customs Act, 'supplementary duty' (SD) u/s 7 of the VAT Act, and the 'Infrastructure Development Surcharge' (IDSC) u/s 7 of the Finance Act 1997 (1997-98 to 2006-07),[39] but the 'advance income tax' (AIT) u/s 53 of the Income Tax Ordinance 1984 and 'pre-shipment inspection agency's service charge' (PSISC) u/s 14 of the *Pre-Shipment Inspection Ordinance 1999* and u/r 32 of the *Pre-Shipment Inspection Rules 2002* shall not be included. Thus, the tax base of VAT at import stage is equal to 'AV *plus* CD *plus* RD *plus* SD', where the tax base for RD is AV, and that for SD is 'AV *plus* CD'.[40]

(b) *Manufacturing or production stage for the supply of taxable goods:* At manufacturing stage, the usual tax base is the *consideration*. But it might be any of other four bases: *sub-contract price*, *retail price*, *tariff value* and *tender value* as follows.

(i) *Consideration:* The value for VAT purpose shall be the ***value*** of the goods due to the manufacturer from the purchaser which shall be the *consideration* of inputs purchased, in which, all costs of manufacture or production and, where applicable, any commission, charge, fee, all other duties and taxes including SD (except VAT) and profit shall be included [u/s 5(2) of the VAT Act]. In the case of manufacture of taxable goods by using imported inputs, the value of inputs shall be the value u/s 25 or 25A of the Customs Act [first proviso to u/s 5(2) of the VAT Act]. According to the judgment of the High Court Division in the case *Chittagong Cement Clinker Co. Ltd. vs. Chairman, National Board of Revenue and others* (judgment given on 16.01.2008), the ***value*** has been clarified as follows:

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[37] Initially imported consignments of below US$5,000 were outside mandatory PSI system. The exemption from the mandatory PSI inspection has been prescribed through the SRO No. 171-Ain/2005/2079/Shulka, dated 09.06.2005.

[38] The CIF value includes all costs up to the assessment point, with which a scanning charge has been added since 14 October 2009 at a rate US$5 per container (*The Financial Express*, 15.10.2009).

[39] Infrastructure Development Surcharge (IDSC) was first imposed u/s 7 of the Finance Act 1997 at import stage @ 2.5% on 'assessable value' (i.e., value on which customs duty is imposed) with a view to collecting revenue to finance the infrastructure development projects of the country out of internal revenue. This tax has reduced the dependency on foreign funds regarding annual development program (ADP). IDSC has been withdrawn from 2007-08 u/s 70 of the Finance Ordinance 2007. The rate of the IDSC was 2.5% from FY 1997-98 to FY 2001-02, 3.5% in 2002-03, and thereafter 4% from 2003-04 to 2006-07. The IDSC was exempted for importation of computer and accessories (up to 2002-03) and for agriculture, fishery, poultry and medical treatment (from 2004-05, *vide* S.R.O. 151-Ain/2004/2043/Shulka dated 10 June 2004).

[40] Previously up to 2008-09, import-stage SD was computed on the basis of "value on which the import duty is imposable under section 25 or section 25A of the Customs Act *plus* import duty" under section 7(2)(a) of the VAT Act. Due to amendment by the Finance Act 2009, under the amended provision, from 2009-10, the import-stage SD is to be imposed on "value on which the import duty is imposable under sections 25 or 25A of the Customs Act *plus* import duty and other duties and taxes (except AIT, SD and VAT)" [section 7(2)(a) amended by the Finance Act 2009]. But practically, the base for SD is 'AV *plus* CD', due to the exclusion of AIT, SD and VAT.

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In sub-section (2) of section 5, the *"mulya"* appears to have been used both in the sense of value and price of goods. Value is required to be determined for the purpose of levy of VAT while the price at which goods are sold and buyers buy. In case of supply of goods, a manufacturer or producer or dealer is required to pay VAT on the consideration he receives from a buyer. In such consideration would be included the entire cost *plus* duty and tax *plus* commission, charge and supplementary duty paid *minus* VAT. Such manufacturer or producer or dealer in case of supply of goods under sub-section (2) of section 5 shall pay VAT on the consideration he receives from the buyer and not on the basis of value of goods as in other cases [*vide* 60 DLR (2008), p. 290].

(ii) *Sub-contract price:* Since 1998-99, the concept of sub-contract price has been used for the tax base in case of production under contract or sub-contract basis.[41] Under the latest legal provision, in case of production of the brand-named goods of other registered producer by any registered producer, the value for imposition of VAT shall be the price declared by the producer of the goods in "Form Musak-1" to the Divisional Officer of the concerned area on the basis of *consideration* or *price* for per unit taken from the *owner* of the goods [u/s 5(2A) and u/r 3(1A)]. Here, the "owner" means the owner of goods produced on the basis of a contract [u/r 2(ii)] and the owner of the goods shall be treated as the manufacturer in case of contract-based production [u/r 3(1B)]. The contract-based manufacturer can supply the goods manufactured under the contract basis only to the owner's registered address [u/r 16(3D)]. If the contract-based manufacturer manufactures any other vatable goods within same premises, he shall maintain separate accounts for contract-based manufactured goods and self-manufactured goods [u/r 22(1B)].[42]

(iii) *Retail price:* Sub-section (3) of section 5 was incorporated in the original VAT Ordinance to impose VAT to be paid by the manufacturer on the basis of retail price. This concept was borrowed from the excise tax system with the purpose of collecting VAT from the manufacturer on retail price without imposing it at retail stage. On July 1, 1991, an SRO[43] was prescribed to impose retail price based VAT on a number of taxable goods under 42 Heading Numbers (of which all prescribed goods under 8 Heading Nos. and 2 specific H.S. Codes under other 2 Heading Nos.) were brought under the system from July 1, 1991 and other goods from September 1, 1991. This initiative was resisted by the Chambers, because they argued that the Government declared that the VAT would be imposed only at production stage, but the VAT was being imposed at retail stage through the imposition of VAT on the basis of retail price. Then although the provision of retail price based VAT was not unlawful, this was quickly withdrawn[44] to lessen the resistance and to impose VAT at production-stage

[41] In 1992-93, the provision of manufacturing or producing for monetary consideration any goods in a manufacturer's own plant, machinery or equipment using raw material or input owned by any other person was included in the definition of "manufacturer" or "producer" [u/s 2(q)(vi)] and then under sub-section (6) of section 5 (inserted by the *Finance Act 1992* and deleted by the *Finance Act 1994*), then the tax base for imposition of VAT was the value of the goods manufactured or produced excluding the inputs supplied by the other person and hence no input tax credit was allowed.

[42] This provision mentioned has been introduced from 2007-08. The concept of sub-contract price was first incorporated in the VAT Act in 1998-99. Under the earlier provision (1998-99 to 2006-07), if any registered person procures goods from any other person under contract or sub-contract and sells such goods directly or through his own sales centres, distributors or commission agents under his own brand name, the VAT shall, in the case of the goods with brand-name be determined on the basis of the *consideration* receivable from the purchaser to the owner of the brand-named goods and that consideration shall be equal to "the consideration receivable" [sub-section (2A) inserted by the FA 1998 and replaced by the FO 2007].

[43] SRO No. 199-Ain/91/17-Musak, dt. 1.7.91 was prescribed with effect partly from 01.07.1991 and partly from 1.9.1991.

[44] SRO No. 199-Ain/91/17-Musak, dt. 1.7.91 was repealed by SRO No. 246-Ain/91/26-Musak, dt. 12.8.91 w.e.f. 5.8.1991.

Dhaka University Institutional Repository

price (Hannan, 2004, p.15). After one year, since July 01, 1992, for selective taxable goods [cigarette containing tobacco, manufactured mechanically (since 01.07.1992) and aerosol and disinfectant (since 11.06.1998)],[45] the VAT is being imposed on the basis of retail price and for the purpose of imposing VAT, the retail price of such goods shall be the price determined by its manufacturer with the approval of the concerned VAT officer, in which all costs, commission, charges, duties and taxes shall be included, and such goods shall be sold to the general consumers at such price after adding the specific brand or mark to such goods [u/s 5(3)]. Here, the printed retail price will be the tax base at manufacturing or production stage (as tax-exclusive base) and the general consumer shall pay the printed retail price. Under section 5(2B), a producer may, if he intends to supply goods at a uniform price with the price printed on the body or container or packet of the goods, supply the goods, subject to the prior approval of the NBR and on payment of the entire tax, in the case of producer at the time of production and in the case of importer at the stage of supply in accordance with the manner laid down by rules [u/s 5(2B)]. But in case of payment of tax on the basis of retail price for taxable goods and services, which are not prescribed under section 5(3), then the tax base under rule 23(4) is to be taken as the retail price but as tax-inclusive (Khan, 2005, p. 674). For instance, if a packet of cigarette (a good prescribed for imposition of VAT based on retail price) and a packet of toothpaste (a good *not* prescribed for imposition of VAT based on retail price, but the manufacturer has intended to pay VAT based on retail price) are sold at Taka 55 each (the price printed on the packet of the product) to a consumer. Then the VAT on the packet of cigarette will be Taka 8.25 (15 percent of Taka 55) and the VAT on the toothpaste packet Taka 7.17 (Taka $55 \times {}^{15}/_{115}$).

(iv) *Tariff value:* There is no provision of tariff value in any internationally practiced VAT system[46] and accordingly, there was no provision regarding tariff value in the original VAT Act. It was also borrowed from the excise tax system. But the Government used this provision in a different way for "sugar made from sugarcane" from the very beginning. The NBR faced a problem of imposing 15 percent of VAT on this sugar produced by sugar mills under the Bangladesh Sugar and Food Industries Corporations (BSFIC), because then marketing of sugar was not possible to the BSFIC due to higher tax incidence and the Government was not in a position to withdraw VAT on sugar. Then a unique provision[47] was made to impose VAT on a prescribed value addition (Taka 2,420 per ton) for "sugar made from sugarcane" (from 01.07.1991 to 09.06.1993), which was an equivalent tariff value (Hannan, 2004, p.15). To introduce tariff value for VAT purpose, the NBR applied the provision of section 60

[45] Prescribed first through SRO No. 142-Ain/92/55-Musak, dt. 18.06.1992 and now under SRO No. 192-Ain/2003/388-Musak, dt. 01.07.2003 (w.e.f. 12.06.2003). Some other products were also prescribed for imposition of VAT on the basis of retail price: tissue paper (11.06.1998 to 11.6.2003), condensed milk (12.6.1997 to 11.6.2003) and shoe (12.6.1997 to 11.6.2003). It is noted that "cigarette containing tobacco, manufactured manually" was also prescribed for imposition of VAT based on retail price through SRO No. 169-Ain/2003/377-Musak, dt. 12.06.2003, which was repealed shortly by SRO No. 192-Ain/2003/388-Musak, dt. 01.07.2003 (w.e.f. 12.06.2003).

[46] Mentioned by Hannan, 2004, p.15.

[47] Value addition on "sugar made from sugarcane" exceeding Taka 2,420 was exempted u/s 14(1) by SRO No. 218-Ain/91/24-Musak dated 17.07.1991 (w.e.f. 01.07.1991) and then a provision of disallowance of input tax credit was made under another SRO (SRO No. 268-Ain/91/33-Musak dated 07.09.1991, w.e.f. 01.07.1991). But the interesting thing is that there was no unit or quantity specified for this value addition. Through SRO No. 106-Ain/93/66-Musak dated 10.06.1993, this was rectified and value addition on "sugar made from sugarcane" exceeding Taka 2,420 per ton was exempted. SRO No. 133-Ain/96/135-Musak (dated 28.07.1997) repealed SRO No. 106-Ain/93/66-Musak, dated 10.06.1993.

Dhaka University Institutional Repository

(Application of other Acts in case of the Value Added Tax Act), under which an SRO (SRO No. 249-Ain/91/27-Musak, dated 13.08.1991, with effect from 01.07.1991) was prescribed to apply the provisions of section 2 (Definitions) and section 3 (Duties specified in the First Schedule to be levied) of the Excise and Salt Act 1944. Under this SRO (No. 27), the tariff value was prescribed for the first time on *'Sword'* blade made of stainless steel strip and *'Balaka'* blade made of carbon steel strip with effect from July 1, 1991. Then the tariff value was prescribed for papers produced by Karnaphuli Paper Mills Ltd. and North Bengal Paper Mills Ltd. and diesel engines produced by Bangladesh Diesel Plant Ltd. (from 01.7.1991), brick (from 24.10.1991) and "Clifton" blade made from carbon steel strip (from 13.01.1992).[48] Initially, the tariff value was prescribed to reduce the tax incidence on some goods without declaring a reduced rate of VAT other than the uniform standard rate, because for these goods, it was difficult to market the product at a higher price with a higher rate of VAT (Hannan, 2004, p.15). In 1992-93, the provision of tariff value was incorporated in the VAT Act [sub-section (7) of section 5]. The NBR, in consideration of public interest and after due investigation if it is satisfied that it is expedient to fix the tariff value of certain taxable goods, may, by a Gazetted order, fix the tariff value of such goods [u/s 5(7)]. Now there is a comprehensive list of taxable goods (such as purified soybean mechanized boat, chocolate milk, tomato paste, lubricating oil, chiller, blade, paper, bus, minibus, CNG auto-rickshaw, *tempu*, truck, truck van, pickup van, powder milk made from liquid milk etc.) for which tariff value has been prescribed.[49] But this is not related to the market value, and can be seen as a hypothetical 'value addition' only prescribed to impose the VAT.

(v) *Tender value:* In case of supply of taxable goods through submission of tenders, the value mentioned in the tender is to be taken as the tax base, irrespective of the value at normal transactions or price declared to the VAT authority, subject to the conditions of filing the copies of the detailed documents relating to the tender and also of complying with other provisions of the VAT Act and Rules [NBR's Standing Order No. 6/Musak/92, dated 21.01.1992 issued u/r 38, explaining section 5(2) and rule 3(1)]. The tender value must be mentioned as 'tax-exclusive' or 'tax-inclusive' and thereby the standard rate or the VAT factor (15/115) to be applied respectively to compute the VAT.

(c) *Trading stage for the supply of taxable goods:* At trading stage, the tax base may be any of three types as follows:

(i) *Total price:* From 1998-99, in the case of supply of goods by a registered or registerable trader, VAT may be imposed, on the basis of *total price* received or deemed to have been received by the trader [u/s 5(4A)]. Thus, the total price is the tax base under the standard VAT system, where input tax credit is allowed. This total price is the value due to the trader (seller) from the purchaser which shall include the value of goods as input, all costs and taxes

[48] Tariff value was prescribed under SRO No. 337-Ain/91/39-Musak, dated 01.11.1991 on 'Sword' and 'Balaka' blades with effect from July 1, 1991, prescribed under SRO No. 249-Ain/91/27-Musak, dated 13.08.1991. Then SRO No. 359-Ain/91/40-Musak, dated 21.11.1991 was prescribed for tariff value on bricks, SRO No. 360-Ain/91/41-Musak, dated 21.11.1991 was prescribed for tariff value on papers, SRO No. 358-Ain/91/42-Musak, dated 21.11.1991 was prescribed for tariff value on diesel engines and SRO No. 9-Ain/92/46-Musak, dated 13.01.1992 was prescribed for tariff value on "Clifton" blade.

[49] See Hossain, 2008, pp. 289-311 for all the valid and updated orders of the NBR prescribing the tariff values for FY 2008-09. See also General Order Nos. 6, 7, 11, 12, 13, and 14/Musak/2009, all dated 11.06.2009 for changes made in FY 2009-10.

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including SD (except VAT) and profit [u/s 5(2)]. An importer (being trader) may supply goods at a uniform price which is to be printed on the body or container or packet of the goods, subject to the prior approval of the NBR and on payment of the entire tax [u/s 5(2B)].

(ii) *Truncated value addition (TVA):* In the case of supply of any specific goods or class of goods by any trader, the NBR may, through Gazette notification, fix, for the purpose of determination of VAT, the rate and quantum of the value to be added to the value of such goods or class of goods [second proviso to u/s 5(2)]. Table 5.02 has enumerated these rates of TVA for traders (including commercial importer). From 2001-02, for trade VAT from the traders, the tax base is 10 percent of the turnover, and since October 1, 2004, for the 'Advance Trade VAT' (collected at import point as an advance VAT at trading stage) from the commercial importers, the tax base is 10 percent of the value on which the VAT is imposed at import stage. For ATV, the tax base of VAT at import stage is equal to 110 percent of 'AV *plus* CD *plus* RD *plus* SD' up to 2008-09 and thereafter 115 percent of same amount.

(iii) *Lump sum value addition:* From 2004-05, the small retailers or shops can pay VAT on the basis of a lump sum value addition. This is a minimum annual value addition of Tk. 28,000 (for Dhaka and Chittagong City Corporation areas), Tk. 24,000 (for other City Corporation areas), Tk. 16,000 (for municipal areas of the district cities) and Tk. 8,000 (for other areas of the country), for which the input tax credit is not allowed.[50] In these cases, the tax base is the truncated value addition to which the standard VAT rate is to be applied to compute VAT payable without any input tax credit.

(d) *Service stage for the provision of taxable services:* At service stage, the tax base may be any of three types: *total receipts*, *truncated value addition* and *tariff value* as follows.

Total receipts: In the case of rendering service, VAT shall be imposed on the total receipts [u/s 5(4)]. The "total receipts" is the total amount received or receivable including commission or charge, but excluding VAT or AIT [u/s 2(x)]. Once the "total receipts" was prescribed for one service in 1992-93, which was valid up to 1996-97. This was in case of "Goldsmith & Silversmith and Gold & Silver Jeweler and Gold Refiner" against Service Heading No. S026, for which "total receipts" was determined as 10 percent of total sale price of gold, jewelry, silver or silver ornaments for the purpose of imposition of VAT.[51] In case of selective 18 services, the service providers have been allowed to mention the 'total receipts' as 'tax inclusive price' without mentioning the VAT separately and the VAT is to be determined by dividing the tax inclusive price by 7.6666.[52]

Truncated value addition (TVA): In the case of rendering service, the NBR may, by order, determine the amount of VAT on the basis of actual value addition or on the basis of specific rate of value addition fixed by it through notification in the official Gazette [proviso to u/s

[50] SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

[51] See SRO No. 144-Ain/92/57-Musak, dt. 18.6.92, which was deleted by SRO No. 140-Ain/97/157-Musak, dt. 12.6.1997.

[52] These are: (i) Hotel (S001.10); (ii) Restaurant (S001.20); (iii) Decorators & Caterers (S002.00); (iv) Garage of Motor Vehicle and Workshop (S003.10); (v) Dockyard (S003.20); (vi) Construction Firm (S004.00); (vii) Printing Press (S008.10); (viii) Land Development Firm (S010.10); (ix) Videocassette Shop (S011.10); (x) Video Game Shop (S011.20); (xi) Video-Audio Recording Shop (S011.30); (xii) Mechanical Laundry (S013.00); (xiii) Indenting Firm (S014.00); (xiv) Freight Forwarders (S015.10); (xv) Travel Agency (S016.00); (xvi) Photographers[52] (S019.00); (xvii) Survey Firm (S020.00); and (xviii) Sweetmeat Store (S022.00) [NBR, 2001c, p. 19].

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5(4)]. Table 5.02 enumerates the rates of TVA for the prescribed taxable services (see the details in *Chapter Appendix 7.1* on "Rates of Truncated Value Addition up to FY 2009-10"). In 2009-10, on 52 services out of 93 services[53] (in 2008-09, on 47 out of 86 taxable services), the tax base of TVA (six-tier rates of 10, 15, 30, 33.35, 60 and 100 percent) is used to apply the standard VAT rate, but when the net VAT rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent) is to be applied, the tax base is the turnover.

Tariff value: Where the NBR has prescribed the tariff value u/s 5(7), the provider of taxable service has to pay VAT on the basis of it. From 2005-06, there is only one taxable service [SIM Card Supplier (S012.20)] subject to tariff value. On June 9, 2005, the tariff value was prescribed in the original budget proposal at Taka 2,172 (Moitra and Bala, 2005, pp. 13-14) and then, on June 30, 2005, fixed at Tk. 1,628.96 (Khan, 2007, p. 704) and since June 8, 2006, this has been prescribed at Tk. 1,447.49 (Khan, 2007, p. 729; Hossain, 2008, p. 303). The tariff value, where prescribed, is the legal tax base, on which the standard VAT rate is to be applied and no input tax credit is allowed. Due to SD of 35 percent on SIM Card Supplier, cumulative tax of SD and VAT was Tk. 900 (SD of Tk. 570 *plus* VAT of Tk. 330) in 2005-06[54] and Taka 800 (SD of Tk. 507 *plus* VAT of Tk. 293) from 2006-07 to date.

Thus, the legal tax bases of the VAT in Bangladesh are numerous. At import stage for the import of taxable goods, the tax base is the duty-paid *transaction value* or the PSI agency *certified price*. At manufacturing stage for the supply of taxable goods, the tax base is the *consideration* in normal situation, or *sub-contract price* in case of contract-based production, or *retail price* or *tariff value* in prescribed products. At trading stage for the supply of taxable goods, the tax base may be the *total price* in normal situation or the *truncated value addition* or *lump sum value addition* in prescribed cases. At service stage for rendering taxable services, the *total receipts* in normal situation or the *truncated value addition* or *tariff value* in case of the prescribed services.

5.7.05 Special Issues in Consideration

Although the 'consideration' is the principal foundation of the VAT law (Khan, 2005, p. 675), but up to 1999-2000, there is no statutory definition of 'consideration'. 'Consideration' is defined as "all money or value measurable in terms of money received or receivable against supply of goods or rendering of service" [u/s 2(oo)]. The European Court of Justice (ECJ) has prescribed a number of characteristics of consideration [in the Dutch case of *Staatssecretaries van Financien v Cooperative Aardappelenbewaarplaats* (Case 154/80)] as follows: (i) a direct link must exist

[53] Including one existing services re-coded into 5 services with new codes–Telephone (S012.10), Teleprinter (S012.11), Telex (S012.12), Fax (S012.13) and Internet Firm (S012.14) and 3 new services–Program Organizer (S071.00), Human Resource Supply and Management Organization (S072.00), and Manpower Exporting Organization (S073.00) by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.

[54] As mentioned by the then Finance Minister in his budget speech of 2005-06, "The demand for mobile phones has been growing steadily over the past few years. The existing duty rate for mobile phones is Tk. 1500 per mobile set at the importation stage. I propose rationalization of its duty structure. Regardless of its import value, I propose duty of Tk. 300 per mobile set at the importation stage and Tk. 1200 for connection of each SIM Card or similar technology at local stage" (Rahman, 2005, p. 39). This Tk. 1,200, which was based on tariff value of Tk. 2,172 (*vide* Order No. 06/Musak/2005, dt. 9.6.2005) and included SD of Tk. 760 (35 percent of Tk. 2,172) and VAT of Tk. 440 (15 percent of Tk. 2,932, i.e., tariff value *plus* SD). The tariff value was reduced to Tk. 1,628.96 by the Order No. 08/Musak/2005, dt. 30.6.2005, which repealed the Order No. 06/Musak/2005, dated 09.06.2005. The tariff value was further reduced to Tk. 1,447.97 by the Order No. 06/Musak/2006, dated 08.06.2006, which repealed the Order No. 08/Musak/2005, dated 30.06.2005.

Dhaka University Institutional Repository

between the supply of the goods or services and the consideration obtained; (ii) the consideration must be capable of being expressed in money; and (iii) the consideration must have a subjective value, inasmuch as the taxable amount is the consideration actually received and not a value assessed according to the objective criteria (Ogley, 1998, p. 48).

Trade discount: Goods on which trade discount is allowed, VAT will be charged on the value of the goods after deduction of trade discount. However, the value after deduction of trade discount shall be shown in the invoice (*chalan patra*) and the quantity of trade discount allowed shall be consistent with normal trade practice [u/s 5(5)]. In the case of giving business discount u/s 5(5), the registered person shall inform the concerned Divisional Officer or publish a notice in a national daily specifying the actual price and the price after trade discount at which goods shall be supplied and the duration for which the trade discount facilities shall be available and the trade discount given shall not exceed *fifteen percent* of the actual price and shall be given only for maximum *thirty days* during any twelve-month period [u/r 3(6)].

Non-monetary consideration: Non-monetary consideration may be in the form of a reduced price or a non-catalogue gift. Although nothing is clearly mentioned about the non-monetary consideration in the VAT laws, but the "value measurable in terms of money" in the definition of 'consideration' signifies that if the quantum of non-monetary consideration is measurable in monetary terms, then it should be added with the monetary element of the consideration. In case of the declared price in "Form Musak-1" approved by the VAT authority (applicable for the manufacturer or producer or trader of taxable goods), subject to approved adjustments made from time to time, since the VAT shall be imposed on the basis of the approved price (which may not be the actual consideration), then this non-monetary consideration in any form is immaterial.

Subsidies and loan waivers: No clear-cut provision is in the VAT law regarding the subsidies or loan waiver. Only in case of importation of goods, the issue of subsidy is enacted in the Customs Act without any formal implementation yet. Under section 18A of the Customs Act, where any country or territory pays or bestows any subsidy upon the manufacture or production therein or the exportation therefrom of any goods, then the Government can impose a *countervailing duty*, the amount of which shall not exceed the amount of subsidy. In the EC, article 11A1(a) of the Sixth Directive defines the taxable amount as '*everything which constitutes the consideration ... including subsidies directly linked to the price of such supplies*' (Ogley, 1998, p. 50). In Bangladesh, however, in case of declared price, there is a provision of establishment of a Base-Value Review Committee by the NBR u/r 3(7) of the VAT Rules, which can critically evaluate the declared price analyzing the cost structure and, where the declared price is lower than the price of similar product in the market, considering the issue of subsidy or loan waiver as a reason of this price advantage to recommend in fixing the revised price for imposition of VAT.

Credit cards: Here also no clear-cut provision is available in the VAT laws. However, considering the total price (in case of traders) or total receipts (in case of service providers), which are mentioned previously as the tax base, it can be said that when the payment is made by a buyer through credit cards, the full price before deduction of any commission or discount due to the card issuer (the bank or non-banking financial institutions) is the taxable amount.

Dhaka University Institutional Repository

5.7.06 Coverage of VAT

The VAT in Bangladesh was an import-cum-manufacturing VAT from 1991-92 to 1995-96, then due to its expansion up to trading level, the VAT is now a comprehensive consumption tax covering all the stages in the production and distribution chain. However, from the very beginning, the VAT has lost its broad-base nature through multiple lists of exemption. The rationality considered for incorporating exemption was initially for some economic factors like keeping the primary sector and unprocessed agricultural produce including food items to lower the tax burden on the poorer section of the community. But the exemption is often a political issue also in redressing the grievance or fulfilling the demand of some influential taxpayer group. At the time enactment of the VAT statute in July 1991, a list of exempted items was the final reward to pacify the vehement opposition of the powerful ministers and the members of the Parliament not to adopt VAT (Hannan, 2004, pp. 13-14). The coverage of the VAT is represented by the taxable goods [goods not included in the First Schedule u/s 2(f)] and taxable services [any service not included in the Second Schedule u/s 2(g)]. In another way, the coverage of VAT may be represented by the total list of goods and services reduced by the tax-exempted goods and services. Under the VAT Act, 'exempted' means goods and services exempt from payment of VAT under the VAT Act [u/s 2(a)]. The First Schedule of the VAT Act is given under section 3 to provide the statutory list of "Goods exempted from VAT" and the Second Schedule is also given under section 3 to provide the statutory list of "Services exempted from VAT."

As stated earlier (in sub-section 5.7.01 of this chapter), the import of taxable goods, the supply of taxable goods (by manufacturers or traders) and the rendering of taxable services are the taxable events. As an *in rem* tax, from the viewpoint of the object on which the VAT is imposed in Bangladesh, the objects of VAT are: (i) all goods imported into Bangladesh, except the goods listed in the First Schedule of the VAT Act, (ii) all goods not listed in the said First Schedule supplied; and (iii) all services rendered in Bangladesh, except services specified in the Second Schedule of the VAT Act [u/s 3(1)]. But the exemption from VAT through the First Schedule for goods and the Second Schedule for services is not the scope of all the VAT-exempted goods and services. There is a separate section (section 14) in the VAT Act on exemption. Under section 14, the exemptions are provided as follows:

a. both the Government and the National Board of Revenue (NBR) can exempt;[55]
b. exemption may be for any goods in all cases, but for services *except* on reciprocal basis, of any international or bilateral agreement and for any class of goods only by the Government;
c. exemption may be given be through Gazette notification (SRO) by the Government or through ***special order*** of the NBR; and
d. the exemptions may be subject to any limitation or condition specified in the SRO or special order u/s 14(1) or 14(1A) or for any reason u/s 14(2).

[55] To make a distinction between a statutory provision issued by the Government and the same issued by the NBR, the tax official would be different—in case of SRO, the official shall be the Secretary or the Additional Secretary in charge of the Secretary of the Internal Resource Division in pursuance of the order of the President and in case of order, the official shall be the First or Second Secretary (Musak) of the NBR in pursuance of the order of the NBR.

Dhaka University Institutional Repository

Table 5.05: Effective Main SROs/Orders relating to Exemption in FY 2009-10

FY	SRO No. [issued u/s 14(1)] on			General Order	Special Order
	VAT	VAT & SD	SD		
1991-92	14	–	–	–	–
1993-94	–	73, 79, 84	–	–	–
1994-95	94, 104, 113[a]	–	98	–	–
1996-97	–	144	–	–	–
1999-00	228[b], 252	254	–	–	–
2000-01	293, 295[c]	–	–	11/2000 [u/s 14(2)]	–
2001-02	313	–	–	–	–
2002-03	368	376[**]	–	–	–
2003-04	393	403	–	–	–
2004-05	410[d]	–	–	–	18/2004, 04/2005 [u/s 14(1A)]
2005-06	445[b]	–	443, 444, 455	–	–
2006-07	–	–	467	–	–
2007-08	–	–	–	06/2007 [u/s 14(2)][56]	....[e]
2008-09	–	–	482	–	–
2008-09	....[f], 503	–	–	–	–
2009-10	524[g], 528[f]	525[57]			
Total	**16**	**8**	**6**	**2**	**2**

[a] SRO 113 of FY 1994-95 amended by SRO No. 510 of FY 2008-09.

[b] Related to export/exporter.

[c] SRO 295 of FY 2000-01 (for exempting VAT on imported waste paper used in producing newsprint from 18.09.2000) amended by 7 SROs (SRO Nos. 318, 353, 411, 449, 462, 478 and finally by SRO No. 526 of FY 2009-10) to extend the period of validity up to 30.06.2010.

[d] SRO 410 of FY 2004-05 amended by SRO No. 508 of FY 2008-09.

[**] SRO 376 of FY 2002-03 (for exempting VAT and SD on goods at production stage produced by cottage industry) amended by 4 SROs (SRO Nos. 477, 492, and finally by SRO Nos. 516 and 534 of FY 2009-10).

[e] Special Order No. 06/Musak/2007, dated 08.07.2007 issued u/s 14(2) (for exempting VAT on services provided by private universities), was repealed by Special Order No. 04/Musak/2008, dated 29.06.2008.

[f] This is the annual routine SRO for exemption of VAT at different stages. SRO 490 of FY 2008-09 repealed by SRO No. 512 of 2009-10; and SRO 512 of 2009-10 further repealed by SRO No. 528 of FY 09-10.

[g] SRO No. 524 of 2009-10 (exempting VAT at local stage on refrigerator, freezer and motor cycle) for one-year effective up to 30.06.2010.

[h] SRO No. 525 of FY 2009-10 for exempting VAT and SD on Film Exhibitor (Cinema Hall) (S023.10) on films which have won national or international awards or made on government donation.

Source: Hossain, 2008, pp. 205-210 (for SRO No. 376 on cottage industry[58]), pp. 245-251 (for SRO Nos. 443 and 444) and pp. 462-510 for other SROs and Orders up to 30.06.2008; SROs and Orders from 01.07.2008 to 30.06.2009 taken from original Gazette [*Bangladesh Gazette Extraordinary*, Sept. 16, Nov. 6, Dec. 12, 2008, Apr. 23, May 12 and 21 and June 11 and 30, 2009].

Regarding effective SROs and orders, on June 30, 2009, there are thirty (30) main SROs including 13 another SROs amending 4 of these 30 SROs[59] prescribed under section 14(1), two special orders under section 14(1A) and two *general orders*[60] under section 14(2), which are related to exemption of goods and services, but not included in the exemption lists of goods and

[56] General Order No. 06/Musak/2007, dated 27.06.2007 (on Sample Medicine sent for export purpose) issued u/s 14(2) has been amended by General Order No. 09/Musak/2009, dated 11.06.2009, increasing the annual ceiling from Tk. 20,000 in FY 2008-09 to Tk. 30,000 in FY 2009-10. The annual ceiling was Tk. 10,000 up to FY 2007-08.

[57] SRO No. 117-Ain/2009/525-Musak, dated 11.06.2009 has been prescribed to exempt VAT and SD on Film Exhibitor (Cinema Hall) (S023.10) on films which have won national or international awards or made on government donation.

[58] SRO on Cottage Industry (SRO No. 168-Ain/2003/376-Musak, dated 12.06.2003) has been amended by SRO No. 108-Ain/2009/516-Musak, dated 11.06.2009.

[59] SROs are 43 in total. Out of these 30 SROs, 4 SROs have been amended by other 13 SROs (see footnotes of Table 5.06).

[60] Under section 14(2), the NBR can issue only the special orders.

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services, i.e., in the First and Second Schedules (see Hossain, 2008, pp. 462-510; *Bangladesh Gazette Extraordinary*, Sept. 16, Nov. 6, Dec. 12, 2008, April 23, May 12 and 21 and June 11 and 30, 2009).[61] Out of 19 years, these effective SROs, and general or special orders are related to 14 financial years (except 1992-93, 1992-93, 1997-98, and 1998-99) as shown in Table 5.05 above. The distribution of the exemption related SROs is as follows:

Stage of Exemption	Exemption of only VAT	Exemption of both VAT & SD	Exemption of only SD	No. of Total SROs
	SRO No.	SRO No.	SRO No.	
Import stages only	14, 94, 295		98, 455, 467	6
Import and production stages	–	–	444	1
Import and supply stages	104	–	–	1
Production stage only	410, 445, 503, 524	376	–	5
Production and supply stages	–	84, 403	–	2
Production and service stages	–	–	443	1
Service stage only	113, 228, 252, 293, 368, 393	73, 254, 525	–	9
Trading/supply stage only	313	79, 144	482	4
Import, import and production, production, service and trading stages	528	–	–	1
Total	**16**	**8**	**6**	**30**

Thus, the exemptions from VAT and/or SD are given to exempt tax at import stage (9 SROs: SRO Nos. 14, 94, 98, 104, 295, 444, 455, 467, and 528), production stage (8 SROs except one for cottage industry: SRO Nos. 84, 403, 410, 443, 445, 503, 524, and 528), trading/supply stage (8 SROs: SRO Nos. 79, 84, 104, 144, 313, 403, 482 and 528) or at service stage (11 SROs: 73, 113, 228, 252, 254, 293, 368, 393, 443, 525, and 528) and also under the enlistment of an entity as a cottage industry at production stage (1 SRO: SRO No. 376), although some SROs are for more than one stage. Out of 30 SROs, sixteen SROs prescribed for exempting VAT only, eight SROs for exempting both VAT and SD and six SROs for exempting SD only. The reasons specified in the general or special orders issued u/s 14(2) are: special consideration (in case of exempting shaving activity), and encouraging exports (in case of exempting the sample medicines sent for export purposes) (Hossain, 2008, pp. 504-510).

The NBR has also given an overriding power in section 3(5) as follows:

> For the purposes of section 3, the NBR may, in the public interest, by notification in the official Gazette, (a) declare any taxable goods or class of goods as taxable service and any taxable service as taxable goods; and (b) provide clarification for the purpose of determining the extent of any taxable service [u/s 3(5)].

When needed, the NBR may require to apply this authority mainly to remove any confusion regarding the extent of taxability. For instance, there is one letter of explanation to explain paragraph 6(D) of the Second Schedule with respect to exemption of the graphics process or design of a company.[62] There is another type of exemption also—exemption from VAT

[61] On June 30, 2008, there were 27 main SROs, 3 special orders and 2 general orders, which are related to exemption of goods and services, but not included in the First and Second Schedules (see Hossain, 2008, pp. 205-210, 245-251 and 462-510).

[62] Colour Scan Ltd. was exempted under the Letter of explanation No. 01/Musak/2004, dt. 3.10.2004 (Hossain, 2008, p. 506).

Dhaka University Institutional Repository

registration. Under section 16, the Government may, by general/special order, exempt any person or class of persons from the requirement of VAT registration based on an annual turnover threshold [u/s 16(1)] or the NBR may, by general/special order, exempt any importer or exporter from the requirement of registration [u/s 16(2)]. The prescribed annual turnover threshold is now Tk. 15 lakh from 1994-95, which is an inconsistent provision because the annual turnover threshold has already been enhanced to Tk. 40 lakh in 2009-10 (Tk. 24 lakh in 2008-09) below which an entity shall normally pay turnover tax under rule 4(1) instead of VAT.[63]

Below is an overview of the coverage of VAT or the tax-net of VAT at different levels. It is noted that the First Schedule is the common list of exempted goods at any levels (import, manufacturing, wholesale and retail levels) and the Second Schedule is the common list of exempted services at service-level.

Import-Level VAT

Since the inception, the import-stage VAT has been introduced by replacing the import-stage sales tax. The tax net of the import-stage VAT covers all goods imported into Bangladesh, except the goods listed in the First Schedule of the VAT Act [u/s 3(1)]. The general features of goods specified in this First Schedule are as follows:

(a) *Excisable goods up to FY 2003-04:* Up to 2003-04, there were two parts in the First Schedule of the Excises and Salt Act, 1944—Part-I: Goods and Part-II: Services and from 2004-05 the excise regime on goods was ended due to repeal of Part-I (*vide* the *Finance Acts 2003* and *2004*). Hence, from 1991-92 to 2003-04, all goods as specified in the First Schedule of the Excises and Salt Act, in case of manufacturing or production thereof in Bangladesh, were included in the scope of VAT-exempted goods. And from 2004-05, the First Schedule of the VAT Act was replaced and the excisable goods were delisted from its scope of exemptions.

(b) *Narcotics dutiable goods:* All goods as mentioned in the Second Schedule of the Narcotics Control Act, 1990, in case of manufacturing or production thereof in Bangladesh, are subject to 'narcotics duty'. They include all kinds of produced alcohol (country liquor, methyl or absolute alcohol, locally manufactured foreign liquor and denatured spirit) (Maniruzzaman, 2000, p. 273).

(c) *H.S. Coded goods:* From the very beginning, the First Schedule of the VAT Act specified the exempted goods (other than the excisable goods and narcotics dutiable goods) under the H.S. Coding system.[64] In the original VAT Act, exempted goods were listed against 115 Heading Nos., of which 110 Heading Nos. include "all H.S. Codes' and the remaining 5 Heading Nos. include 5 specific H.S. Codes. The First Schedule of the VAT Act has been substituted by the *Finance Acts/Ordinance* in five times and amended thrice. In the latest and updated First Schedule (effective from 2007-08), total Heading Nos. are 111, of which 38 Heading Nos. are related to "All H.S. Codes" and other 73 Heading Nos. are related to 340 specific H.S. Codes. Table 5.06 shows the year-wise extent of VAT exemption in terms of H.S. Codes.

[63] The threshold was Tk. 2 lakh from 1991-92 to 1992-93 and Tk. 7.5 lakh for 1993-94. See SRO No. 143-Ain/91/2-Musak, dated 02.6.1991, SRO No. 109-Ain/93/71-Musak, dated 10.6.93, and SRO No. XI-Ain/94/91-Musak, dated 09.6.1994.

[64] Harmonized Commodity Description and Coding System.

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Table 5.06: Number of H.S. Codes in the First Schedule of the VAT Act

FY	All HS Codes under Heading No.	Specific HS Codes		Source
		Heading No.	No. of HS Codes	
1991-92 to 1993-94	110	5	5	Main Act
1994-95	109	5	5	Amendment by FA 1994
1995-96 to 1998-99	106	9	10	Substituted by FA 1995
1999-2000	105	9	10	Amendment by FA 1999
2000-01 to 2001-02	74	41	359	Substituted by FA 2000
2002-03 to 2003-04	74	41	380	Amendment by FA 2002
2004-05 to 2005-06	41	73	341	Substituted by FA 2004
2006-07	41	74	339	Substituted by FA 2006
2007-08 to 2008-09	38	73	340	Substituted by FO 2007
2009-10	43	73	340	Substituted by FA 2009

Note: FA is the *Finance Act* and FO is the *Finance Ordinance*.

Source: The original *VAT Act 1991* and the *Finance Acts* or *Ordinances, 1992* to *2009*.

Over the eighteen years, there were minimum 111 Heading Numbers to maximum 116 Heading Numbers and the number of Heading Numbers of "All H.S. Codes" was from 38 to 110 and other Heading Numbers ranged from 5 to 74 related to 5 to 380 specific H.S. Codes. Goods included here are of primary unprocessed agricultural products, natural items and human and animal food and in any case, excluding wrapped or canned up to 2.5 kg.

The goods of the First Schedule of the VAT Act are exempted at all stages of import, production and distribution chain. There are eleven SROs (effective for 2008-09) relating to exemption of tax at import-stage under the VAT Act. Five of these SROs are for exemption of only VAT, one SRO is for exemption of both VAT and SD and other five SROs are for exemption of only SD. Of these SROs, one SRO (188-Ain/2008/490-Musak, dated 29.06.2008), shows exemption at import-stage and also at both import-stage and production-stage. There are a number of Customs SROs prescribed under both the Customs Act (section 19) and the VAT Act [sections 14(1) or 14(2)], to give exemption of taxes and duties at import stage subject to a number of conditions (e.g., SRO No. 114-Ain/2006/2106/Shulka, dated 08.06.2006 and SRO No. 74-Ain/2005/2067/Shulka, dated 28.03.2005).

Manufacturing-Level VAT

Since the goods of the First Schedule of the VAT Act are exempted at all stages, so they are exempted from VAT at manufacturing or production stage also. There are also eleven SROs (effective for FY 2008-09) relating to exemption of tax at manufacturing-stage under the VAT Act and they have been given below. Three of these SROs are for exemption of only VAT, five SRO is for exemption of both VAT and SD and other three SROs are for exemption of only SD. From 2009-10, exemption of VAT and/or SD is applicable on local purchase of goods from VAT registered person through local or international tender by an agency or person that is responsible in implementation of projects in exchange of foreign currency given as donation under international treaty or memorandum of understanding (MoU) [u/s 3(2)(aa) and u/r 31B].

Dhaka University Institutional Repository

Wholesale-Level and Retail-Level VAT

Since 1996-97, trading-stage VAT was introduced. In the VAT Act, there is no distinction between wholesaler and retailer—both are traders. In the VAT Act, "traders" are treated as merchandisers—sellers of goods produced by others without any physical change to another trader or consumers [u/s 2(qqqq)]. Since October 1, 2004, commercial importers [defined u/s 2(qq)] are also treated as trader at import stage for collecting VAT at trading stage as an advance trade VAT (ATV). But the manufacturers are not at all regarded as trader, even though they might directly sell to the consumers. Except the goods of the First Schedule of the VAT Act, which are exempted at all stages including trading stages, frequent exemptions have also given under various prescribed SROs. First SRO[65] for exempting traders from VAT and/SD was prescribed for ten (10) items[66] on July 28, 1996 (for 1996-97) to limit the trading-stage VAT in a narrow scope, possibly for administrative reason. Additional 19 items in 1997-98[67] and 6 items in 1998-99[68] were brought under the VAT. In 1998-98, cement, CI sheet and MS products were initially made vatable at trading stage, but later on withdrawn after 20 days (NBR, 2001b, pp. 406, 426). In 1999-2000, additional 8 items were brought under the VAT.[69] However, trading-VAT imposed on "Computer, printer, equipment and spare parts" in 1997-98 was withdrawn in 1999-2000 (NBR, 2001b, p. 592).[70] From FY 2000-01 to FY 2001-02, the earlier type of limited net of trade-VAT was withdrawn[71] and the trading-stage VAT was made comprehensive for all vatable products but for limited City Corporation and municipal areas. A general SRO[72] was prescribed on September 20, 2000 with effect from June 8, 2000, to exempt following trading-level taxes: (i) SD on all goods supplied by traders in any place of Bangladesh; and (ii) VAT and/or SD on all goods supplied by traders outside City Corporation and municipal areas (NBR, 2001b, p. 704). From 2002-03, the earlier city-based trading-VAT was made widespread for whole Bangladesh through prescribing another general SRO[73] on June 06, 2002 to exempt only trading-level SD on all goods supplied by *traders* and not VAT (Khan, 2005, p. 284). From 2004-05, the trading-level SD on all goods supplied by *commercial importers* was also exempted, along with the traders (Hossain, 2008, p. 486).[74] There are also two SROs (one is effective from 2000-01 and another one from 2008-09) relating to exemption of *VAT at trading-stage* applicable for supply by the ***traders***. One SRO above (148-Ain/2000/313-Musak, dated 07.06.2000) is related to sale of cigarette and aerosol to ***final consumer***, and it is expected to be done by the retailer, but this sale may be done either by a wholesaler or a retailer.

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[65] SRO No. 132-Ain/96/134-Musak, dt. 28.7.96 amended by SRO No. 151-Ain/96/138-Musak, dt. 18.8.96 (w.e.f. 28.7.96).
[66] The number of items was mentioned as 11 in the index of SRO (see NBR, 2001b, p. XXXII).
[67] See SRO No. 142-Ain/97/159-Musak, dated 12.06.1997, as mended by SRO No. 164-Ain/97/167-Musak, dated 02.07.1997.
[68] See SRO No. 120-Ain/98/181-Musak, dated 11.06.1998, as mended by SRO No. 142-Ain/98/188-Musak, dated 02.07.1998 (w.e.f. 11.06.1998).
[69] See SRO No. 144-Ain/99/224-Musak, dated 10.06.1999, as mended by SRO No. 254-Ain/99/240-Musak, dated 24.08.1999 and SRO No. 60-Ain/2000/259-Musak, dated 27.02.2000 (w.e.f. 10.06.1999).
[70] See SRO No. 60-Ain/2000/259-Musak, dated 27.02.2000 (w.e.f. 10.06.1999).
[71] The effective SRO No. 144-Ain/99/224-Musak, dated 10.06.1999 for trade-VAT was repealed by SRO No. 179-Ain/2000/278-Musak, dated 08.06.2000.
[72] SRO No. 287-Ain/2000/292-Musak, dt. 20.9.2000, amended by SRO No. 365-Ain/2000/297-Musak, dt. 21.12.2000.
[73] SRO No. 122-Ain/2002/347-Musak, dated 06.06.2002.
[74] SRO No. 253-Ain/2007/482-Musak, dated 14.11.2007 (w.e.f. 10.06.2004), which has repealed SRO No. 122-Ain/2002/347-Musak, dated 06.06.2002.

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Service-Level VAT

As mentioned earlier, the tax-net of vatable services encompasses all services rendered in Bangladesh, *except* services specified in the Second Schedule of the VAT Act [u/s 3(1)] and the Second Schedule provides the list of services VAT-exempted. Previously, up to 1999-2000, in the Second Schedule, only the taxable services were listed. According to that Second Schedule, initially 29 services under 24 Heading NOs. have been brought under the VAT-net in 1991-92, although 3 services were fully exempted and 6 were partially exempted under SRO, and hence, 22 services were fully and 6 services were partially taxable under 22 heading Nos. Thereafter, the VAT-net has been expanded for the service sector gradually over the years. Only in four years (1993-94, 1995-96, 2001-02, and 2008-09) out of over 18 years, there were no amendments in the list of taxable services. As shown in first five years, the number of taxable services reached to 36 (36 service codes against 31 heading numbers). Up to 1999-2000, in the Second Schedule, time to

Table 5.07: Number of Total Specific Taxable Services and Heading Numbers

FY	Heading No.	No. of Total Taxable Services	No. of Exempted Services	
			Fully Exempted	Partially Exempted[e]
1991-92	24	29	3	6
1992-93	30	36	3	6
1993-94	30	36	3	6
1994-95	31	37	4	8
1995-96	31	37	4	8
1996-97	35	41	4	9
1997-98	39	48	4	10
1998-99	43	53	4	10
1999-2000	57	69	8	9
2000-01	57[a]	70[b]	8	9
2001-02	57	70	8	7
2002-03	58	72	11	9
2003-04	61[c]	75[d]	11	11
2004-05	64	80	11	13
2005-06	64	81	11	11
2006-07	64	82	10	12
2007-08	68	86	7	12
2008-09	68	86	5	12
2009-10	71	93[e]	5[f]	13

[a] 1 Heading Number inserted and 1 Heading Number (S043) deleted.
[b] 1 service code inserted and 1 service code (S043.00) deleted.
[c] 4 Heading Numbers inserted and 1 Heading Number (S041) deleted.
[d] 4 service codes inserted and 1 service code (S041.00) deleted.
[e] One service code (S012.10) has been recoded into five service codes (S012.10, S012.11, S012.12, S012.13 and S012.14) and three new services codes (S071.00, S072.00, S073.00) have been inserted by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.
[f] Including one service [Manpower Exporting Organization (S073.00)] still exempted under Second Schedule.
[*] Including "Construction Firm (S004.00)", where construction related activities under all contracts signed up to 30.06.1991 and those under all contracts signed up to 30.06.1993 on the basis of all tenders circulated up to 30.06.1991 are exempted.

Source: The *Finance Acts/Ordinances 1991 to 2009* and SRO No. 170-Ain/2000/269-Musak dated 08.06.2000 as amended time to time and finally substituted by SRO 189-Ain/2008/491-Musak, dated 29.06.2008, amended by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009; and No. of Exempted Services based on 16 SROs[75] on exemptions.

[75] SRO No. 146-Ain/97/163-Musak, dated 12.06.1997; SRO No. 72-Ain/99/206-Musak, dated 13.04.1999; SRO No. 145-Ain/99/225-Musak, dated 10.06.1999; SRO No. 211-Ain/99/233-Musak, dated 26.07.1999 (w.e.f. 10.06.1999); SRO No. 294-Ain/99/242-Musak, dated 30.09.1999 (w.e.f. 10.06.1999); SRO No. 313-Ain/99/247-Musak, dated 17.10.1999; SRO

Dhaka University Institutional Repository

time amended by the *Finance Acts*, the number of taxable services reached to 69 under 57 Heading Nos., but there were 8 fully exempted and 9 partially exempted services in this list in 1999-2000 (see Table 5.07). Since the FY 2000-2001, the Second Schedule has been replaced by a new Second Schedule in which the list of exempted services was included, by keeping similarity with the First Schedule for VAT-exempted goods. In the new Second Schedule, the VAT-exempted services have been classified into following *seven* categories. The list of exempted services is very exhaustive in nature and previous taxable services are also kept within the VAT-net but mentioned as 'exceptions' to exemption from VAT as follows:

1. ***Basic services for living*** (*except* such as warehouse and godown);
2. ***Social welfare services*** (*except* such as the service rendered by medical clinics and centres);
3. ***Culture related services*** (*except* such as videocassette shop, video game shop, video and audio recording shop, advertising firms);
4. ***Finance and financial activities related services*** (*except* such as freight forwarders, clearing and forwarding agent);
5. ***Transport service*** (*except* such as air-conditioned or air-cooled bus, railway service);
6. ***Personal services*** (*except* such as consultancy firm, supervisory firm and survey firm); and
7. ***Other services*** (*except* such as WASA, electricity supply, construction firm).

However, for practical purposes there is a separate list of taxable services through an SRO from 2000-01. On June 8, 2000, this SRO[76] was prescribed and up to 2007-08, the SRO was amended six times,[77] then replaced by the SRO 491[78] on June 29, 2008 and finally amended by the latest SRO[79] on June 11, 2009. In 2000-01, there were total 70 services under 57 Heading Nos. [S001 to S058, except S043[80]] and excluding the exempted services, there were 53 fully taxable and 9 partially taxable services under 52 Heading Nos.. Last year (in 2008-09), the newly substituted SRO (SRO No. 491) lists 86 services under 68 Heading Nos. [S001 to S070, *except* S041[81] and S043], but under another SRO,[82] 5 services are fully exempted and 12 services are partially exempted. Thus, excluding the fully exempted services, there were 69 fully taxable and 12 partially taxable services under 64 Heading Nos. in 2008-09. In 2009-10, one service code (S012.10) has been re-coded into five service codes (S012.10, S012.11, S012.12, S012.13 and S012.14) and three new services codes (S071.00, S072.00, S073.00) have been inserted by a new

No. 7-Ain/2000/252-Musak, dated 13.01.2000; SRO No. 169-Ain/2000/268-Musak, dated 08.06.2000; SRO No. 147-Ain/2001/312-Musak, dated 07.06.2001; SRO No. 123-Ain/2002/348-Musak, dated 06.06.2002; 165-Ain/2003/373-Musak, dated 12.06.2003; SRO No. 163-Ain/2004/409-Musak, dated 10.06.2004; SRO No. 151-Ain/2005/442-Musak, dated 09.06.2005; SRO No. 131-Ain/2006/459-Musak, dated 08.06.2006; SRO No. 126-Ain/2007/471-Musak, dated 27.06.2007; SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008; SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009 (replaced SRO No. 104-Ain/2009/512-Musak, dated 11.06.2009).

[76] S.R.O. No. 170-Ain-2000/269-Mushak dated 8 June 2000.

[77] SRO No. 117-Ain/2002/342-Musak dated 06.06.2002; SRO No. 163-Ain/2003/371-Musak dated 12.06.2003; SRO No. 171-Ain/2004/417-Musak dated 10.06.2004; SRO No. 159-Ain/2005/450-Musak dated 09.06.2005; SRO No. 137-Ain/2006/465-Musak dated 08.06.2006 and SRO 129-Ain/2007/474-Musak, dated 27.06.2007.

[78] SRO 189-Ain/2008/491-Musak, dated 29.06.2008.

[79] SRO 105-Ain/2009/513-Musak, dated 11.06.2009.

[80] In FY 1998-99, "Trade Service" (Service Code S043) was first inserted in the previous Second Schedule by the Finance Act 1998 to impose VAT on wholesale traders. But now (from 8 June 2000) wholesale traders are subject to VAT in general.

[81] "Sales Center of Readymade Garments" [Service Code S041.00 under Heading No. S041] was inserted by the Finance Act 1998 and deleted by SRO No. 163-Ain/2003/371-Musak dated 12.06.2003 and now its is treated as "trading of goods".

[82] SRO 188-Ain/2008/490-Musak, dated 29.06.2008.

Dhaka University Institutional Repository

SRO.[83] Thus, in 2009-10, there are 93 services under 71 Heading Numbers [S001 to S073, *except* S041 and S043], but under another SRO on exemption,[84] 4 services are fully exempted and 13 services are partially exempted and one service [Manpower Exporting Organization (S073.00)][85] is still exempted under the Second Schedule. Thus, excluding the fully exempted services, there were 75 fully taxable and 13 partially taxable services under 71 Heading Numbers. Table 5.08 enumerates all the ninety five (95) services so far prescribed for imposition of VAT. The latest explanation for determining the periphery of taxable services is available in SRO 189-Ain/2008/491-Musak, dated 29.06.2008, amended by SRO 105-Ain/2009/513-Musak, dated 11.06.2009.

Table 5.08: List of All Prescribed Taxable Services up to FY 2009-10

Heading No.	Service Code	Taxable Service
(1)	(2)	(3)
[86]S001	S001.00	**Hotel & Restaurant**
	S001.10	Hotel
	S001.20	Restaurant
S002	S002.00	Decorators & Caterers
S003	S003.00	**Garage of Motor Vehicle, Workshop and Dockyard**[87]
	S003.10	Garage of Motor Vehicle and Workshop
	S003.20	Dockyard
S004	S004.00	Construction Firm
S005	S005.00	**Warehouse & Port** [88]
	S005.10	Warehouse
	[89]S005.20	Port
S006	S006.00	Cold Storage
S007	S007.00	Advertising Firm
S008	S008.00	**Printing Press & Binding Firm**
	S008.10	Printing Press
	S008.20	Binding Firm
S009	S009.00	Auctioneer Firm
S010	S010.00	**Land Development Firm & Building Construction Firm**
	S010.10	Land Development Firm
	[90]S010.20	Building Construction Firm
S011	S011.00	**Videocassette Shop, Video Game Shop, Video-Audio Recording Shop, and Video & Audio CD Rental Shop**[91]
	S011.10	Videocassette Shop
	S011.20	Video Game Shop
	S011.30	Video-Audio Recording Shop
	[92]S011.40	Video & Audio CD Rental Shop

[83] SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.
[84] SRO 175-Ain/2009/528-Musak, dated 30.06.2009 (which replaced SRO 104-Ain/2009/512-Musak, dated 11.06.2009).
[85] In the proposed Finance Bill 2009, "Manpower exporting organization" (service stage) was initially imposed VAT by deleting this service from the Second Schedule. But in the passed Finance Act 2009, this is not done and hence this is still VAT exempted.
[86] Heading Numbers S001 to S023 and S031 (initially as S024) inserted by the original VAT Act 1991 (published in the *Bangladesh Gazette* on July 10, 1991).
[87] A common "Explanation" is given for "Garage of Motor Vehicle and Workshop" [Service Code S003.10] and "Dockyard" [Service Code S003.20].
[88] Words "& Port" inserted after "Warehouse" by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004 to add S005.20.
[89] Inserted by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004.
[90] Inserted by the Finance Act 1997.
[91] A common "Explanation" is given for "Videocassette Shop" [S.Code S011.10], "Video Game Shop" [S.Code S011.20], "Video-Audio Recording Shop" [S.Code S011.30], and "Video & Audio CD Rental Shop" [S.Code S011.40].
[92] Inserted by SRO No. 170-Ain/2000/269-Musak dated 08.06.2000.

Dhaka University Institutional Repository

Table 5.08: List of All Prescribed Taxable Services up to FY 2009-10 ...*cont'd*

Heading No.	Service Code	Taxable Service
(1)	(2)	(3)
S012	S012.00	**Telephone, Teleprinter, Telex, Fax or Internet Firm and SIM Card Supplier**[93]
	S012.10	Telephone[94]
	S012.11	Teleprinter[95]
	S012.12	Telex
	S012.13	Fax
	S012.14	Internet Firm[96]
	[97]S012.20	SIM Card Supplier
S013	S013.00	Mechanical Laundry
S014	S014.00	Indenting Firm
S015	S015.00	**Freight Forwarders and Clearing & Forwarding Firm**[98]
	S015.10	Freight Forwarders
	[99]S015.20	Clearing & Forwarding Firm
S016	S016.00	Travel Agency
S017	S017.00	Community Center
S018	S018.00	Film Studio
S019	S019.00	Photographers[100]
S020	S020.00	Survey Firm[101]
S021	S021.00	Plant or Capital Machinery Rental Firm
S022	S022.00	Sweetmeat Store
S023[102]	S023.10	Film Exhibitor (Cinema Hall)
	[103]S023.20	Film Distributor
S024	[104]S024.00	Sales Center of Furniture[105]

[93] The original title "Telephone, Teleprinter, Telex, Fax" (S012.00) was amended as "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.00) by the Finance Act 1997 and then amended by SRO No. 159-Ain/2005/450-Musak dated 09.06.2005.

[94] The original title "Telephone, Teleprinter, Telex, Fax" (S012.00) was amended as "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.00) by the Finance Act 1997 and re-coded as "S012.10" by SRO No. 159-Ain/2005/450-Musak dated 09.06.2005, then re-classified and re-named as "Telephone" with previous code "S012.10" by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009, which has amended SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008. Other services are re-classified and re-named as Teleprinter (S012.11), Telex (S012.12), Fax (S012.13) and Internet Firm (S012.14).

[95] The title "Telephone, Teleprinter, Telex, Fax or Internet Firm" (Code S012.10) has been re-classified, re-named and re-coded from 12.10 to 12.14 by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009, which has amended SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008.

[96] Inserted on 12.06.1997 by changing the original title "Telephone, Teleprinter, Telex, Fax" (S012.00) to "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.00) by the Finance Act 1997 and re-coded as "S012.14" by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.

[97] Inserted by SRO No. 159-Ain/2005/450-Musak dated 09.06.2005 and "Explanation" amended by SRO No. 137-Ain/2006/465-Musak dated 08.06.2006.

[98] Words "and Clearing & Forwarding Firm" inserted by the Finance Act 1992 for a single service [Freight Forwarders and Clearing & Forwarding Firm (S015.00)]. The 'Explanation' was amended by the Finance Act 1994 and 'Freight Forwarders' and 'Clearing & Forwarding Firm' were defined separately under clause (a) and clause (b) respectively, and not under individual service codes. Separate service codes were assigned by the Finance Act 1999.

[99] Inserted by the Finance Act 1992, but not under separate code; defined separately under clause (b) by the Finance Act 1994; and separate code was assigned by the Finance Act 1999.

[100] Title and definition have been substituted by SRO 129-Ain/2007/474-Musak, dated 27.06.2007. Previous title and definition: Color Photographers: Explanation.- "Color Photographers" means a person, organization or association engaged in preparation of color photographs or processing of film on commercial basis.

[101] The "Explanation" has been amended in FY 2009-10 for expanding the scope of the service. The words "and an organization performing any sort of physical or chemical examination or doing feasibility study of any subject or certifying the standardization of an enterprise or carrying out the performance audit in exchange of consideration and it shall also include a marine surveyor firm" have been inserted by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009. Due to this change, 15% VAT shall be collected at production stage.

[102] A common Service Code (which is expected to be "S023.00") against the Heading Number "S023" is not prescribed as available in other cases (e.g., for S001 Heading Number), with a common title (such as "Film Exhibitor (Cinema Hall) & Film Distributor").

[103] Inserted by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002.

[104] New service inserted by the Finance Act, 1994 and existing service under this code re-coded as S031.00.

Dhaka University Institutional Repository

Table 5.08: List of All Prescribed Taxable Services up to FY 2009-10 ...*cont'd*

Heading No.	Service Code	Taxable Service
(1)	(2)	(3)
[106]S025	S025.00	WASA (Water Supply and Sewerage Authority)
S026	S026.00	Goldsmith & Silversmith and Gold & Silver Jeweler and Gold Refiner[107]
S027	S027.00	Insurance Company
S028	[108]S028.00	Courier & Express Mail Service[109]
S029	S029.00	**Medical Institution, Dental Treatment Center and Pathological Laboratory**
	[110]S029.10	Medical Institution
	[111]S029.20	Dental Treatment Center
	[112]S029.30	Pathological Laboratory
S030	S030.00	Beauty Parlour
[113]S031	[114]S031.00	Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration
[115]S032	S032.00	Consultancy Firm & Supervisory Firm
S033	S033.00	Leaseholder[116]
S034	S034.00	Audit and Accounting Firm
S035	S035.00	Shipping Agent
[117]S036	S036.00	Air-Conditioned Bus, Launch & Railway Service
	S036.10	Air-Conditioned Bus Service
	S036.20	Air-Conditioned Launch Service
	[118]S036.30	Air-Conditioned Railway Service
S037	S037.00	Procurement Provider
S038	S038.00	Organizer of Entertaining Cultural Program with the help of Foreign Artists
S039	S039.00	Satellite Cable Operator & Satellite Channel Distributor
	S039.10	Satellite Cable Operator
	S039.20	Satellite Channel Distributor
[119]S040	S040.00	Security Service

[105] The "Explanation" has been amended in FY 2009-10. The words "and the place of making and repairing such furniture shall also be included in this explanation" have been deleted by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009. Due to this change, 15% VAT shall be collected at production stage.

[106] Heading Numbers S025 to S030 inserted by the Finance Act 1992.

[107] Explanation is given in two parts.

[108] Inserted by the Finance Act, 1992 as "Courier Service" and "Explanation" amended by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002; and words "Express Mail" added by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004; and again and "Explanation" amended by SRO No. 137-Ain/2006/465-Musak dated 08.06.2006.

[109] "Courier Service" was amended as "Courier & Express Mail Service" by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004.

[110] Inserted by the Finance Act, 1992 as S029.00; "Explanation" substituted and re-coded as S029.10 by the Finance Act 1998; "Explanation" re-substituted by the Finance Act 1999. Heading Number S029 substituted by the Finance Act 1998 (S029.10 and S029.20) and again by the Finance Act 1999 (S029.10, S029.20 and S29.30).

[111] Inserted by the Finance Act, 1999 as S029.20 and previous S029.20 (Pathological Laboratory) re-coded as S029.30 by the Finance Act 1999.

[112] Inserted by the Finance Act, 1998 as S029.20 and re-coded as S029.30 by the Finance Act 1999.

[113] Heading Number S031 (initially as S024) inserted by the original VAT Act 1991 (published in the Bangladesh Gazette on July 10, 1991).

[114] Inserted by original VAT Act, 1991 as Service Code S024.00 (Person, Organization or Firm Engaged in Manufacturing, Production, Processing, Repair or Servicing of Taxable Goods in exchange of Consideration), which was changed to S031.00 (Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration) by the Finance Act 1994.

[115] Heading Numbers S032 to S035 inserted by the Finance Act 1996.

[116] The "Explanation" has been substituted by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009, to include "commercial rental of any floor/space, establishment, equipment for a particular period, except for using in residential activity" under this service.

[117] Heading Numbers S036 to S039 inserted by the Finance Act 1997.

[118] Inserted by the Finance Act 1999.

[119] Heading Numbers S040 to S043 inserted by the Finance Act 1998.

Dhaka University Institutional Repository

Table 5.08: List of All Prescribed Taxable Services up to FY 2009-10 ...*cont'd*

Heading No.	Service Code	Taxable Service
(1)	(2)	(3)
[120]*S041*	*S041.00*	*Sales Center of Readymade Garments*
S042	S042.00	Automated or Mechanical Sawmill
[121]*S043*	*S043.00*	*Trade Service*
[122]S044	S044.00	Specialist Doctor
S045	S045.00	Legal Adviser
S046	S046.00	Health Club & Fitness Center
S047	S047.00	Sports Organizer
S048	S048.00	Transport Contractor
S049	[123]S049.00	Rent-a-Car Service
S050	S050.00	**Architect, Interior Designer or Interior Decorator & Graphics Designer**[124]
	S050.10	Architect, Interior Designer or Interior Decorator
	[125]S050.20	Graphics Designer
S051	S051.00	Engineering Firm
S052	S052.00	Sound and Lighting Equipment Renter
S053	S053.00	Board Meeting Participant
S054	S054.00	Broadcaster of Advertisement through Satellite Channel
S055	S055.00	Seller of Land
S056	S056.00	Provider of Banking & Non-Banking Services[126]
S057	S057.00	Distributor of Electricity
[127]S058	S058.00	Chartered Plane or Helicopter Rental Firm
[128]S059	S059.00	Glass Sheet Coating Organization
[129]S060	S060.00	Purchaser of Goods Auctioned
S061	S061.00	Credit Card Issuing Firm
S062	S062.00	Money Changer Firm
S063	S063.00	Tailoring Shop & Tailors
[130]S064	S064.10	Amusement Park and Theme Park
	S064.20	Picnic Spot, Shooting Spot & Tourist Spot or Establishment
S065	S065.00	Building, Floor and Premises Cleaning or Maintenance Firm
S066	S066.00	Lottery Ticket Seller
[131]S067	S067.00	Immigration Adviser
S068	S068.00	Coaching Center
S069	S069.00	English Medium School

[120] "Sales Center of Readymade Garments" [Service Code S041.00 under Heading No. S041] was inserted by the Finance Act 1998 and deleted by SRO No. 163-Ain/2003/371-Musak dated 12.06.2003 and now its is treated as "trading of goods".

[121] Previously, the Second Schedule was titled "Services subject to Value Added Tax". It has been first replaced by section 106 of the Finance Act 2000 (XV of 2000) under the title "Services Exempted from Value Added Tax". It has been replaced again by section 62 of the Finance Act 2004 (XVI of 2004) under the same title. "Trade Service" [Service Code S043.00 under Heading No. S043] was inserted by the Finance Act 1998 in the previous Second Schedule "Services subject to Value Added Tax" (before replacement by the Finance Act 2000) and deleted by SRO No. 170-Ain/2000/269-Musak dated 08.06.2000 by not mentioning the Service Code.

[122] Heading Numbers S044 to S057 inserted by the Finance Act 1999.

[123] Inserted by the Finance Act 1999 and "Explanation" substituted by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002.

[124] Words "& Graphics Designer" inserted by SRO No. 137-Ain/2006/465-Musak dated 08.06.2006.

[125] Inserted by SRO No. 137-Ain/2006/465-Musak dated 08.06.2006.

[126] Inserted by the Finance Act 1999 as "Provider of Letter of Credit Service" and amended as "Provider of Banking Services" by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002; further amended by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004 (by inserting words "Non-Banking").

[127] Heading Number S058 inserted by SRO No. 170-Ain/2000/269-Musak dated 08.06.2000.

[128] Heading Number S059 inserted by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002.

[129] Heading Numbers S060 to S063 inserted by SRO No. 163-Ain/2003/371-Musak dated 12.06.2003.

[130] Heading Numbers S064 to S066 were inserted by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004. Against the Heading Number "S064", a common Service Code (which is expected to be "S064.00") is not prescribed as available in other cases (e.g., for S001 Heading Number), with a common title (such as "Amusement Park & Theme Park and Picnic Spot, Shooting Spot & Tourist Sport or Establishment").

[131] Heading Numbers S067 to S070 inserted by SRO 129-Ain/2007/474-Musak, dated 27.06.2007.

Dhaka University Institutional Repository

Table 5.08: List of All Prescribed Taxable Services up to FY 2009-10 ...*cont'd*

Heading No.	Service Code	Taxable Service
(1)	(2)	(3)
S070	S070.00	Private Medical and Engineering College
[132]S071	S071.00	Program Organizer
S072	S072.00	Human Resource Supply and Management Organization
S073	S073.00	Manpower Exporting Organization

Exemption of VAT on services: From 20.06.1991 to 30.06.2009, there were 26 (twenty six) SROs prescribed for exemption of VAT on services. In the main exemption list of goods and services[133] (applicable for 2009-10), there are seventeen (17) services mentioned against fifteen (15) Heading Numbers. Of these 17 services, five (5) services are fully exempted–two services [Cold Storage (S006.00) and Binding Firm (S008.20)] have never been taxed (up to 2009-10) from the very date of their incorporation in the list of taxable services at the time of introducing VAT (i.e., 01.07.1991) and other two service exempted for 8 years or more: (i) *Seller of Land (S055.00)* exempted from 06.06.2002 to date (30.06.2010) after initial 3 years of taxation from 10.06.1999; and (ii) *Specialist Doctor (S044.00)* exempted from its insertion in the list of taxable services (10.06.1999) for 8 years up to 26.06.2007 and thereafter taxable over the last 2 years and again exempted from 11.06.2009 to date (30.06.2010). There are other eight services which were fully exempted for 2 years to 16 years previously and now taxable as shown in Table 5.09.

Table 5.09: Full Exemption with Exemption Period up to 30 June 2010

Services Code (Service Title)	TN Date	Exemption with Period thereof
S006.00 (Cold Storage)	01.07.1991	01.07.1991 to date (30.06.2010)
S008.20 (Binding Firm)	01.07.1991	01.07.1991 to date (30.06.2010)
S010.10 (Land Development Firm)	01.07.1991	06.06.2002 to 07.06.2006
S010.20 (Building Construction Firm)	12.06.1997	06.06.2002 to 09.06.2004
S014.00 (Indenting Firm)	01.07.1991	10.06.2004 to 10.06.2009
S016.00 (Travel Agency)	01.07.1991	09.06.1994 to 10.06.2009
S021.00 (Plant or Capital Machinery Rental Firm)	01.07.1991	01.07.1991 to 27.06.2007
S029.20 (Dental Treatment Center)	10.06.1999	10.06.1999 to 28.06.2008
S031.00 (Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration)	01.07.1991	10.06.1999 to 28.06.2008
S044.00 (Specialist Doctor)	10.06.1999	10.06.1999 to 26.06.2007 and from 11.06.2009 to date (30.06.2010)
S045.00 (Legal Adviser)	10.06.1999	10.06.1999 to 26.06.2007
S055.00 (Seller of Land)	10.06.1999	06.06.2002 to date (30.06.2010)

Note: "TN Date" means the date on which the concerned service has been brought under tax-net through incorporation into the list of taxable service.

Source: Compiled from 16 SROs on Exemptions.[134]

[132] Heading Numbers S071 to S073 inserted by SRO 105-Ain/2009/513-Musak, dated 11.06.2009.

[133] The latest list of exemption for 2009-10 is SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009.

[134] SRO No. 146-Ain/97/163-Musak, dated 12.06.1997; SRO No. 72-Ain/99/206-Musak, dated 13.04.1999; SRO No. 145-Ain/99/225-Musak, dated 10.06.1999; SRO No. 211-Ain/99/233-Musak, dated 26.07.1999 (w.e.f. 10.06.1999); SRO No. 294-Ain/99/242-Musak, dated 30.09.1999 (w.e.f. 10.06.1999); SRO No. 313-Ain/99/247-Musak, dated 17.10.1999; SRO No. 7-Ain/2000/252-Musak, dated 13.01.2000; SRO No. 169-Ain/2000/268-Musak, dated 08.06.2000; SRO No. 147-Ain/2001/312-Musak, dated 07.06.2001; SRO No. 123-Ain/2002/348-Musak, dated 06.06.2002; 165-Ain/2003/373-Musak, dated 12.06.2003; SRO No. 163-Ain/2004/409-Musak, dated 10.06.2004; SRO No. 151-Ain/2005/442-Musak,

Dhaka University Institutional Repository

In the latest list of VAT exempted services (for 2009-10; *vide* SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009), there are 12 services which are partially exempted for 4 years to overall 19 years. Another newly coded service [Internet Firm (S012.14)] has also been partially exempted from 11.06.2009, in case of the services provided to educational institutions. There are some other tax-exempted services under few SROs. Table 5.10 has presented the above 17 partially tax-exempted services along with the period of exemption.

Table 5.10: Partial Exemption with Exemption Period up to 30 June 2010

Service Code & Title	TN Date	Exemption with Period of Exemption
• S001.10 (Hotel) • S001.20 (Restaurant)	01.07.1991	01.07.1991 to 09.06.1999 • If located outside the metropolitan area and district town; and • If operated temporarily in tin-shed house in the metropolitan area and district town 10.06.1999 to date (30.06.2010) • All temporary hotels and restaurants; here "temporary" means without any fence, electric fan and not-more-than two electric bulbs
S002.00 (Decorators & Caterers)	01.07.1991	01.07.1991 to 11.06.2003 • If located outside the metropolitan area and district town
S004.00 (Construction Firm)	01.07.1991	28.06.1994 to date (30.06.2010) Following construction works exempted: • the construction related activities under all contracts signed up to 30.06.1991; • those under all contracts signed up to 30.06.1993 on the basis of all tenders circulated up to 30.06.1991
S007.00 (Advertising Firm)	01.07.1991	12.06.2003 to date (30.06.2010) • Classified advertisement published in newspaper
S008.10 (Printing Press)	01.07.1991	01.07.1991 to date (30.06.2010) • On charge of printing books, periodicals and students' educational materials
S012.14 (Internet Firm)[135]	12.06.1997	11.06.2009 to date (30.06.2010) • In case of the services provided to educational institutions
S022.00 (Sweetmeat Store)	01.07.1991	01.07.1991 to 09.06.1999 • If located outside the metropolitan area and district town; and • If operated temporarily in tin-shed house in the metropolitan area and district town 10.06.1999 to 12.06.2003 • If located outside the metropolitan area and district town
S027.00 (Insurance Company)	18.06.1992	09.06.1994 to 16.10.1999 • VAT paid on insurance premium in case of hull insurance of ocean-going ships in Bangladesh 17.10.1999 to date (30.06.2010) • VAT paid on insurance premium in case of hull insurance of ocean-going ships in Bangladesh and by Private Sector Power Generation Company

dated 09.06.2005; SRO No. 131-Ain/2006/459-Musak, dated 08.06.2006; SRO No. 126-Ain/2007/471-Musak, dated 27.06.2007; SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008; SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009 (replaced SRO No. 104-Ain/2009/512-Musak, dated 11.06.2009).

[135] The original title "Telephone, Teleprinter, Telex, Fax" (S012.00) was amended as "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.00) by the Finance Act 1997 and re-coded into five services by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.

Dhaka University Institutional Repository

Table 5.10: Partial Exemption with Exemption Period up to 30 June 2010 ... *cont'd*

Service Code & Title	TN Date	Exemption with Period of Exemption
S031.00 (Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration)	01.07.1991	01.07.1991 to 30.06.1994 • Grinding paddy, wheat and pulse[136] 01.07.1991 to 08.06.1994 • If service provided in exchange of money in case services other than S001-S023; *except* any service activity undertaken by a registered person for manufacturing, production or processing of taxable goods using raw materials or inputs of others[137] 09.06.1994 to 09.06.1999 • All services relating to repair or servicing of taxable goods in exchange of money in case of services other than services against Heading Numbers from S001 to S030 of Second Schedule[138]
S033.00 (Leaseholder)	28.07.1996	28.07.1996 to 09.06.1999 • Such leases having lease value less than monthly Taka 1.25 lakh or annual Taka 15 lakh
S037.00 (Procurement Provider)	12.06.1997	08.06.2006 to date (30.06.2010) • VAT payable on service of a procurement provider in case of supplying school-tiffin
S038.00 (Organizer of Entertaining Cultural Program with the help of Foreign Artists)	12.06.1997	12.06.1997 to date (30.06.2010) • Single entry price below Taka 100
S041.00 (Sales Center of Readymade Garments)	11.06.1998	08.06.2000 to 11.06.2003 • If located outside metropolitan area and first class municipalities
S048.00 (Transport Contractor)	10.06.1999	13.01.2000 to 07.06.2000 • Services whenever provided or whenever the service value paid against the agreement or tender before June 10. 1999 06.06.2002 to date (30.06.2010) • Service for transporting food crops
S057.00 (Distributor of Electricity)	10.06.1999	06.06.2002 to date (30.06.2010) • Electricity usable for irrigation activity
S063.00 (Tailoring Shop & Tailors)	12.06.2003	12.06.2003 to 09.06.2004 • Except air-conditioned tailoring shop and tailors 10.06.2004 to date (30.06.2010) • Except air-conditioned tailoring shop and tailors in any area and small tailoring shop in the region of Dhaka and Chittagong City Corporations
S064.20 (Picnic Spot, Shooting Spot & Tourist Spot or Establishment)	10.06.2004	10.06.2004 to date (30.06.2010) • Tourist spot or establishment (historical places)

Note: "TN Date" means the date on which the concerned service has been brought under tax-net through incorporation into the list of taxable service.

Source: Compiled from 16 SROs on Exemptions (see footnote 134).

[136] From 01.07.1991 to 30.06.1994, Service Code S031.00 was as Service Code S024.00 (Person, Organization or Firm Engaged in Manufacturing, Production, Processing, Repair or Servicing of Taxable Goods in exchange of Money). On 20.06.1991 (w.e.f. 01.07.1991), then "Grinding paddy, wheat and pulse" was exempted. When S024.00 was re-coded by the Finance Act 1994 to S031.00 (Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration), then automatically, the grinding function was excluded.

[137] Under previous Service Code S024.00 (Person, Organization or Firm Engaged in Manufacturing, Production, Processing, Repair or Servicing of Taxable Goods in exchange of Money), on 12.08.1991 (w.e.f. 01.07.1991), this scope of service was exempted in addition to "Grinding paddy, wheat and pulse".

[138] Under newly changed Service Code S031.00 (Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration).

Dhaka University Institutional Repository

Imposition and exemption of supplementary duty (SD) on Services: The Third Schedule (goods and services subject to SD) shows five taxable services subject to SD up to 2008-09, of which three services [Hotel (S001.10), Restaurant (S001.20) and Film Exhibitor (Cinema Hall) (S023.00)] are incorporated since 1991-92, one services [Satellite Channel Distributor (S039.20)] from FY 2002-03, and another one services [SIM Card Supplier (S012.20)] from 2005-06 (see Table 5.04). But Hotel (S001.10), is exempted from 03.12.2003 to 2008-09 and Restaurant (S001.20), exempted from 03.12.2003 to 09.06.2004 (see Table 5.11).

Table 5.11: Services subject to Exemption of Supplementary Duty (SD)

SRO No.	Services subject to exemption
19-Ain/92/43-Musak, dated 27.01.1992[139]	Telephone, Telex, FAX and Laundry Services used in Hotel (S001.10) and Restaurant (S001.20)
338-Ain/2003/397-Musak, dated 03.12.2003 (repealed by SRO 412)	Hotel (S001.10) and Restaurant (S001.20)
166-Ain/2004/412-Musak, dated 10.06.2004 (repealed by SRO 443)	Hotel (S001.10)
19-Ain/92/443-Musak, dated 27.01.1992	Hotel (S001.10)

From 2009-10, exemption of VAT and/or SD is applicable on local provision of services from VAT registered service provider through local or international tender by an agency or person that is responsible in implementation of projects in exchange of foreign currency given as donation under international treaty or memorandum of understanding (MoU) [u/s 3(2)(aa) and u/r 31B].

5.7.07 Right to Take Input Tax Credit

The input tax credit mechanism is often referred to as the 'major beauty' of the VAT system (Ahmed, 2004, p. 47). Some expert has mentioned this input credit procedure as the 'inherent power' of the tax system (Hossain, 2008, p. 314). Others have stated this as such a feature that has made the VAT system an "unparalleled tax phenomenon" in the history of taxation (Saleheen, 2003, p. 9). Under standard practice, a VAT registered person is entitled to deduct input VAT incurred for the purpose of making taxable supplies and this right to deduct is fundamental to the neutrality of the tax (Ogley, 1998, p. 55). In the European Union, this is practiced in this way, as affirmed in a decision of the European Court of Justice (ECJ) as follows:

> "... the deduction system is meant to relieve the trader entirely of the burden of VAT payable or paid in the course of all his economic activities. The common system or value added tax therefore ensures that all economic activities, whatever their purpose or results, provided that they are themselves subject to VAT, are taxed in a wholly neutral way" [see the verdict of case *D.A. Rompleman and E.A. Rompleman – Van Deelen v. Minister van Financien* (Case C-268/83); *vide* Ogley, 1998, p. 55].

In the EU, the VAT incurred before trading actually commenced and the input VAT in respect of initial start-up costs, such as feasibility studies, may also be recovered. The basic right to deduct input VAT for the purpose of taxable transactions ensures that, where VAT is incurred in the

[139] This SRO No. 19-Ain/92/43-Musak, dated 27.01.1992 is not repealed but not relevant (Hossain, 2008, p. XLII), because "Telephone, Telex, FAX and Laundry Services" were never subject to SD.

Dhaka University Institutional Repository

production or distribution chain, it does not become a 'cascade' tax by being incorporated into the price of the goods or services, at an intermediate stage, before they are sold for final consumption. Furthermore, this right to deduct is against VAT due in the same period, hence, it is an immediate right (Ogley, 1998, p. 55).

In Bangladesh, section 9 (Tax credit) and rule 19 (Procedure for input tax credit) deal with the standard provisions of input tax credit mechanism. Rule 20 deals with the provision of "Input tax credit on capital machinery" under section 9(1A). Section 12 and corresponding rule 21 provide the regulatory measure on credit on inventory of inputs on which excise duty and sales tax were paid before the commencement of the VAT Act.[140] Other related provisions have been provided in section 10 (Correction of accounts after payment of output tax) and section 11 (Disposal of surplus input tax). To eliminate all earlier-stage taxes on zero-rated exports, section 13 deals with "Drawback of tax paid on inputs used in production or manufacture of exported goods". However, there are following nine valid rules (rules 27-30, 31A, 32, 33 and 34, *except* rule 31)[141] relating to exports and drawback thereon. Under section 9 and rule 19, the standard provisions of input tax credit mechanism (*except* on capital machinery) are as follows:

(1) A supplier of taxable goods or provider of taxable services can take credit input tax paid on local purchase or import of inputs against output tax payable at supply stage of goods or rendering stage of services.
(2) The input tax credit shall be taken through recording in the 'credit' column of the account current.
(3) The credit is not allowed without the possession of documentary proof (tax invoice for local purchase and bill of entry for import of inputs). If any person has taken credit without proof, the concerned VAT officer may direct for necessary adjustment in the account current or the return by canceling the said credit.
(4) The input tax credit is to be taken within thirty days from the date on which all inputs mentioned in the purchase invoice or bill of entry have been entered into the taxpayer's place of production, supply or service. In case of failure in entering all the inputs into the place of production, supply or service, for any reasonable ground, input tax credit shall be taken during the next tax period after completion of the full entry of such inputs.
(5) The proportional input tax paid on inputs used in tax-exempted goods or services is to be adjusted through recording in writing in the 'payable' column of the account current to cancel the credit just after the expiry of the concerned tax period in which the full credit on all inputs has been taken.

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[140] The title of section 12 is "Credit of input tax for stock at the time of commencement of the Act" and that of rule 21 is "Credit of tax paid on stock of inputs at the time of commencement of the Act".

[141] Rule 27 is on " Export procedure", rule 28 on "Drawback in case of export", rule 29 on "Export drawback on the basis of returns", rule 30 on "Taking drawback through submission of application", rule 31 on "Supply of goods or rendering of services in foreign currency against local or international tender" *[repealed by SRO No. 162-Ain/2004/408-Musak, dated 10.06.2004]*; rule 31A on "Supply of goods or rendering of services in foreign currency against local or international tender" *[inserted by SRO No. 305-Ain/2004/433-Musak, dated 10.06.2004]*; rule 32 on "Supply of goods or rendering of services in exchange of foreign currency against local back-to-back letter of credit", rule 32A on "Facility of zero tax-rate and drawback in the case of backward linkage industry" *[inserted by SRO No. 288-Ain/98/195-Musak, dated 14.12.1998]*; rule 33 on "Drawback in the case of export by post" and rule 34 on "Drawback in the case of foodstuff and other commodity supplied to conveyances going abroad for consumption outside Bangladesh".

Dhaka University Institutional Repository

(6) In case of exports (i.e., zero-rated supply or provision), the complete elimination of cascade tax has been ensured by allowing credit on not only VAT, but also the supplementary duty, import duty, excise duty and all other duties and tax (*except* advance income tax) paid on the inputs used in production of exported goods or provision of exported services.

However, from 1993-94, a negative list for taking input tax credit was incorporated by inserting sub-rule (6) in rule 19. From 1996-97, the negative list of input tax credit has been incorporated initially by inserting sub-section (1A) in section 9.[142] But the comprehensive negative list has been incorporated from 2000-01 by substituting sub-section (1) of section 9. From 1996-97 to 1999-2000, there were two items in this list [present clauses (h) and (i) in section 9(1)]. From 2000-01, the negative list for taking input tax credit has incorporated new 9 items [present clauses (a) to (g) and (j) and (k) in section 9(1)]. In 2002-03, two additional items [present clauses (gg) and (hh) in section 9(1)] were included, and hence there have been 13 items in the negative list. Following Table 5.12 shows the thirteen updated items of this negative list as applicable for 2009-10 along with the effective financial year:

Table 5.12: Negative List for Input Tax Credit

Effective from FY	Items in the Negative List for Input Tax Credit
1993-94	• VAT paid on inputs by a person who is a beneficiary under cottage industry in the production of his goods; • VAT paid on inputs by a turnover taxpayer and • VAT paid on inputs by a producer of exempted goods [rule 19(6)].[143]
1996-97	• VAT paid on inputs purchased by the provider of any specified service as per provisions of section 5(4), based on six bases of fixed rate of value addition (10 percent, 15 percent, 30 percent, 33.35 percent, 60 percent and 100 percent).[144] • VAT paid by a supplier of goods and provider of services on the basis of tariff value fixed as per provision of section 5(7). Presently there is a good number of taxable goods (such as match, rubber processing oil, laminated driving license supplied to BRTA, coal produced from Barapukuria Coal Mine project, bricks, fabrics made of yarn and thread, service water transports, etc.) and one taxable service [SIM Card Supplier (S012.20)], for which tariff value has been prescribed.[145]

[142] Sub-section (1A) was inserted by the Finance Act 1996 and substituted by the Finance Act 2000. Sub-section (1A) was for the negative list for input tax credit from 1996-97 to 1999-2000. From 2000-01, sub-section (1A) deals with the provision regarding tax credit on capital machinery.

[143] Sub-rule (6) was inserted in rule 19 by SRO No. 238-Ain/93/85-Musak, dated 06.08.1993. VAT paid on inputs by a turnover taxpayer and by a producer of exempted goods incorporated in sub-section (1) of section 9 as clause (b) and clause (a) respectively by the Finance Act 2000.

[144] This is clause (h) in present sub-section (1) of section 9. Refer to the *Imposition of Tax on the Basis of Actual Value in Case of Specified Services Rules 2008* (SRO No. 197-Ain/2008/499-Musak, dated 29.06.2008) for rates for 2008-09; and refer to the *Imposition of Tax on the Basis of Actual Value in Case of Specified Services Rules 2009* (SRO No. 114-Ain/2009/522-Musak, dated 11.06.20098) for rates for 2009-10. See one example [electricity distributor (S057.00), e.g., Power Development Board (PDB), Dhaka Electricity Supply Authority (DESA), Dhaka Electricity Supply Company (DESCO), Rural Electrification Board (REB), etc.] mentioned in File No. 1(7)Musak(Pari: Pratyarpan)/2000/124(9), dated 21.06.2000, where the service provider pays VAT based on truncated base-value and hence not allowed for any input tax credit (Hossain, 2008, pp. 406-407).

[145] This is clause (i) in present sub-section (1) of section 9. See Hossain, 2008, pp. 289-311 for all the valid and updated orders of the NBR prescribing the tariff values applicable for FY 2008-09.

Dhaka University Institutional Repository

Table 5.12: Negative List for Input Tax Credit ... *cont'd*

Effective from FY	Items in the Negative List for Input Tax Credit
2000-01	• SD paid on inputs used in the production of goods or rendering of service. • VAT paid on package reusable at any other time *except* for the first time. • the VAT paid on such goods and service as are related to the construction, balancing, modernization, renovation and repair of any building or infrastructure or establishment; purchase or repair of all kinds of furniture, stationery, air-conditioner, fan, lighting equipment, generator etc.; architectural plan and design etc., though directly related to production of taxable goods or provision of service.
	• VAT in excess of the rate of VAT paid on various goods and service specified by rules, related to production or supply of taxable goods or provision of taxable service. Under rule 19(1A), following amount of credit may be taken in respect of a place, establishment or premises connected with the production or supply of taxable goods or rendering of taxable service: (a) 80 percent of the VAT paid on the use of insurance, gas and distribution of electricity; and (b) 60 percent of the VAT paid on the use of telephone (***but not cellular or mobile phone***[146]), teleprinter, FAX, Internet, freight forwarders, clearing and forwarding agent, WASA, audit and accounting firm, procurement provider, security service, legal advisor, transport contractor and letter of credit. Thus, 20 percent of VAT paid on the use of insurance, gas and distribution of electricity and 40 percent of the VAT paid on the use of telephone, teleprinter, FAX, Internet, freight forwarders, clearing and forwarding agent, WASA, audit and accounting firm, procurement provider, security service, legal advisor, transport contractor and letter of credit, are not allowable for input tax credit. • VAT paid against expenditure on travel, entertainment, staff welfare and development activity. • Input tax mentioned in bill of entry or invoice (*Chalan Patra*) with registration number other than the registration number of the supplier or trader of goods or provider of service. • VAT paid on goods kept under custody, or possession or occupancy of any other person.
2001-02	• VAT paid on such goods and service as are related to the replacement, expansion of any building or infrastructure or establishment;
2002-03	• Input tax paid on inputs purchased by traders mentioned in the second proviso to section 5(2), that is, where input tax is paid on the basis of rate of value addition of 10 percent for traders in general, and for the small retailers or shops a minimum annual value addition of Taka 28,000 (for Dhaka and Chittagong City Corporation area), Taka 24,000 (for other City Corporation areas), Taka 16,000 (for municipal areas of the district cities) and Taka 8,000 (for other areas of the country).[147]

[146] The NBR has explained that input tax credit is given on 'telephone' and since 'cellular phone or mobile phone' is different from telephone in terms of function, use not in a fixed address, and use at any place in home and abroad and may be by a changed person. The H.S. Code for telephone is 8517.50 and for cellular phone is 8525.20. Besides u/s 9(1)(m), input tax credit not allowed on goods kept under possession of other person. Thus, no input tax credit is allowable for VAT paid on cellular/mobile phone [*vide* NBR's note, dated 17.02.2004; Hossain, 2008, pp. 337-338].

[147] This is sub-clause (ii) of clause (gg) of section 9(1); clause (gg)) inserted in sub-section (1) of section 9 without any sub-clause by the Finance Act 2002. Refer to SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004. This SRO has repealed SRO No. 143-Ain/2001/308-Musak, dated 07.06.2001, amended by SRO No. 126-Ain/2002/351-Musak, dated 06.06.2002 and SRO No. 173-Ain/2003/381-Musak, dated 12.06.2003.

Dhaka University Institutional Repository

Table 5.12: Negative List for Input Tax Credit ... *cont'd*

Effective from FY	Items in the Negative List for Input Tax Credit
2002-03 *(cont'd)*	• Input tax paid on inputs purchased by registered or registerable traders mentioned in section 5(4A) on the basis of total price received or deemed to have been received by the trader, to be determined by the rule, ***which was never prescribed.***[148]
2003-04	• VAT paid against inputs not included in taxable value base of goods mentioned in section 5(2), that is, the *consideration* of inputs purchased, in which, all costs of manufacture or production and, where applicable, any commission, charge, fee, all other duties and taxes including SD (except VAT) and profit shall be included.[149]
2009-10	• VAT paid on rent or lease of vehicle.[150] • VAT paid against such value not included in taxable value base of goods mentioned in section 5(2).[151]

Sources: Compiled from the *Finance Acts* or *Ordinances* from *1992* to *2009* and relevant SROs and Orders.

Except the input taxes mentioned in section 9(1)(f) and rule 19(1A), all other input VATs are fully disallowed. The characteristics of these disallowances are as follows:

(1) Taxes other than VAT (i.e., turnover tax and supplementary duty) [clauses (b) and (c) of section 9(1) and u/r 19(6) for turnover tax];
(2) Input VAT related to exempted goods [clause (a) of section 9(1), and u/r 19(6)];
(3) Input tax credit only once (e.g., first time VAT on package reusable) [clause (d) of section 9(1)];
(4) VAT on inputs not included in declared price u/s 5(2) and u/r 3(1) [sub-clause (i) of clause (gg) of section 9(1)];
(5) VAT based on truncated value addition for selective services u/s 5(4) and for traders under second proviso to section 5(2) [sub-clause (ii) of clause (gg) and clause (h) of section 9(1)];
(6) VAT based on tariff value u/s section 5(7) [clause (i) of section 9(1)];
(7) Fraudulent claim of credit (the bill of entry or invoice contains other person's registration number) [clause (j) of section 9(1)];
(8) VAT paid on goods kept under other person's possession [clause (k) of section 9(1)];
(9) Input VAT on such goods and service as are related to the construction and repair of any building or office furniture and equipment though directly related to production of taxable goods or provision of taxable services [clause (e) of section 9(1)];
(10) VAT on some expenditures (travel, entertainment, staff welfare and development activity) [clause (g) of section 9(1)]; and
(11) Input VAT paid by a beneficiary under cottage industry [sub-rule (6) of rule 19].

[148] This is clause (hh)) inserted in sub-section (1) of section 9 by the FA 2002. But when sub-section (4A) was inserted in section 5 (Determination of value for calculation of value added tax) by the Finance Act 1998, no corresponding amendment was made in the related rules: rule 3 (Declaration of value for assessment of value added tax and supplementary duty) or rule 19 (Procedure for input tax credit). See SRO No. 114-Ain/98/175-Musak, dt. 11.6.1998 and SRO No. 131-Ain/99/212-Musak, dt. 10.06.1999, which amended the *VAT Rules 1991* in 1998 and 1999 respectively. In 1999, a new proviso was inserted to sub-rule (5) of rule 19, regarding the disallowance of input tax credit, if the registered person did not take input tax credit in the tax period in which the inputs were entered into the place of manufacture, production or trading and did not show it in the return of concerned tax period. This proviso to rule 19(5) was withdrawn by SRO No. 166-Ain/2000/265-Musak, dt. 8.6.2000, by substituting sub-rule (5).

[149] This is sub-clause (i) of clause (gg)) of section 9(1); clause (gg) was substituted by the Finance Act 2003 with two clauses.

[150] Clause (e) of sub-section (1) of section 9 has been amended by inserting the words "rent or lease of vehicle" by the Finance Act 2009.

[151] The sub-clause (i) of clause (gg)) of section 9(1) has been amended by inserting the words "value or" by the FA 2009.

Dhaka University Institutional Repository

Since 2007-08, under rule 19(7), a producer of goods on the basis of a contract may take credit on VAT paid on inputs other than inputs supplied by the owners, after complying the provision of section 9, subject to the condition of inclusion in the declared price u/r 3. According to section 9(1)(f) and rule 19(1A), the partial credit regarding selective services was allowed at the rate of 60 percent over 2000-01 to 2003-04 and then for three services (insurance, gas, and distribution of electricity) at the rate of 80 percent and for other services at the rate of 60 percent, as shown in Table 5.13.

Table 5.13: Negative List for Partial Input Tax Credit

Services on which a partial credit is allowed	Percentage of VAT allowed as input tax credit		
	FY 2000-01	FY 2001-02 to FY 2003-04	FY 2004-05 to FY 2009-10
Warehouse, advertisement	60	n/a	n/a
Telephone, teleprinter, FAX, Internet, freight forwarders, clearing and forwarding agent, WASA, audit and accounting firm, procurement provider, security services, legal advisor, transport contractor, letter of credit	60	60	60
Insurance, distribution of electricity	60	60	80
Gas	n/a	n/a	80

Sources: The *Finance Acts and Ordinances 2000 to 2008* and relevant Orders/Files under section 9(1)(f) and rule 19(1A).

Initially, there was no restriction regarding the time of taking input tax credit. Only in case of joint producer of taxable and tax-exempted goods and a local supplier and exporter of taxable goods, the 'concerned tax period' was mentioned after which the necessary adjustments were required to be given. The joint producer of taxable and tax-exempted goods was required to cancel the credit of input tax related to inputs used in manufacture or production of tax-exempted goods "after the expiration of the concerned tax period". The local supplier and exporter of taxable goods was required to claim the credit of all input tax [the amount of other duty and tax (except advance income tax)] related to inputs used in manufacture or production of exported goods "after the expiration of the concerned tax period" [*vide* rules 19(3) and 19(4)]. Only in FY 1999-2000, the provision of taking input tax credit on input tax against output tax payable within the concerned tax period was incorporated.[152] In FY 2000-01, the provision of input tax credit was made for 'every tax period' in which the date on which all inputs mentioned in the invoice or bill of entry have been entered into the taxpayer's place of production, supply or service fell.[153] From FY 2001-02, the time period of taking input tax credit has been fixed at thirty days from the date on which all inputs mentioned in the invoice or bill of entry have been entered into the taxpayer's place of production, supply or service.[154]

Correction of accounts for sales return and disposal of surplus input tax: Under section 10, in case of cancellation of sales and receipt back of goods, after an invoice has been given for a supply of taxable goods by a registered person, he is allowed to adjust the VAT or, where

[152] This provision was inserted by the Finance Act 1999.
[153] Sub-section (1) was substituted by the Finance Act 2000 with this provision (see the beginning provision and first proviso).
[154] First proviso to sub-section (1) was substituted by the Finance Act 2001 with this provision.

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applicable, VAT and supplementary duty due on the goods so taken back against the output tax due in the account current or in the subsequent VAT return. Under section 11, where, during any tax period, the input tax due becomes more than the output tax payable, the surplus input tax shall be brought forward by the registered person in the account current for next tax period and this will be treated as input tax in the subsequent tax period.

Credit of input tax for stock at the time of commencement of the VAT Act: Under section 12, a registered person having, on the date of commencement of the VAT Act (i.e., on July 1, 1991), any stock of inputs, purchased by him, before such commencement, chargeable to excise duty under the Excises and Salt Act 1944 or to sales tax under the Sales Tax Ordinance 1982 or at any time after the commencement of this Act, VAT-paid inputs, used for the production or manufacture of any vatable goods, may, with the approval of the concerned officer, take a credit of input tax against payable output tax for such inputs. Under rule 21, input tax credit will be an amount equal to ten percent of the price of average stock for two months or the price of the actual stock, whichever is less,[155] subject to the submission to the local VAT office two copies of the declaration in Form "Musak-15" in respect of stock of inputs on the date of commencement of the Act or in respect of the goods newly brought within the purview of VAT, on any date after the date of commencement of the Act, within seven days of such date.

Cancellation of input tax credit on unused or unusable materials: If a registered person considers later on that any input purchased by him on payment of VAT to be unusable, he shall, for the purpose of disposal of such goods, submit an application in Form "Musak-26" (Application for Disposal of Unused or Unusable Inputs) to the local VAT office. The Superintendent shall, within seven days after being informed, if satisfied on spot inspection that the concerned goods are unusable by the registered person, send the application, with his opinion, to the Divisional Officer for a decision as to the disposal of the goods through supply or destruction. The Divisional Officer shall, subject to his satisfaction, give his decision as to the disposal of the application within thirty days of its receipt. The Superintendent shall, in accordance with the decision given by the Divisional Officer, direct the registered person to cancel the credit taken by him in respect of the inputs applied as unusable and to make necessary adjustment in the account current and the subsequent return (rule 40).

Cancellation of input tax credit on goods manufactured or produced damaged or destroyed in accident: If a registered person considers that the goods manufactured or produced or stored for supply has, for the reason of being damaged or destroyed in accident or for any other reason become non-suppliable, he shall submit to the local VAT office an application in Form "Musak-27" (Application for Disposal of Goods Damaged or Destroyed or Unfit for Supply) in the case of accident, within twenty-four hours, of the occurrence of the accident or in the case of any other reason, within twenty four hours of being informed of the matter, for disposal of such non-suppliable goods. The Superintendent shall, within three days of the receipt of the application,

[155] Input tax credit was initially fixed under the original VAT Rules at an amount equal to eight percent of the price of average stock for one months or the price of the actual stock, whichever is less. This was amended by SRO No. 288-Ain/91/35-Musak, dated 01.10.1991, w.e.f. 01.07.1991.

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determine, after conducting spot inspection, the value of the goods damaged or destroyed in the accident and the amount of the output tax in respect thereof and send the application with his opinion to the Divisional Officer for giving his decision for the disposal of damaged or destroyed goods through destruction or in any other manner. If the goods are considered fit for supply partially or fully at reduced price, the Superintendent shall, after determining the proper price of such goods in has opinion, submit the application to the Divisional Officer for his approval. The Divisional Officer shall, subject to his satisfactions, allow the supply or destruction of the concerned goods. The Superintendent shall, after receipt of proper direction from the Divisional Officer,-

(a) in the case of goods wholly destroyed or damaged, direct the applicant, after canceling the credit taken in respect of the input used in the manufacture or production of the said goods, in the Account Current and the subsequent return; or
(b) in the case of goods destroyed in the accident, after canceling the input tax credit proportionately on the basis of the difference between the normal price and the reduced price approved by the Divisional Officer, to make adjustment in the account current and subsequent return (rule 41).

5.7.08 Taxation of Private Use

In the European Union, "the use of goods forming part of the assets of a business for the private use of the taxable person or of his staff or more generally for purposes other than those of business" is treated as a 'supply of services', where the VAT on such goods is wholly or partly deductible. In France and German, governments had incorporated 'de minimis' provisions into their domestic legislation and this required at least 10 percent of an asset's use to be for business purposes before input VAT could be recovered (Ogley, 1998, pp. 59-60).

In Bangladesh, under rule 16(2), if a registered supplier supplies the goods manufactured by him or stored in his registered premise, for his own consumption, he shall issue in Form "Musak-11" (invoice or *chalan patra*) or in any other form approved in this behalf by the NBR by notification in the official Gazette, a consolidated invoice in his favour at the end of a day and shall preserve the original and third copy in invoice book which shall be preserved in the business office and shall submit the second copy to the local VAT office within seventy two hours from the time when the supply was effected. Under rule 16(4), the Superintendent of the concerned VAT office or any officer above him may verify through Form Musak-11B the correctness of invoice in Musak-11 given by the registered person and input tax credit received against it. Thus, the input tax on own consumption is also allowed as a credit subject to treatment of the same as a regular taxable transaction along with issuance of invoice and submission thereof in the local VAT office. For this purpose, there is no 'de minimis' provisions of using the goods for business purpose at least for a fraction of the goods.

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5.7.09 Adjustment for Capital Goods

In the VAT law, 'input' includes one type of capital goods, which is 'machinery', but excludes *four* types of capital goods, viz., land, building, office equipment and conveyance [u/s 2(c)]. In line with this provision, input VAT related to construction and repair of building or infrastructure or establishment, and purchase or repair of furniture, air-conditioner, fan, lighting equipment, generator etc. is not allowed as credit [u/s 9(1)(e)]. Rule 20 [u/s 9(1A)] deals with the provision of input tax credit on capital machinery. The original version of rule 20 contained sub-rules (6) to (9), which were deleted and never enforced.[156] The present provisions of rule 20 are as follows:

a. ***Import or local purchase of capital machinery without VAT:*** A registered person engaged in the manufacture or production of taxable goods or rendering or export of taxable service may, in the case of imported capital machinery, get release of the machinery from customs station without paying VAT, by furnishing a bond in Form "Musak-14" (Bond for Value Added Tax Payable on Imported Capital Machinery). A supplier of capital machinery manufactured or produced in Bangladesh may supply, by furnishing an undertaking in form "Musak-14Ka" (Bond for Supply of Capital Machinery without Payment of Value Added Tax), capital machinery manufactured or produced by him, without payment of VAT, to any other registered person engaged in manufacture or production of taxable goods or rendering of taxable service or engaged in export [sub-rules (1) and (3) of rule 20].

b. ***Installation of the capital machinery within the stipulated period:*** The capital machinery, imported or locally purchased, has to be properly installed in the place of manufacture or production of the goods or rendering of service of the registered person within six months from the date of the release of the machinery from the customs station or from the date of purchase. The time limit may be extended for further three months on application. On proper installation of the machinery the concerned bond will be cancelled [sub-rules (2) and (3) of rule 20].

c. ***Refund or cancellation of the input tax credit if the capital machinery is sold:*** If the registered person sells the capital machinery imported or locally purchased without VAT, to any other registered person, before the expiry of the subsequent four years, the seller shall have to refund to the Government exchequer the credit taken or adjust it in the account current or in the return according to the following percentage of the VAT credit taken: 100 percent in first year; 65 percent in second year; 35 percent in third year; 15 percent in fourth year [sub-rule (4) of rule 20].

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[156] The content of sub-rules (6), (7), (8) and (9) of rule 20 is only available in the original VAT Rules 1991, published in the *Official Gazette* on 12.6.1991. It was never printed in any other statutory documents published by the NBR. Sub-rules (6), (7), (8) and (9) of rule 20 were repealed by S.R.O. No. 238-Ain/91/25-Musak, dated 6.8.1991. The provisions were: (a) If the registered person furnishes a bond stating that he shall export at least 70 percent of the goods manufactured or produced or services rendered by him over the next 4 years (without any break), may release the capital machinery imported without paying any import duty and other all types of duties and taxes (except AIT) from customs station [sub-rule (6)]. (b) If an exporter purchases the above capital machinery manufactured or produced in Bangladesh, may take credit of all types of duties and taxes through adjustment in Account Current [sub-rule (7)]. (c) If an exporter fails to export at least 70 percent of the goods manufactured or produced or services rendered by him over the next 2 years (without any break) from the time of importing or purchasing locally the capital machinery, shall have to refund to the Government exchequer the credit taken or adjust it in the account current or in the return within 30 days of the expiration of 2 years [sub-rule (8)]. (d) In case of sale of capital machinery, the seller will refund the credit taken and the new purchaser will be allowed credit according to following rate: 100 percent in first year; 65 percent in second year; 35 percent in third year; 15 percent in fourth year [sub-rule (9)].

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d. ***Input tax credit in case of purchase from an importer or local purchaser of capital machinery without VAT:*** If a registered person purchases the capital machinery from an importer or local purchaser without any VAT, he shall be entitled to take VAT credit to the following extent of credit on VAT mentioned in the original bill of entry or invoice: 100 percent in first year; 65 percent in second year; 35 percent in third year; 15 percent in fourth year [sub-rule (5) of rule 20].

5.7.10 Regional Limits

As stated earlier (sub-section 5.7.01), for taxation purpose, the geographical location is not specifically mentioned with respect to supply of taxable goods. But for imposition of VAT on import and taxable services, Bangladesh is mentioned as the place of import and place of providing services. However, since for zero-rated supply (i.e., export), the place of supply is outside Bangladesh, the place of supply of taxable goods shall be within Bangladesh. Thus, the whole area of Bangladesh is within the geographical scope of VAT without any regional limit regarding input tax or output tax. But for following purposes, the place or location is important:

(a) ***Registration at single or multiple places:*** For single place of businesses for multiple taxable goods or service or import or exports, only one registration shall be required [u/r 9(4)]. But for multiple places of supply of goods or rendering of service or import and export trade, separate registration is required for each place [u/s 15(2)]. However, where the supply of goods, *except* at production stage, or the rendering of service or import or export business is conducted centrally and the accounts and records thereof are maintained accordingly, the NBR may, by general or special order, direct only the head office for central registration [proviso to sub-section (2) of section 15].

(b) ***Place of maintaining statutory records:*** Under section 31, every registered person has to maintain at the *place of business* the prescribed records, but as per rule 22(1), the registered person shall maintain in his place of manufacture or production or business or in the place of rendering service the prescribed books, whichever is applicable.

(c) ***Exhibition of registration certificates and other papers or declared price:*** A registered person shall exhibit in the premises from which goods are supplied or service are rendered or goods are imported or exported, in bound condition or, as the case may be, by affixing them on the wall, his registration certificate and such other order, notification, poster or such other paper as the NBR may direct in this behalf so that they become easily visible [u/r 13(a)]. The registered person is also required to affix the declared price list of the goods for supply in his place of production or manufacture or place of business so that it can easily be sighted [u/r 3(8)].

Only exception regarding regional limit is available in the VAT laws is relating to the exemption of both value added tax and supplementary duty on one service [Film Exhibitor (Cinema Hall) (S023.10)]. Under an SRO[157], twelve (12) cinema halls in three hill districts–Rangamati, Khagrachari and Bandarban–districts were fully exempted from VAT and supplementary duty.

[157] SRO No. 138-Ain/93/73-Musak, dated 12.07.1993.

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5.8 Summary

As stated in the preceding sections, this chapter delineates the principal characteristics of the VAT system in Bangladesh. With a highlight of a fiscal history from a prehistoric age, a detailed chronology of consideration and implementation of the VAT in Bangladesh has been provided. A tax similar to sales tax (*Klrpta* or fixed tax) was mentioned in the *Kautiliyam Arthasastram* (circa 321-300 B.C.). The *sales tax* was introduced in British India in 1938 first in Central Provinces, but in 1941 in Bengal as a single point tax. During Pakistan regime, the Bengal sales tax of 1941 was continued in the province of East Bengal. In 1948, sales tax was transformed as a central tax under the Pakistan General Sales Tax Act of 1948 as a multipoint tax on the retail prices of goods. The Act of 1948 was repealed in 1951 by enactment of the Sales Tax Act 1951 and this 1951 Act was adopted in independent Bangladesh.

In April 1979, the concept of VAT was discussed in the *Final Report of the Taxation Enquiry Commission* (1979) for the first time in Bangladesh as a possible fiscal instrument and as an alternate to sales tax. In 1982, the Sales Tax Act 1951 was repealed and *business turnover tax* and *sales tax* were introduced by promulgating the *Business Turnover Tax Ordinance 1982* and the *Sales Tax Ordinance 1982* respectively. In October 1989, a World Bank Mission proposed "An Agenda for Tax Reform" to introduce a manufacturing-cum-import stage VAT at a single standard rate within three years. Under the Extended Structural Adjustment Facility (ESAF) arrangement, an IMF mission, in May 1990, recommended the announcement of the introduction of a VAT from January 1991 and the then Finance Minister in his budget speech in June 1990, also mentioned the Government's consideration of introducing VAT from January 1991. A new Government came into power in March 1991 and after preparatory works, the VAT Bill was approved in the Meeting of the Council of Ministers on 20 May 1991 and a decision was taken to introduce VAT from July 1, 1991. The VAT Ordinance 1991 was promulgated on 31 May 1991 and sections 15-18, 20-22 and 72 of the VAT Ordinance were made effective from 2 June 1991 and other sections from 1 July 1991. On 12 June 1991 (the budget-date of 1991-92), the VAT Rules 1991 was published. The *Value Added Tax Bill 1991* was placed in the Parliament on 01 July 1991 and passed on 09 July 1991 and published in the Official Gazette on 10 July, 1991.

Although the World Bank/IMF technical assistance in the area of finance to Bangladesh as one of the member countries might be the strongest reason why Bangladesh has adopted VAT, but other reasons included: expansion of the tax base, simplification of the tax collection procedure, bringing transparency in the taxation system, prohibiting cascading taxation at different stages of production, thoroughly consolidating the tax administration, activating the overall economy by mobilizing more internal resources, and bringing the consistency in the tax-GDP ratio.

In 1991, initially the variant followed by Bangladesh was a VAT confined to import *plus* manufacturing of goods *plus* provision of services. From 1994-95, an optional VAT registration for traders was introduced, without having any positive response. Since 1996-97, VAT in Bangladesh has been a broad-based tax by covering all stages in the production and distribution

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process including the wholesale and retail levels. However, until its expansion to retail stage from 1996-97, the VAT might not be called statutorily a consumption tax. But even then, being an import-cum-manufacturer-level VAT, from the very beginning (July 1991) it was a consumption-type of VAT due to the extent of the tax-base computed by considering the "input" including capital machinery. In Bangladesh, the VAT regime uses the destination principles, because, the imports are taxable and the exports are zero-rated and thereby tax-exempted with input tax refund. The method of computing VAT in Bangladesh is the *invoice-credit method*, which is also a *subtraction-indirect method*, except for special situations where the VAT is not mentioned in the invoice (the bill of entry in case of import) and it is included in the total value, then the VAT (as output tax or input tax) is to be backwardly computed by applying the VAT factor. For selective services, where the truncated base-value or tariff value or minimum annual value addition has been prescribed as a pre-fixed rate of value addition, then VAT payable is to be computed by using a *fixed-direct method*, a unique ad hoc method applied in Bangladesh, to compute directly the net VAT payable and input tax credit is not allowable.

As a domestic consumption-type VAT, the final incidence of VAT is borne in Bangladesh by the final consumer of taxable goods or services. However, the importers of taxable goods, manufacturer or producer of taxable goods, and traders of taxable goods at trade stage and the providers of taxable services are the statutory taxpayers under the VAT system. In case of withholding VAT on selective services, the selective VAT deducting/collecting entities are the recipient of the services and hence consumers of the services and they are the direct taxpayers also having the obligation to deduct/collect the VAT at source at the time of paying the bills of the providers of services at a prescribed rate and deposit the same to the treasury.

Under the VAT system of Bangladesh, tax points in case of taxable goods is at the time of any of the following activities, whichever occurs first, namely: (a) delivery of the goods; (b) issuance of an invoice; (c) use of the goods; and (d) partial or full payment [u/s 6(2)]. However, in case of importation of goods, VAT is payable at the same time and in the same manner as import duty at customs station. In case of taxable services, VAT is payable at the time of any of the following activities, whichever occurs first, namely: (a) rendering of the service; (b) issuance of an invoice; and (c) partial or full payment. In case of importation of goods by a commercial importer, VAT is payable in the form of Advance Trade VAT (ATV) at import-stage along with other import-stage taxes. Under the "stamp or banderole" system of collecting VAT (applicable for cigarette containing tobacco, *biri* made manually, soft drinks and mineral water and toilet soap), VAT is to be considered as paid equivalent to the value of the stamp or banderole used.

Regarding the time for depositing the VAT to the treasury, in case of VAT on goods, the taxpayer has to pay such amount of money in the treasury time to time through Treasury Chalan, so that net liability of VAT (after due input tax credit and other adjustments) can be paid out of that balance. In case of VAT on services, the VAT is to be deposited by a provider of services to the treasury within ten working days of the month following the tax period (in the case of an

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Insurance company 20 working days). In case of source-VAT, the concerned entity has to deposit the tax within two months from the date of deduction of VAT at source.

In the VAT Act, there are three taxable events: (i) import of taxable goods in Bangladesh; (ii) supply of taxable goods; and (iii) rendering of taxable services in Bangladesh. The registration threshold before triggering a liability to VAT is annual turnover of forty lakh taka in FY 2009-10 (twenty four lakh taka in FY 2008-09) below which the concerned person will be a taxable person for turnover tax, if not liable to get mandatory registration. The taxable persons are liable to be accountable to the tax authority for their taxable events under the VAT laws. They can be referred to those persons who are liable to be registered under the VAT laws—(i) supplier of taxable goods (manufacturer), (ii) supplier of taxable goods (trader) (iii) provider of taxable services, (iii) importer of taxable goods, and (iv) exporter of taxable goods or services.

In Bangladesh, from the very beginning, the VAT is a single-rated (15 percent) tax along with zero-rate for exports. But if the truncated value additions (TVA) for services are considered, then VAT rates may be multiple. From 2003-04, with the truncated value additions (TVA) and the net VAT rates (NVR) are also being given. In 2008-09, out of 86 taxable services, 47 services are subject to imposition of VAT at six net VAT rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent). Currently (2009-10), out of 93 taxable services (including only three new services with last year's 86 services and with five new re-coded existing services from one services), 52 services are subject to imposition of VAT at same six net VAT rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent). At traders stage, there is another rate truncated value addition (10 percent TVA or 1.5 percent net VAT rate since 2001-02) and from the commercial importers (with effect from October 1, 2004) also another VAT (in the name of 'Advance Trade VAT') has been collected on the basis of 10 percent TVA or 1.5 percent NVR up to 2008-09 and 15 percent TVA or 2.25 percent NVR from 2009-10 to be applied on the tax-base on which the import-stage VAT is applicable.

If the other two taxes imposed under the VAT Act (*supplementary duty* and *turnover tax*) are considered as taxes under the same tax law, then the higher tax rate and the lower tax rate can be found with reference to these taxes also. The turnover tax rates are currently low at 4 percent. In case of SD, for 2007-08 and 2008-09, the basic rates were only 2-tier rates (20 and 60 percent) and in 2009-10, the basic rates have been enhanced to 4-tier rates (20, 30, 45 and 60 percent) with special high tax rates of 100, 250 and 350 percent. The taxable services are also subject to SD and the current SD rates for only selective services (five services–Hotel, Restaurant, SIM Card Supplier, Film Exhibitor (Cinema Hall), and Satellite Channel Distributor–since 2005-06) are three-tier rates (10, 15 and 35 percent in 2008-09 and 10, 25 and 35 percent in 2009-10).

The legal tax bases of the VAT in Bangladesh are numerous. At import stage for the import of taxable goods, the tax base is the duty-paid *transaction value* or the *certified price* in the Clean Report of Findings (CRF) of the PSI agency. At manufacturing or production stage for the supply of taxable goods, the tax base is the *consideration* (based on declared price) in normal situation, or *sub-contract price* in case of contract-based production, or *retail price* or *tariff value* in prescribed products, and the *tender value* in case of supply of taxable goods through submission

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of tenders. At trading stage for the supply of taxable goods, the tax base may be the *total price* in normal situation or the *truncated value addition* (TVA) or *lump sum value addition* in prescribed cases. At service stage for the provision of taxable services, the *total receipts* in normal situation or the TVA or *tariff value* in case of the prescribed services. However, there is provision for considering the *trade discount* (allowed up to *15 percent* of the actual price and for maximum *30 days* during any twelve-month period) and other price related factors, which may be considered by a Base-Value Review Committee established by the NBR.

Except goods mentioned in the First Schedule of the VAT Act (Goods exempted from value added tax) and services mentioned in the Second Schedule (Services exempted from value added tax), and the goods and services exempted by the Government and the NBR through Gazette notification (SRO) by the Government or through special order of the NBR, all goods and services are under the network of VAT.

A supplier of taxable goods or provider of taxable services can take credit input tax paid on local purchase or import of inputs against output tax payable at supply stage of goods or rendering stage of services through recording in the 'credit' column of the account current subject to the possession of documentary proof. The proportional input tax paid on inputs used in tax-exempted goods or services is to be adjusted and in case of exports (i.e., zero-rated supply or provision), the complete elimination of cascade tax has been ensured by allowing credit on not only VAT, but also the supplementary duty, import duty, excise duty and all other duties and tax (*except* AIT) paid on the inputs used in production of exported goods or provision of exported services.

However, there is a negative list for taking input tax credit in sub-section (1) of section 9 and sub-rule (6) in rule 19, which includes – taxes other than VAT, input VAT related to exempted goods, input tax credit not more than once, VAT on inputs not included in declared price, VAT based on truncated value addition or tariff value, fraudulent claim of credit, VAT paid on goods kept under other person's possession, input VAT paid by a beneficiary under cottage industry etc. Besides input tax credit on unused or unusable materials and that on goods manufactured or produced damaged or destroyed in accident are to be cancelled and adjusted as per rules. In Bangladesh, under rule 16(2), the input tax on own consumption is also allowed as a credit subject to treatment of the same as a regular taxable transaction along with issuance of invoice and submission thereof in the local VAT office.

A registered person can import or locally purchase capital machinery without payment of VAT by giving a bond in prescribed form. The capital machinery has to be properly installed within six months (or within further extended three months) from the date of import/purchase. The machinery is to be used for subsequent four years and if sold before, the input VAT not collected is to be refunded at 15 to 100 percent depending on the year of sale. And the input tax credit is to be allowed to the purchaser being a VAT registered person at similar rates of refund.

For taxation purpose, no geographical limit is created and the whole area of Bangladesh is within the geographical scope of VAT without any regional limit regarding input tax or output tax.

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CHAPTER SIX
MANAGEMENT OF VAT IN BANGLADESH

6.01 Introduction

This chapter is on management of value added taxation from the viewpoint of value added taxpayers. Major discussions have focused on VAT registration or enlistment for turnover tax or cottage industry, accounting obligations of the taxpayers, declaratory obligations, issuance, submission and maintenance of VAT invoices, submission of return, payment of tax, withholding VAT, tax assessment and assessment authorities, and consideration of the size of firms for the imposition of VAT in terms of exclusion from registration, reduction in tax liability and exemption from taxation. In final section, the treatment of exports under the VAT laws has been stated in terms of the coverage of exports under the VAT laws, the exemptions of VAT relating to exports and the drawback system under VAT laws.

6.02 Registration or Enlistment

The legal relationship of a person dealing with the import, production or manufacture, trading and export of taxable goods and rendering or export of taxable services with the VAT authority is created through the registration or enlistment procedures. As mentioned in chapter 5, although the imposition and collection of VAT were started from July 1, 1991, but the VAT registration formality was commenced from June 2, 1991, the next day following the publication of the *VAT Ordinance 1991* in the official Gazette, by effecting the four sections relating to registration– section 15 (Registration), section 16 (Exemption from registration), section 17 (Optional registration), and section 18 (Modification of information relating to registration). On June 2, 1991, the manufacturers of taxable goods and providers of taxable services, whose annual turnover was below Taka 2 lakh were exempted under an SRO from compulsory registration under section 16(1) of the VAT Ordinance with an effect from 3 June 1991. On June 9, 1991, the NBR published its first advertisement in the newspaper requesting for "Registration under the Value Added Tax System to all Domestic Producers and Manufacturers, Service Providers, Importers and Exporters" before 01 July 1991. On 12 June 1991, the *VAT Rules 1991* was published in the official Gazette by effecting the related rules for registration–rule 9 (Procedure of registration), rule 10 (Optional registration), and rule 11 (Issuance of registration certificate). A person involved in import, production, trading or export of taxable goods or rendering or export of taxable services, must obtain any of the following *three*: VAT Registration; or Turnover Tax Enlistment; or Cottage Industry Enlistment. Sections 15-19 of the VAT Act and rules 9-15 of the VAT Rules deal with the VAT registration, section 8 and rule 4 deal with the turnover tax (TT) enlistment and SRO No. 376[1] deals with cottage industry enlistment. Previous rule 11A dealt with the VAT registration of commercial importers from 10.06.2004 to 26.06.2007.

[1] The latest SRO regarding the cottage industry benefit is SRO No. 168-Ain/2003/376-Musak, dt. 12.6.2003, amended by SRO No. 132-Ain/2007/477-Musak, dt. 27.6.2007 and SRO No. 190-Ain/2008/492-Musak, dt. 29.6.2008.

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Value Added Tax Registration

The application for VAT registration is to be made in Form "Musak-6" [Application Form Registration/Enlistment (VAT/Turnover Tax/Cottage Industry)] [u/r 9(1)].[2] The original Form "Musak-6" was amended thrice and substituted thrice. Since 1998-99, "Musak-6" is a common application form for VAT registration or enlistment for Turnover Tax or Cottage Industry.[3] Since 2008-09, a provision[4] has been made to submit the application online through a procedure yet to be determined by an order of the NBR [u/r 9(1)]. The application can be submitted to a VAT office (the Divisional Office from 1993-94) or to an official of a rank of Assistant Commissioner or higher (from 1998-99). The VAT registration is of three types–***Mandatory*** or ***Optional*** or ***Forced***. The *mandatory registration* is applicable for all importers of taxable goods and all exporters of goods and services. A producer or manufacturer of taxable goods or trader of taxable goods or provider of taxable services, having annual turnover crossing the threshold limit (Tk. 40 lakh from 2009-10; Tk. 24 lakh in 2008-09),[5] is subject to *mandatory registration*. However, since 1999-2000, for selective services and since 2007-08, for selective goods, a provision of mandatory registration has been made [through prescribing an SRO under section 8(4)] irrespective of annual turnover. Table 6.01 shows the list of selective taxable goods and number of taxable services subject to mandatory registration. A registration-exempted person can apply for *optional registration*, thirty days before the commencement of the tax period in which he intends to be registered [u/s 17(1), 17(2) and rule 10]. Since 1998-99, if a registrable person fails to submit an application for registration and the proper officer, after due investigation, is satisfied that the person is under obligation to be registered under this section, the officer shall register the person under *forced registration* and inform him and the person shall be treated as registered with effect from the date on which the registration became obligatory [u/s 15(4)].

If any person supplies taxable goods or renders taxable service or carries on import and export trade from two or more places, he shall have to be registered separately for each place (*Unit registration*) [u/s 15(2)]. Since 1994-95, under the proviso to section 15(2) [inserted by the Finance Act 1994], where the supply of taxable goods, *except* at production stage, or the rendering of taxable service or import or export business is conducted centrally and the accounts

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[2] In the Form No., the Bengali word 'Musak' (which is equivalent to VAT) and letters 'Ka', 'Kha', 'Ga' and 'Gha' are used for reference purpose as given originally in the Form numbers; but in rules, letters 'A' and 'C' are used to refer Bengali letters 'Ka' and 'Ga' respectively. There are a total of 44 Forms so far prescribed. Of these 44 Forms, 38 are now effective, they are: Musak-1, Musak-1Ka, Musak-1Kha, Musak-1Ga, Musak-2Kha, Musak-4, Musak-5, Musak-5Ka, Musak-6, Musak-7 to Musak-11, Musak-11Ka, Musak-11Kha, Musak-11Ga, Musak-11Gha, Musak-12, Musak-12Ka, Musak-14, Musak-14Ka, Musak-15 to Musak-17, Musak-17Ka, and Musak-18 to Musak-29. Other 06 Forms were deleted: Musak-2, Musak-2Ka, Musak-3, Musak-6Ka, Musak-13 and Musak-16Ka (*vide* The *Value Added Tax Rules 1991*, updated latest by the SRO No. 103-Ain/2009/511-Musak, dated 11.6.2009).

[3] Amended by SRO No. 238-Ain/93/85-Musak, dt. 06.08.1993; then substituted by SRO No. 126-Ain/96/128-Musak, dt. 28.07.1996; then re-substituted by SRO No. 178-Ain/96/139-Musak, dt. 09.10.1996; again amended by SRO No. 133-Ain/97/150-Musak, dt. 12.06.1997 ("Instruction of Filling-up" inserted for the first time); then again substituted by a common application form for registration or enlistment (VAT/Turnover Tax/Cottage Industry) by SRO No. 114-Ain/98/175-Musak, dt. 11.06.1998; then amended by SRO No. 162-Ain/2003/370-Musak, dt. 12.06.2003.

[4] Inserted in sub-rule (1) of rule 9 by SRO No. 187-Ain/2008/489-Musak, dated 29.06.2008.

[5] Initially in the original VAT Rules, it was Tk. 2 lakh, then it was increased to Tk. 5 lakh from the first day of introducing VAT [by SRO No. 288-Ain/91/35-Musak, dt. 1.10.1991 (w.e.f. 1.7.1991)], then increased to Tk. 7.5 lakh [by SRO No. 238-Ain/93/85-Musak, dt. 6.8.1993], to Tk. 15 lakh [by SRO No. X-Ain/94/90-Musak, dt. 9.6.1994], to Tk. 20 lakh [by SRO No. 131-Ain/99/212-Musak, dt. 10.6.1999], to Tk. 24 lakh [by SRO No. 187-Ain/2008/489-Musak, dt. 29.6.2008] and finally to Tk. 40 lakh [by SRO No. 103-Ain/2009/511-Musak, dt. 11.6.2009].

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Table 6.01: Taxable Goods and Number of Services under Mandatory Registration

SRO No.	Goods	Services	
		Heading No.	Valid Code
133-Ain/99/214-Musak, dt. 10.06.1999	n/a	08	08
120-Ain/2002/345-Musak, dt. 06.06.2002	n/a	14	16 (9 inserted, 1 deleted)[a]
172-Ain/2003/380-Musak, dt. 12.06.2003	n/a	30	34 (18 inserted)
170-Ain/2004/416-Musak, dt. 10.06.2004	n/a	34	39 (6 inserted, 1 deleted)[b]
138-Ain/2006/466-Musak, dt. 08.06.2006	n/a	40	47 (8 inserted)
128-Ain/2008/473-Musak, dt. 27.06.2007	Mineral water, soft drinks, all types of cigarette and *biri*, toilet soap	50	62 (15 inserted)
191-Ain/2008/493-Musak, dt. 29.06.2008	Mineral water, soft drinks, all types of cigarette, *biri*, *jarda* and *gul*, toilet soap	51	63 (1 inserted)
115-Ain/2009/523-Musak, dt. 11.6.2009 (amended by SRO No. 180-Ain/2009/533-Musak, dt. 30.6.2009)	Lozenge, Biscuits *Chaanachur*, juice, mineral water, cold drinks, energy drink, all types of cigarette, *biri*, *jarda* and *gul*, cosmetics, hair care item and toilet shop[6]	50	61 (2 deleted)[c]

[a] S055.00 inserted on 10.06.1999 and deleted on 06.06.2002.
[b] S014.00 inserted on 06.06.2002 and deleted on 10.06.2004.
[c] S015.10 and S017.00 inserted on 12.6.2003 and 8.6.2006 respectively and deleted both on 10.6.2004.

Source: Relevant SROs mentioned above.

and records thereof are maintained accordingly, the NBR may, by general or special order, direct only the head office of such supply of goods, *except* at production stage, or rendering of service or, where applicable, import or export business to be registered [*Central (Franchise) registration*]. However, the Land Development Firm (S010.10) and the insurance company (S027.00; subject to the maintenance of accounts centrally)–must be given central registration.[7] Since 2007-08, a provision of 'unified' registration number for both value added tax and income tax [UTIN (Unified Taxpayer's Identification Number)] has been made, although the time and procedure of giving this UTIN is yet to be determined [u/s 15(5)].[8]

Cottage Industry Enlistment

The owner of a "cottage industry" defined with a list of conditionalities [Table 6.02] and subject to production of goods outside a "negative list" [Table 6.03] has to apply for the enlistment in the common form ["Musak-6"]. The application is to be submitted to the Commissioner and it must be accompanied by a Declaration relating to Investment in Plant, Machinery and Equipment [in Format-A under condition No. 2(a) of the concerned SRO[9]] to fulfill the condition of maximum capital investment therein.

[6] Medicine (including Homeopathic, Ayurvedic, Uniny and herbal medicine) was included in this list, but deleted by SRO No. 180-Ain/2009/533-Musak, dated 30.6.2009.
[7] The central registration of the insurance company is as per SRO No. 167-Ain/95/119-Musak, dt. 20.9.1995, and that of Land Development Firm is as per NBR's general order No. 04/Musak/96, dt. 18.8.1996, prescribed u/s 15(2).
[8] Sub-section (5) has been inserted in section 15 by the Finance Act 2007.
[9] For 1998-99 to 2002-03, the concerned SRO is SRO No. 123-Ain/98/184-Musak, dated 11.06.1998 and from FY 2003-04, SRO No. 168-Ain/2003/376-Musak, dated 12.06.2003.

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Table 6.02: Conditionalities for Cottage Industry

FY	Cond. (a)	Cond. (b)	Cond. (c)	Cond. (d) (v1)	Cond. (d) (v2)
1991-92	n/a	Tk. 3 lakh	n/a	n/a	n/a
1992-93 to 1993-94	Applicable	Tk. 3 lakh	Tk. 15 lakh	n/a	n/a
1994-95 to 1998-99	Applicable	Tk. 3 lakh	Tk. 15 lakh	Applicable	n/a
1999-2000 to 2006-07	Applicable	Tk. 5 lakh	Tk. 20 lakh	Applicable	n/a
2007-08	Applicable	Tk. 7 lakh	Tk. 20 lakh	Applicable	n/a
2008-09	Applicable	Tk. 15 lakh	Tk. 24 lakh	Applicable	n/a
2009-10	Applicable	Tk. 25 lakh	Tk. 40 lakh	n/a	Applicable

Note: "Cond." means "Condition", "v1" means "version 1" and "v2" means "version 2".

Cond. (a): The cottage industry is not a joint stock company [paragraph 1(a)].
Cond. (b): Capital investment ceiling in plant, machinery and equipment at any time in a year [para 1(b)].
Cond. (c): The annual turnover limit [paragraph 1(c)].
Cond. (d) (v1): In the place of production of the cottage industry, other person's branded goods <u>are not produced</u> [paragraph 1(d)].
Cond. (d) (v2): The cottage industry benefit enjoying enterprise may produce any other VAT registered local producer's branded goods through sub-contract on the basis of submission of price declaration by the owner of the branded goods in the concerned Divisional Officer's office and approval thereof [paragraph 5A].[10]

Sources: 8 SROs: (1) SRO No. 264-Ain/91/31-Musak, dated 04.09.1991 (w.e.f. 01.07.1991); (2) SRO No. 139-Ain/92/52-Musak, dated 18.06.1992 (w.e.f. 01.07.1992); (3) SRO No. 203-Ain/92/59-Musak, dated 19.08.1992 (w.e.f. 01.07.1992); (4) SRO No. 142-Ain/99/222-Musak, dated 10.06.1999; (5) SRO No. 132-Ain/2007/477-Musak, dated 27.06.2007; (6) SRO No. 190-Ain/2008/492-Musak, dated 29.06.2008; (7) SRO No. 108-Ain/2009/516-Musak, dated 11.06.2009 and (8) SRO No. 181-Ain/2009/534-Musak, dated 11.6.2009.

Table 6.03: Negative List of Goods for Cottage Industry Benefit

FY	Negative List for Cottage Industry Benefit
1991-92 to 2009-10	Palm oil (all sorts); coconut oil (all sorts); crude and refined soya bean oil and coconut oil; antiseptic and disinfectant; paints, pigments, varnishes and polishes; tooth paste and like items *(excluding* tooth powder*)*; household fan; transistor excepting one band; television (all sorts); ships, boats, tugs and pusher craft;
1991-92 to 1993-94	Medical, surgical, dental, veterinary furniture and other furniture
1992-93 to 2009-10	Bricks (all sorts)
1994-95 to 2009-10	Water used in perfume and cosmetics; cosmetics, Sun screen or Sun tanning materials, cosmetics for hand, nail or legs; hair-care items, shaving items, deodorants, bath-salt and other bath items; incense and like items; super enameled copper wire
1997-98 to 2009-10	Soap (all sorts) including liquid soap but *excluding* cloth washing soap; PVC pipe; metal container; dry cell battery and storage battery; electrical bulb; wires and cables; transports (all sorts) and their body and chassis
1998-99 to 2009-10	Tea
1999-00 to 2009-10	*Zarda*
2003-04 to 2009-10	Lozenge; biscuit; mineral water; *cloth washing soap*; rubber and plastic foam

Sources: 11 SROs: (1) SRO No. 264-Ain/91/31-Musak, dt. 4.9.1991 (w.e.f. 1.7.1991); (2) SRO No. 81-Ain/92/49-Musak, dt. 18.4.1992 (w.e.f. 5.12.1991); (3) SRO No. 139-Ain/92/52-Musak, dt. 18.6.1992 (w.e.f. 1.7.1992); (4) SRO No. 232-Ain/92/60-Musak, dt. 20.10.1992 (w.e.f. 1.7.1992); (5) SRO No. XIII-Ain/94/93-Musak, dt. 9.6.1994; (6) SRO No. 249-Ain/94/102-Musak, dt. 27.7.1994 (w.e.f. 9.6.1994); (7) SRO No. 143-Ain/97/160-Musak, dt. 12.6.1997; (8) SRO No. 165-Ain/97/168-Musak, dt. 2.7.1997 (w.e.f. 12.6.1997); (9) SRO No. 123-Ain/98/184-Musak, dt. 11.6.1998; (10) SRO No. 142-Ain/99/222-Musak, dt. 10.6.1999; and (11) SRO No. 168-Ain/2003/376-Musak, dt. 12.6.2003.

[10] The fourth condition mentioned in paragraph 1(d) was revised by SRO No. 108-Ain/2009/516-Musak, dated 11.06.2009, as: "In the place of production of the cottage industry, any other VAT registered local producer's branded goods <u>are produced</u> on the basis of submission and approval of price declaration in the concerned Divisional Officer's office through sub-contract". This condition under paragraph 1(d) has been deleted by SRO No. 181-Ain/2009/534-Musak, dated 30.06.2009 and a similar provision has been incorporated in new paragraph 5A.

Dhaka University Institutional Repository

Turnover Tax Enlistment

The person for whom the mandatory VAT registration is not applicable and who cannot apply for cottage industry benefit, is required to apply for turnover tax (TT) enlistment. The producer of selective taxable goods (mineral water, soft drinks, some tobacco products such as cigarette, *biri*, *jarda* and *gul*, and toilet soap) and the provider of 61 services in 2009-10 (as shown in Table 6.01), who are subject to mandatory registration, cannot apply for turnover tax enlistment.

The registered/enlisted person is given a registration/enlistment certificate in Form "Musak-8" [Value Added Tax Registration Certificate/Turnover Tax Enlistment Certificate/ Cottage Industry Enlistment Certificate] mentioning therein his *business identification number* (BIN) in case of registration and enlistment number in other cases [u/s 15(3) and u/r 11(1)].

6.03 Accounting Obligations

As an 'accounting based tax', maintenance of accounts is very important. Section 31 (Maintenance of accounts) and rule 22 (Accounts keeping) deal with the accounting obligations of mainly a VAT registered person. Under section 31, every registered person shall, for the convenience of determining his tax liability during a specific tax period, preserve, in the form and the manner prescribed by rules (rule 22), and maintain at the place of business prescribed following records or commercial documents, relating to goods purchased or supplied or service rendered by him or by any of his agents. "Commercial documents", as defined under clause (qqq) of section 2, means book of accounts, files, documents or papers maintained by a person to record his commercial transaction showing financial condition of his business, namely, debit voucher, credit voucher, cash memo, daily purchase and sale accounts, cash book, primary or journal book, bank account and accounts or documents related thereto, trial balance, ledger, financial statements and analyses, profit and loss account, profit and loss appropriation account, bank account reconciliation and balance sheet and all related documents including audit report. The NBR may, by notification in the official Gazette, specify the procedure in which and the types of books and records which a registered person shall maintain (proviso to section 31). Under the proviso to section 31, for the traders, who pay VAT on the basis of truncated value addition, three types of documents (commercial documents, invoice book, and account current book) have been prescribed.[11] Under rule 22(1) and rule 17A, a registered person shall maintain in his place of manufacture or production or business or in the place of rendering service the following books, whichever is applicable, namely:

a. *Purchase Accounts Book* in Form "Musak-16" [Purchase Account Book].
b. *Sales Accounts Book* in Form "Musak-17" [Sales Account Book].
c. *Invoice Book:* Invoices printed according to Form "Musak-11" [Invoice (*Chalan Patra*)] and, where applicable, in Form "Musak-11Ka" [Sales Cash Memo] shall have to be so maintained the bound book form that any page of it cannot be removed without tearing and in the invoices numbers shall have to be printed serially [u/r 22(1)]. But there also invoices

[11] SRO No. 139-Ain/97/156-Musak, dated 12.06.1997.

Dhaka University Institutional Repository

in Form "Musak-Ga" [Invoice of Inputs Sent for Production from the Place of Supply of Owners] under rule 16(3C) and in Form "Musak-Gha" [Musak Chalan Patra] under rule 16(1). Normally, not more than one chalan (invoice) shall be issued, but in a case where any person claims that original chalan has been lost, a copy of chalan marked distinctly "Copy Only" can be issued [u/s 32].

d. *Account Current Book:* In this book, the description of transactions, the amount of payable output tax, output tax deposited in the treasury and output tax on which credit may be taken and information relating thereto shall be recorded in writing in accordance with Form "Musak-18" [Account Current].
e. *Issuance of Credit Note:* Since 1996-97, where in the case of a registered person, after filling up or issuance of a chalan or after adjusting the payable tax in the Account Current Register, a necessity arises to cancel it; or after the supply of goods or rendering service the whole or part of it is returned; or the nature of supply of goods or service rendered is basically changed; or the tax shown in the chalan is in excess of the tax payable, in that case he shall, after canceling the chalan for the purpose of adjustment in the Account Current and, where applicable, in subsequent return, issue a credit note in Form "Musak -12" in favour of the buyer [u/r 17A(1)].
f. *Issuance of Debit Note:* Since 1996-97, where, after filling an invoice or giving it or after adjusting the payable tax in the account current or supply of goods or rendering of service, it appears that a less amount of tax than the actual amount of tax payable against the suppliable or supplied goods or service rendered or to be rendered has been mentioned in the invoice, he shall cancel the invoice and shall issue a debit note in Form "Musak-12Ka" in favour of recipient of the goods or service [u/r 17A(2)].

According to a prescribed list of accounts and documents, the producer of taxable goods, provider of taxable services and exporter-cum-producer of goods usually require to maintain the following books of accounts and documents: Purchase Account Book, Sales Account Book, Account Current Book, invoices, bill of entry, bill of export, Credit Note, Debit Note, copy of Treasury Chalan, and copy of return. Where applicable, the exporters have to maintain the copy of internal back-to-back letter of credit (L/C). The commercial importers require to maintain only the bill of entry of imported goods. The cottage industries have to maintain only invoice regarding sale of goods/services (NBR, 2001c, pp. 31-34).[12]

Since 2003-04, a provision has been incorporated to allow a registered person, on the basis of his application, the maintenance of computer print copy, in his place of manufacture or production or business or rendering of service, of the statutory books relating to maintenance of accounts by keeping its accounts through computer [u/r 22(1A)].[13] Up to 2006-07, the authority of allowing computer-based accounting was with the NBR and thereafter, the authority has been shifted to the concerned Commissioner.

[12] File No. 3(64) Musak-1/91/315, dated 18.11.1991 (NBR, 2001c, pp. 31-34).

Dhaka University Institutional Repository

Since 2007-08, a provision has been incorporated under which the NBR may allow the use of electronic cash register (ECR), or computer or any other electronic equipment for maintenance of accounts, issuance of invoice, etc. for any good or class of goods or service [u/r 22(3)].[14] The ECR generated invoice has been permitted for provisional purpose as the VAT invoice from July 1, 2008.[15] It is noted that the NBR initially made the installation of ECR mandatory by July 1, 2008 for 10 service sectors to thwart evasion of VAT. On June 11, 2009, another service has been added to this list and later on June 29, 2008, the NBR has extended the deadline of the installation of ECR to January 1, 2009 for all city corporations and to July 1, 2009 for all district towns following requests from business bodies (*The Financial Express*, 07.07.2008).[16] The ECR will have to issue 'S' report (Spot Report) containing instant data of sales figure and VAT information, while 'D' report (Daily Report) will contain each day's data. The service providers will have to keep hard copy of 'D' report up to four years. Each tax-year's data report will be called as 'M' report (Monthly Report), which the business houses have to send to local VAT offices (*The Financial Express*, 16.04.2008).

The registered person has to ensure audit trail for the accounts maintained by him [u/r 22(2)]. The registered person has to preserve records for at least four years following completion of the tax period to which it relates; but for any pending case, the records for the relevant tax period shall have to be preserved until the final disposal of the case [u/s 33]. A VAT officer may direct a registered person to submit records, commercial documents, etc. [u/s 34]. From 2006-07, a person can obtain certified copy of VAT related documents on payment of fixed fees from the VAT officer [u/s 34A]. The VAT officer may examine accounts of a registered or registrable person related to production process and goods in stock, service and inputs; and may at any time, examine all trading documents including books, files and commercial documents related to VAT, or may direct to submit or detain them or to do any other thing necessary for tax purpose [u/s 26(1)], but subject to proper notification, if the concerned place is a dwelling house [u/s 26(2)]. A VAT officer, not below the rank of a Joint Commissioner, may order for auditing of tax and tax related activities of a registered or registrable firm for a specified period [u/s 26A(1)]. The Commissioner may direct for supervised supply, observation and surveillance for incorrect maintenance of documents or provision of no or untrue information to the VAT authority about transaction or sale of taxable goods or service with a view to avoiding responsibility of paying tax [u/s 26B(2)].

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[13] Sub-rule (1A) has been inserted in rule 22 by SRO No. 162-Ain/2003/370-Musak, dated 12.06.2003; and amended by SRO No. 125-Ain/2007/470-Musak, dated 27.06.2007 to shift the authority from the NBR to the Commissioner.

[14] Sub-rule (3) has been inserted in rule 22 by SRO No. 260-Ain/2007/483-Musak, dated 19.11.2007.

[15] SRO No. 192-Ain/2008/494-Musak, dated 29.06.2008.

[16] The NBR issued an order on April 17, 2008 [General Order No. 17/Musak/2008, dated 15.04.2008], making the installation of ECR mandatory by July 1, 2008 for 10 service sectors [(i) hotels, (ii) restaurants and fast food shops, (iii) sweetmeat shops, (iv) furniture sales centres, (v) beauty parlours, (vi) community centres, (vii) all business enterprises within the posh shopping centres of metropolitan area, (viii) departmental stores, (ix) general stores and (x) other big and medium business (wholesale and retail) organisations]. On June 11, 2009, "Goldsmith & Silversmith and Gold & Silver Jeweler and Gold Refiner [S026.00]" has been added as the eleventh service sector [General Order No. 08/Musak/2009, dated 11.06.2009]. Later on June 29, 2008, the NBR issued another order [Order No. 25/Musak/2008, dated 29.06.2008] extending the deadline of the installation of ECR to January 1, 2009 for all city corporations and to July 1, 2009 for all district towns following requests from business bodies..

Dhaka University Institutional Repository

6.04 Declarative Obligations

There are more than a dozen situations where a VAT registered person or turnover tax or cottage industry enlisted person has declaratory obligations under the VAT laws, one of which is related to pre-commencement fact of the VAT Act and not now applicable and another declaration, the utilization declaration mentioned in rules 32 and 32A, is related to laws other than the VAT laws. These declarations are as follows:

(a) *Declaration of input-output coefficient and value-base in Form "Musak-1" u/r 3(1):* With a view to fulfilling the purposes of section 5 (Determination of value for calculation of value added tax) and section 7 (Imposition of supplementary duty) of the VAT Act, a registered person shall, before supply of taxable goods, submit a declaration related to base value including input and output coefficient of the goods for the purpose of imposition of VAT and/or SD on the goods produced or ready for supply by him, to the Divisional Officer of the concerned jurisdiction in Form "Musak-1" [Declaration Form of Input-Output Coefficient and Value-Base] in duplicate and the registered person may supply goods on assessment and payment of tax payable on his suppliable goods from the date and on the basis of such declaration [u/r 3(1)]. Any change in the base value declared can be made through a seven-day notice with a new or amended declaration [u/r 3(2)]. Declared price list shall visibly be affixed in the business place [u/r 3(8)].

(b) *Declaration of input price and input-output coefficient by a VAT registered person [rule 3(1A)[17]]:* If a VAT registered person engaged in supply of taxable goods or services, along with the local supply of goods and services, supplies or exports any exempted or goods exported or deemed to be exported from Bangladesh, he has to submit a declaration regarding input price and input-output coefficient in *Form "Musak-1Ga"* [Declaration of Input Price and Input-Output Relation or Coefficient of Goods Exempted or Exported or Deemed to Be Exported from Bangladesh] to the Divisional Office before such supply or export.

(c) *Declaration of price in Form "Musak-1" u/r 3(1B) by a contract-based producer:* Since 2007-08, in case of contract-based production, the producer of goods has to submit a declaration of price to the Divisional Officer of the concerned jurisdiction in Form "Musak-1" [Declaration Form of Input-Output Coefficient and Value-Base] on the basis of the consideration or price per unit of goods taken by him from the owner of the goods.[18]

(d) *Declaration of price in Form "Musak-1" u/r 3(1C) by the owner of goods in case of a contract-based production:* Since 2007-08, in case of contract-based production, the owner of the goods shall be deemed to be the producer of the goods and has to submit a declaration related to base value including input and output coefficient of the goods for the purpose of imposition of VAT and/or SD on the goods, to the Divisional Officer in Form "Musak-1" [Declaration Form of Input-Output Coefficient and Value-Base] [u/r 3(1C)].[19]

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[17] Sub-rule (1A) has been inserted in rule 3 by SRO No. 103-Ain/2009/511-Musak, dated 11.06.2009 and further amended by SRO No. 174-Ain/2009/527-Musak, dated 30.06.2009 through substitution].

[18] Sub-rule (1A) of rule 3 has been inserted by SRO No. 125-Ain/2007/470-Musak, dated 27.06.2007 and sub-rule (1A) of rule 3 re-serialized as sub-rule (1B) by SRO No. 103-Ain/2009/511-Musak, dated 11.06.2009.

[19] Sub-rule (1B) of rule 3 has been inserted by SRO No. 125-Ain/2007/470-Musak, dated 27.06.2007 and sub-rule (1A) of rule 3 re-serialized as sub-rule (1B) by SRO No. 103-Ain/2009/511-Musak, dated 11.06.2009.

Dhaka University Institutional Repository

(e) *Declaration of price by owner of branded goods in case their production by a cottage industry benefit enjoying enterprises:* Since 2009-10, in case of production of branded goods of the cottage industry benefit enjoying firm can produce branded goods of local VAT registered person subject to submission of price declaration to the VAT divisional office by the owner of the branded goods and taking approval therefrom [SRO No. 376[20]].

(f) *Declaration of input-output coefficient of goods under tariff value in Form "Musak-1Ka" u/r 3(9):* Since 2001-02, the goods on which, tariff value has been fixed by the NBR u/s 5(7), the registered person shall submit, a declaration of input-output co-efficient in Form "Musak-1Ka" [Declaration of Input-Output Coefficient of Goods under Tariff Value], to the Divisional Officer. The registered person shall assess and pay payable VAT and/or SD, on the basis of so approved input-output co-efficient for the goods under the tariff value [u/r 3(9)].[21]

(g) *Declaration of value for determination of VAT on service u/r 3A:* Since 1996-97, the NBR may direct the concerned registered person rendering taxable service to declare base value for assessing tax and determine the procedure for such declaration [u/r 3A].[22]

(h) *Price declaration for supply of goods by the manufacturer or importer at fixed price u/r 3B:* Since 2004-05, in the case of supply of the goods by printing its price on the body of the goods or on its container or its packets at the production stage by the producer or at the supply stage by the importer, the manufacturer or the importer shall, before supplying VAT payable goods, *declare* the price for the purpose of imposition of VAT and/or SD.[23]

(i) *Annual declaration relating to turnover in Form "Musak-2Kha" u/r 4(2A) by the turnover tax enlisted person:* Since 1997-98, within the first 30 days of each year after the enlistment, a declaration in Form "Musak-2Kha" [Annual Declaration relating to Turnover] regarding the amount of estimated turnover of that year and the manner of payment of tax shall have to be submitted by the TT enlisted person to the superintendent [u/r 4(2A)].[24]

(j) *Declaration of business premises, plant assets, outputs and inputs in Form "Musak-7" u/r 9(5):* A registrable person shall, along with the application for registration, submit in Form "Musak-7" [Declaration of Business Premises, Plant, Machinery, Fittings, Goods Produced and Inputs] a declaration containing particulars of premises, plant, capital machineries and fittings and goods to be produced or purchased and sold or stocked and major inputs thereof.

(k) *Declaration regarding change of place or condition of business u/r 12(1):* If the place or situation of the business of a registered person is changed, he shall have to submit a declaration in Form "Musak-9" [Application for Changing Place or Condition of Business] to the local VAT office or, as the case may, offices at least fourteen days before such change, subject to payment in full of VAT or, as the case may be, SD or TT [u/r 12(1)].[25]

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[20] The latest SRO regarding the cottage industry benefit is SRO No. 168-Ain/2003/376-Musak, dt. 12.6.2003, amended by SRO No. 132-Ain/2007/477-Musak, dt. 27.6.2007 and SRO No. 190-Ain/2008/492-Musak, dt. 29.6.2008.

[21] Sub-rule (9) of rule 3 has been inserted by SRO No. 241-Ain/2001/306-Musak, dated 07.06.2001.

[22] Rule 3A has been inserted by SRO No. 126-Ain/96/128-Musak, dated 28.07.1996.

[23] Rule 3B has been inserted by SRO No. 162-Ain/2004/408-Musak, dated 10.06.2004.

[24] Sub-rule (2A) of rule 4 has been inserted by SRO No. 133-Ain/97/150-Musak, dated 12.06.1997.

[25] Main provision of rule 12 has been placed in sub-rule (1) and new sub-rule (2) has been inserted by SRO No. 162-Ain/2003/370-Musak, dt. 12.6.2003.

Dhaka University Institutional Repository

(l) *Declaration of the information relating to export by post in Form "Musak-25" u/r 33:* If a registered person who exports goods by post intends to take drawback for duty paid on the input used in the manufacture or production of the goods exported, he shall have to append to the return or, where applicable, the drawback application, the second copy of the declaration of the information given in Form "Musak-25" [Letter of Certification for Export by Post] duly authenticated by the customs authority engaged in the concerned foreign post office [u/r 33].

(m) *Declaration of the price of waste and byproduct goods u/r 41A:* Since 2003-04, a registered person, who has applied for the disposal of the waste or byproduct of the goods manufactured or produced by him to the concerned Divisional Officer, shall, for the purpose of determination of taxable price of the waste or byproduct of the goods fit for supply, submit with the application a declaration of the price of the goods in accordance with section 5 (Determination of value for calculation of value added tax) and rule 3 (Declaration of value for assessment of value added tax and supplementary duty) [u/r 41A].[26]

(n) *Utilization declaration (UD) in case of supply of goods or rendering service in exchange of foreign currency against local back to back letter of credit (L/C) u/r 32 and supply of goods or rendering of services by a backward linkage industry u/r 32A:* In order to get benefit of 'deemed export' of goods or services in exchange of foreign currency against local back to back L/C, the bona fide exporter, with an application u/r 29[27] for drawback, shall have to append the Utilization Permission (UP) or Utilization Declaration (UD) issued by customs or any other approved authority.

(o) *Declaration of stock of inputs at pre-VAT regime in Form "Musak-15" u/r 21 (now not applicable):* Under section 21, tax credit regarding 'sales tax and excise duty' paid on stock of inputs available at the time of commencement of the Act can be taken against output tax on taxable sales, subject to submission to the local VAT office of two copies of the declaration in Form "Musak-15" [Declaration of Stock of Inputs] in respect of stocked inputs on the date of commencement of the Act or in respect of the goods newly brought within the purview of VAT, on any date after the date of commencement of the Act, within seven days of such date.

From 2009-10, u/r 3AA,[28] exemption has been given from submission of price declaration in cases of any prescribed goods or services for which price may be fixed by the Government u/s 5(2C) and here the VAT and SD is collectible through back calculation from the unit price of the good or service. However, if a registered person makes consciously a false declaration, he shall be liable to a fine or prosecution (if convicted in a court of Magistrate). For irregularities other than evasion of revenue, he shall be liable to a fine [u/s 37(2)(e)][29] or may be subject to observation, surveillance and supervised supply [u/s 26B(2)].[30]

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[26] Rule 41A has been inserted by SRO No. 162-Ain/2003/370-Musak, dated 12.06.2003.
[27] Rule 29 is related to the provision on the "Drawback on the basis of returns".
[28] Rule 3AA has been inserted by SRO Nos. 103-Ain/2009/511-Musak, dated 11.06.2009.
[29] The penalty and prosecution mentioned here have been made effective from 2007-08 through the amendments made in sub-section (2) of section 37 by the Finance Ordinance 2007.
[30] Section 26B has been inserted by the Finance Act 2004.

Dhaka University Institutional Repository

6.05 VAT Invoices

The issuance of tax invoice for each taxable transaction is a legal responsibility of the supplier of goods or provider of services. Under section 32, every registered person shall, at the time of supply of taxable goods or rendering of taxable service or export of goods or service or sale of taxable imported goods, issue chalan (invoice) with consecutive serial number, in the form and manner prescribed by rules or in any other form and manner approved by the NBR in this behalf by notification in the official Gazette [u/s 32]. Under section 31, each registered person is required to maintain invoices relating to purchase of goods and services (taxable or exempted) and also relating to supply of taxable or exempted goods or rendering of taxable or exempted services and exports of those goods and services. Rule 16 deals with provision on the issue of invoice in the case of supply and export of taxable goods, rule 17 on the issue of chalan for rendering or export of services, rule 17A on the issue of debit note or credit note and rule 18 on the issue of chalan (invoice) in the case of imported goods. In these rules and in one order of the NBR, following eleven types of invoice or similar documents have been mentioned:

1. *Invoice in Form "Musak-11":* This is the standard invoice to be issued in case of supply of goods [u/r 16(1)], export of goods [u/r 16(3)], rendering of service [u/r 17(1)] or supply of imported goods by a commercial importer [u/r 18(2)]. In cases of supply of mechanized water transport or motor vehicle [First proviso to rule 16(1)] and sale of land by land development firm or apartment or flat by building construction firm or land by seller of land [u/r 17(2)], an original copy of invoice in Form "Musak-11" must be given at the time of registration of the vehicle or land or apartment or flat. In case of services provided a printing press (S008.10), issuance of invoice in Form "Musak-11" is mandatory (NBR, 2001c, pp. 363 and 381).
2. *Invoice in Form "Musak-11Ka" [Second proviso to rule 16(1)]:* Since November 03, 1996, in case of supply of goods by traders to unregistered person, an invoice in Form "Musak-11Ka" [Sales Cash Memo][31] has to be issued to the buyers.
3. *Musak-11Ga [u/r 16(3C) and 16(3D)]:* Since 2007-08, in case of supply of inputs by owners in case of contract-based production, an invoice in Form "Musak-11Ga" [Invoice of Inputs Sent for Production from the Place of Supply of Owners][32] has to be issued to the producer by the owner of the inputs.
4. *Musak-11Gha [u/r 16(1)]:* Since 2008-09, in case of providing six services (specialist doctor, legal advisor, immigration consultant, coaching center, English medium school and private medical and engineering college), an invoice in Form "Musak-11Gha" [*Musak Chalan Patra*][33] has to be issued by the provider of the services.
5. *Consolidated invoice in Musak-11 [u/r 16(2)]:* In case of supply for self-consumption of goods within the place of production or business, a consolidated invoice in Form "Musak-11" has to be issued by the registered supplier of goods.

[31] Form "Musak-11Ka" has been inserted by SRO No. 204-Ain/96/140-Musak, dated 03.11.1996; and substituted by SRO No. 115-Ain/2002/340-Musak, dated 06.06.2002.
[32] Form "Musak-11Ga" has been inserted by SRO No. 125-Ain/2007/470-Musak, dated 27.06.2007.
[33] Form "Musak-11Gha" has been inserted by SRO No. 151-Ain/2008/487-Musak, dated 17.06. 2008.

Dhaka University Institutional Repository

6. *Computer generated invoice:* Since 2002-03, in the cases of supply of goods or exports thereof [u/r 16(3A)], rendering of services or sale of land or apartment or flat [u/r 17(2A)], and direct import of inputs by a registered supplier of goods [u/r 18(3)], the supplier of goods, the provider of services and the importer can issue a computer generated invoice, subject to the prior approval of the VAT authority.[34]
7. *Invoice in own format:* Since 2007-08, in the cases of supply of goods [u/r 16(3B)] and rendering of services or sale of land or apartment or flat [u/r 17(2B)], invoice can be issued in own format subject to the prior approval of the VAT authority.[35]
8. *Bill of entry [u/r 18(1)]:* In case of direct import of inputs by a registered supplier of goods, the bill of entry shall be treated as the tax invoice.
9. *Musak-12 (Credit Note) by canceling invoice:* In case of necessity of repealing invoice or partial or full return of supply of goods or rendering of services or excess tax mentioned in any invoice, a Credit Note in Form "Musak-12" has to be issued by canceling the concerned invoice issued earlier [u/r 17A(1)] .
10. *Musak-12Ka (Debit Note) by canceling invoice:* Since 1996-97, in case of lesser tax mentioned in any invoice, a Debit Note in Form "Musak-12Ka"[36] has to be issued by canceling the concerned invoice issued earlier [u/r 17A(2)].
11. *Special invoice for transfer of goods by a centrally registered organization [NBR's order No. 5/Musak/98]:* Since November 12, 1998, a special invoice is to be issued for the transfer of goods by a centrally registered organization from warehouse to sales centers or from one sales center to another sales center in Form given in Annexure-A of the NBR's order No. 5/Musak/98, dated 12.11.1998. This special invoice has been introduced by repealing the *Supplementary Invoice* in Form "Musak-13".

Invoice in Form "Musak-11"is to be issued by using double faced carbon; the original copy of it shall accompany the goods up to the final destination mentioned in the invoice and if the purchaser is a registered person, he shall maintain the said copy in the premises of his business for not less than four years and this second copy shall have to reach the local VAT office within five working days[37] of the supply of the goods and the third copy have to be maintained for not less than four years in the place of manufacture or production or business as appended to the invoice book [u/r 16(1)]. Since July 1, 2008, the ECR-generated invoices have been treated as VAT invoice, although mandatory installation of ECR by the retailers of taxable goods (medium and large shops) in the City Corporation areas has been made from January 1, 2009. Since the ECR generated invoices are issued by retailers, it would be in Form 'Musak-11Ka'.[38] Since 2001-02,

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[34] Sub-rule (3A) has been inserted in rule 16, sub-rule (2A) has been inserted in rule 17 and sub-rule (3) has been inserted in rule 18 by SRO No. 115-Ain/2002/340-Musak, dated 12.06.2002.

[35] Sub-rule (3B) has been inserted in rule 16 and sub-rule (2B) has been inserted in rule 17 by SRO No. 125-Ain/2007/470-Musak, dated 27.06.2007.

[36] Form "Musak-12Ka"has been inserted by SRO No. 126-Ain/96/128-Musak, dated 28.07.1996.

[37] The time period was 'date of transfer' in the original VAT Rules, '24 hours' (199-92 to 2000-01), '7 days' (for 2001-02)', '72 hours' (from 2002-03 to 2005-06) and '3 working days' (for 2006-07) up to 2006-07. *Vide* SRO Nos. 288-Ain/91/35-Musak, dt. 1.10.1991 (w.e.f. 1.7.1991); 141-Ain/2001/306-Musak, dt. 7.6.2001; 115-Ain/2002/340-Musak, dt. 6.6.2002; 130-Ain/2006/458-Musak, dt. 8.6.2006; and 125-Ain/2007/470-Musak, dt. 27.6.2007.

[38] Although the ECR generated invoices are prescribed as VAT invoices by SRO No. 192-Ain/2008/494-Musak, dt. 29.6.08 w.e.f. 1.7.2008, but the mandatory installation of ECR for was deferred and made effective from 1.1.09 only for retailers in City Corporation areas (Dhaka, Chittagong, Rajshahi, Sylhet and Khulna) [*The New Age*, 23.2.09].

Dhaka University Institutional Repository

the Superintendent or any VAT officer above his rank can verify the invoice or the correctness of taking input tax credit by using the Form "Musak-11Kha" [u/r 16(4) and 16(4)]. Since 1991-92, following 18 services have been allowed to issue invoices containing 'tax inclusive price' without mentioning VAT separately through an official instruction.[39]

An empirical note: In a small empirical survey on ECR or computer generated invoices of 10 retailers or service providers (5 variety stores, 4 restaurants and 1 *sharee* shop), it is found that each invoice mentions few information in general – name, address and telephone number of the retailers or service providers, date of transaction, VAT registration number, receipt/invoice number, and quantity and specification of products/items. Except the restaurants, others are charging VAT at 1.5 percent, but the restaurants have charged at 15 percent. The amount of VAT is approximated at whole amount without mentioning any paisa (except in two cases of restaurant). Only the *sharee* shop has mentioned the Form Number of the invoice [mentioned as "Mushak-11(Ka)" in place of "Musak-11Ka"].[40]

6.06 Submission of Return

Two sections [section 35 (Submission of returns) and section 36 (Examination of returns)] and three rules [rule 24 (Submission of return), rule 25 (Examination of returns) and rule 26 (Submission of final return)] deal with the provisions regarding the submission of the VAT returns. Under section 35, a manufacturer or producer or trader of taxable goods or renderer of taxable service shall submit a return to the concerned officer in the form and in the manner prescribed by rules[41] for every tax period, showing therein all of his tax liabilities under this Act, within the specified date [u/s 35]. Two copies of the he VAT return in prescribed form "Musak-19" [Value Added Tax Return] [u/r 24(1)] is to be submitted in the concerned VAT circle office [u/r 24(1)] to the circle Superintendent. The return is to be accompanied with the following documents, namely: (1) the original copy of account current; and (2) any other documents (such as bill of export, bill of lading or airway bill and copy of the Treasury Chalan) demanded by the Commissioner [u/r 24(2)]. Under section 25(1), the responsibility of verification or examination of the VAT return submitted jointly lies on the Inspector in-charge of the concerned revenue area and the Superintendent of the local VAT office. If a registered person applies u/r 15 for

[39] These 18 services are: (i) Hotel (S001.10); (ii) Restaurant (S001.20); (iii) Decorators & Caterers (S002.00); (iv) Garage of Motor Vehicle and Workshop (S003.10); (v) Dockyard (S003.20); (vi) Construction Firm (S004.00); (vii) Printing Press (S008.10); (viii) Land Development Firm (S010.10); (ix) Videocassette Shop (S011.10); (x) Video Game Shop (S011.20); (xi) Video-Audio Recording Shop (S011.30); (xii) Mechanical Laundry (S013.00); (xiii) Indenting Firm (S014.00); (xiv) Freight Forwarders (S015.10); (xv) Travel Agency (S016.00); (xvi) Photographers (S019.00; as "Color Photographers"); (xvii) Survey Firm (S020.00); and (xviii) Sweetmeat Store (S022.00) [NBR, 2001c, p. 19]. *Vide* the File No. NBR/VAT/51/91/170, dated 27.07.1991 (NBR, 2001c, p. 19).

[40] The survey has been conducted through direct purchasing in April, May and June 2009 on PQS Super Center (a variety store at Shantinagar, Dhaka, using the computer), Menz Club (a retail shop of men's garments at New Elephant Road, Dhaka, using the ECR), Tangail Sharee Kutir (a retail *sharee* shop at New Baily Road, Dhaka, using the computer), Almas Super Shop (a variety store at Dhanmondi, Dhaka, using the computer), Meena Bazar (a variety store at Dhanmondi, Dhaka, using the computer), Aarong (a variety store at Mirpur Road, Dhaka, using the computer), Western Grill (a fast-food restaurant at Dhanmondi, Dhaka, using the ECR), Etcetera Bangladesh (Pvt.) Ltd. (a fast-food restaurant at Dhanmondi, Dhaka, using the ECR), Boishakhi Restaurant (a service provider as restaurant at Dhanmondi, Dhaka, using the computer) and Midnight Sun-2 Chinese Restaurant (a service provider as restaurant at Nilkhet, Dhaka, using the computer).

[41] Rule 24 of the VAT Rules, which is also on "Submission of returns".

Dhaka University Institutional Repository

cancellation of his registration, the Divisional Officer shall, after determining his liabilities, if any, relating to VAT or SD, direct the applicant to submit within 14 days a *final return* [u/r 26].

Since 2003-04, the person liable to submit the VAT return shall submit it for each tax period within 10 (ten) working days[42] of the month following the tax period [u/r 24(1)]. From 1991-92 to 1997-98, the date of submission of the return was "within twentieth date of the month following the tax period" and from 1998-99 to 2002-03, it was "within tenth date of the month following the tax period". But since 1999-2000, in the case of an insurance company, this timing is within twentieth date of the month following the tax period [under proviso to rule 24(1)].[43] The 'tax period' is usually a period of one month and this tax period may be prescribed by the government through notification in the official Gazette [u/s 2(e)], which may be a 3-month or 6-month period as shown in Table 6.04.

Table 6.04: Tax Periods prescribed by SROs and Orders

SRO No.	3-month Tax Period	6-month Tax Period
SRO No. 129-Ain/96/131-Musak, dt. 28.07.1996	Producer of goods, rendering of services and export enterprises: a. Brick, b. Construction firm, c. Hundred percent export oriented enterprises.	—
SRO No. 144-Ain/97/161-Musak, dt. 12.06.1997 (repealed SRO No. 129-Ain/96/131-Musak)	Supplier of goods and provider of services: 1. Brick, 2. Indenting firm, 3. Shipping agent.	Exporter and provider of services: 1. Hundred percent export oriented enterprises, 2. Construction firm, 3. Clearing & forwarding agent, 4. Consultancy firm and supervisory firm, 5. Leaseholder, 6. Procurement provider, and 7. Organizer of entertaining cultural program with the help of foreign artists
GO No. 25/Musak/97, dt. 28.9.97 (related to SRO No. 142-Ain/97/159-Musak, dt. 12.6.97)	VAT registered traders of selective goods (for 1997-98 and 1998-99)	—
SRO No. 168-Ain/2004/414-Musak, dt. 10.06.2004	—	*Repealed*: • Organizer of entertaining cultural program with the help of foreign artists
SRO No. 156-Ain/2005/447-Musak, dt. 09.06.2005	—	*Repealed*: • Hundred percent export oriented enterprises
SRO No. 106-Ain/2009/514-Musak, dt. 11.6.2009 (amended SRO No. 144-Ain/97/161-Musak)	*Inserted*: • Hundred percent export oriented garments industry and hundred percent deemed exporter of accessories	

Sources: Relevant SROs mentioned above.

[42] From 1991-92 to 1997-98, the date of submission of the return was "within twentieth date of the month following the tax period". From 1998-99 to 2002-03, it was "within tenth date of the month following the tax period" and since 2003-04, it has been "within ten working days of the month following the tax period". The word "twentieth" was replaced by "tenth" by SRO No. 114-Ain/98/175-Musak, dated 11.06.1998. The words "tenth date" were replaced by "ten working days" by SRO No. 162-Ain/2003/370-Musak, dated 12.06.2003.

[43] A proviso has been inserted to sub-rule (1) of rule 24 by SRO No. 131-Ain/99/212-Musak, dated 10.06.1999.

Dhaka University Institutional Repository

Since 2001-02, if a registered person required to submit return according to rule 24 does not submit to the local VAT office, on time, the return for any tax period, within seven days of the expiry of the tax period, enforcement action is to be taken against the said registered person [u/r 25(4)].[44] In a case where a registered person fails to submit a return u/s 35; or provides incorrect information in the return submitted, as a result of which the amount paid as VAT and SD becomes less than the actual or, in the case of export, demands more drawback than the actual amount, the concerned VAT officer may, without prejudice to the provisions of penalties under the VAT Act or the VAT Rules and after giving to the person a reasonable opportunity of being heard, determine the payable amount of VAT or calculate the amount of drawback on the basis of the information collected by any VAT officer or on the basis of scrutiny of input-output coefficient and the payment of VAT and SD so determined or calculation of drawback so made shall be obligatory to the person [u/s 36(4)]. On failure to submit a return within the specified date, the registered goods supplier shall be liable to pay a fine between a range and the registered service renderer shall be required to pay additional tax at a monthly rate on the unpaid amount of the tax and duty [u/s 37(1), 37(2), and 37(3)].

6.07 Payment of Tax

In chapter 5, the tax points in terms of timing of tax payment or collection and also the modes of paying tax have been discussed (sub-section 5.6.4). Here, the provisions of tax payments to the treasury have been stated. Under section 6(5), the VAT due on the goods supplied and services rendered, except the VAT paid at importation stage, shall be paid through the account current in Form "Musak-18" and the VAT return in Form "Musak-19" in accordance with the procedure specified by rules [u/s 6(5)]. Supplementary duty (SD) shall be payable at same time and in same manner as are applicable for the payment of VAT [u/s 7(3)]. In the Account Current in Form "Musak-18" [under rule 22(1)], the eighth column is on "Payable" and this column should show "all dues like the output tax, credit cancelled due to return of sales, fine and all other payable amount." Thus, any fine, penalty or other government dues under the VAT laws are also to be considered at the time of payment of tax under the VAT system. The tax under the VAT Act shall be deposited in the treasury under coded heading (in the case of VAT, under the heading '1/1133/0000/0311' and, in the case of SD on goods, under the heading '1/1133/0000/0711' and, in the case of SD on service, under the head '1/1133/0000/0721').[45] The registered person shall, before the removal of any consignment of goods from the place of manufacture or production or business, determine the payable tax on it and at the time of removal of the goods pay the tax through necessary adjustment in account current and for this purpose, there shall have to be sufficient balance in his account current [u/r 23(2)].

Although since 1996-97, the traders (wholesaler and retailers) have been brought under the VAT-net, but from 1997-98, there were various special provisions for them particularly in determining

[44] Sub-rule (4) has been inserted in rule 25 by SRO No. 141-Ain/2001/306-Musak, dated 07.06.2001.

[45] Sub-rule (1) of rule 23 has been amended by SRO No. 238-Ain/93/85-Musak, dated 06.08.1993 [single heading "14-A-Value Added Tax" was prescribed], SRO No. 133-Ain/97/150-Musak, dated 12.06.1997 [two headings–"14-A-Value Added Tax" and "14-B-Supplementary Duty" were prescribed] and SRO No. 131-Ain/99/212-Musak, dated 10.06.1999 [three coded headings were prescribed].

Dhaka University Institutional Repository

the liability of VAT. The VAT registered traders are normally supposed to pay VAT following the normal monthly tax period. But as shown in Table 6.05, the traders paying VAT (not being turnover tax enlisted traders) were allowed at pay VAT *annually or quarterly* from 1998-99 to 2000-01, when they made the declaration of annual turnover under tripartite VAT Management Approach (introduced in 1998-99 and effective up to 2002-03). From 2004-05 to date (2009-10), small retail traders or shops are allowed to pay VAT at annual or monthly installment as per the SRO[46], but practically at annual installment. From 2004-05 to date (2009-10), the traders being the commercial importer have to make the treasury deposit of Advance Trade VAT (ATV) at import stage before submitting the bill of entry at customs station and one copy of the treasury chalan is to be submitted with the bill of entry.

Table 6.05: Frequency of Payment of Value Added Tax by Traders

Financial Year (FY)	Frequency of Payment of Value Added Tax		
	Trader with self-declaration of annual turnover[a]	Trader with declaration of annual turnover under tripartite VAT Management Approach[b]	Commercial Importer for Advance Trade VAT (ATV)[c]
1997-98	Tax period	–	–
1998-99 to 2000-01	Tax period	Annual or quarterly	–
2001-02 to 2002-03	Monthly	Monthly	–
2003-04	Monthly	–	–
2004-05 to 2009-10	Monthly in general and for small retail traders or shop, at annual or monthly installment	–	Treasury deposit of ATV before submitting the bill of entry at customs station

[a] (1) SRO No. 137-Ain/97/154-Musak, dated 12.06.1997 (amended by SRO No. 238-Ain/97/171-Musak, dated 21.10.1997, SRO No. 118-Ain/98/179-Musak, dated 11.06.1998, SRO No. 135-Ain/99/216-Musak, dated 10.06.1999, SRO No. 167-Ain/2000/266-Musak, dated 08.06.2000; and repealed by SRO No. 151-Ain/2001/316-Musak, dated 07.06.2001): (2) SRO No. 143-Ain/2001/308-Musak, dated 07.06.2001 (repealed by SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004); (3) SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

[b] SRO No. 116-Ain/98/177-Musak, dated 11.06.1998 (repealed by SRO No. 144-Ain/2001/309-Musak, dated 07.06.2001); and (2) SRO No. 144-Ain/2001/309-Musak, dated 07.06.2001 (repealed by SRO No. 174-Ain/2003/382-Musak, dated 12.06.2003).

[c] SRO No. 260-Ain/2004/431-Musak, dated 30.08.2004.

6.08 Withholding VAT

In 1993-94, the provision of VAT deduction or collection at sources was incorporated in the VAT Act [by inserting sub-sections (4A), (4B) and (4C) in section 6 by the *Finance Act 1993*]. The reason of introducing the withholding VAT was the uncertainty regarding the normal monthly payment of VAT by the providers of the taxable services u/s 3(1) (NBR, 2001c, p. 169). Initially construction firm (S004.00), indenting firm (S014.00), travel agency (S016.00), garage of motor vehicle and workshop (S003.10) and dockyard (S003.20) and any service renderer ascertained for this purpose from time to time through notification in the official Gazette (i.e., through SRO), were brought under this withholding VAT system. For this purpose, the NBR issued several orders to enforce this VAT deduction or collection at sources (NBR, 2001c, p. 169). Only in

[46] SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

Dhaka University Institutional Repository

Table 6.06: Year-wise Services subject to VAT deduction/collection at sources

Financial Year (FY)	Services subject to VAT deduction/ collection at sources	No. of Services
1993-94 to 1995-96	*5 services:* Garage of motor vehicle and workshop (S003.10); Dockyard (S003.20); Construction firm (S004.00); Indenting firm (S014.00); Travel agency (S016.00)	5
1996-97	*2 new services:* Consultancy Firm & Supervisory Firm (S032.00); Leaseholder** (S033.00)[47]	7
1997-98 to 1998-99	*2 new services:* Printing Press (S008.10); Procurement Provider (S037.00)	9
1999-2000 to 2001-02	*3 new services:* Transport Contractor (S048.00); Board Meeting Participant** (S053.00); Provider of Letter of Credit Services (S056.00)[48]	12
2002-03	*1 existing service with expanded coverage:* Provider of Banking Services (S056.00) *2 new services:* Survey Firm (S020.00)[49]; Rent-a-Car Service (S049.00)	14
2003-04	*4 new services inserted:* Advertising Firm (S007.00); Audit and Accounting Firm (S034.00); Purchaser of Goods Auctioned (S060.00); Lottery Ticket Seller (S066.00) *2 services withdrawn:* Travel agency (S016.00); Provider of Banking Services (S056.00)	16
2004-05 to 2007-08	*1 new service inserted:* Building, Floor and Premises Cleaning or Maintenance Firm (S065.00)	17
2008-09	*4 new services inserted:* Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration** (S031.00); Security Service (S040.00); Legal Adviser (S045.00); Engineering Firm** (S051.00) *1 service withdrawn:* Indenting firm (S014.00)	20
2009-10	*20 existing services plus following* *7 new services inserted:* Decorators and Caterers (S002.00); Auctioneer (S009.00); Courier and Express Mail Service (S028.00); Architect, Interior Designer or Interior Decorator (S050.10); Graphic Designer (S050.20); Travel Agent (S016.00); Chartered Plane and Helicopter Rental Organization** (S058.00)	27

**No truncated value base or net rate of VAT provided and hence rate of withholding VAT being 15%

Sources: The Finance Acts 1993, 2000 and 2003 and 8 SROs: (a) SRO No. 128-Ain/96/130-Musak, dated 28.07.1996; (b) SRO No. 163-Ain/97/166-Musak, dated 02.07.1997; (c) SRO No. 146-Ain/99/226-Musak, dated 10.06.1999; (d) SRO No. 121-Ain/2002/346-Musak, dated 06.06.2002; (e) SRO No. 171-Ain/2003/379-Musak, dated 12.06. 2003; (f) SRO No. 193-Ain/2003/389-Musak, dated 01.07.2003; (g) SRO No. 169-Ain/2004/415-Musak, dated 10.06.2004; and (h) SRO No. 193-Ain/2008/495-Musak, dated 29.06.2008.

1996-97, an SRO[50] was issued to prescribe two new services subject to VAT deduction or collection at sources. In 2000-01, sub-section (4A) of section 6 was re-numbered as sub-section (4AA) and the previous five services were kept under the withholding VAT system in the content

[47] "Leaseholder" [S033.00] from 2009-10 includes "commercial rental of any floor/space, establishment, equipment for a particular period, except for using in residential activity" [SRO 105-Ain/2009/513-Musak, dated 11.06.2009].

[48] Inserted in the above list on 10.06.1999 as "Provider of Letter of Credit Services", then from FY 2002-03 the service (S056.00) was renamed as "Provider of Banking Services" and withdrawn from the list on 12.06.2003. From 2004-05, the service (S056.00) was again renamed as "Provider of Banking and Non-Banking Services"

[49] "Survey Firm" [S020.00] from 2009-10 includes "an organization performing any sort of physical or chemical examination or doing feasibility study of any subject or certifying the standardization of an enterprise or carrying out the performance audit in exchange of consideration and it shall also include a marine surveyor firm" [SRO 105-Ain/2009/513-Musak, dt. 11.6.2009].

[50] SRO No. 128-Ain/96/130-Musak, dated 28.07.1996.

Dhaka University Institutional Repository

of the section 6(4AA) and a proviso was newly added.[51] In 2003-04, no service was prescribed in the substituted sub-section (4AA) of section 6 for withholding VAT and provision was made to prescribe the list of services subject to withholding VAT only through SRO. And in 2003-04, a list of 15 (fifteen) services [practically 16 services were prescribed and one service was withdrawn after eighteen days with retrospective effect] for withholding VAT.[52] Thus, started with five services in 1993-94, in 2008-09, the total number of services subject to withholding VAT was 20 and in 2009-10, total number of services has been raised to 27 (Table 6.06).[53]

The rate of withholding VAT is based on the TVA (truncated value addition) *multiplied by* standard VAT rate [*Chapter Appendix 7.1* for "Rates of Truncated Value Addition up to FY 2009-10"] or the net VAT rate (NVR) [Table 7.4 in chapter 7], but if the TVA or NVR is not prescribed, then the rate will be the standard VAT rate. The five rates of withholding VAT (applicable in 2009-10[54]) are: (a) *1.5 percent* on "Purchaser of Goods Auctioned"; (b) *2.25 percent* on "Procurement Provider; Transport Contractor (in case of carrying petroleum goods); Building, Floor and Premises Cleaning or Maintenance Firm"; (c) *4.5 percent* on "Garage of Motor Vehicle and Workshop; Dockyard; Construction Firm; Printing Press (if input costs included in bill); Photographers; Courier & Express Mail Service; Consultancy Firm & Supervisory Firm; Audit and Accounting Firm; Security Service; Legal Adviser; Architect, Interior Designer or Interior Decorator & Graphics Designer"; (d) *9 percent* on "Advertising Firm" [in case of advertisements (except classified advertisements) published by non-government enterprises, non-government organizations (NGO), non-government banks and insurance and limited companies, any firm or person, price determined by the concerned newspaper authority]; and (e) *15 percent* on "Decorators & Caterers; Advertising Firm (where 9% not applicable); Printing Press (if input costs not included in bill); Auctioneer Firm; Travel Agency; Survey Firm; Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration; Leaseholder; Engineering Firm; Board Meeting Participant; Chartered Plane or Helicopter Rental Firm; Lottery Ticket Seller".

The entities which are liable to deduct or collect VAT at sources include: Government, semi-government, autonomous bodies, non-government organizations (NGO), bank, insurance or limited companies.[55] Under section 6(4B), a person who deducts VAT at source u/s 6(4AA), shall give, in respect of such deduction, a certificate within three working days from the date of deduction to the person who renders the service, which shall include the following information, namely: (a) the VAT-payer's registration number; (b) the total price/commission paid for the service rendered; (c) the amount of price/commission on which VAT is assessable; (d) the amount of VAT realized or deducted; and (e) any other information required under the rules [u/s 6(4B)].[56]

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[51] Proviso has been inserted to sub-section (4AA) of section 6 by the Finance Act 2000 and kept as it was in 2000 by the Finance Act 2003, when sub-section (4AA) was substituted.

[52] SRO Nos. 171-Ain/2003/379-Musak, dt. 12.6.2003 and 193-Ain/2003/389-Musak, dt. 1.7.2003 (w.e.f. 12.6.03).

[53] The latest list is prescribed by SRO No. 113-Ain/2009/521-Musak, dated 11.06.2009.

[54] The rates of withholding VAT have been taken from the SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009.

[55] For the first time, the VAT deducting entities were prescribed by SRO No. 163-Ain/97/166-Musak, dt. 2.7.1997.

[56] Sub-section (4B) has been inserted in section 6 by the Finance Act 1993. The format of the certificate of the deduction or collection of VAT at sources has been prescribed in Form-Kha as per the NBR's General Order No. 23/Musak/97, dated 08.09.1997 [amended by General Order No. 05/Musak/2009, dated 11.06.2009]

Dhaka University Institutional Repository

If the providers of the services on which the withholding VAT is applicable pay VAT on the basis of "total receipts" (which is the VAT-exclusive service bill)[57] and take input tax credit, then withholding VAT shall not be applicable. But these service providers have to give a declaration regarding this after mentioning the VAT registration number, service code, area code, residential address, phone number etc. to the Divisional Officer and the Divisional Officer will issue a certificate in a prescribed format[58] (NBR, 2001c, pp. 362-365). Under section 6(4C), in spite of the requirement of realizing and deducting at source value added tax and depositing the same u/s 6(4AA), if a person paying service price or commission fails to realize or deduct and deposit the same, he will be subject to payment of two percent interest per month in addition to the realization of VAT and the concerned Commissioner may impose a personal penalty on the defaulter organization [u/s 6(4C)].[59]

6.09 Tax Assessment and Assessment Authorities

There is no specific section in the VAT Act or specific rule in the VAT Rules on assessment of VAT, although under section 72(2)(a), the NBR has the power to make rules on assessment of VAT and SD. Only in section 21 [Bestowal of power], it has been mentioned that the VAT officers are empowered to perform all functions relating to assessments of VAT, SD, and turnover tax and realization thereof and other functions relating thereto [u/s 21(2)]. After submission of return under section 35 [Submission of return] and under rule 24 [Submission of return] to the local VAT office, the return is examined under section 36 [Examination of returns] and under rule 25 [Examination of return]. This examination is equivalent to the assessment function of the assessment authorities (the Inspector in-charge of the concerned revenue area and the Superintendent of the local VAT office are jointly the assessment authorities) [u/r 25(1)]. However, the Commissioner is the authority, who shall, on the basis of the return submitted, take necessary step to ascertain as to whether the person who submitted the return has, during the relevant tax period, properly paid the output tax and taken input tax credit [u/r 25(2)].

In case of domestic VAT and SD[60] on correct return (accepted by the VAT authority), the VAT system in Bangladesh is claimed to be a *self-assessing system* (Hossain, 2008, p. 6; Shikder, 2009, p. 1) and hence the VAT returns are prepared by the VAT registered persons themselves. Then both the Inspector in-charge of the concerned revenue area and the Superintendent of the local VAT office shall certify to that effect by putting their signature and affixing their seals separately and the concerned Superintendent shall refund to the registered person a copy of the return so certified within not more than 30 (thirty) days[61] and shall send the original copy to the Commissioner [u/r 25(1)].

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[57] 'Total receipts' means the total amount of money including commission or charge, except value added tax or advance income tax, received or receivable by a provider of taxable service in exchange of service rendered [u/s 2(x)].

[58] The format is prescribed in Form-Ka as per the NBR's GO No. 23/Musak/97, dt. 8.9.97 (NBR, 2001c, p. 364).

[59] Sub-section (4C) has been inserted in section 6 by the Finance Act 1993.

[60] SD shall be payable at same time and in same manner as are applicable for the payment of VAT [u/s 7(3)].

[61] Provision of refunding certified copy of return was inserted by SRO No. 162-Ain/2003/370-Musak, dt. 12.6.2003 and then refunding period was 60 days, which was reduced to 30 days by SRO No. 187-Ain/2008/489-Musak, dt. 29.6.08.

Dhaka University Institutional Repository

In case of *under-payment of domestic VAT and SD*, the concerned VAT officer (the Superintendent or the Inspector in-charge) shall direct the taxable person, by order, to pay within seven days of the receipt of the order, the unpaid amount of VAT and SD [u/s 36(1)], and in case of *over-payment of domestic VAT and SD, they* shall, by order, give an opportunity to the person to adjust the additional VAT and SD, against the amount of VAT and SD payable in the next tax period [u/s 36(2)]. In case of *no assessment* or *under-assessment*, the concerned VAT officer shall, within three years from the date on which the said VAT and SD became payable or was under-paid, issue a show cause notice demanding the VAT and SD mentioned in the notice [u/s 55(1)], after giving the defaulter an opportunity of being heard before demanding the additional taxes [u/s 55(3)]. The Commissioner may allow payment of additional VAT and SD in installments within maximum six months [u/s 55(4)]. Under section 56 [Realization of Government dues] and rule 43 [Procedure of recovery of government dues], where any amount of VAT and SD assessed is due from any person, a VAT officer, not below the rank of an Assistant Commissioner, may take prescribed steps to realize that due taxes [section 56 and rule 43].

The *VAT and SD at import-stage*[62] are imposed and collected by the customs authority at the same time and in the same manner as import duty [u/s 6(1)] and VAT at importation stage cannot be paid through the account current and the VAT return [u/s 6(5)]. There are two types of assessment of taxes and duties at import stage (regular assessment and provisional assessment) under the Customs Act 1969. The *regular assessment* of duty under the Customs Act 1969 is done on the delivery or electronic transmission of bill of entry, the goods or such part thereof as may be necessary may, without undue delay, be examined or tested usually in the presence of the owner or his agent, and thereafter the goods shall be assessed to duty, if any, and the owner of such goods may then proceed to clear the same for home-consumption or warehouse them [u/s 80 of the Customs Act 1969]. There is also a scope of *provisional assessment* of duty and taxes u/s 81 of the Customs Act due to various reasons such as delayed chemical or other test or further or incomplete documentation. Then the appropriate customs officer may order that the duty payable on such goods be assessed provisionally, subject to the condition of submission of bank guarantee for the payment of the excess of the final assessment of duty over the provisional assessment [u/s 81 of the Customs Act 1969]. In the case of imported goods, if any VAT and SD have not, for any reason, been paid or have been under-paid or refunded, erroneously, it shall be realized in accordance with the provisions of section 32 of the Customs Act [u/s 55(2) of the VAT Act].

Any mistake or mathematical or clerical error made by the Government, the NBR or a VAT officer in any assessment of tax under the VAT laws may be rectified by the Government, the NBR or any VAT officer concerned or his substitute [u/s 71 of the VAT Act]. No suit shall lie in any civil court against the assessment of VAT and SD [u/s 61 of the VAT Act]. Since 2001-02, under section 216A of the Customs Act, no suit, case or any application shall lie against the customs authority's decision to any civil court, except the courts, tribunals and authorities authorized by or under the Customs Act.

[62] In this part, there are references of sections of the Customs Act 1969. Throughout the discussion, if any section, rule, proviso, SRO or order is mentioned without the concerned Act or Rules, then they would be considered with reference to the VAT Act or the VAT Rules, as applicable.

Dhaka University Institutional Repository

6.10 Size of Firm for the Imposition of VAT

In Bangladesh, for administrative ease and other practical reasons, the size of the firm has been considered as an important factor from the very beginning of implementation of the VAT system. During 1991-92 to 1995-96, when there was no trader-level VAT, the size of the firm was taken into consideration under two schemes of "small firm"–one for turnover tax (TT) enlistment (paying TT at a reduced rate), and another for cottage industry enlistment (without paying VAT or TT). Since 1996-97, when trader-level VAT was introduced, in addition to the earlier two schemes, there were and are various special schemes for wholesale and retail traders considering normally them as small firms which do not maintain proper documentation and accounts for their transactions. Below is a brief overview of size-specific provisions regarding imposition of VAT and its alternatives.

Exclusion from Registration

As mentioned earlier (in section 6.2), some persons are excluded from the requirement of registration. From 1994-95 to date (2009-10), if the annual turnover is below Tk. 15 lakh, the concerned supplier of taxable goods/services is exempted from requirement of VAT registration (from 1991-92 to 1992-93, the turnover limit for registration-exemption was below Tk. 2 lakh and for 1993-94, Tk. 7.5 lakh). Besides since 1991-92, passengers carrying accompanied or non-accompanied goods through customs stations, all importing educational institutions and government offices and all diplomatic offices, the United Nations and the UN Bodies, the Islamic Conference Organizations and its associate bodies and other diplomatic privileged organizations, are also exempted from the requirement of registration (NBR, 2001c, p. 13).

But the exemption from the requirement of VAT registration based on annual turnover limit (Taka 15 lakh from 1994-95) is now to some extent meaningless, because the threshold limit of annual turnover for turnover tax has already been raised to Taka 20 lakh in 1999-2000, to Taka 24 lakh in 2008-09 and to Taka 40 lakh in 2009-10. The turnover tax enlisted enterprises maintaining the annual turnover threshold are treated as small firms, although very very small in size in comparison to the size of the small firm defined in the *Industrial Policy*[63] and they are liable to pay turnover tax at 4 percent since 1997-98 (earlier rate was 2 percent). Table 6.07 shows the year-wise annual turnover threshold for turnover tax and the rate of turnover tax.

But there is a provision of mandatory VAT registration also. Since 1999-2000, for selective services (from 8 services in 1999-2000 to 61 services in 2009-10) and since 2007-08, for certain types of goods, a provision of mandatory registration has been made irrespective of annual turnover (Table 6.01). If any firm is subject to mandatory registration, then its size is not any issue and it has to take VAT registration on voluntary compliance or there will be forced registration to be given by the VAT authority.

[63] Small industry is defined as per the *Industrial Policy 2005*, as the industry, in case of manufacturing sector, which has investment in fixed assets other than land and factory building not more than Taka 10 crore and in case of non-manufacturing sector, where less than 25 labourers are working [sections 4.4 and 4.5 in Chapter 4 of the *Industrial Policy 2005*, available at http://www.epb.gov.bd/industrial_policy.html, accessed 27.05.2009].

Dhaka University Institutional Repository

Table 6.07: Annual Turnover Threshold for Turnover Tax and Turnover Tax Rate[64]

Financial Year (FY)	Turnover Tax	
	Threshold*	Rate (%)
1991-92 to 1992-93	Taka 5 lakh**	2
1993-94	Taka 7.5 lakh	2
1994-95 to 1996-97	Taka 15 lakh	2
1997-98 to 1998-99	Taka 15 lakh	4
1999-2000 to 2007-08	Taka 20 lakh	4
2008-09	Taka 24 lakh	4
2009-10	Taka 40 lakh	4

* Annual turnover threshold for turnover tax is less than the above ceiling.
** At the beginning, it was only two lakh taka in the original VAT Rules, but on 01.10.1991, it was raised to 5 lakh taka with effect from 01.07.1991.

Sources: The original *VAT Rules 1991* (12.6.1991); SRO No. 288-Ain/91/35-Musak, dt. 1.10.1991 (w.e.f. 1.7.1991); SRO No. 238-Ain/93/85-Musak, dt. 6.8.1993; SRO No. X-Ain/94/90-Musak, dated 09.06.1994; SRO No. 133-Ain/97/150-Musak, dated 12.06.1997; SRO No. 131-Ain/99/212-Musak, dated 10.06.1999; SRO No. 187-Ain/2008/489-Musak, dated 29.06.2008; SRO No. 103-Ain/2009/511-Musak, dated 11.6.2009.

The other benefit to small firms–cottage industry enlistment–is also dependent on capital investment ceiling and annual turnover limit. The eligible cottage industries are not required to get VAT registration, rather they have to be enlisted for cottage industry and are not liable to pay any taxes under the VAT laws (VAT, TT or SD). Table 6.08 shows the year-wise maximum capital investment and annual turnover for cottage industry. The cottage industries producing the goods outside a negative list are enjoying this benefit (Table 6.03 showing the negative list of goods for cottage industry benefit), but the definition of cottage industry under the VAT laws is very restrictive, being a non-corporate entity and not involved in producing other person's branded goods (up to 2008-09), and smaller in size in comparison to definitions as per the *Industrial Policy* (where, cottage industry is a family business of any size), but not according to the *Income Tax Ordinance* (where, cottage industry is an entity exclusively owned by non-corporate investors with a ceiling of investment of Tk. 3 lakh in plant, machinery and equipment, and subject to other conditions).[65]

[64] Initially in the original VAT Rules, the annual turnover threshold for turnover tax was Tk. 2 lakh, then it was increased to Tk. 5 lakh from the first day of introducing VAT [by SRO No. 288-Ain/91/35-Musak, dated 1.10.1991 (w.e.f. 1.7.1991)], then increased to Tk. 7.5 lakh [by SRO No. 238-Ain/93/85-Musak, dt. 6.8.1993], to Tk. 15 lakh [by SRO No. X-Ain/94/90-Musak, dt. 9.6.1994], to Tk. 20 lakh [by SRO No. 131-Ain/99/212-Musak, dated 10.6.1999] and finally to Tk. 24 lakh [by SRO No. 187-Ain/2008/489-Musak, dated 29.6.2008]. The rate of turnover tax has been increased from 2% to 4% by SRO No. 133-Ain/97/150-Musak, dated 12.6.1997.

[65] Cottage industry is defined as per the *Industrial Policy 2005*, as the industry engaged in production or service-oriented activities by the full or part time family members [the *Industrial Policy 2005*]. In section 47 (Exemption of income of co-operative societies) of the *Income Tax Ordinance 1984* (ITO), "cottage industry" operated by a cooperative society is defined as follows: "Cottage industry" means an enterprise, not being owned by a joint stock company which fulfils the following conditions, namely: (i) it is basically an enterprise in which the owner is the investor, a full-time worker and the actual entrepreneur; (ii) the capital invested in plant, machinery and equipment does not exceed 3 lakh taka at any time during the income year; (iii) the number of workers, including the owner and the members of his family, shall not on any one 24-hour day during the income year, exceed 15; and (iv) the owner of the enterprise or any member of his family does not own any other industrial or commercial enterprise either in his own name or in the name of any other person [clause (a) of *Explanation* to section 47 of the ITO 1984].

Dhaka University Institutional Repository

Table 6.08: Maximum Capital Investment and Annual Turnover for Cottage Industry

Financial Year (FY)	Maximum capital investment in plant, machinery and equipment	Maximum annual turnover
1991-92*	Taka 3 lakh	n/a
1992-93 to 1998-99**	Taka 3 lakh	Taka 15 lakh[a]
1999-2000 to 2006-07	Taka 5 lakh	Taka 20 lakh
2007-08	Taka 7 lakh	Taka 20 lakh
2008-09	Taka 15 lakh	Taka 24 lakh
2009-10	Taka 25 lakh	Taka 40 lakh

* The condition that the cottage industry is not a joint stock company has been incorporated in 1991-92 [*vide* SRO No. 139-Ain/92/52-Musak, dated 18.06.1992 (w.e.f. 01.07.1992)].

** The condition that in the place of production of the cottage industry, other person's branded goods are not produced has been incorporated in 1994-95 [*vide* SRO No. XIII-Ain/94/93-Musak, dated 9.6.1994].

[a] The maximum annual turnover was initially fixed at Tk. 12 lakh by SRO No. 139-Ain/92/52-Musak, dated 18.6.1992 (w.e.f. 1.7.1992) and then increased to Tk. 15 lakh by the SRO No. 203-Ain/92/59-Musak, dt. 19.8.1992 (w.e.f. 1.7.1992).

Sources: SRO No. 264-Ain/91/31-Musak, dated 04.09.1991 (w.e.f. 01.07.1991); SRO No. 139-Ain/92/52-Musak, dated 18.06.1992 (w.e.f. 01.07.1992); SRO No. 203-Ain/92/59-Musak, dated 19.08.1992 (w.e.f. 01.07.1992); SRO No. 142-Ain/99/222-Musak, dated 10.06.1999; SRO No. 132-Ain/2007/477-Musak, dated 27.06.2007; SRO No. 190-Ain/2008/492-Musak, dated 29.06.2008; SRO No. 108-Ain/2009/516-Musak, dated 11.06.2009; and SRO No. 181-Ain/2009/534-Musak, dated 30.06.2009.

Reduction in Tax Liability

The size specific incentive to supplier of taxable goods and services has been given in some cases in terms of reduction in tax payable. This benefit was given through a participatory approach to fixation of annual turnover at trading stage or through fixation of annual minimum value addition. In 1997-98, this approach was first mentioned in one of the NBR's General Order[66] (applicable for registered traders at retail level), where it was mentioned that "if any association being listed as a member of the Federation of Chambers of Commerce and Industries (FBCCI) recommends relating to annual turnover of a business enterprise, that is to be considered in general for payment of tax" (NBR, 2001c, p. 368). On the same day in 1997-98, this approach was again mentioned in another circular of the NBR made according to the earlier order[67], where it was mentioned that the recommendations of the FBCCI and a trade organization recognized by it, relating to annual turnover of a registered person were to be considered with importance, and necessary cooperation was solicited from them in cases of registration, enlistment and payment of VAT or TT (NBR, 2001c, p. 403). Towards this participatory approach, an important meeting, presided over by the Member [VAT], was held at the NBR with the representatives of various trade associations on February 9, 1998. The cooperation regarding VAT registration, payment of VAT, expanding the treasury deposit facility, issuance of invoice, etc. given by the trade associations was recognized by the VAT authority in the meeting. Among others, the major decision taken in this meeting was to impose trade-level VAT only on retail level and not at wholesale level except for sale by the wholesalers directly to the consumers for the time being (NBR, 2001c, p. 435-437).

[66] The NBR's GO No. 25/Musak/97, dated 28.9.97 (related to SRO No. 142-Ain/97/159-Musak, dated 12.6.1997).

[67] The NBR's File No. 4(6)-Musak Ni: Ba:/97/189, dated 28.09.1997 (related to SRO No. 142-Ain/97/159-Musak, dated 12.06.1997 and SRO No. 164-Ain/97/167-Musak, dated 02.07.1997).

Dhaka University Institutional Repository

This participatory approach was given a legal accord by the *Determination of Total Price of Taxable Goods Supplied by Traders (Special) Rules 1998*[68] (effective from 11.6.1998 to 6.6.2001) and the *Determination of Total Sales Price (excluding Value Added Tax) of Taxable Goods Supplied by Traders (Special) Rules 2001*[69] (effective from 6.6.2001 to 11.6.2003). Thus for five years (from 1998-99 to 2002-03), a tripartite VAT Management Approach was introduced, which was represented by a committee consisting of the VAT authority (Assistant Commissioner or any other VAT officer above his rank as the convener of the committee), and one representative from each of the concerned Chamber body and the shop-owners association. This committee was given the authority to approve the annual turnover and annual and monthly amount of tax. To implement this approach, a comprehensive order of the NBR[70] was issued (NBR, 2001c, p. 545-564). Under this approach, the registered traders were liable to pay VAT at a net rate of 3 percent of annual turnover over first three years (1998-99 to 2000-01) and at 1.5 percent of annual turnover over next two years (2001-02 and 2002-03) [Table 6.09]. This tripartite VAT Management Approach was an alternative to self-declaration of annual turnover subject to a payment of VAT sometimes at a different net VAT rate (NVR), except for 1998-99 and 2001-02 to 2002-03, when the rates were same. However, these net rates of VAT were always lower than the TT rate to influence the traders to get VAT registration rather than TT enlistment [Table 6.09]. For example, in 1998-99, a TT enlisted person having annual turnover of Tk. 1,125,000 paid TT of Tk. 45,000 and the same amount of VAT was paid by a VAT registered trader

Table 6.09: Traders as Payers of Turnover Tax (TT) and VAT

Financial Year (FY)	Traders as TT Enlisted Person		Traders as VAT Registered Person to Pay VAT at 15%		
	Annual turnover less than the ceiling below	TT Rate (%)	Annual turnover equal to or above the ceiling below	Standard VAT at 15% with ITC or at following NRV (%) without ITC	
				SDAT	TVMA
1996-97	Taka 15 lakh	2	Taka 15 lakh	–	–
1997-98	Taka 15 lakh	4	Taka 15 lakh	2.25	–
1998-99	Taka 15 lakh	4	Taka 15 lakh	3	3
1999-2000	Taka 20 lakh	4	Taka 20 lakh*	2.25	3
2000-01	Taka 20 lakh	4	Taka 20 lakh	2	3
2001-02 to 2002-03	Taka 20 lakh	4	Taka 20 lakh	1.5	1.5
2003-04	Taka 20 lakh	4	Taka 20 lakh	1.5	–
2004-05 to 2007-08	Taka 20 lakh	4	Taka 20 lakh	1.5 or MAV	–
2008-09	Taka 24 lakh	4	Taka 24 lakh	1.5 or MAV	–
2009-10	Taka 40 lakh	4	Taka 40 lakh	1.5 or MAV	–

Note: NRV means "net rate of VAT"; SDAT means "self-declaration of annual turnover"; TVMA means "tripartite VAT Management Approach"; MAV means "minimum annual VAT".

* As a provider of "Trade Service" (S043.00), the wholesale traders were allowed to pay VAT at net rate of VAT of 1.5%, based on 10% TVA only for 1999-2000 as VAT registered persons.

Sources: The original *VAT Rules 1991* (12.6.1991); SRO Nos. 288-Ain/91/35-Musak, dt. 1.10.1991 (w.e.f. 1.7.91); 238-Ain/93/85-Musak, dt. 6.8.1993; X-Ain/94/90-Musak, dt. 9.6.1994; 133-Ain/97/150-Musak, dt. 12.6.1997; 116-Ain/98/177-Musak, dt. 11.6.1998; 131-Ain/99/212-Musak, dt. 10.6.1999; 134-Ain/99/215-Musak dt. 10.6.1999; 144-Ain/2001/309-Musak, dt. 7.6.2001 (repealed by SRO No. 174-Ain/2003/382-Musak, dt. 12.6.2003); 172-Ain/2004/418-Musak, dt. 10.6.2004; 187-Ain/2008/489-Musak, dt. 29.6.08; 103-Ain/2009/511-Musak, dt. 11.6.09.

[68] SRO No. 116-Ain/98/177-Musak, dated 11.06.1998, effective from 11.06.1998 to 06.06.2001.

[69] SRO No. 144-Ain/2001/309-Musak, dated 07.06.2001, effective from 06.06.2001 to 11.06.2003.

[70] Order No. 14/Musak/2000, dated 30.11.2000.

Dhaka University Institutional Repository

having annual turnover of Tk. 15 lakh, the minimum turnover for VAT registration. For 2008-09, this annual turnover is Tk. 9 lakh for TT versus Tk. 24 lakh for VAT for an amount of tax of Tk. 36,000. But due to enhancement of threshold limit to Tk. 40 lakh in 2009-10, for this annual turnover, TT amounts to Tk. 160,000 versus VAT of Tk. 6 lakh.

Sine 2004-05, the VAT network has been expanded to small retail traders or shops with an approach of 'minimum annual VAT' to be paid once annually or in monthly installments, for which the VAT authority has mentioned the annual amount value addition, not the annual turnover and hence, no question about the threshold for turnover tax enlistment and now any retail trader can obtain VAT registration irrespective annual turnover under this approach and pay the predetermined minimum VAT, which is shown in Table 6.10 below.

Table 6.10: Minimum VAT Payable by Small Traders or Shops

Sl.	Applicable Area	Minimum Annual Value Addition	Rate of VAT	Minimum VAT Payable
1.	Dhaka and Chittagong City Corporation area	Tk. 28,000	15%	Tk. 4,200
2.	Other City Corporation area	Tk. 24,000	15%	Tk. 3,600
3.	Municipal area of District Towns	Tk. 16,000	15%	Tk. 2,400
4.	Other area of the country	Tk. 8,000	15%	Tk. 1,200

Source: SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004 (Hossain, 2008, pp. 683-684).

For two years (1998-99 and 1999-2000)[71], the wholesale traders were also included in the list of vatable services under the title "Trade Service" (S043.00), which was defined as such an organization, association or person which or who sells, exchanges or transfers the taxable goods imported or produced in the country, in exchange of consideration through *wholesale* without any change to such goods. The provider of 'trade service' was liable to get VAT registration if the annual turnover was Tk. 15 lakh or more and in case of annual turnover below Tk. 15 lakh, the service provider was supposed to be enlisted for TT.[72] For one year (1999-2000), there was a truncated value addition (TVA) prescribed for "Trade Service" by the *Imposition of Tax on the Basis of Actual Value in Case of Specified Services (Special) Rules 1999*[73] at 10 percent of entire amount of money received for wholesale sale, exchange and transfer of vatable goods. That is, the TVA was prescribed only for wholesale traders, and not for retail traders in this case.

Exemption from Taxation

In chapter 5, the exemption from VAT has been discussed (section 5.7.06). Although the exemption is not based on size of the firm in general, but in some special cases, the exemption was given due to the small size of the firm. Following 5 coded and one un-coded services can be mentioned in this regard, which are exempted: (i) all temporary Hotels (S001.10) and Restaurants (S001.20), where "temporary" means without any fence, electric fan and not-more-than two

[71] From 1991-92 to 1999-2000, the Second Schedule was titled "Services subject to Value Added Tax" and from 2000-01, it was renamed as "Services Exempted from Value Added Tax". "Trade Service" (S043.00) was inserted by the Finance Act 1998 in the previous Second Schedule "Services subject to Value Added Tax" (before replacement by the FA 2000) and deleted by SRO No. 170-Ain/2000/269-Musak dated 8.6.2000 by not mentioning the Service Code.

[72] The NBR's General Order No. 4, dated 12.11.1998 (NBR, 2001c, pp. 418-420).

[73] SRO No. 134-Ain/99/215-Musak dated 10.06.1999.

Dhaka University Institutional Repository

electric bulbs; (ii) Binding Firm (S008.20), on charge of all types of binding; (iii) Tailoring Shop & Tailors (S063.00), except air-conditioned tailoring shop and tailors in any area and small tailoring shop in the region of Dhaka and Chittagong City Corporations;[74] (iv) Cinema Halls (S023.10) in Rangamati, Khagrachari and Bandarban districts;[75] and (v) Shaving activities in any area as a service.[76]

6.11 Treatment of Exports under the VAT Laws

Just after independence in 1972, exports of specified goods were subject to export duty under the Customs Act 1969 and also to sales tax under the Sales Tax Act 1951. In the Customs Act, u/s 18 (Goods dutiable), there is a provision of imposition of customs-duties (export duty) on goods exported from Bangladesh [u/s 18(1)(a) of the Customs Act]. Under section 3 of the Sales Tax Act 1951 (effective up to 1981-82), there was also a provision to levy and collect sales tax on the value (the duty paid value, being the assessable value at customs point *plus* the customs duty) of such goods or classes of goods as the NBR may, by Gazette notification, specify in this behalf which are exported from taxable territories (Bangladesh) payable by the exporter [u/s 3(1)(d) of Sales Tax Act 1951, *vide* GOB, 1978b, pp. 2-7]. In 1972-73, the export of "raw hides and skins", "poultry and poultry products (eggs)" and "ginned cotton" (*vide* GOB, 1978b, p. 120) at normal sales tax rate of 20 percent (effective from 1.7.1970) under section 3(2) of the Sales Tax Act (*vide* GOB, 1978b, pp. 5 and 89), but a reduced rate for exports was prescribed: $3^1/_8$ percent for "raw hides and skins" (GOB, 1978b, p. 121). As reported by the Taxation Enquiry Commission (April 1979), in 1978, export duty under the Customs Act was being realized from raw jute (at 10 percent *ad valorem*), tea (at Taka 1 per pound of tea) and wet blue leather (at 15 percent). Sales tax under the Sales Tax Act was being levied and collected at the rate of 20 percent on raw hides and skins and poultry and poultry products exported (TEC, 1979, pp. 234-235). From 1982-83 to 1990-91, under the Sales Tax Ordinance 1982 (which repealed the Sales Tax Act 1951), the exports of goods specified by the NBR were also subject to sales tax. The purpose of export duty and the sales tax on exports was to discourage the export of the concerned goods. The World Bank report on tax reform in Bangladesh (World Bank, 1989a, 1989b and 1989c) and also the *Bangladesh Tax Mission* (NBR, 1990) recommended the introduction of zero-rate for export allowing refund of all duties paid on imported inputs used in the production of exportable items.

As discussed in chapter 5 (section 5.6.1), the exports (including 'deemed exports') can be related to both goods and services, which are zero-rated, i.e., all earlier stage input taxes (*except* AIT and in case of use of natural gas, SD paid thereon) are refunded. Here mainly the coverage of exports and the drawback system have been discussed. As mentioned earlier, an exporter of any goods or service shall have to be registered with the concerned VAT officer [u/s 15(1)], but the NBR may, by general or special order, exempt any exporter from the requirement of registration [u/s 16(2)]. It is to be noted that the NBR has the power to make rules about export of goods or service and procedure for exemption and drawback related to the export [u/s 72(2)(i)].

[74] SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008.
[75] SRO No. 138-Ain/93/73-Musak, dated 12.07.1993.

Dhaka University Institutional Repository

Coverage of Exports

To be recognized as export, the transaction of goods and services must be against foreign currency and shall not be subject to re-importation of the exported goods and subject to compliance of specific procedures. The export procedures under rule 27 (applicable for exports *except* those made by a hundred percent export-oriented organization, and export of goods and services exempted from paying VAT[77]), that is, for *partial exporters*, are as follows: (a) On the package of exportable goods, chronological serial number and the name of exporter to be printed and to be sealed, by a seal containing the words "For Export" [u/r 27(1)]; (b) Examination of the goods at the place of manufacture and if, after examination, the goods presented for examination are found as per declaration, a seal containing the words "Examined by the Value Added Tax Department" to be given on every packet and "Examination Completed" to be written on the copies of the application and on the copies of the "Chalanpatra" (invoice) [u/r 27(2)]; or the export consignment may be examined at the port of export [u/r 27(5)]; (c) Allowing export if the earlier examined packets of goods are found are intact [u/r 27(3)], or the consignment may be re-examined, if considered necessary [u/r 27(4)]; or the un-examined consignment at the port u/r 27(5) and then the export will be completed [u/r 27(6) and 27(7)]; (d) In the cases of export by post, it should be done through the chief of the foreign post office [u/r 27(8)]; (e) Collection of Proceeds Realization Certificate (PRC) for a proof of repatriation of foreign currency through Bangladesh Bank (Hossain, 2008, p. 370);[78] (f) The goods or services are to be sent directly to the export port in case of export of goods and services acquired through back-to-back L/C (from FY 2008-09) [u/r 27(10)];[79] and (g) Issuance of appropriate invoices [u/r 16 and 17].

The export procedures applicable for exports made by a hundred percent export-oriented enterprises are as follows: (a) Supply only through chalan in Form 'Musak-11' [u/r 16(3)]; (b) Collection of Proceeds Realization Certificate (PRC) for a proof of repatriation of foreign currency through Bangladesh Bank [u/r 27(10)];[80] and (c) Maintenance of purchase account book (in Form 'Musak-16') and sales account book (in Form 'Musak-17') [u/r 22] and submission of a return each month [u/r 24].

In the VAT laws, there is a host of classification of exports or exporters: (a) according to exemption of exports: exempted export or zero-rated export; (b) according to procedure of exports: actual (direct) export or deemed export; (c) according to the extent of exports out of

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[76] The NBR's General Order No. 11/Musak/2000, dated 11.10.2000 (w.e.f. 8.6.2000) [NBR, 2001c, p. 541].

[77] From 1991-92 to 2007-08, the provisions of sub-rules (1) to (8) of rule 27 shall not be applicable in the case of exports made by a hundred percent export-oriented organization, industrial enterprises exempted from paying value added tax and commercial exporter and export of goods and services exempted from paying value added tax. From 2008-09, the provisions of sub-rules (1) to (8) of rule 27 shall not be applicable in the case of exports made by a hundred percent export-oriented organization, and export of goods and services exempted from paying value added tax. The restrictive provision of sub-rule (9) was first inserted in rule 27 by SRO No. 288-Ain/91/35-Musak, dt. 1.10.91 (w.e.f. 1.7.1991) and sub-rule (9) has been substituted by SRO No. 162-Ain/2008/488-Musak, dt. 26.6.2008.

[78] In the substituted *Form "Musak-22"* [Application for Drawback of Duties and Taxes in case of Export], the submission of PRC has been mentioned for the first time in the VAT statutes, which was not categorically mentioned earlier (*Form "Musak-22"* substituted by SRO No. 298-Ain/2008/Musak, dt. 6.11.2008).

[79] Sub-rule (10) has been inserted in rule 27 by SRO No. 162-Ain/2008/488-Musak, dated 26.06.2008.

[80] General Order No. 07/Musak/2005, dated 09.06.2005 (relating to S.R.O. No. 154-Ain/2005/445-Musak, dated 09.06.2005) (Hossain, 2008, pp. 400-402).

Dhaka University Institutional Repository

goods produced and services provided: partial export (including export by post) or hundred percent export; and (d) according to the drawback on exports (for consideration by the Duty Exemption and Drawback Office): exports by the established exporter or by ordinary exporter. These categorizations have been discussed below:

Exempted export or zero-rated export: If any export is mentioned in First or Second Schedule of the VAT Act, then those will be exempted export and in that case, no drawback is allowed. In the Second Schedule (Service exempt from value added tax) there is one export mentioned as exempted. According to this, the "firms exporting human resources" are exempted from VAT [clause (f) in paragraph 7 of the Second Schedule]. All other exports of taxable goods or taxable services are subject to zero-rate [defined u/s 2(v) and mentioned in section 3(2)].

Actual (direct) export or deemed export: Only in 2008, in the VAT Rules 1991, two new definitions have been added for actual exporter and deemed exporter.[81] According to rule 2(eee) of the VAT Rules, "actual exporter or exporter" means such a person or enterprise that exports directly to the export processing zone (EPZ) or exports outside Bangladesh of goods or services produced by him or goods or services collected otherwise, after compliance with the conditions stated in the Export Policy Order issued, time to time, by the Government and the rules and provisions relating to foreign exchange issued, time to time, by the Bangladesh Bank. According to rule 2(eeee) of the VAT Rules, "deemed exporter" means such a person or enterprise that supplies goods or renders services to any person or enterprise within Bangladesh in exchange of foreign currency against internal back-to-back L/C, or local or international tender. However, in absence of any statutory definition, the same meaning of deemed exports was and is applicable, i.e., the supply of goods or provision of services in exchange of foreign currency against local or international tender by a VAT registered person or against internal back-to-back letter of credit by a VAT registered person (under rules 31A, 32 and 32A). On the basis of these provisions, thus, the export means the supply of goods or the rendering of services within or outside Bangladesh in exchange of foreign currency and the foreign currency is to be repatriated through the Bangladesh Bank (Hossain, 2008, p. 369). In 2009-10, in the VAT Act also the definitions of 'export' and 'deemed to be exported' have been incorporated in clause (zb) and clause (zc)[82] respectively in section 2 of the VAT Act by the Finance Act 2009. According to these definitions, "export" means supply of any goods or services outside the geographical limit of Bangladesh including the sea areas under the country's jurisdiction [u/s 2(zb)]; and "deemed to be exported" means supply of raw materials, machinery, infrastructure or any other materials used in production, management, transport or marketing of such goods or services, which are not desirable for consumption or use inside Bangladesh, in exchange of foreign currency out of investment in foreign currency or direct repatriation from foreign country and includes water, electricity, gas, telephone or any other service if supplied as raw materials in exchange of foreign currency [u/s 2(zc)]. In 2009-10, a new provision has been made in the Act [sub-clause (aa)[83] inserted by the

[81] The definitions have been inserted in sub-rules (eee) and (eeee) of rule 2 by SRO No. 162-Ain/2008/488-Musak, dated 26.06.2008.
[82] Clause (zb) and clause (zc) are clause *(la)* and clause *(antasthya-ba)* in Bangla respectively.
[83] Clause (aa) is clause *(kaka)* in Bangla.

Dhaka University Institutional Repository

Finance Act 2009] to declare the supply of goods or services in exchange of foreign currency under international treaty or memorandum of understanding (MoU) subject to specific condition of imposing no VAT and/or SD [u/s 3(2)(aa)]. The exports also include supply of food and other things in accordance with section 24 of the Customs Act, 1969 (Provisions and stores may be exported free of duty) to any transport leaving Bangladesh, for consumption in the transport outside Bangladesh [u/s 3(2)(b) of the VAT Act]. The exports shall not be applicable to the following goods, namely: (a) any goods intended to be re-imported into Bangladesh; (b) from 2009-10, supply of goods or services or any part thereof in exchange of foreign currency for consumption within Bangladesh *except* provided under an international agreement or MoU as mentioned in section 3(2)(aa) [sub-clause (ii)[84] has been inserted in the proviso to sub-section (2) of section 3], and (c) such goods as have been presented for export in accordance with section 131 of the Customs Act [Clearance for exportation] but not exported, within thirty days of submission of the bill of export or extended time, if any, allowed by the Commissioner in this behalf [proviso to section 3(2) of the VAT Act]. In 2004, the PP oven bags exported by GQ Industries against export L/C were delivered within the water limit of Bangladesh and goods imported in bulks were packed in those bags and supplied in Bangladesh. These exports were disallowed as exports considering these as re-importation of goods under the proviso to section 3(2) of the VAT Act.[85]

Partial exports or hundred percent exports: Provisions have been mentioned on "hundred percent exports" in rule 25 (Examination of returns), rule 29 (Drawback on the basis of returns), and rule 32A (Facility of zero tax and drawback in the case of backward linkage industry). The hundred percent exporter is a manufacturer or producer of taxable goods or renderer of taxable service who exports one hundred percent of the goods manufactured or produced or service rendered by him through actual or deemed exports.

In the currently applicable *Industrial Policy 2005*, the export-oriented industrialization, prioritizing export-oriented industries, export-diversification, and providing all-out government assistance in these respects are included in the major objectives and strategies of the industrial policy. According to the *Industrial Policy 2005*, those industries that export at least 80 percent of their produce or supply 80 percent raw materials for exportable items or those business enterprises that export at least 80 percent of their services will be considered export-oriented industries (IT-related goods are also included) (u/s 13.2 of the *Industrial Policy 2005*).[86] Also according to the present export policy (applicable in all places in Bangladesh with the exception of the EPZs created to promote, attract and facilitate foreign investment),[87] industries exporting at least 80 percent of their production will be considered as export-oriented industries and they will be

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[84] Clause (ii) is clause (অঅ) or *(aa)* in Bangla.

[85] File No. 1(4)Musak-Pari: Pratyarpan/2003/60, dated 07.04.2004 (Hossain, 2008, p. 412).

[86] The *Industrial Policy 2005* is available at http://www.epb.gov.bd/industrial_policy.html, accessed 27.5.2009. Specifically, the objectives of the *Industrial Policy 2005* include the following objectives relating to exports: (a) Increase productivity at enterprise level; produce high-value added products step by step through development and application of appropriate technology and increase of export through export diversification (section 2.10 of the *Industrial Policy 2005*). (b) Expand the local market and establish more backward linkage industries in order to accelerate the export of high value-added garments produced in the export oriented garment industries and other relevant industrial sub-sectors (section 2.12 of the *Industrial Policy 2005*).

[87] Section 2.3 of the *Export Policy 2006-2009* and Bangladesh EPZ available at http://www.epb.gov.bd/bangladesh_epz.html, accessed 27.05.2009.

Dhaka University Institutional Repository

entitled to receive bank loans and other financial benefits [para 3.12.1 of the *Export Promotion Strategy Paper 2006-2009*]; and industries exporting at least 80 percent of their production will be permitted to sale their remaining 20 percent products in the domestic market subject to due payment of duties and taxes [para 3.12.2 of the *Export Promotion Strategy Paper 2006-2009*, which is an integral part of the *Export Policy 2006-2009*[88]]. But there was no provision in the tax laws regarding the legal recognition of these 80 percent export provisions in the policy documents and fiscal provisions are given overriding enforcement as follows: "Any tax/tariff-related decision announced by the National Budget and the National Board of Revenue will prevail over the Export Policy" [u/s 2.4 of the *Export Policy 2006-2009*]. In line with these 80 percent export provisions in the policy documents, only from 2008-09, the 80 percent exporters are also deemed to be the hundred percent exporters.[89] All other exporters, who are not actual or deemed hundred percent exporters, will be treated as partial exporters.

Exports by established exporter or by ordinary exporter. Under rule 2(e), "established exporter" means an exporter who has been recognized by the Duty Exemption and Drawback Office (DEDO) as an exporter on the basis of remarkable record of his export performance and the amount of duty drawback drawn by him during last twelve months [u/r 2(e)]. The same provision has also been mentioned in sub-rule (2) of rule 28, under which, the DEDO shall register an exporter as an "Established Exporter" if it is satisfied with the export performance of the exporter for the preceding twelve months from the date of the application to avail of the benefits of an 'established exporter' [u/r 28(2)]. All other exporters, who are not established exporters, will be treated as ordinary exporters.

Exemptions of VAT Relating to Exports

Under the VAT laws, the drawback is different from exemption, because the former is applicable for different taxes and duties except a few and the exemption is related to VAT as well as other taxes under the VAT law (i.e., SD or TT). In case of VAT exemption on exports, there will be no question of giving drawback. However, a VAT registered person who exports VAT exempted goods produced by him and exports VAT exempted services, but does not supply any taxable goods or does not render any taxable service is also entitled to obtain the drawback of tax [u/r 30(1)(b)]. Under the VAT laws, following exemptions are allowed for exporters:

(a) *Exemption of VAT on selective services used by exporters in general:* This exemption of VAT on selective services is allowed for the hundred percent producer exporter enjoying facility of bonded warehouse and special bonded warehouse, and the deemed exporters against back-to-back L/C and other general exporters including enterprises located in the EPZ. Currently, since 2005-06 (from 9.6.2005), VAT paid on 4 services [Telephone, Telex, Fax Firm (S012.00), Insurance Company (S027.00), Courier Service (S028.00), and Provider of Letter of Credit (L/C) Service (S056.00)] are eligible for exemption subject to the fulfillment of the

[88] Both of the *Export Promotion Strategy Paper 2006-2009*, and the *Export Policy 2006-2009* are available at http://www.mincom.gov.bd/images/additional_images/Export-Policy-2006-09-English.doc, accessed 27.05.2009. Under section 12.0 of the *Export Policy 2006-2009*, the *Export Promotion Strategy Paper 2006-2009* is an integral part of the *Export Policy 2006-2009*.

Dhaka University Institutional Repository

prescribed condition(s). Previously, the exemption was applicable for 3 services[90] for 1998-99 and for 7 services[91] from 1999-2000 to 2004-05 (Table 6.11 for details).

Table 6.11: Exemption of VAT on Services taken by the Exporters

Financial Year (FY)	Services	Conditions
1998-99 to 2009-10 (w.e.f. 19.11.1998 to date)	Telephone, Telex, Fax Firm (S012.00)[92]	(a) The service recipient shall be a hundred percent producer exporter enjoying facility of bonded warehouse and special bonded warehouse;[93] (b) The VAT imposable on services provided for using 2 (two) telephones, 1 (one) telex and 1 (one) FAX only in export work by the said service recipient is exempted; (c) The service recipient shall have to apply to the concerned VAT Commissionerate mentioning the numbers of telephones, telex and FAX. On receipt of the application, the Commissioner will issue a certificate regarding the exemption of VAT and the said certificate shall be valid for 2 (two) years from the date of issuance.
	Insurance Company (S027.00)	On fire insurance services of a hundred percent export-oriented enterprises.[94]
1998-99 to 2004-05 (w.e.f. 19.11.1998 to 08.06.2005)	Clearing & Forwarding Firm (S015.20)	On services provided only at export stage
1999-2000 to 2004-05 (w.e.f. 10.06.1999 to 08.06.2005)	Freight Forwarders (S015.10)	On services provided only at export stage
	Shipping Agent (S035.00)	On services provided only at export stage
1999-2000 to 2009-10 (w.e.f. 24.08.1999 to date)	Courier Service (S028.00)[95]	On services relating to export only. Sending sample to foreign countries for the creation of export opportunities shall remain within the scope of exemption.
1999-2000 to 2009-10 (w.e.f. 10.06.1999 to date)	Provider of Letter of Credit (L/C) Service (S056.00)[96]	On commission, fee or charge of any L/C relating to exports including back-to-back L/C established against master L/C, local back-to-back L/C and cash L/C by the provider of letter of credit service only at export stage.

Note: The above exemption facility is applicable also for enterprises located in the EPZ (Export Processing Zones).

Sources: 6 SROs with SRO Nos.: (a) 87-Ain/99/207-Musak dated 26.4.1999 (w.e.f. 19.11.1998); (b) 149-Ain/99/228-Musak, dt. 10.6.99; (c) 255-Ain/99/239-Musak, dt. 24.8.99; (d) 264-Ain/99/241-Musak, dt. 7.9.99 (w.e.f. 10.6.99); (e) 262-Ain/2000/290-Musak, dt. 16.8.2000; and (f) 155-Ain/2005/446-Musak, dt. 9.6.2005; and 1 General Order of the NBR: (a) GO No. 06/Musak/98, dt. 19.11.1998 (NBR, 2001c, pp. 424-425).

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89 Customs SRO No. 168-Ain/2008/2196/Shulka, dated 26.06.2008.

90 Telephone, Telex, Fax Firm (S012.00), Clearing & Forwarding Firm (S015.20) and Insurance Company (S027.00), from 19.11.1998 to 09.06.1999.

91 Telephone, Telex, Fax Firm (S012.00), Freight Forwarders (S015.10), Clearing & Forwarding Firm (S015.20), Insurance Company (S027.00), Courier Service (S028.00), Shipping Agent (S035.00), and Provider of Letter of Credit (L/C) Service (S056.00), from 10.06.1999 to 08.06.2005.

92 The original title "Telephone, Teleprinter, Telex, Fax" (applicable from 01.07.1991) was amended as "Telephone, Teleprinter, Telex, Fax or Internet Firm" by the Finance Act 1997.

93 This condition was substituted by S.R.O. No. 262-Ain/2000/290-Musak dt. 16.8.2000 (NBR, 2001b, p.702). The preceding version of this condition was effective from 19.11.1998 to 15.8.2000 as: "(a) The service recipient shall be a hundred percent producer exporter" [S.R.O. No. 87-Ain/99/207-Musak dt. 26.4.1999 (w.e.f. 19.11.1998)].

94 This condition is applicable from 09.06.2005. From 19.11.1998 to 09.06.1999, the condition was: "The valued added tax imposable on services provided only at export stage." From 10.06.1999 to 08.06.2005, the condition was: "On fire insurance of a hundred percent export-oriented enterprise and insurance services provided only at export stage" [S.R.O. No. 87-Ain/99/207-Musak dated 26.04.1999 (w.e.f. 19.11.1998); S.R.O. No. 149-Ain/99/228-Musak dated 10.06.1999; and S.R.O. No. 155-Ain/2005/446-Musak dated 09.06.2005].

95 The original title "Courier Service" was amended as "Courier & Express Mail Service" by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004.

96 The current title of service under code S056.00 is "Provider of Banking & Non-Banking Services" from 2004-05. The service was first inserted in the list of taxable service by the Finance Act 1999 as "Provider of Letter of Credit Service" and amended as "Provider of Banking Services" by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002; further amended by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004 (by inserting words "Non-Banking").

Dhaka University Institutional Repository

(b) Exemption of VAT on natural gas and six services used for export goods applicable for exporters following export procedure prescribed under the NBR's order: Since October 17, 2000, there are 16 items allowed for direct export through commercial banks (previously, 13 items from 19.09.1995 to 18.12.1997; and 17 items from 19.12.1997 to 16.10.2000; vide Table 6.13) according to a general order of the NBR.[97] The exporters entitled to export through this general order of the NBR (except the exporters in favour of which a bonded warehouse license has been issued; and flat rate of drawback has not been prescribed by the NBR on recommendation of the DEDO) are given the VAT exemption facility on one good (natural gas) and seven services [WASA (S025.00), Distributor of Electricity (S057.00), Port (S005.20), Freight Forwarders (S015.10), Clearing & Forwarding Firm (S015.20), Insurance Company (S027.00), and Shipping Agent (S035.00)] according to the following two regimes (Table 6.12 for stages of use, the concerned one good and seven services, and the rate of VAT exemption): (1) FY 2004-05 (effective from 20.11.2004 to 08.06.2005): The exemption of VAT was allowed for the hundred percent exporters which followed NBR's order for export purpose (i.e., the direct export through commercial banks), but the exemption was not applicable for the enterprises in EPZ and deemed exporters. (2) *From FY 2005-06 to date (effective from 09.06.2005 to 30.06.2008):* The exemption of VAT has been allowed for the hundred percent exporters, the hundred percent deemed exporters and the enterprises in EPZ, which follow the NBR's order under rule 38 for export purpose (i.e., the direct export through commercial banks).

Table 6.12: Exemption of VAT on Natural Gas and Six Services Used for Export Goods

Stage of Use for Export Goods	Good or Services	Rate of VAT Exemption
Production stage	Natural Gas [H.S. Code 27.11.21.00]	80 percent
	WASA (S025.00)	60 percent
	Distributor of Electricity (S057.00)	80 percent
Both stages of import of inputs and export of finished goods	Port (S005.20)	100 percent
	Freight Forwarders (S015.10)	100 percent
	Clearing & Forwarding Firm (S015.20)	100 percent
	Insurance Company (S027.00)	100 percent
	Shipping Agent (S035.00)	100 percent

Sources: 2 SROs: (a) S.R.O. No. 318 /2004/435-Musak, dated 20.11.2004; and (b) S.R.O. No. 154-Ain/2005/445-Musak, dated 09.06.2005; and 1 General Order of the NBR (containing the conditions and formalities for obtaining the exemption): General Order No. 07/Musak/2005, dated 09.06.2005 (relating to S.R.O. No. 154-Ain/2005/445-Musak, dated 09.06.2005) (Hossain, 2008, pp. 400-402).

(c) *Exemption of VAT on capital machinery acquired by an exporter [u/r 20]:* A registered person engaged in rendering or exporting taxable service may be allowed to import or purchase locally manufactured capital machinery without payment of VAT, subject to furnishing a bond in Form "Musak-14" [Bond for Value Added Tax Payable on Imported Capital Machinery].

[97] General Order No. 15/Musak/95, dated 19.09.1995 (NBR, 2001c, pp. 223-231), amended by General Order No. 29/Musak/97, dated 19.12.1997 (NBR, 2001c, p. 376) and General Order No. 12/Musak/2000, dated 17.10.2000 (NBR, 2001c, p. 376).

Dhaka University Institutional Repository

(d) *Tax exemption on local purchase under international treaty or memorandum of understanding (MoU) [rule 31B[98]]:* In 2009-10, rule 31B has been prescribed under which VAT and/or SD will be exempted on purchase of goods and services from a Bangladeshi registered producer or service-renderer through local or international tender by an agency or person that is responsible in implementation of projects in exchange of foreign currency given as donation for the purpose of construction of any establishment or infrastructure, balancing, expansion, modernization or providing assistance to those activities with an intention to supply of any goods or provision of services to any group of population in Bangladesh under international treaty or memorandum of understanding (MoU) subject to fulfillment of some conditions, such as existence of international treaty or MoU of the donor agency relating to donation with the Government of Bangladesh or any person or organization having the authority from the Government of Bangladesh, mentioning of the place of use of the locally collected goods or services in the local or international tender, and application for exemption to be submitted only after receiving the purchase/supply order.

Drawback System under VAT Laws

Section 13 of the VAT Act deals with the provision on "Drawback of tax paid on inputs used for production or manufacture of export goods". But the VAT authority has not properly used the term "drawback". They have used the word "refund" and "reimbursement" to signify the same meaning in case of drawback allowed u/s 13(4) for embassies, high commissions, diplomats, the UN (United Nations) system organizations and other organizations of diplomatic status and the UNICEF (United Nations International Children's Emergency Fund) assisted different Government projects.[99] The drawback system under the VAT laws follows different modes– drawback through adjustment in account current, drawback from the DEDO (Duty Exemption and Drawback Office) and drawback through commercial banks.

Drawback can be claimed, u/s 13(1), regarding VAT, SD, import duty, excise duty, and all other duties and taxes, (*except* AIT and SD paid on any input used in the production or manufacture of export goods specified by the Government in this behalf by notification in the official Gazette, i.e., the SD paid on natural gas, with effect from 1992-93[100]), on the inputs used in the manufacture or production of exported goods or service or in goods or service deemed to have been exported or any food or consumables supplied in accordance with section 24 of the Customs Act, 1969 to any transport leaving Bangladesh, for consumption in the transport outside Bangladesh [u/s 13(1)]. Previously applicable IDSC (Infrastructure Development Surcharge)[101]

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[98] Rule 31B has been prescribed by SRO No. 174-Ain/2009/527-Musak, dated 30.06.2009 without any title.

[99] File No. 6(11) VAT-1/91/139(13), dated 15.7.1993, circulated in English (Hossain, 2008, pp. 403-405) and File No. 1(2)Musak-Pari: Pratyarpan/2000(Angsha-1)131, dt. 14.10.2004 (Hossain, 2008, pp. 412-413) issued u/s 13(4).

[100] SRO No. 139-Ain/97/156-Musak, dated 12.06.1997, under which supplementary paid on gas (against H.S. Code 2711.21) used in producing export goods cannot be claimed as drawback.

[101] The Infrastructure Development Surcharge (IDSC) was imposed from 1997-98 to 2006-07) at a rate of 2.5 percent from 1997-98 to 2001-02, 3.5 percent in 2002-03 and 4 percent from 2003-04 to 2006-07, on 'assessable value' (i.e., value on which customs duty is imposed) with a view to collecting revenue to finance the infrastructure development projects of the country out of internal revenue. This tax reduced to some extent the dependency on foreign funds regarding annual development program (ADP) [the *FAs 1997* and *2002*, and the *FO 2007*].

Dhaka University Institutional Repository

and license fee[102] at import stage were not applicable for drawback purpose, because the IDSC was collected under an order of the Finance Division of the Ministry of Finance and the permit fees were collected according to the Imports and Exports (Control) Act 1950 under the control of the Ministry of Commerce and the NBR was authorized to give drawback on duties, VAT and SD and not on any fee or charge.[103] Since 1995-96, there has been a time limit of claiming drawback, which is six months from the date of export or deemed export [under proviso to sub-section (1) of section 13].[104]

Usually, the drawback is given regarding the actual input tax paid on the actual inputs used in producing the export goods. Since 2005-06, a provision has been made under which, the Government may, by Gazette notification, determine the rate of drawback of VAT and, where applicable, other duties and taxes paid on specified inputs used in the production or manufacture of exported goods or service or in goods or service deemed to have been exported [u/s 13(1A)].[105] Under this provision, the rate of drawback is a "flat rate" per unit of exported goods prescribed by the NBR through its order [u/r 30(2)]. These orders are enterprise-specific and not publicly available, except one for drawback not related to exports, but on VAT and SD paid by diplomatic bodies on gasoline purchased in local currency (NBR, 2001c, pp. 152-156, 160; Hossain, 2008, pp. 403-405). Thus, the rates of drawback may be the *actual* or *flat* rate.

There are *eight* situations, where drawback is available on exports or export related activities under the VAT laws: (1) Actual (direct) export of goods and services to the EPZ or outside Bangladesh [section 13]; (2) Deemed export of goods and services within Bangladesh in exchange of foreign currency against local or international tender [section 13 and rule 31 up to 2003-2004 and rule 31A thereafter]; (3) Deemed export of goods and services within Bangladesh in exchange of foreign currency against internal back-to-back letter of credit [section 13 and rule 32]; (4) Deemed export of goods and services within Bangladesh in exchange of foreign currency to backward linkage industry [section 13 and rule 32A]; (5) Export by post [rule 33]; (6) Supply of any food or any material to any transport leaving Bangladesh (international flights or country-leaving ships) for the purpose of consumption in that transport outside the country, treated as deemed export [section 13 and rule 34]; (7) Temporarily imported goods for the purpose of re-exportation [rules 68 and 69]; and (8) Fishing net, steel rope and fuels used in trawler engaged in acquisition of fish for the purpose of exports (as per the NBR's order issued u/s 65 and u/r 38).[106]

However, in the VAT laws, there are f *two* situations on which VAT is returned as drawback, but they are not related to exports: (1) Goods purchased by international organizations and diplomatic

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[102] According to the *Import Policy Order 1997-2002* (effective from 1998 to 30 June 2002), the L.C.A. (letter of credit authorization)/permit fees (fare) was at the rate of 2.5 percent of value determined by the customs authority if the import value exceeds Taka one lakh (*The Bangladesh Gazette, Extraordinary*, 14.06.1998, p. 6917). Latter on, the L.C.A./permit fees have been withdrawn [*vide* Government of Bangladesh (2005), *Bangladesh: Unlocking the Potential–National Strategy for Accelerated Poverty Reduction* (Dhaka: General Economics Division, Planning Commission, Government of Bangladesh; October 16, 2005), p. 252].

[103] File No. 1(15)Musak(Pari: Pratyarpan)92/20, dated 11.02.2004 (Hossain, 2008, pp. 410-411).

[104] Proviso to sub-section (1) of section 13 and an Explanation have been inserted by the Finance Act 1995 and the proviso has been substituted by the Finance Act 2001.

[105] Sub-section (1A) has been inserted in section 13 by the Finance Act 2005.

[106] The NBR's GO No. 01/Musak/2004, dated 3.3.2004, issued u/s 65 and u/r 38 (Khan, 2007, p. 653).

Dhaka University Institutional Repository

missions etc.[107] prescribed by the order of the NBR [section 13(4)]; and (2) Implementation of international agreement[108] through prescribing an order by the NBR.

Under section 70 of the VAT Act, no drawback under the VAT laws shall be allowed in a case where the conditions specified in section 39 of the Customs Act [When no drawback allowed] apply. No drawback, u/s 39 of the Customs Act, shall be allowed: (a) upon goods which are required to be included in export manifest and are not so included, or (b) when the claim is for drawback amounting, in respect of any single shipment, to less than hundred taka, or (c) unless the claim for drawback has been made and established at the time of export or within six months from the date of export [u/s 39 of the Customs Act].

An exporter can drawback in the following ways:

(a) *Drawback through adjustment in the Account Current [sub-rules (4) and (5B) of rule 19]:* A registered person who supplies taxable goods and exports any goods in the manufacture or production of which VAT and other duty and tax-paid inputs are used [u/r 19(4)] and since 2000-01, where a registered person renders both taxable service and tax-exempted service in which VAT and other duties and tax paid inputs have been used [u/r 19(5B)],[109] may take credit against the output tax payable on the supply of taxable goods by recording in writing in column "credit" in the account current the amount of input tax paid on the inputs purchased.

(b) *Drawback from the DEDO [rules 28, 29 and 30]:* Under rule 28 (Duty drawback for export), the drawback is to be taken from the Duty Exemption and Drawback Office (DEDO). Any registered exporter who, not being able to take credit for the amount of input tax on goods used for the manufacture or production of goods or rendering service exported, through adjustment in the Account Current, wants to take duty drawback, shall open a bank account according to the procedure laid down by the DEDO [u/r 28(1)]. If an exporter wants to avail of the benefits of an 'established exporter', he shall have to apply to the DEDO in Form "Musak-21" [Application for Enlistment as Established Exporter] through the local VAT office. The DEDO shall register him as an "Established Exporter"[110] if it is satisfied with the export performance of the exporter for the preceding twelve months from the date of the application [u/r 28(2)]. The NBR has issued an order regarding the procedure of taking drawback from the DEDO,[111] which might be (a) "on the basis of returns" [rule 29], when VAT is payable and payment of output tax is obligatory but the input tax for each tax period

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[107] *Vide* GO No. 06/VAT/99, dated 25.3.1999, for drawback of CD, VAT and SD paid by the US Embassy on locally purchased vehicles in Bangladesh (Hossain, 2008, pp. 398-399); and File No. 6(11) VAT-1/91/139(13), dated 15.7.1993, circulated in English, for drawback of VAT and SD paid by embassies, high commissions, diplomats, the UN system organizations and other organizations of diplomatic status, on gasoline at flat rate per litre [initially at Tk. 1.00 for petrol, Tk. 1.20 for disel and Tk. 0.25 for octane; from 27.8.2007 at Tk. 8.02 for petrol, Tk. 4.91 for disel and Tk. 8.27 for octane] (NBR, 2001c, pp. 152-156, 160; Hossain, 2008, pp. 403-405) issued u/s 13(4).

[108] These are the UNICEF assisted different Government projects. *Vide* File No. 1(2)Musak-Pari: Pratyarpan/2000 (Angsha-1)131, dated 14.10.2004 (Hossain, 2008, pp. 412-413) issued u/s 13(4).

[109] Sub-rule (5B) has been inserted in rule 19 by SRO No. 166-Ain/2000/265-Musak, dated 08.06.2000.

[110] Under rule 2(e), the "established exporter" also means an exporter who has been recognized by the DEDO as an exporter on the basis of remarkable record of his export performance and the amount of duty drawback drawn by him during last twelve months [u/r 2(e)].

[111] *Vide* the Amended method of accepting application for drawback according to General Order No. 25/Musak/92, dated 19.11.1992 (Hossain, 2008, pp. 386-388).

Dhaka University Institutional Repository

is higher than the output tax, or (b) "through submission of application" in Form "Musak-22" [Application for Drawback of Duties and Taxes in case of Export] [u/r 30 and according to an order[112] of the NBR], where following five types of exporters are entitled to take drawback from the DEDO: (a) exporters on commercial basis; (b) who manufactures or produces goods exempt from payment of VAT and exports them or exports service exempt from VAT, but does not supply any taxable goods or does not render any taxable service; (c) the person who according to section 16 is exempt from registration; (d) hundred percent exporters of taxable goods; and (e) the exporters whose drawback receivable for each tax period is higher than the tax payable against local supply in that tax period.

(c) *Drawback through commercial banks [NBR's order under rule 38]:* There is no explicit provision on giving drawback through commercial banks. Under the authority of rule 38,[113] the NBR has issued relevant orders for allowing drawback through commercial banks. Since 2000-01, there are 16 items (previously, 13 items from 1995-96 to 1996-97; and 17 items from 1997-98 to 1999-2000) prescribed for this purpose (Table 6.13). This is applicable for the direct exporters of the prescribed goods (except the enterprises having bonded warehouse license) only at flat rate. This drawback is payable through the bank branch certifying the EXP form of the exporters, only if the NBR has issued an order prescribing the flat rate for a particular enterprise willing to take drawback through commercial bank.

Table 6.13: Items Allowed for Direct Export through Commercial Banks

Financial Year (FY)	Effective Items
1995-96 to 2008-09 (w.e.f. 19.09.1995 to date)	1. Processed leather (crust and finished) 2. Jute goods/carpet 3. Urea fertilizer 4. Ceramic and melamine goods 5. *Espradils* 6. Transfer paper 7. Tea-chest 8. Printed calendar 9. Stainless steel cutlery 10. Cigarette 11. Newsprint 12. Card pin
1995-96 to 1999-2000 (w.e.f. 19.09.1995 to 16.10.2000)	13. Furnace oil/Naphtha
1997-98 to 2008-09 (w.e.f. 19.12.1997 to date)	14. Refined glycerin in steel drum 15. Automated PP container battery 16. Jacket made of finished leather of cow/buffalo and goat/lamb 17. Men's leather shoe (Oxford type)

Sources: General Order No. 15/Musak/95, dt. 19.09.1995 (NBR, 2001c, pp. 223-231), amended by GO No. 29/Musak/97, dt. 19.12.1997 (NBR, 2001c, p. 376) and GO No. 12/Musak/2000, dt. 17.10.2000 (NBR, 2001c, p. 376). A total of 13 items (including "Furnace oil/Naphtha") have been included in the above list by the GO No. 15/Musak/95, dt. 19.9.1995. Another 4 items (serial # 14 to 17 above) have been inserted by the GO No. 29/Musak/97, dt. 19.12.1997 and 1 item ("Furnace oil/ Naphtha") deleted from the above list by the GO No. 12/Musak/2000, dt. 17.10.2000.

[112] The General Order No. 25/Musak/92, dated 19.11.1992 (Hossain, 2008, pp. 386-388).

[113] Under rule 38 (Power to issue order, notification clarification or circular), in respect of any matters arising out of the VAT rules, the NBR, the Commissioner or the Director General of the Directorate (DEDO) may issue, with respect to the matters related to its or his own jurisdiction, order, notification, clarification or circular.

Dhaka University Institutional Repository

Drawback is also allowed in various special cases including: (a) Deemed export of goods and services within Bangladesh in exchange of foreign currency against local or international tender [section 13 and rule 31 up to 2003-2004 and rule 31A[114] thereafter]; (b) Deemed export of goods and services within Bangladesh in exchange of foreign currency against internal back-to-back letter of credit [section 13 and rule 32]; (c) Deemed export of goods and services within Bangladesh in exchange of foreign currency to backward linkage industry [section 13 and since 1996-97, under rule 32A[115]]; (d) Export by post [rule 33]; (e) Supply of any food or any material to any transport leaving Bangladesh (international flights or country-leaving ships) for the purpose of consumption in that transport outside the country to be treated as deemed export [section 13 and rule 34]; (f) Temporarily imported goods for the purpose of re-exportation[116] or for use as provisions or store on board in any conveyance proceeding to a foreign territory, subject to the provisions of Chapter VI of the Customs Act[117] [u/s 68 of the VAT Act], or on goods used during the period between import and export [u/s 69 of the VAT Act and in accordance with the provisions of the rules yet to be made in this behalf]; and (g) Drawback on VAT on inputs (fishing net, steel rope and fuels) used by hundred percent export-oriented fishing trawler, since March, 2004, as per recommendation of Bangladesh Marine Fisheries Association and the DEDO (as per NBR's order[118] issued u/s 65 and u/r 38; Khan, 2007, p. 653; Hossain, 2008, p. 376).

6.12 Summary

With a view to making the taxable persons legally accountable under the VAT laws, a supplier of taxable goods or renderer of taxable service or an importer of any goods or exporter of any goods or service shall have to apply for VAT registration in prescribed form ("Musak-6"), if his annual turnover crosses the threshold limit of taka twenty-four lakh from 2008-09. The application can be submitted to a VAT office or to an official, not being below the rank of Assistant Commissioner. The application category is to be any one of the three registration types– *mandatory* or *optional* or *forced*. The unit registration is the usual condition, but central

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[114] Rule 31A has been inserted by SRO No. 305-Ain/2004/433-Musak, dated 21.10.2004, after repealing rule 31 by SRO 162-Ain/2004/408-Musak, dated 10.06.2004.

[115] Rule 31A has been inserted by SRO No. 110-Ain/96/127-Musak, dated 15.07.1996 and substituted by SRO No. 288-Ain/98/195-Musak, dated 14.12.1998.

[116] The provisions on re-exportation, which are available in the Customs Act, are in two sections. Under section 135 of the Customs Act (Goods relanded or transhipped from a conveyance returning to a customs-station or putting into another customs-station), if, after having cleared from any customs-station any conveyance without having discharged, the cargo returns to such customs-station or puts into any other customs-station, any owner of goods in such conveyance may re-export any portion thereof with or without any duty, subject to the condition of bearing expenses of attending the custody of the goods by an appropriate customs officer. Under section 138 of the Customs Act (Frustrated cargo how dealt with), if any goods are brought into a customs-station by reason of inadvertence, mis-direction or untraceability of the consignee, the Commissioner of Customs may, on application by the person-in-charge of the conveyance which brought such goods or of the consignor of such goods and with the prior approval of the NBR in exceptional cases, allow re-exportation of such goods without payment of any duties subject to the condition of bearing expenses of attending the custody of the goods by an appropriate customs officer.

[117] Chapter VI (sections 35 to 41) of the Customs Act is on "Drawback" of customs duty. Section 35 is on "Drawback of the export on imported goods", section 36 on "Drawback on goods taken into use between importation and exportation", section 37 on "Drawback on goods used in the manufacture of goods which are exported", section 38 on "Power to declare what goods are identifiable and to prohibit drawback in case of specified foreign territory", section 39 on "When no drawback allowed", section 40 on "Time of payment of drawback", and section 41 on "Declaration by parties claiming drawback".

[118] The NBR's GO No. 01/Musak/2004, dated 3.3.2004, issued u/s 65 and u/r 38 (*vide* Khan, 2007, p. 653).

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registration is also allowed under special situation (where the supply of taxable goods, *except* at production stage, or the rendering of taxable service or import or export business is conducted centrally and the accounts and records thereof are maintained accordingly). There are provisions of multiple registrations for two or more places of business and also there is a provision of 'unified' registration number for both value added tax and income tax but not yet implemented.

A cottage industry subject to the fulfillment of the prescribed criteria or a supplier of taxable goods or services not requiring mandatory registration, has to apply for enlistment of cottage industry or enlistment of turnover tax (TT) respectively.

The VAT registered person usually requires to maintain Purchase Account Book, Sales Account Book, Invoice Book, Account Current Book, Credit Note, Debit Note, and other commercial documents. These documents may be maintained manually or through electronic cash register (ECR), or computer or any other electronic equipment. But ensuring audit trail is a necessary condition. The taxable persons usually have to preserve the records in Bangladesh for at least four years following completion of the tax period to which it relates.

In a number of situations where a VAT registered person or turnover tax enlisted person has to give declarations such as declaration of input-output coefficient and value-base, usual declaration of price, declaration of input-output coefficient of goods under tariff value, declaration of value for determination of VAT on service, price declaration for supply of goods by the manufacturer or importer at fixed price, annual declaration relating to turnover by the turnover tax enlisted person, declaration of business premises, plant assets, outputs and inputs, declaration regarding change of place or condition of business, declaration of the information relating to export by post, declaration of the price of waste and byproduct goods, utilization declaration in case of deemed exports, etc.

The issuance of invoice is mandatory for taxable transactions. Under the VAT laws, there are provisions of issuing eleven types of invoice or similar documents including sales cash memo, computer or ECR generated invoice, invoice in own format, where VAT is usually to be mentioned, but in some cases VAT-inclusive price may be mentioned without specifying the amount of VAT separately.

Every manufacturer or producer or trader of taxable goods or renderer of taxable services has to submit the VAT return in prescribed form for each tax period within 10 (ten) working days of the month following the tax period, *except* in the case of an insurance company, where return is to be submitted within twentieth date of the month following the tax period. The tax period is usually one month, but in some specific situations it may be a 3-month or a 6-month period. The VAT return is to be submitted in the concerned VAT circle office. After examination of the return and asking for further information, the assessment is completed.

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Since 1993-94, the VAT is collected as withholding tax at sources. Presently (2009-10) there are 27 services (20 services in 2008-09) on which Government, semi-government, autonomous bodies, NGOs, bank, insurance or limited companies will deduct or collect tax at sources at a rate ranging from 1.5 percent to 15 percent.

The Inspector in-charge of the concerned revenue area and the Superintendent of the local VAT office are jointly the assessment authorities of tax under the VAT system. As a self-assessing system, under the VAT system, the returns are prepared by the VAT registered persons themselves. Only at customs point, there may be provisional assessment and subsequent final assessment. The assessment authorities are given indemnity regarding any mistake or mathematical or clerical error in the assessment.

For administrative ease and other practical reasons, the size of the firm is of special importance in VAT system. The size of the firm is taken into consideration under various schemes of "small firm"–one for turnover tax enlistment (paying turnover tax at a reduced rate), and another for cottage industry enlistment (without paying VAT or turnover tax) and various special schemes for wholesale and retail traders considering normally them as small firms which do not maintain proper documentation and accounts for their transactions. For this purpose, some taxable persons are excluded from registration, sometimes a reduced level of tax liability is prescribed, and in some special cases, the exemption was given due to the small size of the firm.

As a destination principle, the exports are zero-rated under the VAT system and consequently, there will be no output tax and all earlier stage input taxes (except advance income tax and in case of use of natural gas, supplementary duty paid thereon) are refunded. The exports can be made for both goods and services and may be direct actual exports or deemed exports. Some exports are also exempted from VAT. There are special incentives for hundred percent exports or exports by established exporter. The main incentive to exporters is given through drawback of VAT, supplementary duty, import duty, excise duty, and all other duties and taxes, (*except* income tax paid in advance and supplementary duty paid on natural gas), on the inputs used in the manufacture or production of exported goods or service or in goods or service deemed to have been exported or any food or consumables supplied to any transport leaving Bangladesh, for consumption in the transport outside Bangladesh. But the drawback is to be claimed within six months, from the date of export.

Dhaka University Institutional Repository

CHAPTER SEVEN

TAXATION OF SERVICES UNDER THE VALUE ADDED TAX

7.1 Introduction

This chapter delineates the specific provisions on taxation of services under the value added tax system. Due to finding an easy way of imposition of value added tax in the service sector, usually considered as a hard-to-tax area, the share of tax from service-level VAT as a percent of total VAT revenue has been increasing over the years significantly. Specifically, this chapter has given a glimpse on the service sector taxation in Bangladesh during the pre-VAT regime, the coverage of service sector under the VAT system, the tax points for taxable services, the tax rates for taxable services, and the services as input and input tax credit thereon. Besides few complexities in defining services have been highlighted and also some special issues for the renderer of taxable services on the basis of empirical findings have been briefly stated.

7.2 Service Sector Taxation in Bangladesh: Pre-VAT Regime

Under the *Excise and Salt Act 1944*, few services were subject to excise taxation, but only from 1970-71, when the Act was amended by the *Finance Ordinance 1970* (effective from 29.6.1970), to create provision for imposition of excise duty on services. For the first year (1970-71), a single service ('services rendered by hotels and restaurants') was subject to excise duty. In 1990-91 (the preceding year of introduction of VAT), there were nine (9) services under excise taxation (Table 7.1 for a chronology of excise-net).

Table 7.1: List of Excisable Services from FY 1970-71 to FY 1990-91

Introduced in	Services rendered by	Cumulative No.
FY 1970-71	• hotels and restaurants	1
FY 1978-79	• decorators and caterers	2
FY 1981-82	• cinema houses and other enterprises providing entertainments • automobile garages and workshops • bank	5
FY 1983-84	• telephone and teleprinters	6
FY 1985-86	• video-cassette shops	7
FY 1990-91	• loans and investments • any Water and Sewerage Authority (WASA)[1]	9

Sources: *The Excise and Salt Manual (Corrected up to 9th September 1978)* (GOB, 1978a), the *Finance Act 1981*, the *Finance Ordinance 1983*, the *Excise and Salt (Amendment) Ordinance 1985*, and the *Finance Acts 1986* to *1990*.

[1] "Water and Sewerage Authority (WASA)" is probably wrongly mentioned by the *Finance Act 1990*. When the service "WASA" was brought under the VAT-net as a vatable service by the *Finance Act 1992*, it was explained as the "Water Supply and Sewerage Authority constituted under section 3 of the Water Supply and Sewerage Authority Act, 1963 (E.P. Ord. No. XIX of 1963)". Thus, the WASA would be "Water Supply and Sewerage Authority", in place of "Water and Sewerage Authority". The present effective statute is the Water Supply and Sewerage Authority Act, 1996.

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Outside the scope of excise taxation, there were taxes on some other services. The entertainment tax was levied for the first time in undivided Bengal under the Bengal Amusement Tax Act 1922. The tax was levied on the admission fees charged by the cinema houses, musical halls and by games and sports authorities (although no tax has so far been realized from games and sports). Advertisement tax was introduced in the year 1957-58 (TEC, 1979, pp. 330-31, 348-49).

Under the *Sales Tax Act 1951* (made effective in Bangladesh after independence),[2] sales tax was imposed only on goods produced or imported, but not on services (GOB, 1978b, p. 3). Even under the *Sales Tax Ordinance 1982*, which was introduced from 1 July 1982 by repealing the Sales Tax Act 1951 to impose sales tax only at import stage, there was no scope of imposition of sales tax on services. The Sales Tax Ordinance 1982 was repealed by the VAT Act.

Under the *Business Turnover Tax Ordinance 1982* (effective from 01.10.1983[3] and repealed by the VAT Act 1991), initially four services [(i) automobile garage and workshops, (ii) shipyards and dockyards (exempted from 1988), (iii) saw mills and wood treatment plants, and (iv) printing presses] were taken under 'business turnover tax' (BTT) at 2 percent on annual business turnover (equal to aggregate of sale-price of concerned specified services less sale price of the specified services to another registered trader). But the traders of services were subject to pay tax only on the annual turnover exceeding Tk. 20,000. From 1989, the tax-net of BTT was expanded to another four services: (i) customs bonded warehouses, (ii) indenting firms, (iii) travel agents, and (iv) customs, clearing and forwarding agents (Haque, 1989, pp. 187-189).

7.3 Coverage of Service Sector under the VAT System

As stated earlier (section 5.7.06 of chapter 5), from the very beginning of the VAT system, service sector has been taken under the VAT-net. From 1991-92 to 1999-2000, the Second Schedule of the VAT Act included the taxable services only. From the 2000-01, the Second Schedule has been replaced by a new one containing the list of exempted services, outside which all services are theoretically taxable under VAT. But with a list of taxable items, one can easily identify the extent of taxability, but the scope becomes wider with an exclusion list having more generalized categorization. To resolve the ambiguous scope of taxability regarding a particular service, using the same codes for taxable services mentioned in the Second Schedule up to 1999-2000, a new list of taxable services[4] has been prescribed, but such a list is never prescribed for taxable goods. Thus, from 2000-01, there are two lists of services–one for exempted services, and other for taxable services, although some of the taxable services are again exempted by other

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[2] The *Sales Tax Act, 1951* (Act No. III of 1951), enacted on 20.04.1951, came into force on 01.07.1951 and continued as an effective statute in Bangladesh after independence (GOB, 1978b, p. 1).

[3] Haque (1989) has mentioned the effective date of the Business Turnover Tax Ordinance 1982 as 1st September 1983 (Haque, 1989, p. 187), but in the Budget Speech of 1983-84, the then Finance Minister mentioned the effective date of the BTT Ordinance as 1st October 1983 (Muhit, 1983, p. 9).

[4] First list of taxable services was prescribed by S.R.O. No. 170-Ain-2000/269-Mushak dated 8 June 2000. This SRO was amended six times by SRO No. 117-Ain/2002/342-Musak dated 06.06.2002; SRO No. 163-Ain/2003/371-Musak dated 12.06.2003; SRO No. 171-Ain/2004/417-Musak dated 10.06.2004; SRO No. 159-Ain/2005/450-Musak dated 09.06.2005; SRO No. 137-Ain/2006/465-Musak dated 08.06.2006 and SRO 129-Ain/2007/474-Musak, dated 27.06.2007. The final list of taxable services has been prescribed by SRO 189-Ain/2008/491-Musak, dated 29.06.2008 (amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009).

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SRO(s). Following Table 7.2 has enumerated the gradual expansion of VAT-net showing the specific service codes inserted or deleted according to individual financial year (FY) on the basis of the latest version of service codes used in the presently valid SRO[5] in 2008.

Table 7.2: Year-wise Specific Service Codes Inserted (Deleted)

FY	Service Code as used in FY 2008-09 Inserted (Deleted)	No. Inserted (Deleted)	
		Service Code	Heading No.
1991-92	S001.10, S001.20, S002.00, S003.10, S003.20, S004.00, S005.10, S006.00, S007.00, S008.10, S008.20, S009.00, S010.10, S011.10, S011.20, S011.30, S012.10[6], S013.00, S014.00, S015.10, S016.00, S017.00, S018.00, S019.00, S020.00, S021.00, S022.00, S023.10, S031.00[7]	29	24
1992-93	S015.20[8], S025.00, S026.00, S027.00, S028.00, S029.10, S030.00	7	6
1993-94	–	0	0
1994-95	S024.00	1	1
1995-96	–	0	0
1996-97	S032.00, S033.00, S034.00, S035.00	4	4
1997-98	S010.20, S036.10, S036.20, S037.00, S038.00, S039.10, S039.20	7	4
1998-99	S029.30, S040.00, S041.00, S042.00, S043.00	5	4
1999-2000	S029.20, S036.30, S044.00, S045.00, S046.00, S047.00, S048.00, S049.00, S050.10, S051.00, S052.00, S053.00, S054.00, S055.00, S056.00[9], S057.00	16	14
2000-01	S011.40, S058.00 (S043.00 deleted in 2000-01)	2 (1)	1 (1)
2001-02	–	0	0
2002-03	S023.20, S059.00	2	1
2003-04	S060.00, S061.00, S062.00, S063.00 (S041.00 deleted in 2003-04)	4 (1)	4 (1)
2004-05	S005.20, S064.10, S064.20, S065.00, S066.00	5	3
2005-06	S012.20	1	0
2006-07	S050.20	1	0
2007-08	S067.00, S068.00, S069.00, S070.00	4	4
2008-09	–	0	0
2009-10	S012.11, S012.12, S012.13, S012.14[10], S071.00, S072.00, S073.00	7	3
Total	**Service Codes S001.10 to S073.00, *except* S041.00 & S043.00 (under Heading No. S001 to S073, *except* S041 & S043)**	**95 (2)**	**73 (2)**

Source: The *Finance Acts/Ordinances 1991 to 2009* and SRO No. 170-Ain/2000/269-Musak dated 08.06.2000 as amended time to time and finally substituted by SRO No. 189-Ain/2008/491-Musak, dated 29.06.2008, amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009.

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5 SRO No. 189-Ain/2008/491-Musak, dated 29.06.2008, amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009.

6 The original title "Telephone, Teleprinter, Telex, Fax" (S012.00) was amended as "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.00) by the Finance Act 1997 and re-coded as "S012.10" by SRO No. 159-Ain/2005/450-Musak dated 09.06.2005, then re-classified and re-named as "Telephone" with previous code "S012.10" by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009, which has amended SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008. Other services are re-classified and re-named as Teleprinter (S012.11), Telex (S012.12), Fax (S012.13) and Internet Firm (S012.14).

7 S031.00 was inserted in 1991-92 (on 1.7.1991) as S024.00, but re-numbered as S031.00 in 1994-95 (on 9.6.1994).

8 Inserted by the Finance Act 1992, but not under separate code (S015.00: Freight Forwarders and Clearing & Forwarding Firm); defined separately in the 'Explanation' under clause (b) by the Finance Act 1994; and separate code was assigned by the Finance Act 1999.

9 S056.00 was inserted on 10.06.1999 (as "Provider of Letter of Credit Service"), amended on 06.06.02 (as "Provider of Banking Services"), and renamed on 10.06.04 as present "Provider of Banking and Non-Banking Services".

10 One service "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.10) has been re-classified and re-named into five (5) services as Telephone (S012.10), Teleprinter (S012.11), Telex (S012.12), Fax (S012.13) and Internet Firm (S012.14) by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009, which has amended SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008. Thus, these are not in real sense new services.

Dhaka University Institutional Repository

The explanation of individual taxable service including the scope and limitation of the taxability has been given in different SROs.[11] From 29 taxable services under 24 heading numbers in 1991-92, up to June 30, 2009, there are a total of 95 taxable services (including 2 services deleted–one in 2000-01 and another in 2003-04) under a total of 73 heading numbers (including 2 headings deleted–one in 2000-01 and another in 2003-04) prescribe so far. But due to recoding of one service (S012.10) into five services (S012.10, S012.11, S012.12, S012.13 and S012.14), practically three new services (S071.00, S072.00 and S073.00) have been inserted in the list of taxable services in 2009-10.

In the Second Schedule (updated up to June 30, 2009),[12] a number of taxable services (58 services under 46 heading numbers, with some overlapping, and without mentioning any service code) are mentioned as exceptions under each of the *seven* categories of exempted services, and thereby, these exceptional services are the taxable services as follows:

1. ***Basic services for living*** [**nine** categories of items, *except* **two** services provided by warehouse (S005.10) and cold storage (S006.00)];
2. ***Social welfare services*** [**seven** categories[13] of items, *except* **eight** services[14] provided by medical institution (S029.10), dental treatment center (S029.20), pathological laboratory (S029.30), beauty parlour (S030.00), specialist doctor (S044.00), health club and fitness center (S046.00), English medium school (S069.00), and private medical and engineering college (S070.00)];
3. ***Culture related services*** [**seven** categories of items, *except* **twenty-one** services provided by hotel (S001.10), restaurant (S001.20), decorators and caterers (S002.00), advertising firm (S007.00), printing press (S008.10), binding firm (S008.20), video cassette shop (S011.10), video game shop (S011.20), video, audio recording shop (S011.30), community center (S017.00), film studio (S018.00), sweetmeat stores (S022.00), film exhibitor (cinema hall) (S023.10), film distributor (S023.20), beauty parlour (S030.00), health club and fitness center (S046.00), leaseholder (S033.00), organizer of entertaining cultural program with the help of foreign artists (S038.00), sports organizer (S047.00), sound and light equipment renter (S052.00), and broadcaster of advertisement through satellite channel (S054.00)];
4. ***Finance and financial activities related services*** [**five** categories of items, *except* **seven** services provided by auctioneer firm (S009.00), indenting firm (S014.00), freight forwarders (S015.10), clearing and forwarding firm (S015.20), travel agency (S016.00), procurement provider (S037.00), and transport contractor (S048.00)];
5. ***Transport service*** [**three** categories of items, *except* **eight** services provided by freight forwards (S015.10), courier service (S028.00)[15], shipping agent (S035.00), air conditioned

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[11] SRO 189-Ain/2008/491-Musak, dated 29.06.2008; effective from 01.07.2008 and amended by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009.

[12] This Second Schedule has last been substituted by the *Finance Act 2004*, and amended by the *Finance Act 2006*, and the *Finance Ordinances 2007* and *2008*.

[13] In clause (c) of serial 2, there was "Coaching center" in the substituted Second Schedule in FY 2004-05 and there were **eight** items, which was deleted by the *Finance Ordinance 2007*.

[14] In clause (b) of serial 2, there was "private universities" in the *exception* list of services in the substituted Second Schedule in FY 2008-09, which was deleted by the *Finance Ordinance 2008*.

[15] The title "Courier Service" inserted by the Finance Act 1992 was amended as "Courier & Express Mail Service" by SRO No. 171-Ain/2004/417-Musak dated 10.06.2004.

Dhaka University Institutional Repository

bus services (S036.10), air conditioned launch services (S036.20), air conditioned railway services (S036.30), transport contractor (S048.00), and chartered plane or helicopter rental firm (S058.00)];

6. ***Personal services*** [**four** categories of items, *except* **six** services provided by survey firm (S020.00), consultancy and supervisory firms (S032.00), architect, interior designer or interior decorator (S050.10), graphics designer (S050.20), engineering firm (S051.00), and immigration adviser (S067.00)[16]], and
7. ***Other services*** [**thirteen** categories[17] of items, *except* **twenty-two** services provided by hotel (S001.10), restaurant (S001.20), construction firm (S004.00), warehouse (S005.00) and cold storage (S006.00), land development firm (S010.10), building construction firm (S010.20), mechanical laundry (S013.00), travel agency (S016.00), community center (S017.00), film studio (S018.00), plant or capital machinery rental firm (S021.00), film exhibitor (cinema hall) (S023.10), WASA (Water Supply and Sewerage Authority) (S025.00), insurance company (S027.00), courier and express mail service (S028.00), air conditioned bus services (S036.10), air conditioned launch services (S036.20), air conditioned railway services (S036.30), seller of land (S055.00), provider of banking and non-banking services (S056.00)[18], and distributor of electricity (S057.00)].

Note that the taxable services mentioned as ***exception*** (58 services under 46 heading numbers) to each of the categories are overlapping to the following extent (16 services under 13 heading numbers have been mentioned twice in two categories):

(i) hotel (S001.10), restaurant (S001.20), community center (S017.00), film studio (S018.00), film exhibitor (cinema hall) (S023.10) [in serial 3 (*Culture related services*), and in serial 7 (*Other services*)];
(ii) warehouse (S005.00) and cold storage (S006.00) [in serial 1 (*Basic services for living*), and in serial 7 (*Other services*)];
(iii) freight forwards (S015.10), transport contractor (S048.00) [in serial 4 (*Finance and financial activities related services*), and serial 5 (*Transport service*)];
(iv) travel agency (S016.00) [in serial 4 (*Finance and financial activities related services*), and in serial 7 (*Other services*)];
(v) courier and express mail service (S028.00), air conditioned bus services (S036.10), air conditioned launch services (S036.20), air conditioned railway services (S036.30) [in serial 5 (*Transport service*), and in serial 7 (*Other services*)]; and
(vi) beauty parlour (S030.00), health club and fitness center (S046.00) [in serial 2 (*Social welfare services*), and serial 3 (*Culture related services*)].

However, out of 95 services under 73 heading numbers (in 2008-09, 86 services under 64 heading numbers under previous coding) that are included in the latest list of taxable services [SRO No. 189[19]], following 28 services under 24 heading numbers are not mentioned in the above exceptions of the Second Schedule:

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16 In clause (a) of serial 6, "immigration adviser" has been included as 'exception' in the substituted Second Schedule in FY 2007-08 by the *Finance Ordinance 2007*.

17 In clause (m) of serial 7, there was "Black and white photographers" in the substituted Second Schedule in FY 2004-05 and there were **fourteen** items, which was deleted by the *Finance Act 2006*.

18 The name of the service mentioned in the Second Schedule is 'banking organization'.

19 SRO No. 189-Ain/2008/491-Musak, dated 29.06.2008, amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009.

Dhaka University Institutional Repository

Heading No.	Service Code	Taxable Service
S003	S003.10	Garage of Motor Vehicle and Workshop
	S003.20	Dockyard
S005	S005.20	Port
S012	S012.10	Telephone[20]
	S012.11	Teleprinter[21]
	S012.12	Telex
	S012.13	Fax
	S012.14	Internet Firm
	S012.20	SIM Card Supplier
S019	S019.00	Photographers
S024	S024.00	Sales Center of Furniture
S026	S026.00	Goldsmith & Silversmith and Gold & Silver Jeweler and Gold Refiner
S031	S031.00	Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration
S034	S034.00	Audit and Accounting Firm
S039	S039.10	Satellite Cable Operator
	S039.20	Satellite Channel Distributor
S040	S040.00	Security Service
S042	S042.00	Automated or Mechanical Sawmill
S045	S045.00	Legal Adviser
S049	S049.00	Rent-a-Car Service
S053	S053.00	Board Meeting Participant
S059	S059.00	Glass Sheet Coating Organization
S060	S060.00	Purchaser of Goods Auctioned
S061	S061.00	Credit Card Issuing Firm
S062	S062.00	Money Changer Firm
S063	S063.00	Tailoring Shop & Tailors
S064	S064.10	Amusement Park and Theme Park
	S064.20	Picnic Spot, Shooting Spot & Tourist Spot or Establishment
S065	S065.00	Building, Floor and Premises Cleaning or Maintenance Firm
S066	S066.00	Lottery Ticket Seller
S068	S068.00	Coaching Center
S071	S071.00	Program Organizer
S072	S072.00	Human Resource Supply and Management Organization
S073	S073.00	Manpower Exporting Organization

However, out of the latest listed taxable services (2009-10), ***17 services under 15 heading numbers*** are exempted by an SRO[22] [5 services fully exempted: Cold Storage (S006.00), Binding Firm (S008.20), Indenting Firm (S014.00), Travel Agency (S016.00), and Seller of Land (S055.00); and 12 services partially exempted: Hotel (S001.10), Restaurant (S001.20), Construction Firm (S004.00), Advertising Firm (S007.00), Printing Press (S008.10), Insurance Company (S027.00), Procurement Provider (S037.00), Organizer of Entertaining Cultural

[20] The original title "Telephone, Teleprinter, Telex, Fax" (S012.00) was amended as "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.00) by the Finance Act 1997 and re-coded as "S012.10" by SRO No. 159-Ain/2005/450-Musak dated 09.06.2005, then re-classified and re-named as "Telephone" with previous code "S012.10" by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.

[21] Teleprinter (S012.11), Telex (S012.12), Fax (S012.13) and Internet Firm (S012.14) have been coded as separate services from one service [Telephone, Teleprinter, Telex, Fax or Internet Firm (S012.10)] by SRO No. 105-Ain/2009/513-Musak, dated 11.6.2009.

[22] SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009.

Dhaka University Institutional Repository

Program with the help of Foreign Artists (S038.00), Transport Contractor (S048.00), Distributor of Electricity (S057.00), Tailoring Shop & Tailors (S063.00), and Picnic Spot, Shooting Spot & Tourist Spot or Establishment (S064.20)]. But it is interesting to note that all these partially or fully exempted services are mentioned in the Second Schedule as exceptions, other than the last two services: Tailoring Shop & Tailors (S063.00), and Picnic Spot, Shooting Spot & Tourist Spot or Establishment (S064.20). Table 5.9 and Table 5.10 (in chapter 5) have shown the full exemption and partial exemption respectively according to the individual service and also the exemption period up to 30 June 2009.

In addition to above, there are some special exemptions of VAT on some particular services under SROs. The services subject to present exemption of VAT under SROs include: Telephone, Telex, FAX (S012.10) and WASA (S025.00) used in Diplomatic Office and by diplomats; the Ministry of Industry as a Seller of Land (S055.00) under sale of an industry through withdrawal of capital; service provided in tree plantation activity, whether under tender or quotation on commercial basis or not; and bank's service on issue of Securitized Debt Instrument (letter of credit, guarantee, indemnity, mortgage document or any other concerned document) through Special Purpose Vehicle (S056.00).[23] Some selective Cinema Halls (S023.10) in Rangamati, Khagrachari and Bandarban districts are also subject to exemption of both VAT and SD under SRO.[24] Since 2005-06, in case of six services, the exemption of VAT has also been allowed for the hundred percent exporters, the hundred percent deemed exporters and the enterprises in EPZ, which follow the NBR's order under rule 38 for export purpose (i.e., the direct export through commercial banks). These services are: WASA (S025.00) [where 60 percent VAT is exempted at production stage]; Distributor of Electricity (S057.00) [where 80 percent VAT is exempted at production stage]; Port (S005.20), Freight Forwarders (S015.10), Insurance Company (S027.00) and Shipping Agent (S035.00) [where 100 percent VAT is exempted at both stages of import of inputs and export of finished goods] (Table 6.11 in chapter 6).

Shifting services taxable under other tax laws to the tax net of VAT after its introduction–A note: As stated earlier, in the year preceding the year of introducing VAT (1990-91), there were nine (9) taxable services under the Excise and Salt Act 1944 and six (6) services under the Business Turnover Tax Ordinance 1982. There was also advertisement tax. Below is a brief account of these services regarding their shifting under the network of value added taxation.

(a) *Excisable services vs. Vatable services–A note for the VAT regime:* In 1991-92, there were three (3) services only in the list of excisable services: (i) services rendered by bank, (ii) services rendered by loans and investments, and (ii) services rendered by any Water and Sewerage Authority (WASA).[25] Out of the nine (9) excisable services in 1990-91, three (3) services fully [Services rendered by bank, Services rendered by loans and investments, and Services rendered by any Water and Sewerage Authority (WASA)] and one service partially

[23] SRO No. 72-Ain/95/113-Musak, dated 08.05.1995; SRO No. 306-Ain/2000/293-Musak, dated 11.10.2000; SRO No. 65-Ain/2003/368-Musak, dated 06.03.2003; and SRO No. 211-Ain/2003/393-Musak, dated 16.07.2003.

[24] SRO No. 138-Ain/93/73-Musak, dated 12.07.1993.

[25] Part II of the First Schedule of the *Excise and Salt Act 1944*, substituted by the *Finance Act 1991*.

Dhaka University Institutional Repository

[Services rendered by other enterprises providing entertainments, i.e., those other than cinema houses] were not shifted to the VAT-net in the first year value added taxation (1991-92). In that year (1991-92), the earlier excisable services that were shifted under the value added tax-net are: Hotels (S001.10), Restaurants (S001.20), Decorators and Caterers (S002.00), Video-cassette Shops (S011.10), Telephone and Teleprinters (S012.00), Cinema houses [Film Exhibitor (Cinema Hall) (S023.10)], and Automobile garages and workshops (S003.10). One service (services provided by bank through maintaining deposit account) is still under the excise taxation (from 1981-82 to date, although at a rate changed from 1989-90).[26] However, other banking and non-banking services (including loans and investments, letter of credit services, banking services, etc.) are now subject to VAT: as a Provider of letter of credit service (S056.00) from 1999-2000; as a Provider of Banking Services (S056.00) including letter of credit service and loans and investments from 2002-03; and as a Provider of Banking & Non-Banking Services (S056.00) including non-banking services from 2004-05. WASA (S025.00) has been made vatable since 1992-93. Other enterprises providing entertainments (except cinema hall) were brought under the list of taxable services under the following headings: (a) Organizer of Entertaining Cultural Program with the help of Foreign Artists (S038.00) in 1997-98; and (b) Amusement Park and Theme Park (S064.10) in 2004-05.

From 1992-93 to 2003-04, there was only one (1) service (services rendered by bank), shifting the service by the WASA under the VAT-net since 1992-93.[27] Part-I of the First Schedule of the Excise and Salt Act 1944, which specified the "excisable goods", has been repealed by the *Finance Act 2004* and hence there are no excisable goods from 2004-05. In the Part-II of the First Schedule of the Excise and Salt Act 1944, which specified the "excisable services", substituted by the *Finance Act 2004*, there are two services: "Services rendered by bank"[28] (by the way of maintaining deposit account), and "Services rendered by Airline" (through issuing a domestic 'Airline Ticket per seat', which may involve one or more stops over on its way to ultimate airport of destination). Thus, since 2004-05, "Services Rendered by Airline"[29] (i.e., services through issuing a domestic 'Airline Ticket per seat') has been brought under the network of excise duty, although the "Tax on Airline Tickets" was being collected from 1986-87 under section 11 of the *Finance Ordinance 1986* [repealed under section 44 of the Finance Act 2004]. From 2004-05 to date (2009-10), there are two services (services rendered by bank and services rendered by Airline) subject to excise duty at specific rate.

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[26] From 1981-82 to 1988-89, the 'services rendered by bank' was subject to excise duty at the rate of per withdrawal transaction. From 1989-90 to date (2009-10), the 'services rendered by bank' was subject to excise duty at the rate of per deposit account per annum.

[27] Part II of the First Schedule of the *Excise and Salt Act 1944*, substituted by the *Finance Act 1992*. WASA (S025.00) has been brought under the VAT-net in accordance with section 11(16)(e) of the *Finance Act 1992* along with other five services (S026.00 to S030.00).

[28] For "services rendered by bank", since 2004-05, the rates of excise duty (per deposit account per year) are: nil, if debit/credit balance of a deposit account does not exceed Tk.10,000; Tk.120, if the balance exceeds Tk.10,000, but does not exceed Tk.1 lakh; Tk.250, if the balance exceeds Tk. 1 lakh, but does not exceed Tk.10 lakh; Tk.550, if the balance exceeds Tk.10 lakh, but does not exceed Tk.1 crore; Tk.2,500, if the balance exceeds Tk.1 crore, but does not exceed Tk.5 crore' and Tk.5,000, if the balance exceeds Tk. 5 crore.

[29] For collecting excise duty on airline's services, a new rule titled "Recovery of Excise Duty on Domestic Airline (Airline Ticket) Rules 2004" (S.R.O. No. 182-Ain/2004/300-Abgari dated 10.06.2004) has been promulgated, under which the rate of excise duty is: Tk. 200 for "services rendered by airline through issuing a domestic 'Airline Ticket per seat' for single journey to ultimate airport of destination" and *nil* for foreign national of Diplomatic class.

Dhaka University Institutional Repository

(b) *Services under BTT vs. Vatable services–A note for the VAT regime:* In 1991-92, the services under the business turnover taxation, out of six (6) services under BTT, following four (4) services were brought under the VAT-net: (a) automobile garage and workshops [Garage of Motor Vehicle and Workshop (S003.10)], (b) customs bonded warehouses [Warehouse (S005.10)], (c) indenting firms [Indenting Firm (S014.00)], and (d) travel agents [Travel Agency (S016.00)]. Other two services under BTT, were made vatable after 8 or 9 years as follows: (i) saw mills and wood treatment plants [Automated or Mechanical Sawmill (S042.00) from 1998-99], and (ii) customs, clearing and forwarding agents [Clearing & Forwarding Firm (S015.20) from 1999-2000].

(c) *Advertising services under advertisement tax shifted under the VAT:* Up to 30 June 1991, the advertisement tax was in force. In 1991-92, Advertising Firm (S007.00) was brought under VAT for the preparation and publicity of advertisement on commercial basis, except the advertisements published in the newspapers and periodicals (NBR, 2001c, pp. 38-40).

There are five services subject to supplementary duty (SD) under the VAT laws: three (3) services since 1991-92 [Hotel (S001.10), Restaurant (S001.20) and Film Exhibitor (Cinema Hall) (S023.00)]; one (1) service from 2002-03 [Satellite Channel Distributor (S039.20)]; and one (1) service from 2005-06 [SIM Card Supplier (S012.20)] (Table 5.4: Rates of Supplementary Duty for Taxable Services, in section 5.7.03 in chapter 5). But presently one service provider [Hotel (S001.10)] is exempted from SD (since 03.12.2003 to date, i.e., 2009-10).[30]

The small service providers based on the annual turnover below the threshold limit (Tk. 40 lakh in 2009-10)[31] can be enlisted for turnover tax to pay turnover tax at 4 percent on turnover since 1997-98 (earlier rate was 2 percent). But in case of prescribed services, there is a provision of mandatory VAT registration also irrespective of the annual turnover. Although in 1993-94, restriction was imposed about TT enlistment for one service [Clearing & Forwarding Firm] through a general order (NBR, 2001c, pp. 120-122) and thereby mandatory VAT registration, but the provision was formally started from 1999-2000 with 8 services (including Clearing & Forwarding Firm). Table 7.3 shows a chronological order of bringing different services along with service code (S.Code) under mandatory registration, irrespective of annual turnover.

Table 7.3: Chronology of Bringing the Taxable Services under the List of Mandatory Registration

CR Date	S.Code	Taxable Service	TN Date	CRW Date
07.10.1993	S015.20	Clearing & Forwarding Firm[32]	18.06.1992	NW
10.06.1999	S004.00	Construction Firm	01.07.1991	NW
	S033.00	Leaseholder	28.07.1996	NW
	S037.00	Procurement Provider	12.06.1997	NW
	S049.00	Rent-a-Car Service	10.06.1999	NW
	S053.00	Board Meeting Participant	10.06.1999	NW
	S056.00	Provider of Banking & Non-Banking Services[33]	10.06.1999	NW

30 SRO No. 19-Ain/92/443-Musak, dated 27.01.1992.

31 The limit was Taka 5 lakh from 1991-92 to 1992-93; Taka 7.5 lakh for 1993-94; Taka 15 lakh from 1994-95 to 1998-99; Taka 20 lakh from 1999-2000 to 2007-08 and Taka 24 lakh in 2008-09 (Table 6.6).

32 According to General Order No. 4 Musak/93/, dated 07.10.1993 (NBR, 2001c, pp. 120-122).

33 Inserted by the Finance Act 1999 as "Provider of Letter of Credit Service" and amended as "Provider of Banking Services" by SRO No. 117-Ain/2002/342-Musak dated 6.6.2002; further amended by SRO No. 171-Ain/2004/417-Musak dated 10.6.2004 (by inserting words "Non-Banking").

Dhaka University Institutional Repository

Table 7.3: Chronology of Bringing the Taxable Services under the List of Mandatory Registration ..... *cont'd*

CR Date	S.Code	Taxable Service	TN Date	CRW Date
10.06.1999	S055.00	Seller of Land	10.06.1999	06.06.2002
06.06.2002	S003.10	Garage of Motor Vehicle and Workshop	01.07.1991	NW
	S003.20	Dockyard	01.07.1991	NW
	S020.00	Survey Firm	01.07.1991	NW
	S026.00	Goldsmith & Silversmith and Gold & Silver Jeweler and Gold Refiner	18.06.1992	NW
	S032.00	Consultancy Firm & Supervisory Firm	28.07.1996	NW
	S039.10	Satellite Cable Operator	12.06.1997	NW
	S039.20	Satellite Channel Distributor	12.06.1997	NW
	S059.00	Glass Sheet Coating Organization	06.06.2002	NW
06.06.2002	S014.00	Indenting Firm	01.07.1991	10.06.2004
12.06.2003	S007.00	Advertising Firm	01.07.1991	NW
	S008.10	Printing Press	01.07.1991	NW
	S009.00	Auctioneer Firm	01.07.1991	NW
	S015.10	Freight Forwarders	01.07.1991	11.06.2009
	S018.00	Film Studio	01.07.1991	NW
	S024.00	Sales Center of Furniture	09.06.1994	NW
	S029.10	Medical Institution	18.06.1992	NW
	S029.30	Pathological Laboratory	11.06.1998	NW
	S034.00	Audit and Accounting Firm	28.07.1996	NW
	S036.20	Air-Conditioned Launch Service	12.06.1997	NW
	S040.00	Security Service	11.06.1998	NW
	S048.00	Transport Contractor	10.06.1999	NW
	S050.10	Architect, Interior Designer or Interior Decorator	10.06.1999	NW
	S057.00	Distributor of Electricity	10.06.1999	NW
	S060.00	Purchaser of Goods Auctioned	12.06.2003	NW
	S061.00	Credit Card Issuing Firm	12.06.2003	NW
	S062.00	Money Changer Firm	12.06.2003	NW
	S063.00	Tailoring Shop & Tailors	12.06.2003	NW
10.06.2004	S023.20	Film Distributor	06.06.2002	NW
	S028.00	Courier & Express Mail Service[34]	18.06.1992	NW
	S064.10	Amusement Park and Theme Park	10.06.2004	NW
	S064.20	Picnic Spot, Shooting Spot & Tourist Sport or Establishment	10.06.2004	NW
	S065.00	Building, Floor and Premises Cleaning or Maintenance Firm	10.06.2004	NW
	S066.00	Lottery Ticket Seller	10.06.2004	NW
08.06.2006	S001.10	Hotel	01.07.1991	NW
	S002.00	Decorators & Caterers	01.07.1991	NW
	S017.00	Community Center	01.07.1991	11.06.2009
	S030.00	Beauty Parlour	18.06.1992	NW
	S035.00	Shipping Agent	28.07.1996	NW
	S036.10	Air-Conditioned Bus Service	12.06.1997	NW
	S036.30	Air-Conditioned Railway Service	10.06.1999	NW
	S054.00	Broadcaster of Advertisement through Satellite Channel	10.06.1999	NW
27.06.2007	S001.20	Restaurant	01.07.1991	NW
	S005.10	Warehouse	01.07.1991	NW
	S005.20	Port	10.06.2004	NW
	S010.10	Land Development Firm	01.07.1991	NW
	S010.20	Building Construction Firm	12.06.1997	NW
	S012.10	Telephone, Teleprinter, Telex, Fax or Internet Firm	01.07.1991	NW

[34] "Courier Service" was amended as "Courier & Express Mail Service" by SRO No. 171-Ain/2004/417-Musak dated 10.6.04.

Dhaka University Institutional Repository

Table 7.3: Chronology of Bringing the Taxable Services under the List of Mandatory Registration ..... *cont'd*

CR Date	S.Code	Taxable Service	TN Date	CRW Date
27.06.2007 (cont'd)	S012.20	SIM Card Supplier	09.06.2005	NW
	S023.10	Film Exhibitor (Cinema Hall)	01.07.1991	NW
	S025.00	WASA (Water Supply and Sewerage Authority)	18.06.1992	NW
	S027.00	Insurance Company	18.06.1992	NW
	S038.00	Organizer of Entertaining Cultural Program with the help of Foreign Artists	12.06.1997	NW
	S046.00	Health Club & Fitness Center	10.06.1999	NW
	S047.00	Sports Organizer	10.06.1999	NW
	S051.00	Engineering Firm	10.06.1999	NW
	S058.00	Chartered Plane or Helicopter Rental Firm	08.06.2000	NW
29.06.2008	S031.00	Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration	01.07.1991	NW

Note: "CR Date" means the date on which the concerned service has been brought under the list of mandatory registration irrespective of annual turnover.
"TN Date" means the date on which the concerned service has been brought under tax-net through incorporation into the list of taxable service.
"CRW Date" means the date on which the concerned service has been withdrawn from the list of mandatory registration irrespective of annual turnover.
"NW" means 'never withdrawn' from the list of mandatory registration irrespective of annual turnover.

Sources: 1 Order [GO No. 4 Musak/93/, dt. 7.10.1993] and **9 SROs:** (1) SRO Nos. 133-Ain/99/214-Musak, dt. 10.6.99; (2) 120-Ain/2002/345-Musak, dt. 6.6.02; (3) 172-Ain/2003/380-Musak, dt. 12.6.03; (4) 170-Ain/2004/416-Musak, dt. 10.6.2004; (5) 138-Ain/2006/466-Musak, dt. 8.6.2006; (6) 128-Ain/2008/473-Musak, dt. 27.6.2007; (7) 191-Ain/2008/493-Musak, dt. 29.6.2008; (8) 115-Ain/2009/523-Musak, dt. 11.6.2009; and (9) 180-Ain/2009/533-Musak, dt. 30.6.2009.

In 2008-09, out of 81 fully or partially taxable services, 63 services are under the mandatory VAT registration (i.e., 78 percent all or 91 percent of fully taxable service). But in 2009-10, 2 services [Freight Forwarders (S015.10) and Community Center (S017.00)] have been withdrawn from this list and thus 61 services under 49 heading numbers are subject to mandatory registration.

7.4 Tax Points for Taxable Services

As mentioned earlier (section 5.6.4 of chapter 5), the VAT on taxable services is payable at the time of any of three activities (the rendering of the service, issuance of invoice relating to the service, and the receipt of partial or full payment), whichever occurs first [u/s 6(3)]. Regarding the deposit of VAT to the treasury, it is within ten working days of the month following the tax period (in case of an Insurance company 20 working days) [u/r 24(1)]. The tax period is usually a month, but it may be prescribed for three or six months. From 2004-05, for 2 services [Indenting firm (S014.00), exempted from VAT from 10.6.2004 to 10.6.2009; and Shipping agent (S035.00)] the tax period is a 3-month period and for 5 services [Construction firm (S004.00), Clearing & forwarding agent (S015.20), Consultancy firm and supervisory firm (S032.00), Leaseholder (S033.00) and Procurement provider (S037.00)] it is a 6-month period (Table 6.4 in chapter 6). It is the case of services only, regarding which, the withholding VAT [i.e., VAT deducted or collected at source (VDS)] is applicable. Starting from 1993-94, with 5 services, now in 2009-10, there are 27 services subject to VDS (Table 6.6 in chapter 6). In Table 7.4, a chronology of the rates of VDS has been given from 1993-94 to 2009-10, for all the 29 services so far prescribed for the purpose of VDS, including two services on which now no VDS is applicable.

Dhaka University Institutional Repository

Table 7.4: A Chronology of the Rates of VAT Deducted at Source (VDS)

Service Code	Name of the Service	Inserted for VDS	Rate of VDS in Financial Year (FY)					
			1993-94	1994-96	1996-97	1997-98	1998-99	1999-2000
S002.00	Decorators & Caterers*	11.06.2009	—	—	—	—	—	—
S003.10	Garage of Motor Vehicle and Workshop	10.06.1993	4.95	4.95	4.95	4.95	4.95	4.95
S003.20	Dockyard	10.06.1993	4.95	4.95	4.95	4.95	4.95	4.95
S004.00	Construction Firm	10.06.1993	4.5	4.5	4.5	4.5	4.5	4.5
S007.00	Advertising Firm	12.06. 2003	—	—	—	—	—	—
S008.10	Printing Press	02.07.1997	—	—	—	4.5	4.5	4.5
S009.00	Auctioneer Firm*	11.06.2009	—	—	—	—	—	—
S014.00	Indenting Firm*	10.06.1993	15	15	15	15	15	15
S016.00	Travel agency**	10.06.1993	15	NRE	NRE	NRE	NRE	NRE
S019.00	Photographers*	11.06.2009	—	—	—	—	—	—
S020.00	Survey Firm	06.06.2002	—	—	—	—	—	—
S028.00	Courier & Express Mail Service	11.06.2009	—	—	—	—	—	—
S031.00	Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration	29.06.2008	—	—	—	—	—	—
S032.00	Consultancy Firm & Supervisory Firm	28.07.1996	—	—	NR	5.25	5.25	5.25
S033.00	Leaseholder	28.07.1996	—	—	NR	NR	NR	NR
S034.00	Audit and Accounting Firm	12.06.2003	—	—	—	—	—	—
S037.00	Procurement Provider	02.07.1997	—	—	—	3	3	3
S040.00	Security Service	29.06.2008	—	—	—	—	—	—
S045.00	Legal Adviser	29.06.2008	—	—	—	—	—	—
S048.00	Transport Contractor	10.06.1999	—	—	—	—	—	4.5
S049.00	Rent-a-Car Service	06.06.2002	—	—	—	—	—	—
S050.00	Architect, Interior Designer or Interior Decorator & Graphics Designer*	11.06.2009	—	—	—	—	—	—
S051.00	Engineering Firm	29.06.2008	—	—	—	—	—	—
S053.00	Board Meeting Participant	10.06.1999	—	—	—	—	—	NR
S056.00	Provider of Banking & Non-Banking Services***	10.06.1999	—	—	—	—	—	NR
S058.00	Chartered Plane or Helicopter Rental Firm	11.06.2009	—	—	—	—	—	—
S060.00	Purchaser of Goods Auctioned	12.06. 2003	—	—	—	—	—	—
S065.00	Building, Floor and Premises Cleaning or Maintenance Firm	10.06.2004	—	—	—	—	—	—
S066.00	Lottery Ticket Seller	10.06.2004	—	—	—	—	—	—

Note: "VDS" stands for "VAT deducted at source", "NR" means "no rate" prescribed for specified value addition or net VAT and here the rate of VDS is 15% of total receipts. FY 1994-96 indicates two FYs: FY 1994-95 and FY 1995-96.

* "Indenting Firm" was exempted by SRO No. 163-Ain/2004/409-Musak, dated 10.06.2004.

** "Travel agency" was exempted from 09.06.1994 (by SRO No. XII-Ain/94/92-Musak, dated 09.06.1994) and maintained up to 30.06.2009 (by SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008), then exemption withdrawn by SRO No. 104-Ain/2009/512-Musak, dated 11.06.2009.

*** Inserted in the above list on 10.06.1999 as "Provider of Letter of Credit Services", then from FY 2002-03 as "Provider of Banking Services" and from FY 2004-05 as "Provider of Banking and Non-Banking Services" and withdrawn from the list on 12.06.2003.

Dhaka University Institutional Repository

Table 7.4: A Chronology of the Rates of VAT Deducted at Source (VDS) ... *cont'd*

Service Code	Rate of VDS in Financial Year (FY)									
	2000-01	2001-02	2002-03	2003-04[c]	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
S002.00	—	—	—	—	—	—	—	—	—	NR
S003.10	4.95	4.95	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
S003.20	4.95	4.95	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
S004.00	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
S007.00	—	—	—	9 or 15[d]	9 or 15	9 or 15	9 or 15	9 or 15	9 or 15	9 or 15
S008.10	4.5 or 15[a]	4.5 or 15	4.5 or 15	4.5 or 15	4.5 or 15	4.5 or 15	4.5 or 15	4.5 or 15	4.5 or 15	4.5 or 15
S009.00	—	—	—	—	—	—	—	—	—	15
S014.00	15	15	15	15	NRE	NRE	NRE	NRE	—	—
S016.00	NRE	NRE	NRE	—	—	—	—	—	—	15
S019.00	—	—	—	—	—	—	—	—	4.5	4.5
S020.00	—	—	15	15	15	15	15	15	15	15
S028.00	—	—	—	—	—	—	—	—	—	4.5
S031.00	—	—	—	—	—	—	—	—	15	15
S032.00	5.25	5.25	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
S033.00	NR	NR	NR	NR	NR	NR	NR	NR	15	15
S034.00	—	—	—	4.5	4.5	4.5	4.5	4.5	4.5	4.5
S037.00	3	3	2.25	2.25	2.25	2.25	2.25	2.25	2.25	2.25
S040.00	—	—	—	—	—	—	—	—	4.5	4.5
S045.00	—	—	—	—	—	—	—	—	4.5	4.5
S048.00	2.25 or 4.5[b]	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5	2.25 or 4.5
S049.00	—	—	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
S050.00	—	—	—	—	—	—	—	—	—	4.5
S051.00	—	—	—	—	—	—	—	—	15	15
S053.00	NR	NR	NR	NR	NR	NR	NR	NR	15	15
S056.00	NR	NR	NR	—	—	—	—	—	—	—
S058.00	—	—	—	—	—	—	—	—	—	NR
S060.00	—	—	—	1.5	1.5	1.5	1.5	1.5	1.5	1.5
S065.00	—	—	—	—	2.25	2.25	2.25	2.25	2.25	2.25
S066.00	—	—	—	—	15	15	15	15	15	15

Note: "NRE" means "no rate prescribed as the service was exempted.

[a] 4.5 percent up to 08.04.2001 and thereafter 4.5 percent (of total money received including the input value) or 15 percent (of total money received excluding the input value).

[b] 4.5 percent up to 10.01.2000 and thereafter 2.25 percent (of total money received or where applicable of tender value, for transport of petroleum product) or 4.5 percent (of total money received or where applicable of tender value, for transport of goods other than petroleum product).

[c] From 2003-04, both the "Base of Specified Rate of Value Addition" and the "Net Rate of VAT" have been prescribed. Up to 2002-03, only the "Base of Specified Rate of Value Addition" for selective services was prescribed and the "Net Rate of VAT" was then computed by applying 15% with the specified rate of value addition.

[d] 9% of value specified by the concerned newspaper for "Advertisements published by non-government enterprises, non-government organizations (NGO), non-government banks and insurance and limited companies, any firm or person *except* for classified advertisements" and 15% for other advertisements.

Sources: The Finance Acts 1993, 2000 and 2003, 9 SROs and 4 General Orders: (a) SRO No. 128-Ain/96/130-Musak, dated 28.07.1996; (b) SRO No. 163-Ain/97/166-Musak, dated 02.07.1997; (c) SRO No. 146-Ain/99/226-Musak, dated 10.06.1999; (d) SRO No. 121-Ain/2002/346-Musak, dated 06.06.2002; (e) SRO No. 171-Ain/2003/379-Musak, dated 12.06. 2003; (f) SRO No. 193-Ain/2003/389-Musak, dated 01.07.2003; (g) SRO No. 169-Ain/2004/415-Musak, dated 10.06.2004; (h) SRO No. 193-Ain/2008/495-Musak, dated 29.06.2008; and (i) SRO No. 113-Ain/2009/521-Musak, dated 11.06.2009; (1) General Order No. 6/Musak/93/, dated 16.10.1993 (NBR, 2001c, pp. 125-126); (2) General Order No. 7/Musak/93/, dated 17.10.1993 (NBR, 2001c, pp. 127-129); (3) General Order No. 23/Musak/97, dated 08.09.1997 (NBR, 2001c, pp. 362-365); and (4) General Order No. 05/Musak/2009, dated 11.06.2009.

Dhaka University Institutional Repository

Table 7.5: Rate of VAT Deducted at Source (VDS) in FY 2009-10 vs. Rate of Income Tax Deducted at Source (TDS) in AY 2009-10

Service Code	Name of the Service	Rate of VDS (%)	Rate of TDS under the Income Tax Ordinance			
			Section (S.) & Rule (R.)	On which TDS Applicable	Rate of TDS	To what extent similar to VDS
S002.00	Decorators & Caterers	15	S. 52 & R. 16	Execution of contract or sub-contract	Rate prescribed u/r 16[35]	VDS for supply under execution of contract or sub-contract by the concerned decorators and caterers
S003.10	Garage of Motor Vehicle and Workshop	4.5	—	—	—	—
S003.20	Dockyard	4.5	—	—	—	—
S004.00	Construction Firm	4.5	S. 52 & R. 16	Execution of contract or sub-contract	Rate prescribed u/r 16[36]	VDS for execution of contract or sub-contract with any construction firm
S007.00	Advertising Firm	9 or 15[a]	S. 52 & R. 16	Commission (not gross amount) receivable by the advertising agencies	Rate prescribed u/r 16[37]	VDS on value determined by the advertisement media
			S. 52A(3)	Fees or commission for professional service that includes service by the profession of advertising	10%	-do-
			S. 53K	Advertisement bill of newspaper or magazine or private television channel	3%	-do-
008.10	Printing Press	4.5 or 15[b]	—	—	—	—
S009.00	Auctioneer Firm*	15	—	—	—	—
S016.00	Travel Agency*	15	—	—	—	—
S019.00	Photographers*	4.5	—	—	—	—

* Newly inserted from FY 2009-10.

[a] 9% of value specified by the concerned newspaper for "Advertisements published by non-government enterprises, non-government organizations (NGO), non-government banks and insurance and limited companies, any firm or person *except* for classified advertisements" and 15% for other advertisements.

[b] 4.5 percent up to 08.04.2001 and thereafter 4.5 percent (of total money received including the input value) or 15 percent (of total money received excluding the input value).

[35] Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%. From this deduction, any tax deducted at import stage on goods used in the execution of contract is to be adjusted.

[36] Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%. From this deduction, any tax deducted at import stage on goods used in the execution of contract is to be adjusted.

[37] Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%.

Dhaka University Institutional Repository

Table 7.5: Rate of VDS vs. Rate of TDS in AY 2009-10 ... *cont'd*

Service Code	Name of the Service	Rate of VDS (%)	Rate of TDS under the Income Tax Ordinance			
			Section (S.) & Rule (R.)	On which TDS Applicable	Rate of TDS	To what extent similar to VDS
S020.00	Survey Firm	15	—	—	—	—
S028.00	Courier & Express Mail Service[c]	4.5	—	—[38]	—	—
S031.00	Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration	15	—	—	—	—
S032.00	Consultancy Firm & Supervisory Firm	4.5	S. 52A(3)	Fees or commission for professional service that includes service by the profession of technical consultancy	10%	VDS for total contract price (where applicable, tender value), (but not for services by supervisory firm in case of TDS)
S033.00	Leaseholder	15	—	—	—	—
S034.00	Audit and Accounting Firm	4.5	S. 52A(3)	Fees or commission for professional service that includes service by the profession of accountancy	10%	VDS for total money received
S037.00	Procurement Provider	2.25	S. 52 & R. 16	On account of supply of goods	Rate prescribed u/r 16[39]	VDS for total price (where applicable, tender value) of goods (but not for services in case of TDS)
S040.00	Security Service	4.5	S. 52AA	Service by a private security service agency	7.5% of 15% of gross bill	VDS for total price (where applicable, tender value)
S045.00	Legal Adviser	4.5	S. 52A(3)	Fees or commission for professional service that includes service by the legal profession	10%	VDS for total money received

[c] 4.5 percent up to 10.01.2000 and thereafter 2.25 percent (of total money received or where applicable of tender value, for transport of petroleum product) or 4.5 percent (of total money received or where applicable of tender value, for transport of goods other than petroleum product).

[38] Under section 53CC of the Income Tax Ordinance 1984, any person being a company working as local agent of a non-resident courier company is liable to deduct income tax at source @ 7.5% on the amount of service charge accrued.

[39] (a) In case of oil supplied by oil marketing companies: Up to Tk. 2 lakh–nil; and above Tk. 2 lakh @ 0.75%; (b) in other cases: Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%. From this deduction, any tax deducted at import stage on goods used in the execution of contract.

Dhaka University Institutional Repository

Table 7.5: Rate of VDS vs. Rate of TDS in AY 2009-10 ... *cont'd*

Service Code	Name of the Service	Rate of VDS (%)	Rate of TDS under the Income Tax Ordinance			
			Section (S.) & Rule (R.)	On which TDS Applicable	Rate of TDS	To what extent similar to VDS
S048.00	Transport Contractor	2.25 or 4.5[c]	S. 52 & R. 16	Execution of contract or sub-contract	Rate prescribed u/r 16[40]	VDS for total price (where applicable, tender value)
S049.00	Rent-a-Car Service	4.5	—	—	—	—
S050.10	Architect, Interior Designer or Interior Decorator[•]	4.5	S. 52A(3)	Fees for professional service that includes service by the architectural profession and interior decoration; and fees for technical services by the interior designer	10%	VDS for total service price (where applicable, tender value)
S050.20	Graphics Designer[•]	4.5	S. 52A(3)	Fees for technical services by the interior designer	10%	VDS for total service price (where applicable, tender value)
S051.00	Engineering Firm	15	S. 52A(3)	Fees or commission for professional service that includes service by the engineering profession	10%	VDS for total money received
S053.00	Board Meeting Participant	15	—	—	—	—
S058.00	Chartered Plane or Helicopter Rental Firm	15	—	—	—	—
S060.00	Purchaser of Goods Auctioned	1.5	S. 53C & R. 17D	Income from the sale price of goods or property sold by public auction	Not exceeding 7.5% of sale price	VDS for sale price
S065.00	Building, Floor and Premises Cleaning or Maintenance Firm	2.25	—	—	—	—
S066.00	Lottery Ticket Seller	15	S. 55	Income from lottery	20%	VDS applicable if the winner is the ticket seller and only on commission received

Sources: VAT SRO: SRO No. 113-Ain/2009/521-Musak, dated 11.06.2009; The *Income Tax Ordinance 1984* (amended up to July 2009) (Adhikary, 2009a) and The *Income Tax Rules 1984* (amended up to July 2009) (Adhikary, 2009b).

[40] Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%.

Dhaka University Institutional Repository

In 2008-09, two services were not subject to VDS, since they are exempted from VAT [Travel agency (S016.00), exempted from 1994-95 to 2008-09 and the Indenting Firm (S014.00), exempted from 2004-05 to 2008-09] and one service has been delisted from the list of services subject to VDS [the Provider of Banking & Non-Banking Services (S056.00), withdrawn from 2003-04]. The VAT-deducting entities (Government, semi-government, autonomous bodies, non-government organizations (NGO), bank, insurance or limited companies) are only liable to deduct or collect VAT at sources on 27 services [27 Service Codes under 26 Heading Numbers].

Several overriding complications arise, when there are simultaneous provisions in the VAT Act 1991 and in the Income Tax Ordinance 1984 for deduction or collection of tax at sources.[41] Table 7.5 above shows the rate of VAT deducted at source (VDS) in FY 2009-10 and the rate of income tax deducted at source (TDS) in assessment year (AY) 2009-10. Thus, out of twenty seven (27) services on which VDS is applicable, for 14 services [Decorators & Caterers (S002.00), Construction Firm (S004.00), Advertising Firm (S007.00), Consultancy Firm & Supervisory Firm (S032.00), Audit and Accounting Firm (S034.00), Procurement Provider (S037.00), Security Service (S040.00), Legal Adviser (S045.00), Transport Contractor (S048.00), Architect, Interior Designer or Interior Decorator (S050.10), Graphics Designer (S050.20), Engineering Firm (S051.00), Purchaser of Goods Auctioned (S060.00), and Lottery Ticket Seller (S066.00)], simultaneously TDS is also applicable. Since FY 1993-94, under clause (aa) of section 30 of the *Income Tax Ordinance 1984*, "no deduction on account of allowance from income from business of profession shall be admissible" in respect of any payment made by an assessee to any person if income tax thereon has not been deducted and credited in accordance with the provisions of Chapter VII (sections 48-63) of the Income Tax Ordinance 1984 and VAT thereon has not been collected or deducted and credited in accordance with the provisions of Value Added Tax Act, 1991 (Adhikary, 2009a, pp. 75-76). Thus, if the VDS and TDS are not properly made, the immediate consequences are financial penalty[42], but this non-deductibility of expenses may also be significant, because this disallowance will be a direct addition to the taxable income with an enhancement of significant income tax liability.

In case of simultaneous deduction of VAT and income tax at source, the rate of VDS is applicable on VAT-exclusive bill for the service (value or consideration), and the TDS is applicable on VAT-inclusive bill for the service. For example, for "Audit and Accounting Firm" (S034.00), the rate of VDS is 4.5 percent and the rate of TDS is 10 percent. If a chartered account (CA) firm's VAT-exclusive bill is Taka 10,000, the VAT inclusive bill is Taka 10,450 (Tk. 10,000 + Tk. 450), then the VDS is to be Taka 450 and the TDS is to be Taka 1,045 (10 percent of Taka 10,450). Thus, the CA firm will receive Taka 8,955 in cash.

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[41] In the Income Tax Ordinance 1984 (updated up to July 2009), there are a total of 49 sections (sections 48 to 63) relating to TDS, of which 9 sections (section 48-49 and 57-63) are related to general provisions on TDS and other 40 sections [sections 50, 50A, 51, 52, 52A, 52AA, 52AAA, 52B, 52C, 52D, 52F, 52I, 52K, 52L, 52M, 52N, 52 O, 53, 53A, 53AA, 53B, 53BB, 53BBB, 53BBBB, 53C, 53CC, 53D, 53E, 53EE, 53F, 53FF, 53G, 53GG, 53H, 53I, 53J, 53K, 54, 55 and 56] are related to specific head of income or payment (Adhikary, 2009a, pp. 127-157).

[42] In case of failure to deduct or collect VAT at source and deposit thereof by a person paying the price or commission regarding a service on which VDS is applicable, the penalty is the VAT payable *plus* 2 percent interest per month [u/s 6(4C)(i) of the VAT Act]. Similar penalty is also applicable for TDS, i.e., the income tax payable *plus* 2 percent interest per month [under section 57(1)(b) of the Income Tax Ordinance].

Dhaka University Institutional Repository

7.5 Tax Base and Tax Rates for Taxable Services

As stated in chapter 5 (in section 5.7.04), there are three types of tax base for taxable services: total receipts (with the input tax credit facility), truncated value addition (TVA) and tariff value (without the input tax credit facility). The "total receipts" (amount received or receivable *including* commission or charge, but *excluding* VAT or AIT) is the tax base for imposition of VAT on services. It is the service-sector VAT, for which the TVA is taken as the major tax base without allowing the input tax credit. Starting from the beginning of the VAT system (1991-92) with 11 services under 10 service headings (out of 29 services), the number of TVA was for 47 services under 40 service headings (out of 86 services) in 2008-09. In 2009-10, the number of TVA is now for 52 services under 45 service headings (out of 95 services). The rate of TVA ranges from 10 percent to 100 percent. *Chapter Appendix 7.1* shows the rates of TVA from FY 1991-92 to FY 2009-10 and the definitions of the base value have been given in various SROs.[43] The tariff value is prescribed for only one taxable service [SIM Card Supplier (S012.20)] since 2005-06 (Tk. 1,628.96 for 2005-06 and Tk. 1,628.96 from 2006-07 to date, i.e., 2009-10).[44] In case of SD applicable services, the tax base for VAT is to be taken as the "base of SD" *plus* SD. For example, based on tariff value of Tk. 1,447.49 on SIM Card Supplier, on which 35 percent SD is applicable, the base for VAT is Tk. 1,954.11 (tariff value Tk. 1,447.49 *plus* SD Tk. 506.62).

In case of one special situation [Indenting Firm (S014.00), which was taxable from 1991-92 to 2003-04, but included in the list of services subject to withholding VAT from 1993-94 to 2007-08], the tax-base "total receipts" was computed backwardly taking the amount received as 'tax-inclusive price' and VAT deducted at sources was the 'tax-inclusive' total amount receivable *multiplied by* the VAT factor $^{15}/_{115}$ (NBR, 2001c, pp. 457-460, 496).

As described in chapter 5 (in section 5.7.03), for service sector, the usual rates are the standard uniform rate of 15 percent and the zero-rate for export of services. From 1991-92 to 2002-03, only truncated value addition (TVA) was prescribed, on which the standard rate was applied. From 2003-04, along with the TVA, the net rate of VAT has also been prescribed (Table 5.1 for year-wise TVA and the net VAT rate).[45] During FY 2009-10, 52 services under 45 heading numbers are under this system. Here, based on six (6) truncated value addition (10, 15, 30, 33.35, 60 and 100 percent), six (6) net rates of VAT (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent) are provided correspondingly. Considering these net rates of VAT (without the input tax credit facility), the service sector value added taxation can be said as subject to multiple rates: two rates (standard 15 percent and zero rates) with the input tax credit facility; and six net rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent) without the input tax credit facility.

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[43] 26 SROs representing the Special Rules to fix the Truncated Rate of Value Addition, starting with first one being SRO No. 192-Ain/91/16-Musak, dated 30.06.1991; w.e.f. 01.07.1991, the latest one being SRO No. 179-Ain/2009/532-Musak, dated 30.6.2009.

[44] The tariff value of Tk. 1,628.96 was prescribed by the Order No. 08/Musak/2005, dated 30.06.2005, was reduced to Tk. 1,447.97 by the Order No. 06/Musak/2006, dated 08.06.2006.

[45] *Vide* 26 SROs representing the Special Rules to fix the Truncated Rate of Value Addition, starting with first one being SRO No. 192-Ain/91/16-Musak, dated 30.06.1991; w.e.f. 01.07.1991, the latest one being SRO No. 179-Ain/2009/532-Musak, dated 30.6.2009.

Dhaka University Institutional Repository

7.6 Services as Input and Input Tax Credit Thereon

Since the very beginning of the VAT system, the definition of 'input' [u/s 2(c)] includes "services" along with "all types of raw materials and machinery". The definition of 'input' has been substituted in 1994 and 1996, and amended in 1998. Few items have been included in the definition of 'input' (e.g., packaging materials, and any gas, any material used as fuel). Few items have also been kept outside the scope of the defined 'input' from the very beginning (labour, land, building, office equipment and conveyance) and others (e.g., spare parts and part of machinery) excluded for a particular period over the years.[46] But as like as 'input', there are no statutory definition of "services" and due to exclusion, 'labour' is not a service and hence not an input.

As shown in chapter 5 (section 5.7.07), the providers of following taxable services are not allowed to claim any credit of input VAT: (a) If the service providers pay VAT based on TVA for selective services u/s 5(4);[47] (b) If the service providers pay VAT based on tariff value u/s section 5(7) [clause (i) of section 9(1)];[48] and (c) If the invoice taken on purchase of services contains other person's registration number in place of the buyer's number [clause (j) of section 9(1)]. Besides when any service is used as input, in some situations, the users of the service (including a service provider) are subject to disallowance of input tax credit relating to VAT paid on services. The situations are as follows:

(1) Full amount of input VAT on such service as are related to the construction and repair of any building or office furniture and equipment though directly related to production of taxable goods or provision of taxable services [clause (e) of section 9(1)];

(2) Full amount of input VAT on expenditures on travel [travel agency (S016.00)] and on entertainment [Decorators & Caterers (S002.00) for preparation, supply or servicing of any foods or drinks or any kind of entertainment; Restaurant (S001.20) for supply of foods or drinks; Community Center (S017.00) as a distribution of food; and Sweetmeat Store (S022.00) for supply of sweetmeat or foodstuff like sweetmeat] [clause (g) of section 9(1)]; and

(3) Partial amount of input VAT may be taken in respect of a place, establishment or premises connected with the production or supply of taxable goods or rendering of taxable service as follows [u/r 19(1A)]: (i) 80 percent of the VAT paid on the use of insurance [Insurance Company (S027.00)], and distribution of electricity (S057.00); and (ii) 60 percent of the VAT paid on the use of telephone (***but not cellular or mobile phone***), teleprinter, FAX, Internet [Telephone, Teleprinter, Telex, Fax or Internet Firm (S012.10)], freight

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[46] The definition of 'input' given in section 2(c) has been substituted by the FAs 1994 and 1996, and amended by the FA 1998. In the definition, in addition to "all types of raw materials, services and machinery" (included in the original VAT Act from 1991-92), other items have been included over the years as follows: "packaging materials" included from 1994-95 [although 'packaging materials' used in marketing by the supplier, explained as 'input' from November 1993, according to the NBR's General Order No. 9/Musak/93/, dated 8.11.1993 (NBR, 2001c, 134-135)], "spare parts" from 1996-97, and "any gas, any material used as fuel" from 1998-99. In addition to "labour, land, building, office equipment and conveyance" (excluded from the very beginning, i.e., 1991-92), "spare parts" was excluded for 5 years (from 1991-92 to 1995-96), and "part of machinery" was excluded for 5 years with an interval of 2 years (from 1991-92 to 1993-94 and from 1996-97 to 1997-98.

[47] Under clause (h) of section 9(1).

[48] Presently there is one taxable service [SIM Card Supplier (S012.20)], for which tariff value has been prescribed.

Dhaka University Institutional Repository

forwarders (S0105.10), clearing and forwarding agent (S0105.20), WASA (Water Supply and Sewerage Authority) (S025.00), audit and accounting firm (S03.4), procurement provider (S037.00), security service [S040.00], legal advisor [S045.00], transport contractor [S048.00] and L/C [Provider of Banking & Non-Banking Services (S056.00)].

(4) Amount of input VAT paid on services to that extent which is not included in the declared price u/s 5(2) and u/r 3(1) [sub-clause (i) of clause (gg) of section 9(1)]. If the price of inputs has been increased, new declaration of price is obligatory based on this enhanced input price and the input tax credit is not allowed to the extent of the enhanced price not mentioned in the declared price.[49]

(5) Amount of input VAT paid on services used for personal purposes (under a General Order; NBR, 2001c, p. 135).[50]

(6) Amount of input VAT paid on services *without* taking proper invoice, which shall be an invoice in form "Musak-11" (where the VAT is properly mentioned). In other cases, the input tax credit is not allowed automatically in general, because of complexity of identification of the amount of VAT and payment thereof. But in case of three services [Warehouse (S005.10); Advertising Firm (S007.00); and Insurance Company (S027.00)], the input tax credit is allowed automatically, subject to the condition of inclusion of the services as inputs in the declared price (under a General Order; NBR, 2001c, p. 135).[51]

(7) Amount of VAT paid on services related to those items which are excluded from the definition on input (i.e., labour, land, building, office equipment and conveyance). For example, insurance service on "land, building and office equipment" was prohibited categorically by the NBR for input tax credit.[52] Fire insurance on factory is also not creditable under this provision (Khan, 2007, p. 814).

7.7 Complexities in Defining Services

One of the complex areas of the VAT system is the fine-tuning of the definition of services. Kay and Davis (1990) have admitted it explicitly: "It is difficult to define the service sector precisely and to measure its output" (p. 70). Because "Services in contrast to goods are intangible" (Parthasarathy and Agarwal, 1999, p. vii). Kay and Davis (1990) have mentioned three general problems in taxing services under the VAT system: (i) self-supply as an alternative (it is in the service sector, because services are predominantly labour, the substitution of self-supply for purchased supply is most feasible); (ii) location of supply (as a feature of services, the location of supply or of consumption is often elusive or even meaningless and this is particularly important for international trade for two problems–*first*, devising a rule for defining the constituents of an export or import of a service and defining the location of supply; and *second*, due to the nontangibility of services, the difficulty in detecting purchases of services by physical checks at border points or inland); and (iii) public provision and purchasing (charging VAT on the public provision of a large proportion of services and the bulk publicly provided consumption of services

[49] File No. 1(2) Musak-Basta:Panya/2004/79(7), dated 04.05.2006 (Khan, 2007, p. 739).
[50] General Order No. 9/Musak/93/, dated 08.11.1993 (NBR, 2001c, pp. 134-135).
[51] General Order No. 9/Musak/93/, dated 08.11.1993 (NBR, 2001c, pp. 134-135).
[52] File No. 2(2) Musak-Ni: Ba:/95/36(11), dated 20.01.1998 (NBR, 2001c, p. 434).

Dhaka University Institutional Repository

by the same government authorities who benefit from the tax revenue seems unnecessary by any criterion and the tax base may be a manipulated price because the public services are not often competitive with commercially provided facilities and the fees may not be related to costs) (Kay and Davis, 1990, pp. 76-78).

In Bangladesh, under the indirect taxation system, services are taxable under the Excise and Salt Act, 1944 and the VAT Act, 1991. Currently, under the Excise and Salt Act, only two services ("Services rendered by bank" and "Services rendered by Airline") are subject to excise duty. Except these two services, other services are taxable under the VAT Act. Under the VAT Act or the VAT Rules, there is no definition of 'service', but 'taxable service' has been defined under section 2(g) and from 2000-01, it means "any service not included in the Second Schedule" of the VAT Act and the Second Schedule contains the services exempted from VAT. Under section 3, VAT shall be imposed and payable at the rate of 15 percent on all services rendered in Bangladesh, except services specified in the Second Schedule and at zero rate on the services exported or deemed to have been exported from Bangladesh. The vatable services are defined for practical purpose of imposition of VAT in a separate list (the Second Schedule directly from 1991-92 to 1999-2000, and thereafter a list of taxable services under an SRO[53]).

Under the Customs Act 1969, only goods are dutiable.[54] But as per the definition of "goods" under the Customs Act, all these goods are not 'physical or tangible goods' for the purpose of use or consumption, because the 'goods', which must be movable for international trade purpose, includes 'currency and negotiable instruments', and 'electronic data."[55] In the Customs Act, there is mentioning of two types of services for which service charges, not customs duty, are applicable (pre-shipment inspection service, on which a charge is applicable u/s 25C; and container service, on which a charge is applicable u/s 76 for goods not unloaded by vessels within time allowed) (GOB, 2008b). At import stage, everything imported or exported is classified according to the Bangladesh Customs Tariff Heading and the H. S. Code. Thus, imported or exported items must be identified as "goods" under the Customs Act, even if those are imported or exported in the form of services, in usual sense. Under section 2(p) of the VAT Act, 'goods' means all kinds of movable property, excluding shares, stocks, coins, securities and recoverable claims.

Under section 3(5) of the VAT Act, for the purposes of section 3, the NBR may, in the public interest, by notification in the official Gazette: (a) declare any taxable goods or class of goods as

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[53] The present list (effective from 2009-10) is provided by SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008 (amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009). In 2000, the first list was provided by SRO No. 170-Ain/2000/269-Musak, dated 8.6.2000, which was amended by SRO No. 117-Ain/2002/342-Musak, dated 6.6.2002, SRO No. 163-Ain/2003/371-Musak, dated 12.6.2003, SRO No. 171-Ain/2004/417-Musak, dated 10.6.2004, SRO No. 159-Ain/2005/450-Musak, dated 09.6.2005, SRO No. 137-Ain/2006/465-Musak, dated 8.6.2006, and SRO No. 129-Ain/2007/474-Musak, dated 27.6.2007; and finally repealed by SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008.

[54] Under section 18 of the Customs Act, three types goods are dutiable: (a) goods imported into, or exported from, Bangladesh; (b) goods brought from any foreign country to any customs-station, and without payment of duty there, transhipped or transported for, or thence carried to, and imported at, any other customs-station; and (c) goods brought in bond from one customs-station to another.

[55] As defined in sec. 2(l) of the Customs Act, "gods" means "all movable goods and includes – (i) conveyances, (ii) stores and materials, (iii) baggage, (iv) currency and negotiable instruments, and (v) electronic data." In the definition of "goods", *'electronic data'* has been included by the FA 2001. Under section 2(g), "conveyance" means any means of transport used for carrying goods or passengers such as a vessel, aircraft, vehicle or animal.

Dhaka University Institutional Repository

taxable service and any taxable service as taxable goods; and (b) provide clarification for the purpose of determining the extent of any taxable service [u/s 3(5)]. The NBR's such authority has further aggravated the criterion of distinguishing the goods from services.

Manufacturing of goods and the rendition of services are interrelated. While discussing the approach to managing quality in services and that used in manufacturing, Dean and Evans (1994) have also mentioned that "manufacturing can be seen as a set of interrelated services, not only between the company and the ultimate consumer, but within the organization" (Dean and Evans, 1994, p. 11). But according to the definition of 'producer or 'manufacturer' u/s 2(q) of the VAT Act, following activities of a person, in the nature of services, are identified as 'production' or 'manufacturing' of goods and not as 'services': printing, publication, lithography or enameling process; adding, mixing, cutting, liquefying, bottling, packaging, or repackaging; and work of an assignee or trustee, liquidator, executor or superintendent, in case of bankruptcy of any manufacturer or producer, and work of any such person who disposes of the assets of such manufacturer or producer in his capacity as an entrusted person [u/s 2(q) of the VAT Act].

Thus, "printing and publication", as activities of a producer or manufacturer, are not services. But "printing of any book or paper or printing of any title or kind" by a Printing Press (S008.10) is a services. The production of paper is classified as a good under the Customs Act and the VAT Act under Chapter 48[56] of the Customs Tariff, but the printed books are classified as goods under Chapter 49[57] of the Customs Tariff in the Customs Act, but the Printing Press (S008.10) and the Binding Firm (S008.20) are services under the VAT Act. The furniture at import stage and the domestically produced furniture at export stage are treated as goods under Chapter 94[58] of the Customs Tariff. But the local production, marketing and repair of furniture is treated as a service as Sales Center of Furniture" (S024.00), but the foreign furniture is not included in this service and hence a good. But if a procurement provider supplies the imported furniture to any government, autonomous or semi-autonomous bodies against a tender, then it shall be a service as Procurement Provider (S037.00), not as Sales Center of Furniture" (S024.00).[59] The sweetmeats and biscuits are both foodstuff and classified as goods under the Chapter 19[60] of the Customs Tariff, but the sweetmeats are treated as service under the title "Sweetmeat Store" (S022.00), but the biscuits are not treated as services. Embroidery on cloth is usually a service, since no new product is produced due to this. But under the VAT Act, this is not a service *except* the "designing

[56] Chapter 48 of the Customs Tariff is on "Paper and Paperboard; Articles of paper Pulp, of Paper or of Paperboard" (World Customs Organization, 1996b, pp. 729-761).

[57] Chapter 49 of the Customs Tariff is on "Printed Books, Newspapers, Pictures and Other Products of the Printing Industry; Manuscripts, Typescripts and Plans" (World Customs Organization, 1996b, pp. 763-772a).

[58] Chapter 94 of the Customs Tariff is on "Furniture; Bedding, Mattresses, Mattress Supports, Cushions and Similar Stuffed Furnishings; Lamps and Lighting Fittings, not elsewhere specified or included; Illuminated Signs, Illuminated Name-Plates and the Like; Prefabricated Buildings" (World Customs Organization, 1996d, pp. 1697-1707).

[59] "Sales Center of Furniture" (S024.00) means a place of sale, in exchange of consideration, of furniture self-made or made by others and the place of making and repairing such furniture shall also be included in this explanation.

[60] Chapter 19 of the Customs Tariff is on "Preparations of Cereals, Flour, Starch or Milk; Pastrycooks' Products" (World Customs Organization, 1996a, pp. 145-153).

Dhaka University Institutional Repository

or stitching of cloth for any kind of wearing apparel or outfit" done by a tailor, which is treated as a service under the title "Tailoring Shop & Tailors" (S063.00).[61]

Based on the updated definitions and explanations of the 95 taxable services given in SRO 491, it is found that there are *two* services where the word "goods" has been mentioned: Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration (S031.00); and Purchaser of Goods Auctioned (S060.00). There are *15* services including these *two* services where the word "goods" has been mentioned in 'Explanation': Warehouse (S005.10); Port (S005.20); Cold Storage (S006.00); Advertising Firm (S007.00); Indenting Firm (S014.00); Freight Forwarders (S015.10); Clearing & Forwarding Firm (S015.20); Survey Firm (S020.00); Courier & Express Mail Service (S028.00); Person, Organization or Firm Engaged in Repair or Servicing of Taxable Goods in exchange of Consideration (S031.00); Procurement Provider (S037.00); Transport Contractor (S048.00); Broadcaster of Advertisement through Satellite Channel (S054.00); Purchaser of Goods Auctioned (S060.00); and Tailoring Shop & Tailors (S063.00). There are also four services in this list, where foods or foodstuff have been mentioned: Restaurant (S001.20); Decorators & Caterers (S002.00); Community Center (S017.00) and Sweetmeat Store (S022.00). Of these *four* services, *three* (Restaurant, Caterer and Sweetmeat Store) are directly related and another *one* (Community Center) may be related to supply of goods, as the supplier of the foods or foodstuffs including drinks in case of restaurants and caterers, still they have to be treated as services. The Sales Center of Furniture (S024.00) supplies home-made furniture, but it would be a service. For making ornament of gold and silver, the silversmith and gold and silver jeweler [under "Service provided by Goldsmith & Silversmith and Gold & Silver Jeweler" (S026.00)] are not treated as producer of ornament of gold and silver, but their activities are treated as services. There are *two* construction related services [Construction Firm (S004.00); and Building Construction Firm (S010.20)], where the Construction Firm (S004.00) constructs building and the Building Construction Firm (S010.20) supplies the building constructed. However, the explicit explanations of the Construction Firm (S004.00) and the Building Construction Firm (S010.20) are least confusing or less ambiguous.

In case of a lease,[62] the transaction is related to supply of an asset, and hence, in the European Union (EU), it is treated as both a supply of good and a supply of service in different member states (Ogley, 1998, p. 68). In Bangladesh, leasing is treated as a provision of service, but the service is overlapping over three separately coded services: Land Development Firm (S010.10), Building Construction Firm (S010.20) and Leaseholder (S033.00). In case of leaseholder [Leaseholder (S033.00)], the lessee is the taxable person for "taking the lease of entering into a place or establishment or any movable property or place" and in other two cases [Land Development Firm (S010.10) and Building Construction Firm (S010.20)] the lessor is the taxable person. The Land Development Firm (S010.10) gives lease of developed land after development and the Building Construction Firm (S010.20) gives lease of building constructed, after its construction.

[61] The items of examples are borrowed from Khan (2007, pp. 816-818), but the explanations or arguments are updated and corrected along with giving the titles of the relevant chapters of the Customs Tariff.

Dhaka University Institutional Repository

Two bank-related services [Provider of Banking & Non-Banking Services (S056.00) and Credit Card Issuing Firm (S061.00)] are also overlapping. "Provider of Banking & Non-Banking Services" (S056.00) means ***all*** provision of banking or non-banking services, including letter of credit, bank guarantee, demand draft, pay order, TT, MT, commitment, handling and processing of applications and ***any other services*** (*except* services relating to purchase and sale of shares of companies listed with stock exchanges). Thus, though not specifically mentioned, it also includes "the issuance of credit card". But there is a separate service code [Credit Card Issuing Firm (S061.00)], which also means such a bank or financial institution or organization, which issues or renews credit card for facilitating financial transactions.

Some other complexities arise due to extended clarifications given by the NBR. For example, the "cellular or mobile phone" has been excluded from the service "Telephone, Teleprinter, Telex, Fax or Internet Firm" (S012.10) by an official note of the NBR,[63] since 'cellular phone or mobile phone' is different from telephone in terms of function, use not in a fixed address, and use at any place in home and abroad and may be by a person, who is different from the subscriber and hence may be kept under the possession of a person other than the subscriber. Further, the H.S. Codes are different (H.S. Code for telephone is 8517.50 and for cellular phone is 8525.20). According to another official note of the NBR, the Printing press (S008.10) includes 'dot print and laser print by computers'.[64] The service "Insurance Company" (S027.00) excludes life insurance policy, but under a General Order of the NBR, health insurance taken along with a life insurance policy is made taxable.[65] Due to these complexities, the list of taxable services may seem to be like a labyrinth or maze.[66]

In a discussion on distinguishing goods from services of VAT purpose, Khan (2007) has mentioned six stages of value addition–import stage, export stage, production stage, trade stage, procurement provider stage[67] and service stage. According to Khan (2007), at import and export stages, the service codes in the list of taxable service will not be applicable and at these stages, all the items are treated as goods under Bangladesh Customs Tariff Heading and the H. S. Code. At production and trading stages also, all the items are to be considered as goods under Bangladesh Customs Tariff Heading and the H. S. Code. But at the procurement provider stage for the supply by a procurement provider, those will be treated as services. Thus, except at import and export

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[62] According to para 4 of the IAS 17, "A *lease* is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time" (IASB, 2008).

[63] The NBR's note, dated 17.02.2004 (Hossain, 2008, pp. 337-338).

[64] The 'printing' also includes 'dot print and laser print by computers'. *Vide* File No. 2(2) Musak-3/93, dated 13.07.1996 (NBR, 2001c, p. 3000).

[65] But if any 'health service policy' is taken along with a life insurance policy, then VAT is imposable on the premium on such health service insurance (additional premium due to accidents). *Vide* the NBR's General Order No. 10/Musak/2002, dated 28.11.2002 (Khan, 2007, p. 622).

[66] Khan (2007) also has mentioned that which one is a good or which one a service is a labyrinth (Khan, 2007, p. 816).

[67] The procurement provider stage (being included in service stage) is not recognized as a separate stage in the VAT laws. In the updated list of goods and services exempted under SRO [SRO No. 188-Ain/2008/490-Musak, dated 29.6.2008], there are five tables for different stages: Table-1 for import stage, Table-2 for import and production stages, Table-3 for production stage, Table-4 for service stage, and Table-5 for trader stage. Besides there is export stage for zero-rating. Khan (2007) has identified this procurement provider stage separately for easy identification of a service, because the supply of goods by a procurement provider must be a service (Khan, 2007, p. 817-818).

Dhaka University Institutional Repository

stages, the services mentioned in the Second Schedule and the effective SRO[68] are the "services", whether there is any manufacturing process or not, and whether they are taxable or not. All the supply, irrespective of goods or services, by a procurement provider is treated as services. The residual items are goods (Khan, 2007, pp. 817-818). In the analysis of Khan (2007), there is a limitation. He has mentioned that there is no service at export stage. This is true only at customs point. Because under the VAT Act, services can be exported and the export may be direct actual export or deemed export. Thus, for export without having any physical linkage with customs point (which is essentially a deemed export), there might be services. On these grounds, two services, the Indenting Firm (S014.00) from 10.06.2004 to 10.06.2009 and the Travel Agency (S016.00) from 09.06.1994 to 10.06.2009, are fully exempted considering their activities as deemed exports.

In the European Union (EU), the supply of services is defined as 'any transaction which does not constitute a supply of goods' and by defining services as the residual items in this way, the scope of VAT is all embracing (Ogley, 1998, p. 43). But under the VAT Act of Bangladesh, this EU guideline of identifying taxable services is not similarly applicable. Rather, services should be identified first based on the exempted services mentioned in the Second Schedule, the list of taxable services given in an SRO (including the service of a procurement provider)[69] and the list of exempted services given in another SRO[70] *except* for import stage. Then the residual items are taken to be the goods, which may or may not be taxable under the VAT laws.

7.8 Some Special Issues for Renderer of Taxable Services

There are some special issues in the context of taxable services, where special attention is needed. These issues have been discussed below.

Taxable place of providing service: In the European Union (EU), the place of supply of services may be the place of establishment of the supplier, the place of establishment of the customer, and the place of performing services, in general; and in particular, the place of location of the assets in case of land related services and the place of performance of services determined by reference to the distances covered in case of transport services (Ogley, 1998, pp. 75-76). But as stated in chapter 5 (section 5.7.01), for imposition of VAT on taxable services, Bangladesh is mentioned as the place of providing services. For zero-rated services, the services are to be exported or deemed to be exported from Bangladesh, thus, here the taxable place of provision is outside Bangladesh [u/s 3(2)(a)]. However, due to non-recognition of services at import-stage, this is excluded to the extent it is not covered under the Customs Act in the name of goods. In case of withholding VAT, the place of supply of service will be governed by the location of the entities which are liable to deduct or collect VAT at sources.

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[68] SRO No. 189-Ain/2008/491-Musak, dt. 29.6.2008 (amended by SRO No. 105-Ain/2009/513-Musak, dt. 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dt. 30.6.2009), which has substituted SRO No. 170-Ain/2000/269-Musak, dt. 08.6.2000, amended by SRO No. 117-Ain/2002/342-Musak, dt. 06.6.2002, SRO No. 163-Ain/2003/371-Musak, dt. 12.6.2003, SRO No. 171-Ain/2004/417-Musak, dt. 10.6.2004, SRO No. 159-Ain/2005/450-Musak, dt. 9.6.2005, SRO No. 137-Ain/2006/465-Musak, dt. 08.6.2006, and SRO No. 129-Ain/2007/474-Musak, dt. 27.6.2007.

[69] Present effective SRO is SRO No. 189-Ain/2008/491-Musak, dated 29.6.2008 (amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009).

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Problems related to service taxation: As stated by Ogley (1998), the intangibility of services may pose special problems in case of supply of international services, such as (1) absence of policing by border or other similar controls, adoption of artificial conventions to apply VAT on the services, (2) possibility of either double taxation (if in the supplying country, taxation is on the basis of supplier's place of establishment, and in the importing country, taxation is on the basis of customer's place of establishment) or no taxation (if in the supplying country, taxation is on the basis of place of establishment of the customer, and in the importing country, taxation is on the basis of place of establishment of the supplier), (3) practical problem of enforcement in case of retaining the right to impose VAT by the importing country if the importer is a final consumer (i.e., not a VAT-registered trader), and (4) inability to enjoy the input VAT deduction and hence suffering the VAT cost by the importing customer who is a fully or partially exempt trader. Besides financial services give rise to particular problems at the domestic level because of the difficulty in defining the 'value added' in relation to them and hence, the tax base, except those financial services which involve fee/commission charge (Ogley, 1998, pp. 14-15, 93). In Bangladesh, these problems exist, but they have been taken care mainly with ad hoc measures, particularly with the TVA and also with the restrictive definition of an individual service.

Continuous services or payments on accounts: Services present problems in identifying the tax point, when the service is continuous (e.g., a contract for servicing and maintaining a computer installation), which gives rise to successive statements of account or when the payments are made on account (Ogley, 1998, pp. 68-69). But in Bangladesh, in case of taxable services, VAT is payable under an explicit provision. Under this provision, VAT on a taxable service is payable at the time of any of three activities (rendition of the service, issuance of invoice, and receipt of partial or full payment), whichever occurs first [u/s 6(3)]. Thus, in case of continuous service, the VAT is dependent on periodical bill and the payments of accounts are taxable when they are received by the provider of service.

Mixed supplies: A difficulty in VAT arises when the supply is a mixed supply, i.e., where a supply of goods also involves the provision of services. Problems also arise in relation to the mixed supply of different types of goods, where the goods are subject to different rates of tax. The issue of single supply or multiple supplies might also be an important one regarding the supplies (e.g., whether the provision of meals to airline passengers represents a separate supply of catering service or it should be considered as a mere component of a composite supply of airline transport service; the provision of sleeper accommodation on board trains should be treated as a separate supply from the provision of train transport) (Ogley, 1998, pp. 68-69). In Bangladesh, in some cases, the mixed supplies are dealt in by defining the supplies as the provision of services. For example, the restaurant (S001.20) provides service, benefit or utility and also foods or drinks, but it is a single taxable service. Decorators and Caterers (S002.00) provides different services (such as decoration, servicing of foods and entertainment) and also prepares and supplies foods or drinks, but this is a single service. Although the sweetmeat store (S022.00) is also unusually identified as a provider of services as a preparer/seller of sweetmeat or foodstuff like sweetmeat.

[70] Present effective SRO is SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008, where the exempted services are mentioned in Table-4 (Service).

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7.9 Summary

During the pre-VAT regime, the service sector taxation was very narrow-based. Under the *Excise and Salt Act 1944*, in 1990-91 (the preceding year of introduction of VAT), there were nine (9) services under excise taxation. Outside the scope of excise taxation, there were taxes on some other services such as tax on the admission fees charged by the cinema houses and advertisement tax. But there was no sales tax on any services under the *Sales Tax Ordinance 1982*. Under the *Business Turnover Tax Ordinance 1982*, there were four services subject to business turnover tax. Starting with 29 taxable services under 24 heading numbers in 1991-92, the number of taxable services increases to 95 taxable services under 73 heading numbers in 2009-10. Seventeen (17) services under 15 heading numbers are exempted by an SRO [5 services fully exempted and 12 services partially exempted]. In addition to above, there are some special exemptions of VAT on some particular five services under other SROs. Since 2005-06, in case of six services, the exemption of VAT has also been allowed for the hundred percent exporters, the hundred percent deemed exporters and the enterprises in EPZ.

The service providers of small size based on the annual turnover below the threshold limit (Taka 40 lakh in 2009-10 and Taka 24 lakh in 2008-09) can be enlisted for turnover tax (TT) to pay TT at 4 percent on turnover since 1997-98. But in 2009-10, 61 services under 49 heading numbers are under the mandatory VAT registration, irrespective of annual turnover. The VAT on taxable services is payable at the time of occurring any of three following activities first: the rendering of the service, issuance of invoice relating to the service, and the receipt of partial or full payment. Regarding the deposit of VAT to the treasury, it is within ten working days of the month following the tax period (in the case of an Insurance company 20 working days) [u/r 24(1)]. The tax period is usually a month, but from 2004-05, there are 7 services, for which the tax period is a 3-month or 6-month period. It is the case of services only, for which, the withholding VAT is applicable. Now in 2009-10, there are 27 services subject to VAT deduction or collection at sources (VDS). But here, several overriding complications often arise, when there are simultaneous provisions in the VAT Act and in the Income Tax Ordinance 1984 for deduction or collection of tax at sources (TDS). Out of twenty-seven (27) services on which VDS is applicable, for 14 services, simultaneously TDS is also applicable. In case of simultaneous deduction of VAT and income tax at source, the rate of VDS is applicable on VAT-exclusive bill for the service (value or consideration), and the TDS is applicable on VAT-inclusive bill for the service.

There are three types of tax base for taxable services: total receipts (with the input tax credit facility), truncated value addition, and tariff value (without the input tax credit facility). The "total receipts" (amount received or receivable *including* commission or charge, but *excluding* VAT or advance income tax) is the tax base for imposition of VAT on services. In case of one special situation [Indenting Firm (S014.00)], the tax-base "total receipts" was computed backwardly taking the amount received as 'tax-inclusive price'. Considering the net rates of VAT based on TVA, the service sector VAT can be said as subject to multiple rates: two rates (standard 15 percent and zero rates) with the input tax credit facility; and six net rates (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent) without the input tax credit facility.

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Since the very beginning of the VAT system, the definition of 'input' includes "services" but due to exclusion, 'labour' is not considered a service and hence not an input. The providers of taxable services are not allowed to claim any credit of input VAT, if the service providers pay VAT based on truncated value addition and tariff value and also if the invoice taken on purchase of services contains other person's registration number in place of the buyer's number. Besides when any service is used as input, in some situations, the users of the service (including a service provider) are subject to disallowance of input tax credit relating to VAT (and not supplementary duty and other taxes) paid on services such as services as are related to the construction and repair of any building or office furniture and equipment; input VAT on expenditures on travel and on entertainment; and partial amount of input VAT may be taken in respect the VAT paid on the use of insurance, telephone, teleprinter, FAX, Internet, freight forwarders and some other selective services. To claim input tax credit on any service, the cost of service is to be included in the declared price and proper invoice must be taken and maintained.

Under the VAT Act or the VAT Rules, there is no definition of 'service', but 'taxable service' has been defined as "any service not included in the Second Schedule" of the VAT Act. However, an authority of the NBR to declare any taxable goods or class of goods as taxable service and any taxable service as taxable goods; and to provide clarification for the purpose of determining the extent of any taxable service, has further aggravated the criterion of distinguishing the goods from services. Under this authority, the vatable services are defined for practical purpose of imposition of VAT in a separate list. The statutory definition of 'producer or 'manufacturer' is also responsible in creating confusion regarding the identification of some service-activities as 'production' or 'manufacturing' activities of goods and not as 'services'. In many cases, the statutory definitions of specific services are directly related to dealing with the goods, but they have to be treated as services. In some cases, the definitions are overlapping also. There are some other complexities due to extended clarifications given by the NBR.

For imposition of VAT on taxable domestic services, whole area of Bangladesh is the place of providing services. For zero-rated exported or deemed to be exported services, the place of provision is outside Bangladesh. At import stage, service-VAT is excluded and for withholding VAT, the place of supply of service will be governed by the location of the tax-deducting entities.

In Bangladesh, the common problems relating to service taxation (e.g., the problems related to the intangibility of services such as absence of policing by border or other similar controls, possibility of either double taxation or no taxation and inability to enjoy the input VAT deduction, and in case of financial services, the special difficulty in defining the 'value added' in many cases) are equally applicable, but they have been taken care mainly with ad hoc measures, particularly with the TVA and also with the restrictive definition of an individual service. When the service is continuous, which gives rise to successive statements of account or when the payments are made on account, the VAT is dependent on periodical bill and the payments of accounts are taxable when they are received by the provider of service. In case of any mixed supplies (where a supply of goods also involves the provision of services), they are mainly dealt in by defining the supplies as the provision of services.

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Chapter Appendix 7.1: Rates of Truncated Value Addition up to FY 2009-10

Service Code*	FY92 NR	FY93	FY94	FY95	FY96	FY97	FY98 SNR	FY99	FY00 SNR	FY01 SNR
S001.20	—	—	—	—	—	—	—	—	—	—
S003.10	100	100	33	33	33	33	33	33	33	33
S003.20	100	100	100	100	100	100	—	—	33	33
S004.00	100	100	100	100	100	100	30	30	30	30
S005.10**	—	—	—	—	—	—	—	—	—	—
S005.20	—	—	—	—	—	—	—	—	—	—
S006.00	—	—	—	—	—	—	—	—	—	—
S007.00	—	—	—	—	—	—	—	—	—	—
S008.10	100	100	100	100	100	100	30	30	30	30
S009.00	100	100	100	100	100	100	100	100	100	100
S010.10	100	100	100	100	100	100	33	33	33	33
S010.20	—	—	—	—	—	—	33	33	20	20
S014.00	100	100	100	100	100	100	100	100	100	100
S015.10	100	100	100	100	100	100	100	100	100	100
S015.20	—	—	—	—	—	—	100	100	—	—
S016.00	100	100	100	100	100	100	—	—	—	—
S018.00	100	100	100	100	100	100	100	100	100	100
S019.00	—	—	—	—	—	—	—	—	—	—
S020.00	100	100	100	100	100	100	100	100	100	100
S023.20	—	—	—	—	—	—	—	—	—	—
S024.00	—	—	—	—	—	—	—	—	20	40
S026.00	—	—	—	—	—	—	10	10	10	10
S028.00	—	—	—	—	—	—	—	—	—	—
S029.10	—	—	—	—	—	—	20	20	20	20
S029.20	—	—	—	—	—	—	—	20	20	20
S029.30	—	—	—	—	—	—	—	—	—	20
S030.00	—	—	—	—	—	—	—	—	20	—
S032.00	—	—	—	—	—	—	35	35	35	35
S034.00	—	—	—	—	—	—	—	—	35	35
S036.10	—	—	—	—	—	—	—	—	—	—
S036.20	—	—	—	—	—	—	100	100	100	100
S037.00	—	—	—	—	—	—	20	20	20	20
S040.00	—	—	—	—	—	—	—	30	30	30

Note: "—" means "not applicable" (i.e., no truncated value addition prescribed). FY92 means "Financial Year 1991-92", FY01 means "Financial Year 2000-01". "NR" means "new rules" prescribed for the first time. "SNR" means "substituted new rules" repealing the preceding rules.

* Service Codes are taken from the latest list of taxable services (updated up to 30.06.2009).

** Service Code S005.10 (Warehouse) was coded as S005.00 (up to 09.06.2004) before making S005.20 (Port) on 10.06.2004. There are no further changes in codification regarding the above services.

Dhaka University Institutional Repository

Chapter Appendix 7.1: Rates of Truncated Value Addition up to FY 2009-10.. *cont'd*

Service Code*	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
	NR						SNR		SNR	SNR
S041.00	—	—	—	—	—	—	20	20	15	15
S043.00	—	—	—	—	—	—	—	10	10	Deleted
S044.00	—	—	—	—	—	—	—	—	—	—
S045.00	—	—	—	—	—	—	—	—	—	—
S048.00	—	—	—	—	—	—	—	—	30	15, 30
S049.00	—	—	—	—	—	—	—	—	30	20
S050.10**	—	—	—	—	—	—	—	—	—	—
S055.00	—	—	—	—	—	—	—	—	15	15, 10
S056.00	—	—	—	—	—	—	—	—	—	—
S057.00	—	—	—	—	—	—	—	—	45, 40, 10, 50	45, 40, 10, 50
S059.00	—	—	—	—	—	—	—	—	—	—
S060.00	—	—	—	—	—	—	—	—	—	—
S061.00	—	—	—	—	—	—	—	—	—	—
S062.00	—	—	—	—	—	—	—	—	—	—
S063.00	—	—	—	—	—	—	—	—	—	—
S064.10	—	—	—	—	—	—	—	—	—	—
S064.20	—	—	—	—	—	—	—	—	—	—
S065.00	—	—	—	—	—	—	—	—	—	—
S066.00	—	—	—	—	—	—	—	—	—	—
S067.00	—	—	—	—	—	—	—	—	—	—
S068.00	—	—	—	—	—	—	—	—	—	—
S069.00	—	—	—	—	—	—	—	—	—	—
S070.00	—	—	—	—	—	—	—	—	—	—
S071.00	—	—	—	—	—	—	—	—	—	—
S072.00	—	—	—	—	—	—	—	—	—	—
S073.00	—	—	—	—	—	—	—	—	—	—

Note: "—" means "not applicable" (i.e., no truncated value addition prescribed).

FY92 means "Financial Year 1991-92", FY01 means "Financial Year 2000-01".

"NR" means "new rules" prescribed for the first time.

"SNR" means "substituted new rules" repealing the preceding rules.

"Deleted" means "deleted from the list of taxable services", but S043.00 (Trade Services) was inserted on 11.06.1998 and deleted on 08.6.2000 and is taxable in the hand of "trader" as supplier of taxable goods (not as service).

* Service Codes are taken from the latest list of taxable services (updated up to 30.06.2009).

** Service Code S050.10 (Architect, Interior Designer or Interior Decorator) was coded as S050.00 (up to 07.06.2006) before making S050.20 (Graphic Designer) on 08.06.2006. There are no further changes in codification regarding the above services.

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Chapter Appendix 7.1: Rates of Truncated Value Addition up to FY 2009-10.. *cont'd*

Service Code*	FY02	FY03	FY04[71]	FY05	FY06	FY07	FY08	FY09	FY10
		SNR	SNR	SNR				SNR	SNR
S001.20	—	—	—	—	—	—	—	—	60
S003.10	33	30	30	30	30	30	30	30	30
S003.20	33	30	30	30	30	30	30	30	30
S004.00	30	30	30	30	30	30	30	30	30
S005.10**	—	—	—	100	100	100	100	100	100
S005.20	—	—	—	100	100	100	100	100	100
S006.00	—	—	—	100	100	100	100	100	100
S007.00	—	—	100, 60	100, 60	100, 60	100, 60	100, 60	100, 60	100, 60
S008.10	30	30	30	30	30	30	30	30	30
S009.00	100	100	100	100	100	100	100	100	100
S010.10	33	—	—	—	—	10	10	10	10
S010.20	20	—	—	10	10	10	10	10	10
S014.00	100	100	100	—	—	—	—	—	100
S015.10	100	100	100	100	100	100	100	100	100
S015.20	—	—	—	—	—	—	—	—	—
S016.00	—	—	—	—	—	—	—	—	100
S018.00	100	100	100	100	100	100	100	100	100
S019.00	—	—	—	—	—	—	30	30	30
S020.00	100	100	100	100	100	100	100	100	100
S023.20	—	—	—	100	100	100	100	100	100
S024.00	20	30	30, 10	30, 10	30, 10	30, 10	30, 10	30, 10	30, 10[72]
S026.00	10	100	100	100	100	100	100	100	100
S028.00	—	—	—	100	100	100	30	30	30
S029.10	20	15	15	15	15	15	15	15	15
S029.20	20	15	—	—	—	—	15	15	15
S029.30	20	15	15	15	15	15	15	15	15
S030.00	—	—	—	—	—	—	—	—	—
S032.00	35	30	30	30	30	30	30	30	30
S034.00	35	30	30	30	30	30	30	30	30
S036.10	—	—	—	—	—	—	33.35	33.35	33.35
S036.20	100	100	100	100	100	100	100	100	100
S037.00	20	15	15	15	15	15	15	15	15
S040.00	30	30	30	30	30	30	30	30	30

Note: "—" means "not applicable" (i.e., no truncated value addition prescribed).
FY02 means "Financial Year 2001-02", FY10 means "Financial Year 2009-10".
"NR" means "new rules" prescribed for the first time.
"SNR" means "substituted new rules" repealing the preceding rules.

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* Service Codes are taken from the latest list of taxable services (updated up to 30.06.2009).

[71] From FY 2003-04, in addition to rates of truncated value addition, the net rate of VAT has also been prescribed.

** Service Code S005.10 (Warehouse) was coded as S005.00 (up to 09.06.2004) before making S005.20 (Port) on 10.06.2004. There are no further changes in codification regarding the above services.

[72] On 11.06.2009, the rate was provided at 10% which was applicable at marketing stage subject to availability of VAT invoice of paying VAT at the rate of 15% at production stage (SRO No. 114-Ain/2009/522-Musak, dated 11.6.2009). From FY 2004-05 to FY 2008-09, 30% rate was at production stage and 10% at marketing stage. On 30.06.2009, the rates applicable in FY 2008-09 have been reinstated as 30% at production stage and 10% at marketing stage (SRO No. 179-Ain/2009/532-Musak, dated 30.6.2009).

Dhaka University Institutional Repository

Chapter Appendix 7.1: Rates of Truncated Value Addition up to FY 2009-10.. *cont'd*

Service Code*	FY02	FY03	FY04[73]	FY05	FY06	FY07	FY08	FY09	FY10
		SNR	SNR	SNR				SNR	SNR
S041.00	10	15	Deleted	Deleted	Deleted	Deleted	Deleted	Deleted	Deleted
S043.00	Deleted	Deleted	Deleted	Deleted	Deleted	Deleted	Deleted	Deleted	Deleted
S044.00	—	—	—	—	—	—	30	30	Deleted
S045.00	—	—	—	—	—	—	30	30	30
S048.00	15, 30	15, 30	15, 30	15, 30	15, 30	15, 30	15, 30	15, 30	15, 30
S049.00	20	30	30	30	30	30	30	30	30
S050.10**	—	30	30	30	30	30	30	30	30
S055.00	15, 10	—	—	—	—	—	—	—	—
S056.00	—	—	—	100	100	100	100	100	100
S057.00	45, 40, 10, 50	33.35	33.35	33.35	33.35	33.35	33.35	33.35	33.35
S059.00	—	100	100	100	100	100	100	100	100
S060.00	—	—	10	10	10	10	10	10	10
S061.00	—	—	100	100	100	100	100	100	100
S062.00	—	—	100	100	100	100	100	100	100
S063.00	—	—	30	30	30	30	30	30	30
S064.10	—	—	—	30	30	30	30	30	30
S064.20	—	—	—	30	30	30	30	30	30
S065.00	—	—	—	15	15	15	15	15	15
S066.00	—	—	—	100	100	100	100	100	100
S067.00	—	—	—	—	—	—	30	30	30
S068.00	—	—	—	—	—	—	30	30	30
S069.00	—	—	—	—	—	—	30	30	30
S070.00	—	—	—	—	—	—	30	30	30
S071.00	—	—	—	—	—	—	—	—	30
S072.00	—	—	—	—	—	—	—	—	30
S073.00	—	—	—	—	—	—	—	—	30

* Service Codes are taken from the latest list of taxable services (updated up to 30.06.2009).

** Service Code S050.10 (Architect, Interior Designer or Interior Decorator) was coded as S050.00 (up to 07.06.2006) before making S050.20 (Graphic Designer) on 08.06.2006.

Note: "—" means "not applicable" (i.e., no TVA prescribed). "NR" means "new rules" prescribed for the first time. FY02 means "Financial Year 2001-02". "SNR" means "substituted new rules" repealing the preceding rules. "Deleted" means "deleted from the list of taxable services", but S043.00 (Trade Services) was inserted on 11.6.98 and deleted on 8.6.2000 and is taxable in the hand of "trader" as wholesale supplier of taxable goods (not as service). S041.00 (Sales Center of Readymade Garments) inserted on 11.6.98 and deleted on 12.6.2003.

Sources: Compiled from relevant SROs representing the *Special Rules to fix the Truncated Rate of Value Addition.*[74]

[73] From 2003-04 (FY04), in addition to rates of truncated value addition, the net rate of VAT has been prescribed under SRO No. 164-Ain/2003/372-Musak, dated 12.06.2003.

[74] (1) *Imposition of Tax on the Basis of Actual Value in Case of Specified Services (Special) Rules 1991* (SRO No. 192-Ain/91/16-Musak, dt. 30.6.1991; w.e.f. 1.7.1991) [amended by SRO Nos. 45-Ain/92/48-Musak, dt. 26.2.92; 213-Ain/93/81-Musak, dt. 7.9.93; and 93-Ain/97/149-Musak, dt. 6.4.97]. (2) Same *Rules 1997* (SRO No. 136-Ain/97/153-Musak, dt. 12.6.97) [amended by SRO Nos. 119-Ain/98/180-Musak, dt. 11.6.98; 54-Ain/99/200-Musak, dt. 10.3.99; 63-Ain/99/203-Musak, dt. 23.3.99; and 97-Ain/99/210-Musak, dt. 4.5.99]. (3) Same *Rules 1999* (SRO No. 134-Ain/99/215-Musak, dt. 10.6.99) [amended by SRO Nos. 214-Ain/99/236-Musak, dt. 15.7.99; 231-Ain/99/237-Musak, dt. 1.8.99; 317-Ain/99/246-Musak, dt. 19.10.99; 3-Ain/2000/253-Musak, dt. 11.1.2000; and 125-Ain/2000/263-Musak, dt. 11.5.2000]. (4) Same *Rules 2000* (SRO No. 168-Ain/2000/267-Musak, dt. 08.6.2000) [amended by SRO No. 85-Ain/2001/303-Musak, dt. 9.4.2001, and SRO No. 146-Ain/2001/311-Musak, dt. 07.06.01]. (5) Same *Rules 2002* (SRO No. 116-Ain/2002/341-Musak, dt. 12.6.02). (6) Same *Rules 2003* (SRO No. 164-Ain/2003/372-Musak, dt. 12.06.03). (7) *Imposition of Tax on the Basis of Actual Value in Case of Specified Services Rules 2004* (SRO No. 173-Ain/2004/419-Musak, dt. 10.06.04) [amended by SRO Nos. 136-Ain/2006/464-Musak, dt. 8.6.06, and 130-Ain/2007/475-Musak, dt. 27.6.07]. (8) Same *Rules 2008* (SRO No. 197-Ain/2008/499-Musak, dt. 29.06.2008). (9) Same *Rules 2009* (SRO No. 114-Ain/2008/522-Musak, dt. 11.6.09, amended by SRO No. 179-Ain/2009/532-Musak, dt. 30.6.09).

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CHAPTER EIGHT
ADMINISTRATIVE ASPECTS OF VAT IN BANGLADESH

8.01 Introduction

As applicable in any tax administration, the goal of VAT administration is "to promote voluntary compliance" by VAT taxpayers (de Jantscher and Silvani, 1991, p. 30). With respect to VAT administration in developing countries, the conclusion of de Jantscher is noteworthy: "Experience with the VAT shows ... that in developing countries tax administration *is* tax policy" (de Jantscher, 1990, p. 179). Because "Governments seem to regard fiscal policy as "their" policy within the mix of macro policies" (Shome, 1995b, p. 3). The main aspects of VAT administration include taxpayer identification, filing and processing of returns, control of stopfilers (i.e., taxpayers who have previously filed but have omitted filing for a particular period), control of delinquent accounts, making of refunds, audit of taxpayers, and levy of penalties for noncompliance (de Jantscher and Silvani, 1991, p. 30; de Jantscher, 1990, pp. 175-176). All aspects of VAT administration should be designed with an object to enhance the *voluntary* compliance. Swift detection of stopfilers, broad audit coverage, and levying appropriate penalties are particularly helpful in this regard, if supplemented by appropriate programs to assist taxpayers to comply with VAT. The VAT administration should be *efficient* with a low collection costs, as well as *effective* in deterring noncompliance (de Jantscher and Silvani, 1991, p. 30).

In Bangladesh, tax administration on VAT is typically organized around collection, auditing, appeals and computing systems (Islam, 1997, p. 46). Following is a brief outline on various aspects of VAT administration.

8.02 VAT Authorities and Their Appointment

The VAT administration centrally lies with the VAT Wing of the National Board of Revenue (NBR), which is under the overall indirect tax administration of the Government. In 1990-91, the import-stage sales tax was collected by the Customs Authority [u/s 6(2) of the Sales Tax Ordinance 1982] (GOB, 1982b); and the BTT (business turnover tax) was collected by the income tax official being the Collector of Turnover [u/s 13(3) of the Business Turnover Tax Ordinance, 1982] (GOB, 1982a). But after the introduction of the VAT, its authority has been assigned totally to the Customs and Excise Department of the NBR. And the administration of VAT started with the assignment of introducing VAT in Bangladesh on the Member (Excise), NBR, when Mr. Shah Abdul Hannan[1] was transferred from Member (Customs) to Member (Excise) in the middle of 1989. According to Hannan (2004), his posting as Member (Excise) for the introduction of VAT was due to the reason that "this was mainly an initiative for changing the excise system of the country, although as a result of this, sales tax was repealed" (Hannan, 2004, p.11).

[1] Mr. Shah Abdul Hannan was the Chairman of the NBR from 12.02.1997 to 15.02.1998 (NBR, 2009, p. 3).

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Under section 20 of the VAT Act, the National Board of Revenue (NBR) appoints the 12 types of VAT officials with 13 specific designations–12 designations of Class I post [Commissioner, Commissioner (Appeals), Director General, Additional Commissioner, Additional Director General, Joint Commissioner, Director, Deputy Commissioner, Deputy Director, Assistant Commissioner, Assistant Director, Superintendent], and 1 designation of Class II post (Inspector)–and "any Officer of Value Added Tax with any other designation" for a specified jurisdiction through Official Gazette Notification. But this appointment is for recruited public servants and the recruitment in public service is mainly done through the Bangladesh Public Service Commission (BPSC) through an open competitive examination (popularly known as BCS Examination). The Class I officers recruited through BCS examination belong to the BCS cadre/cadre officers. The Ministry of Establishment (MOE) is the sole authority to give final appointment of BCS cadre officials recommended by the BPSC (Karim, 2008, p. 5).

There are two *general cadres* for tax-related recruitment through BCS Examination by the BPSC: *BCS (Customs & Excise)* and *BCS (Taxation)*. The designation of the newly recruited public servant is *Assistant Commissioner of Customs & Excise* in BCS (Customs & Excise) cadre[2] and *Assistant Commissioner of Taxes* in BCS (Taxation) cadre.[3] Hence, there is no BCS cadre specifically meant for VAT. But due to its implementation by the excise officials, particularly under the leadership of the then Member (Excise) of the NBR (Hannan, 2004, p.11), the newly recruited Assistant Commissioners under BCS (Customs & Excise) cadre belong to the VAT administration as well as customs and excise administration. From 1 October 1995, when the Appellate Tribunal constituted under the Customs Act has been given the responsibility of disposing some of the appeals against higher appellate or administrative authority under the VAT laws and the Excise and Salt Act, the common Appellate Tribunal (Customs, Excise and Value Added Tax Appellate Tribunal) has been formed (the *Finance Act 1995*) and since then the consolidation of customs, excise and VAT has been formalized into a legal shape. Some posts at the rank of Assistant Commissioner may be filled in through promotion of those employees appointed as non-gazetted ones through the BPSC or the NBR.

Since the Customs, Excise and VAT authorities exercise their powers and perform their official duties from the same office but with prescribed job assignments according to office orders under the three tax statutes (the Customs Act, the Excise and Salt Act and the Value Added Tax Act), their designations vary under these statutes. The current statutory designations under these statutes are shown in Table 8.01. From 1995-96, the designation "Collector" used as a long tradition in the Customs and Excise Departments to distinguish from the "Commissioner" under the (Direct) Taxes Department, has been changed as "Commissioner" by the Finance Act 1995.

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[2] The number of sanctioned posts in BCS (Customs and Excise) cadre was 171 as mentioned in the NBR's *Annual Report 1992-93* and *Annual Report 1993-94*, against which there were employment of 117 officials in 1992-93 and 119 in 1993-94 (NBR, 1994, p. 50; NBR, 1995, p. 52).

[3] *Vide* http://en.wikipedia.org/wiki/Bangladesh_Civil_Service, accessed 11.09.2009.

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Table 8.01: Statutory Designations of Customs, Excise and VAT Officials

Customs Authority	Excise Authority	VAT Authority
(1) Commissioner of Customs; (2) Commissioner of Customs (Appeal); (3) Commissioner of Customs (Bond); (4) Commissioner of Customs (Valuation and Internal Audit); (5) Director General (Customs Intelligence and Investigation); (6) Director General (Inspection); (7) Director General (Duty Exemption and Drawback); (8) Director General (Training); (9) Director General, Central Intelligence Cell;* (10) Additional Commissioner of Customs or an Additional Director General; (11) Joint Commissioner of Customs or a Director; (12) Deputy Commissioner of Customs or a Deputy Director; (13) Assistant Commissioner of Customs or an Assistant Director; (14) an Officer of Customs with any other designation.	(1) Commissioner of Excise; (2) Commissioner (Appeal); (3) Additional Commissioner of Excise; (4) Joint Commissioner of Excise; (5) Deputy Commissioner of Excise; (6) Assistant Commissioner of Excise; (7) an Excise Officer with any other designation.	(1) Commissioner, Value Added Tax; (2) Commissioner (Appeals), Value Added Tax; (3) Commissioner, Large Taxpayer Unit, Value Added Tax; (4) Director General, Central Intelligence Cell;* (5) Director General, Audit, Intelligence and Inspection Directorate, Value Added Tax; (6) Director General, Duty, Exemption and Drawback Office, Value Added Tax; (7) Additional Commissioner or Additional Director General, Value Added Tax; (8) Joint Commissioner or Director, Value Added Tax; (9) Deputy Commissioner or Deputy Director, Value Added Tax; (10) Assistant Commissioner or Assistant Director, Value Added Tax; (11) Superintendent, Value Added Tax; (12) Inspector, Value Added Tax; or (13) any Officer of Value Added Tax with any other designation.

* Enacted from 2007-08 through insertion by the Finance Ordinance 2007.

Sources: The *Customs Act 1969*, the *Excise and Salt Act 1944* and the *Value Added Tax Act 1991* (updated by the latest Finance Act 2009).

Recently, the excise designation is almost merged with the VAT designations, because only the VAT officials are authorized to collect excise duties on the prescribed services, where the two service providers (banks and airlines) are under the control of VAT authority for a long time [from 1999-2000, "Provider of Banking & Non-Banking Services (S056.00)[4] and "Transport Contractor" (S048.00) including air-transport and from 2000-01, "Chartered Plane or Helicopter Rental Firm" (S058.00)]. When the Large Taxpayer Unit (LTU-VAT) was established on 23 September 2004 with a total of 154 units from Dhaka (North) and Dhaka (South) Customs, Excise and VAT Commissionerates (Khan, 2005, p. 664), GMG Airlines registered with Dhaka (North) Commissionerate was shifted to the LTU-VAT Commissionerate. But Dhaka (North) Commissionerate declined to deposit the excise duty collected from GMG Airlines under the disposal of the LTU-VAT, since u/s 8D, the LTU-VAT was given the authority of collection of VAT only. Then section 8D has been amended by the Finance Ordinance 2008 to give the LTU-VAT an authority to collect SD and excise duty in addition to VAT (but not turnover tax) from 2008-09.[5] Thus, the VAT Act is directly being used now to collect excise duty from large taxpayers registered under the LTU-VAT throughout the country.

[4] Initially as "Provider of Letter of Credit Service" (1999-2000 to 2001-02) and then as "Provider of Banking Services" (2002-03 and 2003-04) and then from 2004-05 as "Provider of Banking and Non-Banking Services").

[5] Information provided by Mr. Ahmed Munirus Saleheen, Joint Commissioner in a personal interview on 05.04.2009.

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The Government has the following organizational staffing for tax administration according to the information published on April 6, 2009 (Table 8.02):

Table 8.02: Categories of Employees in Tax Administration in FY 2007-08

Sl. No.	Class	Number of Posts in											
		NBR Head Office			Direct Tax Field Administration			Indirect Tax Field Administration			Overall Tax Administration		
		S	E	V	S	E	V	S	E	V	S	E	V
1.	Class I	111	93	18	513	370	143	689	575	114	1313	1038	275
2.	Class II	0	0	0	142	122	20	2162	1446	716	2304	1568	736
3.	Class III	246	170	76	2901	2474	427	4345	2577	1768	7492	5221	2271
4.	Class IV	105	92	13	1695	1383	312	389	311	78	2189	1786	403
	Total	**462**	**355**	**107**	**5251**	**4349**	**902**	**7585**	**4909**	**2676**	**13298**	**9613**	**3685**
	% of S	100.0	76.8	23.2	100.0	82.8	17.2	100.0	64.7	35.3	100.0	72.3	27.7

Note: 'S' for Sanctioned Posts. 'E' for Employed Posts. 'V' for Vacant Posts.

Source: NBR (National Board of Revenue) (2009), *Annual Report 2007-2008* (Dhaka: Research and Statistics Wing, NBR, April 6), p. 62.

Thus, the tax administration is highly affected by a significant number of vacant posts (around 28 percent of the overall sanctioned posts). There is no separate statistics for the administration of value added tax. The Customs, Excise and VAT Department has 7,585 sanctioned posts (2,851 officials of Class I and Class II and 4,734 support staff of Class III and Class IV), against which 4,909 employees (2,021 officials and 2,888 support staff) are working in the field level Customs, Excise and VAT offices and thus 29 percent of the post of officers and 39 percent post of the support staffs are vacant with an overall vacancy of about 35 percent of the sanctioned posts. In comparison to (Direct) Taxes Department, about 44 percent higher posts have been sanctioned at filed level Customs, Excise and VAT administration. In 2007-08, the direct tax and indirect tax collection was in proportion of 26:74 (NBR, 2009), but the total sanctioned posts in the Taxes Department and the Customs, Excise and VAT Department are in the ratio of 41:59 (at officer level 19:81 and at support staff level 49:51). However, the rate of vacancy in the Customs, Excise and VAT Department is more (35 percent of the sanctioned posts, with 29 percent at officer level and 39 percent at support staff level) than in the Taxes Department (17 percent of the sanctioned posts, with 25 percent at officer level and 16 percent at support staff level). Approximately half of the NBR administration is related to the Customs, Excise and VAT Department, where the rate of vacancy is also mentionable (23 percent of the sanctioned posts, with 16 percent at officer level and 25 percent at support staff level). Table 8.03 has shown the proportion of vacant posts as a percent of sanctioned post at different time intervals. Except for Class II officials (not working in the NBR Head Office), the employment rate has been significantly deteriorating over the years. Due to some legal barrier on direct recruitment by the NBR, this crisis of vacancy is acute, but recently, a good number of Inspectors (Class II) have been appointed through promotion from their Class III ranks and the situation of Class II has been improved, worsening the situation of Class III employees (*The Financial Express*, 26.8.2009). But the fact is that over 400 inspectors were promoted with under-qualification from their earlier low-rank post, since new recruitment was barred in the past 25 years due to pending court cases (*The Financial Express*, August 26, 2009).

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Table 8.03: Vacant Posts (as % of Sanctioned Posts) in Tax Administration

(Figures in percentage)

Sl. No.	Class	NBR Head Office			Direct Tax Field Administration			Indirect Tax Field Administration			Overall Tax Administration		
		1998 -99	2002 -03	2007 -08	1998 -99	2002 -03	2007 -08	1998 -99	2002 -03	2007 -08	1998 -99	2002 -03	2007 -08
1.	Class I	17.5	17.5	16.2	18.1	18.1	27.9	16.3	29.7	16.5	17.3	23.0	20.9
2.	Class II	--	--	--	35.1	35.1	14.1	11.4	47.9	33.1	13.5	41.5	31.9
3.	Class III	12.7	12.7	30.9	11.2	11.2	14.7	38.1	15.9	40.7	27.4	13.4	30.3
4.	Class IV	7.9	7.9	12.4	10.3	10.3	18.4	32.1	15.6	20.1	16.2	12.7	18.4
	Total	**12.7**	**12.7**	**23.2**	**12.4**	**12.4**	**17.2**	**29.0**	**18.4**	**35.3**	**22.1**	**15.2**	**27.7**

Source: *Annual Reports* of the NBR for 1998-99, 2002-2003 and 2007-2008 (NBR, 2000; NBR, 2005; NBR, 2009).

8.03 Tax Jurisdictions under the VAT Systems

The overall VAT administration lies with the apex authority at the National Board of Revenue (NBR) level as well as with various field level organizations. The comparative positions of these offices may be shown as follows (Table 8.04):

Table 8.04: Layers of VAT Administration

Division (*Bivag*)/the NBR[6]	Field Level VAT Offices[7]
• Internal Resources Division (IRD) headed by the Secretary (or Acting Secretary) • National Board of Revenue (NBR) headed by a Chairman (*ex-officio* Secretary of the IRD)	——
• Wing (*Anubivag*) headed by a Joint Secretary or an Additional Secretary	• Directorate/Department/Office (*Paridaptar/ Adhidaptar*) headed by a Director General (in the rank of a Joint Secretary) • Commissionerate Office headed by the Commissioner (in the rank of a Joint Secretary)
• Branch (*Adhishakha*) headed by a Deputy Secretary or an Officer of equivalent rank • Section (*Shakha*) headed by an Assistant Secretary/Senior Assistant Secretary	• Divisional Office headed by Deputy Commissioner (in the rank of a Deputy Secretary) or Assistant Commissioner (in the rank of a Assistant Secretary)
——	• Circle Office headed by Superintendent (in the rank of a Class 1 Gazetted Official)

It is to be noted that the Public Administration Reform Commission (PARC) in their report (2001) has enumerated 231 organizations of the Government and the NBR has been enumerated as the 26th organization in the list and shown under the Ministry of Finance (MOF) and the Internal

[6] Ministries and Divisions are collectively known as Secretariat. There is little difference between the Ministry and the Division, only difference is that a Ministry may consist of one or more Divisions, the head of which is one Minister/Deputy Ministry. For the purpose of operation, the Ministry/Division may be structurally divided into Directorates/Departments, various Wings, Branches and Sections. The Directorates and the Departments implement policies determined by the Ministries and the Divisions, maintains technical information and advises the Ministries/Division on technical subjects. A Directorate (*Adhidaptar*) is a larger unit than a Department (*Paidaptar*). The head of a Directorate (*Adhidaptar*) is a Director General and the head of a Department (*Paidaptar*) is a Director. Any subordinate office is a regional unit of a Directorate (*Adhidaptar*) and that works as a field level organization of the Directorate (*Adhidaptar*) (PARC, 2000a, p. 51).

[7] The parallel 3 layers of the (Direct) Taxes Department are as follows: (1) Tax Zone headed by the Commissioner of Taxes, (2) Tax Range headed by Joint Commissioner of Taxes or Additional Commissioner of Taxes, and (3) Tax Circle headed by Deputy/Assistant Commissioner of Taxes or Extra Assistant Commissioner of Taxes.

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Resources Division (IRD) has been shown just as the preceding organization (25th) in that list under the same Ministry (PARC, 2000c, p. 15) and hence the NBR is not subordinate to the IRD. In addition to the IRD, the MOF has other two divisions: the Finance Division (FD) finalizing the budget documents, and the Economic Relations Division (ERD) preparing the aid memorandum and development programs. Domestic resource projections including the taxation proposals are made by the NBR and the IRD (Hussain, 2003, pp. 305-306). Thus, the NBR, an organ of the Ministry of Finance, lies at the apex of the whole revenue organization (TEC, 1979, p. 180). The NBR was constituted by the National Board of Revenue Order, 1972. Up to end of May 2008, the NBR is to consist of such number of members as may be appointed by the Government and one of them is to be its Chairman. On 21 April 1979, when the IRD was established in the MOF through Gazette notification, a provision was made to make the Secretary of IRD as the *ex-officio* Chairman of the NBR.[8] But the required amendment was not done in the NBR Order to give the Government the authority to directly appoint a secretary as the chairman of the NBR. The appointment of Mr. Badiur Rahman, as Secretary, IRD and the Chairman of the NBR, without any appointment as a member of the NBR, was declared illegal by the High Court Division (HCD) in the verdict of the case *Iqbal Hasan Mahmood vs. Government of Bangladesh* [judgment on 05.12.2007] (*The Dhaka Law Reports*, Vol. 60, 2008, pp. 125-127). Possibly, due to this verdict of the HCD, the Government took initiative to promulgate the National Board of Revenue (Amendment) Ordinance 2008[9] by the President on 1.6.2008, with retrospective effect from 21.4.1979, the date establishment of the IRD, to amend the NBR Order to appoint a Government Secretary as the NBR Chairman. The importance of the organization of the NBR in the scheme of Government is significant due to its responsibility of raising around 95 percent of total taxes and 77 percent of total tax and non-tax revenues (Table 8.05).

Table 8.05: Regime-wise NBR-Tax as a Percentage of Total Taxes and Revenues

Regime by Financial Year (FY)	As a percentage of	
	Total Tax	Total Revenue
Pre-VAT Regime (1972-73 to 1990-91)	93.08	78.06
Post-VAT Regime (1991-92 to 2009-10)	94.90	76.82
Overall 38 years (1972-73 to 2009-10)	94.74	76.93

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on NBR's *Annual Report 2007-2008* (NBR, 2009) and GOB (2009a; 2009b).

Under the leadership of the Chairman, from 1994-95, there are 5 Wings[10] of the NBR headed by one or more Members (in the rank of an Additional Secretary): (i) Administration Wing, (ii) Customs Wing, (iii) VAT Wing, (iv) Income Tax Wing, and (v) Research and Statistics Wing.

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[8] The information on establishment of the IRD has been given by Mr. Aminur Rahman, while working as the Director General, Central Intelligence Cell, NBR on 26.06.2009 in a personal interview.

[9] The National Board of Revenue (Amendment) Ordinance 2008 [Ordinance No. 25 of 2008] was repealed by the National Board of Revenue (Amendment) Act 2009 [Act No. 12 of 2009] with same content and effect, published in the official Gazette on February 24, 2009.

[10] In 1989-90, there were 3 Wings of the NBR: Customs and Excise, Taxes, and Administration (World Bank, 1989b, p. 50). As evidenced from the use of designation by the NBR officials engaged in the implementation of VAT, probably from October 1991, the separate VAT Wing was created (NBR, 2001b; and NBR, 2001c). In 1994-95, the Research and Statistics (R&S) Section was upgraded to the R&S Wing (NBR, 1995; NBR, 1996b). Thus, there were 4 Wings in the NBR over 1991-92 to 1993-94 and from 1994-95, the NBR has 5 Wings.

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However, from 2006-2007, there are 8 members for the management of these Wings.[11] Of them, 4 are for direct taxes: a. Member (Tax Administration and Monitoring), b. Member (Income Tax Policy), c. Member (Tax Survey and Inspection), and d. Member (Tax Appeal and Exemption); 3 for indirect taxes (customs, excise and VAT): a. Member (Customs and VAT Administration), b. Member (Customs), and c. Member (VAT), and the remaining one is for overall administration of the NBR: Member (Board Administration)[12] (NBR, 2009a, p. 1). The five Wings are under the authorities of the eight Members who are under the control of the Chairman (Table 8.06).

Table 8.06: The NBR's Members in Charge of the Wings

Wings of the NBR	Members of the NBR in Charge of the Wings
(1) Administration Wing	Member (Board Administration)
(2) Customs Wing	Member (Customs and VAT Administration) Member (Customs)
(3) VAT Wing	Member (Customs and VAT Administration) Member (VAT)
(4) Income Tax Wing	Member (Tax Administration and Monitoring) Member (Income Tax Policy) Member (Tax Survey and Inspection) Member (Tax Appeal and Exemption)
(5) Research and Statistics Wing[13]	This wing is headed by a Director who is reportable to the Member (Board Administration).

Except the Chairman of the NBR and two members [Member (VAT), and Member (Customs and VAT Administration)], there are five (5) First Secretaries and twelve (12) Second Secretaries who are directly related to VAT administration and management. Under the supervision of the Member (Customs and VAT Administration), there are 1 First Secretary and 3 Second Secretaries: (a) First Secretary (Customs and VAT Administration); (b) Second Secretary (Customs and VAT Administration-1); (c) Second Secretary (Customs and VAT Administration-2); and (d) Second Secretary (Customs and VAT Administration-3). Besides under the supervision of the Member (VAT), there are 9 VAT related Branches headed by 4 First Secretaries, who are assisted by 9 Second Secretaries as follows (Table 8.07):

The evolution of the overall Customs, Excise and VAT administration outside the NBR Head Office but including the Central Intelligence Cell (CIC), which is under the direct control of the Chairman of the NBR is shown in Table 8.08. As shown in table 8.08, in 1992-93, 3 Customs Houses (CH) at Chittagong, Dhaka and Mongla and 5 Customs, Excise and VAT (CEV) Commissionerates (COMT) at Dhaka, Rajshahi, Chittagong, Khulna and Jessore were in charge of revenue collection from customs duty, excise duty and taxes under the VAT Act.

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[11] No. of Members was 4 (2 for direct taxes and 2 for indirect taxes) in April 1979 (TEC, 1979, p. 181), 5 (2 for direct taxes and 3 for indirect taxes) in October 1989 (World Bank, 1989b, p. 50), 8 (4 for direct taxes and 4 for indirect taxes) in 1992-93 (NBR, 1994, p. 1) and 9 (4 for direct taxes and 5 for indirect taxes) from 1993-94 to 2004-05. However, the sanctioned number of Member post is 9 (the NBR's *Annual Reports 1993-94 to 2004-05*).

[12] This is a common post for both direct taxes and indirect taxes, but since the post is usually occupied by the indirect tax officials, in the NBR's *Annual Report of 2007-2008*, this post has also been mentioned as under the indirect taxes (NBR, 2009a, p. 1). But there are instances, that the post was earlier occupied by officials from the Taxes Department (*vide* personal interview with Mr. R. K. Bhowmik, Additional Commissioner of Taxes, on 18.09.2009).

[13] In the first two annual reports of the NBR (*Annual Report 1992-93* published on 1.1.1994 and *Annual Report 1993-94* published on 1.1.1995), the Research and Statistics Section (*Gobeshana O Parisangkhyan Shakha*) of the NBR was mentioned as the publisher (NBR, 1994; NBR, 1995). The other annual reports (*Annual Report 1994-95* published on 5.6.1996 to the latest *Annual Report 2007-2008* published on 6 April 2009) have been published by the Research and Statistics Wing (*Gobeshana O Parisangkhyan Anubibhag*) of the NBR (NBR, 1996b; NBR, 2009).

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Table 8.07: VAT Branches in the NBR and their Officials

VAT Branch	First Secretary	Second Secretary
Policy and Budget	First Secretary (VAT–Policy and Budget)	Second Secretary (VAT–Policy and Budget)
Monitoring and Statistics	-do-	Second Secretary (VAT–Monitoring and Statistics)
Implementation (Goods)	First Secretary (VAT–Implementation)	Second Secretary [VAT–Implementation (Goods)]
Implementation (Services) and Excise	-do-	Second Secretary [VAT–Implementation (Services) and Excise]
Drawback and Training	First Secretary (VAT–Drawback and Project)	Second Secretary (VAT–Drawback and Training)
Project and Planning	-do-	Second Secretary (VAT–Project and Planning)
Registration, Public Relations and Reward	First Secretary (VAT–Registration, Audit and Law)	Second Secretary (VAT–Public Relations and Registration)
Audit and Complaints	-do-	Second Secretary (VAT–Audit and Complaints)
Law and Justice	-do-	Second Secretary (VAT–Law and Justice)

Source: Order No. 12(2) Musak Policy and Budget/2003/415, dated 12.10.2005; and the *Citizens Charter* of the NBR; *vide* NBR, 2008b.

Table 8.08: Number of Offices for VAT Administration (other than NBR)

Financial Year	Under NBR								Under IRD	
	Domestic								Foreign (Policy Related)	Domestic Auxiliary
	Revenue Related			Auxiliary						
	Field Level			HO		Field Level				
	CH	COMT	LTU	DRT	CIC	COMT	DRT	Office*	CCC	CEVAT
1992-93	3	5	--	1	--	1[a]	4	1	1	--
1993-94	3	6	--	1	--	1[a]	4	1	1	--
1994-95	3	6	--	1	--	1[a]	4	1	1	--
1995-96 to 1999-2000	3	6	--	1	--	1[a]	4	1	1	1
2000-01 to 2002-03	4	8[b]	--	1	--	1[a]	4	1	1	1
2003-04	4	8	--	--[d]	--	2[c]	3	--[e]	1	1
2004-05	4	8	1	--	1[e]	2	3	--	1	1
2005-06	4	8	1	--	1	2	3	--	1	1
2006-07 to 2007-08	5	8	1	--	1	2	3	--	1	1
2008-09	5	8	1	--	1	2	4	--	1	1

CCC = Customs Cooperation Council at Brussels, Belgium; CH = Customs House; CIC = Central Intelligence Cell
CEVAT = Customs, Excise and VAT Appellate Tribunal; COMT = Commissionerate
DRT = Directorate; HO = Head Office; LTU = Large Taxpayer Unit, VAT

* In the Annual Reports, this is mentioned as "*Shulka Mulyan Bivag, Chattagram*" in Bangla (NBR, 1996b, p. 18), but it was reported as "Office of the Controller of Customs Valuation, Chittagong" by the PARC (PARC, 2000c, p. 15) and thus "Office" here is used to mean "Customs Valuation Office, Chittagong".

[a] Appeal Commissionerate at Chittagong from 1992-93 to 2007-08.

[b] Including Customs Bond Commissionerate, Dhaka from 2000-01 to 2007-08.

[c] "Customs Valuation and Audit Commissionerate, Dhaka" was created in 2003-04 after abolishing "Customs Valuation Office, Chittagong" and renamed as "Customs Valuation and Internal Audit Commissionerate, Dhaka" in 2004-05.

[d] "Complaints (Investigation) Directorate" was in the NBR for investigating and mitigating complaints against any direct or indirect taxes, which was abolished in 2003-04.

[e] From 2004-05, the post of "Director General, Central Intelligence Cell" was enacted in the Income Tax Ordinance by the Finance Act 2004. "Central Intelligence Cell" of the NBR was specifically mentioned in section 7 of the Customs Act in 2005-06 and 2006-07. However, from 2007-08, the post of "Director General, Central Intelligence Cell" has been incorporated in the VAT Act (in section 20) and the Customs Act (in section 7).

Sources: The NBR's *Annual Reports 1992-93 to 2007-08* and website of the NBR (www.nbr-bd.org, accessed 15.9.2009).

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The Customs Houses are responsible to collect taxes at border stages only (customs duty under the Customs Act, SD and VAT under the VAT Act, IDSC u/s 7 of the Finance Act 1997 from 1997-98 to 2006-07, and AIT under the Income Tax Ordinance, but **not** TT under the VAT Act). The CEV Commissionerates are responsible to collect local stage taxes (SD, VAT and TT under the VAT Act; and excise duty under the Excise and Salt Act). In 1992-93, under the Customs, Excise and VAT administration, there were also other 5 Directorate-level administrative units (three directorates, one *paridaptar* and one training academy), one Commissionerate and 1 customs valuation office in Bangladesh and one foreign office in Belgium. Since 2008-09, the customs, excise and VAT administration consists of 23 administrative units (22 under the NBR and 1 under the IRD; 22 local and 1 foreign, of the local units 14 are related to revenue collection). If the regional distribution of the above 22 local Customs, Excise and VAT offices is checked, then the regional disparity is visible as shown in Table 8.09. The indirect tax administration is highly centralized at Dhaka, Chittagong and to some extent at Khulna Diviions and no higher-level office at Barisal Davison. But under these administrative units, particularly under 8 VAT Commissionerates, there are 30 Divisional Offices and 112 Circle Offices (NBR, 2008b).

Table 8.09: Regional Distribution of Customs, Excise and VAT Offices

Division	Revenue Related			Auxiliary		Total
	CH	COMT	LTU	COMT	DRT	
Dhaka	1	3	1	1	4	10
Chittagong	2	1	--	1	2	6
Khulna	2	2	--	--	--	4
Sylhet	--	1	--	--	--	1
Rajshahi	--	1	--	--	--	1
Barisal	--	--	--	--	--	0
Total	5	8	1	2	6	22
CH = Customs House				COMT = Commissionerate		
DRT = Directorate and Directorate-level units				LTU = Large Taxpayer Unit, VAT		

The distribution of functional responsibilities of the VAT officials and employees involved with revenue collection at filed level has been prescribed through an Order of the NBR (*vide* Order No. 12/Musak/99/184, dated 10.06.1999; *vide* NBR, 2001c, pp. 479-492)[14]. According to this order, there is a three-tire administration in the field level VAT administration for revenue collection: Commissionerate at top, then Divisional Office, and then Circle Office at root level. As mentioned in Table 8.04, a VAT Commissionerate Office is headed by the Commissioner, Value Added Tax (in the rank of a Joint Secretary), a VAT Divisional Office is headed by Deputy Commissioner, Value Added Tax (in the rank of a Deputy Secretary) or Assistant Commissioner, Value Added Tax (in the rank of a Assistant Secretary), and a VAT Circle Office is headed by Superintendent, Value Added Tax (in the rank of a Class I Gazetted Official).

[14] In 1995-96, first the NBR issued an order to prescribe the job description of the field-level VAT employees [the Order No. 16/ Musak/95, dated 19.09.1995; *vide* NBR, 2001c, pp. 232-243] and order in 1999 has been issued by repealing the order in 1995.

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8.04 The Audit of VAT

As mentioned by de Jantscher, Silvani and Holland (1991), "If VAT auditing is not reasonably effective, VAT administration will be ineffective. ... When tax audit is weak, tax administration will also be weak" (de Jantscher, Silvani and Holland, 1991, p. 67). Thus, the effectiveness of the VAT administration is significantly dependent on VAT audit. However, de Jantscher, Silvani and Holland (1991) have distinguished some related terminologies such as "the advisory visit" (taking place as soon as possible after the registration with a view to educating the taxpayer and gathering some basic information on taxpayer for use in future tax administration), "desk audit" (an office audit, in the nature of clerical work, based on return and other documents submitted and conducted in the tax or VAT office without discussion with the taxpayers), "VAT audit" (also known as a verification audit, control audit, or routine control audit, and a field activity conducted primarily at taxpayer's business premises taking one/two days and usually a check of selected aspects of the taxpayers' records, with a view to quickly identifying evasion and penalizing), and "fraud investigation" (an in-depth investigation of taxpayers generally conducted after a VAT audit has indicated the likelihood of fraud) (de Jantscher, Silvani and Holland, 1991, pp. 68-69). In Bangladesh, for the purpose of audit of VAT related activities, audit is classified as "(1) *examinations*, that is, the administrative check of returns at the district office; (2) *verifications*, which basically are field audits; and (3) *in-depth audits*, usually where a suspicion of fraud exists" (Islam, 1997, p. 42). On the basis of frequency of the audit, two types of audit are undertaken under the VAY system: *regular audit* (which should not be more than once in a year) and *targeted audit*, which is usually done in case of incidences with unusual negative consequences on revenue or in case of an enterprise that can be considered as a "High risk taxpayer". In this regard, the regulatory framework encompasses mainly the distribution of functional responsibility of the field level VAT officials in the Audit Units (NBR, 2001c, pp. 479-492) and the guidelines on audit under the VAT system (NBR, 2001c, pp. 461-475).

In the regulatory framework, the provision of VAT audit is given in section 26A of the VAT Act and under a guideline issued by the NBR u/s 26A, the audit of VAT is conducted mainly by the Audit Teams formed in the Commissionerate Office with *one* Superintendent and *two* Inspectors where the Superintendent acts as the Team Leader. The Joint Commissioner (Audit) has been assigned the overall responsibility of the VAT audit. One Assistant/Deputy Commissioner (Audit) is to be in charge of the Audit Unit to help the Audit Teams and the Joint Commissioner (Audit). The VAT Audit may also be conducted by the Audit Departments under the CAG (Comptroller and Auditor General) Office. Professional auditors may be appointed u/s 26A(3), through an order of the NBR in order to inspect inventory and examination of accounts of the registered persons or the persons subject to registration and in that case the auditors shall be treated as VAT officials. If the professional audit firms are appointed, they will be given an incentive of 10 per cent of the evaded tax detected by the auditors subject to actual realization of the amount (*Budget Speech 2000-2001, Part II*; *vide* Kibria, 2000).

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There is *one* Audit Unit in the Divisional Office and also in the Commissionerate Office, but no such unit in the Circle Office. In the Divisional Office, one Superintendent is in charge of Audit Unit along with the charge of Taxpayers Information and Service Unit. The principal responsibility of the Audit Unit of the Divisional Office is "operating audit on VAT related activities in the registered or enlisted enterprise as per the method directed by the NBR (National Board of Revenue) or the Commissioner and approved by the Divisional Officer, and submitting the audit report" (NBR, 2001c, p. 485). In the Commissionerate Office, one Joint Commissioner is in charge of overall duty of the Audit Unit. Usually, one Assistant/Deputy Commissioner is in charge of at least 6 audit teams (each audit team will consist of 2 Inspectors and 1 Superintendent), but more Assistant/Deputy Commissioner may be assigned to a number of audit teams depending on the total number of audit teams. The Audit Unit in the Commissionerate Office is responsible for two types of audit: *taxpayer audit* through field visit and *internal audit* of activities of the Circle and Divisional Offices. The settlement of objections against their own audit and commercial audit is only done at the Commissionerate office (NBR, 2001c, p. 489).

The formal guideline on audit under the VAT system is delineated in a comprehensive way with an open-ended provision of situational strategy depending on the specific class of goods and services.[15] The guideline has ten parts (1) Objective of Audit; (2) Organization Structure of Audit; (3) Criteria for Selection of Taxpayers for Audit; (4) Coordination with Inspection Directorate in relation to Selection and Audit of Enterprises under Audit; (5) Advance Notice Given to the Taxpayer about the Audit; (6) Preparation Before the Audit; (7) What to Do during the Inspection of the Registered Person's Business Premises; (8) Final Review; (9) Post-Audit Functions; and (10) Special Note (NBR, 2001c, pp. 461-475). With two-fold objectives of VAT audit (one is "revenue protection" and other is "taxpayers' training"), the audit is expected to be "an indifferent, transparent and accountable tax examination system in the VAT system" and not to be undertaken to make a taxpayer "a victim of harassment" (NBR, 2001c, pp. 461, 467). For effective VAT audit, the Joint Commissioner (Audit) is in charge of audit planning, staffing, monitoring and evaluation of the audit progress, and rarely participating in the audit function. The Assistant/Deputy Commissioner (Audit) is responsible in performing the field level activities of the Audit Unit. The Joint Commissioner (Audit) may operate specific goal-oriented audit in case of taxpayers who are doubtful or risky from the viewpoint of revenue (NBR, 2001c, pp. 462-464).

Under the VAT audit system, the Assistant/Deputy Commissioner (Audit) prepares the audit program. But the audit program must be approved by the Joint Commissioner (Audit), who is in charge of planning, coordination and determination of priorities in some cases, of the activities of the audit teams (NBR, 2001c, pp. 462-464). Usually audit will be not be done frequently by different VAT Offices or Inspection Directorates in the same enterprise in the same financial year and except in special case, more than once in a financial year in any enterprise in the same financial year. The criteria for selection of taxpayers for ***regular audit*** include: (a) high volume

[15] It is noted that in the NBR's order on VAT audit guideline, it is cautioned that "Audit system stated in this order is only a general guideline to be followed in the field level about usual matters. Besides this guideline, the Audit Officials, for the sake of facilitating their activities, would follow the instructions of Joint Commissioner and Assistant/Deputy Commissioner [Audit] with respect to activities regarding different classes of goods and services" (NBR, 2001c, p. 461).

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taxpayers, (b) past proved tendency of tax evasion, (c) identified revenue potentiality in case of small revenue paying enterprises, and (d) unusual tax credit and drawback claim in comparison to the nature and scope of activities of the taxpayer. However, less importance (at least once in two years) is given for conducting audit in government managed entities or low volume taxpayers. ***Targeted audit*** is to be undertaken in case of unusual incidences such as sudden decline in sales volume or revenue payment without any reasonable cause, claiming excessive tax credit, enhancement of the amount of release of exempted or zero-rated goods, or any event of undisclosed or secret purchase of inputs, production or supply; or for a "High risk taxpayer". This type of audit can be performed more than once in a year on the basis of written order of the Commissioner subject to very careful selection (NBR, 2001c, pp. 465-467).

Each month the Joint Commissioner (Audit) and the Director General, *Audit, Intelligence and Inspection Directorate, Value Added Tax*, will exchange the names of the enterprises listed in their own audit program of next month to avoid duplication (NBR, 2001c, p. 467). The Assistant/Deputy Commissioner (Audit) has to inform in writing the concerned taxpayers about the proposed audit program beforehand at least fifteen working days prior to starting the audit function (NBR, 2001c, p. 468). The pre-audit preparation of the audit team should be sufficient to have idea about the auditee entity, idea on its economic activities, about supply of goods, method of accounting and distribution system, idea about the method of production/manufacturing, information in relation to classification of goods and approved price, information in relation to exemptions, idea about input-output coefficient, information and idea about the subject matters of previous audit report, and any information of irregularities about the taxpayer from the Judgment Unit, Preventive Unit or Computer Unit of the Head Office (NBR, 2001c, pp. 468-469).

The audit program should be designed with an idea that the taxpayers are law-abiding and not to be preconceived as tax evader. It should include an initial courtesy meeting with the owner authority or designated persons, and the detailed examination procedures with respect to proper maintenance of and recording in statutory books of accounts and production system, input-output coefficients, and the way how to advise the taxpayers to streamline any errors and omissions to be found during the audit (NBR, 2001c, pp. 469-473). Before completing the audit function, in the final review stage, the auditors have to be confirmed about various statutory responsibilities of the taxpayers and the appropriateness of various activities through: (1) *examination* about the method of completing the monthly return, (2) *verification* of a number of matters;[16] (3) *examination* about the possibility of forgery in documents; and (4) in case of sudden decrease in sales value, *investigation* about the due reasons thereof. The auditors have to arrange primary discussion with the taxpayer about the irregularity or disagreement found and to take steps to settle important

[16] These include worksheet prepared to complete the return against the figures in the return;, checked output against its figure shown in the return; raw materials purchase shown in the Purchase Book against its figure mentioned in the monthly return; the prices of raw materials and output in the books of accounts against the price mentioned in the invoices; bill of export and other documents as a proof of export and claim of zero-rated supply; appropriateness of getting exemption on goods as per latest Order or SRO; drawback claimed against the bill of export, invoices, etc.; extent of proper maintenance of all the required statutory documents; extent of irregularity or delay in paying tax or any due amount; updates on submission of the return; the amount of production, production capacity/efficiency of machine and extent of proportional utilization of raw materials; extent of requirement of any special examination regarding the reduction of sales value due to any irregularity or disagreement.

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matters (NBR, 2001c, pp. 473-474). After completing the audit under the above method, the audit team has to submit a complete report to the Assistant/Deputy Commissioner (Audit) about all the irregularities, exceptions or disagreements. The Joint Commissioner (Audit) will immediately instruct the concerned Divisional and Circle officials regarding what to do about the recommendations of the final report and he will take legal action after this consideration (NBR, 2001c, pp. 474-475).

8.05 Inspection, Investigation and Other Enforcements under VAT Laws

The VAT system functions properly only if the legal taxpayers perform their statutory responsibilities properly. In the process of self-assessment of tax, self-clearance of taxable products, tax collection from the buyers of the products, timely depositing the tax to the treasury, issuance and taking tax invoices and maintenance thereof, maintenance of statutory books of accounts and proper recording of taxable transactions, timely submission of return and other necessary documents and records, the taxpayers are expected to behave honestly in accordance with the legal provision. But tax noncompliance is a common practice, which creates a "gap between the tax reported by the taxpayers and the statutory tax" and the typical forms of noncompliance include tax fraud, underreporting without committing a fraud and tax avoidance through taking advantage of loopholes (de Jantscher, Silvani and Holland, 1991, p. 67). To combat the noncompliance, there are a number of enforcement actions suggested under the VAT Act. At field level, the Enforcement Units at Commissionerate Offices and Divisional Offices are supposed to take the initiatives and final actions on enforcement other than the audit of VAT (discussed above). For the enforcement activities the VAT officials, u/s 24 of the VAT Act, are assisted, if necessary, by any member of the Police, Bangladesh Rifles, Bangladesh Coast Guards and Ansars and the authorities of Union Parishad, Upazila Parishad, Municipalities, Zila Parishad (District Council), City Corporations and any government officer including all officers controlling and directing activities relating to excise, customs, income tax and narcotics and all officers of banks.[17] The VAT officials are supposed to give assistance u/s 24A in providing all necessary information relating to VAT to other tax authorities.

Under the VAT laws, in addition to VAT audit, there are provisions for several other enforcement actions including the following:

a. ***Inspection, Inquiry/Investigation and Search:*** Inspection of the premises of the industrial/business enterprises may be undertaken during the audit activities (NBR, 2001c, p. 464). Investigation on taxable sales value, particularly any sudden decrease therein, is highly emphasized to find out the due reasons thereof (NBR, 2001c, p. 474). Under section 48 (Power to search), any appropriate VAT officer, if contravention of any provision of the VAT Act/Rules found, may order to enter and search doubtful places or premises or transports. In

[17] By the proposed Finance Bill, 2009, it was proposed in its section 49 (on 11.06.2009) to amend section 24 of the VAT Act to incorporate "Rapid Action Battalion (RAB)" into this list assisting authority, but due to severe reaction by business communities, this was not enacted by the passed Finance Act 2009 (30.06.2009).

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case of inspection and examination, serving proper notices is necessary in case of dwelling house [u/s 26(2)], but it is not required in case of applying Magistracy power u/s 48A.[18]

b. ***Supervised Supply [u/s 26B]:*** This was a measure in Bangladesh under the excise taxation system abolished from the 1st of January, 1985 (Haque, 1989, p. 18). From 2000-01, the provision of supervised supply through appointment of VAT officers in the taxpayer's business to be organized by the Commissioner has been introduced [under previous section 26(4)]. Then in 2004-05, new section 26B was incorporated for this purpose. For fulfilling the purposes of appropriate tax payment under Stamp or Banderole system [u/s 6(4A)], the Commissioner may enforce supervised supply [u/s 26B].

c. ***Seizure and Forfeiture:*** These include seizure of forfeitable Goods [u/s 27], such as (1) taxable goods produced or dealt with before registration; (2) taxable goods removed from the place of business without an invoice; (3) goods supplied or services[19] rendered without paying applicable tax; (4) taxable goods removed from the business premises with invoice but not accompanying up to its destination; and (5) goods supplied without stamp or banderole or improper stamp or banderole in applicable cases [u/s 38]. Besides, the goods prohibited for importation are also subject to forfeiture (Hossain, 2008, p. 423). The goods or service (in applicable case)[20] of a VAT registered person related to the contravention of any provision of the VAT rules shall be forfeited to the Government (u/r 35). Vehicle containing goods by violating the VAT laws may also be seized [u/r 7].

d. ***Imposition of Restriction on Removal of Goods*** by the Commissioner through an order, where he will find contravention of legal provision [u/s 39].

e. ***Summon and Arrest:*** Under section 25, the VAT authority may exercie power to issue summons to give evidence or to submit documents or any other thing in connection with any investigation conducted by him. The VAT authority may arrest a person for committing an offence punishable under the VAT Act [u/s 49 and Order No. 8/Musak/2004, dated 10.06.2004 (Hossain, 2008, p. 453)] only with a warrant under the Code of Criminal Procedure (CrPC)[21] [u/s 50]

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18 Section 48A (Delegation of the Power of Magistrate to value added tax officer) was inserted by the Finance Act 1996. Any VAT Officer not below the rank of Assistant Commissioner has been assigned the First Class Magistracy Power stated in the Schedule III to the Code of Criminal Procedure (CrPC), 1898 (Act V of 1898) to apply that power under section 36 of the Code of Criminal Procedure [SRO No. 130-Ain/96/132-Musak, dated 22.07.1996]. Since the effectiveness of the Code of Criminal Procedure (Amendment) Ordinance 2007 from November 1, 2007, the new Schedule III to the CrPC has 15 types pf power in the list of "Ordinary Powers of a Magistrate of the First Class" including the "Ordinary Powers of a Magistrate of the Second Class" (2 types of power) including further the "Ordinary Powers of a Magistrate of the Third Class" (18 types of power) (available at http://www.bdlaws.gov.bd/pdf/75___Schedule.pdf, accessed 15.09.2009).

19 This is an extreme instance of accepted tangibility of service subject to VAT.

20 This is another provision, where the forfeiture of service has been mentioned.

21 Under section 54 of the CrPC, in nine (9) situations, any police-officer may, without an order from a Magistrate and without a warrant, arrest a person (1) who has been concerned in any cognizable offence or against whom a reasonable complaint has been made or credible information has been received, or a reasonable suspicion exists of his having been so concerned; (2) having in his possession without lawful excuse, the burden of proving which excuse shall lie on such person, any implement of house breaking; (3) who has been proclaimed as an offender either under the CrPC or by order of the Government; (4) in whose possession anything is found which may reasonably be suspected to be stolen property and who may reasonably be suspected of having committed an offence with reference to such thing; (5) who obstructs a police-officer while in the execution of his duty, or who has escaped, or attempts to escape, from lawful custody; (6) reasonably suspected of being a deserter from the armed forces of Bangladesh; (7) who has been concerned in, or against whom a reasonable complaint has been made or credible information has been received or a reasonable suspicion exists of his having been concerned in, any act committed at any place out of Bangladesh, which, if committed in Bangladesh, would have been punishable as an offence, and for which he is, under any law relating to extradition or under the Fugitive

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f. *Filing Cases:* In the VAT Act, there are two types of adjudication cases: (i) Forfeiture cases (for forfeiture of goods or services and imposition of fine relating to forfeiture), and (ii) Evasion cases (for imposition of fine relating to tax evasion). Filing case for adjudication is a normal practice, but adjudication of any complaint without filing case can also be done (Hossain, 2008, p. 428). The power of adjudication will be according to the provision of section 40 of the VAT Act, which has been shown in Table 8.10 and Table 8.11.

Table 8.10: Power of Adjudication of the VAT Officers except for Export/Import

Nature of adjudication	Officer	Power of adjudication			
		If the value of the goods[1] or taxable service is in FY			
		1990-91 to 1999-2000	2000-01 & 2001-02	2002-03 to 2005-06	2006-07 to 2009-10
(i) Forfeiture of goods or services and imposition of fine relating to tax evasion or forfeiture or tax evasion*	Commissioner	more than Tk. 5 lakh	irrespective of value	more than Tk. 10 lakh	more than Tk. 15 lakh
	Additional Commissioner	up to Tk. 5 lakh	up to Tk. 5 lakh	up to Tk. 10 lakh	up to Tk. 15 lakh
	Joint Commissioner	up to Tk. 4 lakh	up to Tk. 4 lakh	up to Tk. 6 lakh	up to Tk. 10 lakh
	Deputy Commissioner	up to Tk. 2 lakh	up to Tk. 2 lakh	up to Tk. 3 lakh	up to Tk. 5 lakh
	Assistant Commissioner	up to Tk. 1 lakh	up to Tk. 1 lakh	up to Tk. 1.5 lakh	up to Tk. 3 lakh
	Superintendent	up to Tk. 25 thousand	up to Tk. 25 thousand	up to Tk. 50 thousand	up to Tk. 1 lakh
(ii) Imposition of fine other than in (i) above	Divisional Officer	Full power	Full power	Full power	Full power

* "Forfeiture of goods and imposition of fine" from 1991-92 to 2005-06; "Forfeiture of goods or services and imposition of fine relating to tax evasion" from 2006-07 to 2008-09 and this is thereafter from 200-10.

[1] 'Value of goods' shall not include the value of the transport carrying the goods seized.

Sources: SRO No. 231-Ain/91/15, dated 29.07.1991 w.e.f. 01.07.1991 (repealed by SRO No. 178-Ain/2000/277, dated 08.06.2000); The *Finance Acts/Ordinances from 2000 to 2009.*

Table 8.11: Power of Adjudication under VAT Laws for Export/Import (2007-08 & onward)

Type of cases	Designation of Officer	Jurisdiction and powers (Value of goods)
I. Adjudication of cases involving confiscation of goods or imposition of penalty or both	Commissioner of Customs or Commissioner of Customs (Bond) or Director General (Duty Exemption and Drawback)	more than Tk. 15 lakh
	Additional Commissioner of Customs	up to Tk. 15 lakh
	Joint Commissioner of Customs	up to Tk. 10 lakh
	Deputy Commissioner of Customs	up to Tk. 5 lakh
	Assistant Commissioner of Customs	up to Tk. 3 lakh
	Superintendent of Customs or Principal Appraiser	up to Tk. 1 lakh

Offenders Act, 1881, or otherwise, liable to be apprehended or detained in custody in Bangladesh; (8) any released convict committing a breach of any rule made under section 565, sub-section (3) [relating to the notification of residence or change of or absence from residence by released convicts]; (9) for whose arrest a requisition has been received from another police-officer, provided that the requisition specifies the person to be arrested and the offence or other cause for which the arrest is to be made and it appears therefrom that the person might lawfully be arrested without a warrant by the officer who issued the requisition (available at http://www.bdlaws.gov.bd/print_sections_all.php?id=75, accessed 15.09.2009).

Dhaka University Institutional Repository

Table 8.11: Power of Adjudication under VAT Laws for Export/Import (2007-08 & onward) *...cont'd*

Type of cases	Designation of Officer	Jurisdiction and powers (Value of goods)
II. Adjudication of cases relating to Manifest clearance in custom-houses and customs-stations involving only imposition of penalty under item 24 of the Table u/s 156(1).*	Deputy Commissioner of Customs or Assistant Commissioner of Customs in charge of Manifest clearance in custom-houses or customs-stations, as the case may be.	Value of goods without limit
* The *offence* is (i) if any goods entered in the import manifest of a conveyance are not found in that conveyance; or (ii) if the quantity found in the conveyance is short, and the shortage is not accounted for to the satisfaction of the officer-in-charge of the custom-house; for which the *penalty* is: the person-in-charge of such conveyance shall be liable to a penalty not exceeding twice the amount of duty chargeable on the goods not found on the conveyance or, if such goods are not dutiable or the duty thereon cannot be ascertained, to a penalty not exceeding Tk. 25,000 for every missing or deficient package or separate article, and in the case of bulk goods to a penalty not exceeding the value of the goods, or Tk. 50,000, whichever be higher (reference sections of the Customs Act are: 45, 53 and 55).		

Sources: Section 179 of the Customs Act 1969 (updated up to 30.06.2009 by the *Finance Act 2009*).

The other enforcements (imposition of penalty and prosecution; and steps for recovery of delinquent revenue) have been discussed in section 8.7 and section 8.9 respectively.

8.06 Reporting by the VAT Authorities

Prof. Purohit has aptly mentioned that "In any country, the most important elements for proper administration of VAT are efficient collection, collation and analysis of the available information. The prime requisite for proper VAT administration, therefore, is an adequate information base" (Purohit, 2007, p. 235). But in the VAT administration is Bangladesh, there is no separate unit in the name of 'Management Information Systems (MIS)" and hence the information collection, compilation and availability on VAT is disperse. In the NBR, the Research and Statistics (R&S) Wing works like this. In 1994-95, the Research and Statistics (R&S) Section was upgraded to the R&S Wing (NBR, 1995; NBR, 1996b). But through upgrading the status it belongs to is not proper, because according to administrative hierarchy and subordination (from higher to lower unit), first there should be the Division (*Bivag*) then a Wing (*Anubivag* headed by a Joint/Additional Secretary in the rank of Member of the NBR), then a Directorate (*Adhidaptar* if larger in size headed by a Director General or *Paridaptar* if smaller in size headed by a Director), then a Branch (*Adhishakha*) and then a Section (*Shakha*) [*Rules of Business 1996*[22] and website of the Cabinet Division[23]]. Being a Wing, the R&S Wing is expected to be headed by a Member, but it is headed by a Director (NBR, 2008b), and hence it has a status of a *Paridaptar* (smaller Directorate). Collecting revenue related information from field-level tax offices, the R&S Wing tabulates, coordinates and maintains the information. On the basis of collected information, the R&S Wing prepares monthly, quarterly and annual statements and also prepares research-based analytical review. It is the administration unit, which is responsible in preparation and publication of the Annual Report of the NBR within six months from the end of a financial year (NBR,

[22] Available at http://www.cabinet.gov.bd/file_upload/CD_LEGISLATIVE_INFO_en_2_126.pdf, accessed 26.06.2009.
[23] *Vide* http://www.cabinet.gov.bd/; accessed 26.06.2009 in both *English* and *Bangla* versions.

Dhaka University Institutional Repository

2008b). Since 1997-98, the Directors-General of Inspection (Income Taxes) shall, *inter alia*, furnish annual report to the NBR by the 31st December following the end of the financial year to which it relates [u/s 6(1)(aa) of the Income Tax Ordinance 1984]. The (Direct) Tax Department never publishes such annual report, but this statutory responsibility undoubtedly helps the R&S Wing in preparing their Annual Report. There is no such provision in the VAT Act or Rules and hence the R&S Wing collects data from the VAT offices. For 1992-93, the first Annual Report of the NBR was published on January 1, 1994. Over 16 financial years (1992-93 to 2007-08), the R&S Wing of the NBR has so far published 13 annual reports, except for 3 years (2003-04, 2004-05 and 2005-06). Except for 2 years (1992-93 and 1993-94, when the annual reports were published just after 6 months from the year-end), the time-period taken for publication was from a minimum 7 months 3 weeks for *Annual Report 2006-2007* to maximum 26 months 3.5 weeks for *Annual Report 2002-2003*, thus an overall average 14 months (for 11 years except for initial two years, the average period taken is 15 months 2 weeks).[24] During the three years (2003-04, 2004-05 and 2005-06), the Annual Reports were compiled but not published due to the lack of willingness of the Chairman of the NBR. These Annual Reports of the NBR, through published with huge time lag, are a wonderful compilation of tax information and overall tax administration, including the information on VAT and its administration.

In the NBR, another unit on intelligence, the Central Intelligence Cell (CIC) is directly under the Chairman and reports on VAT related evasion to the Chairman and they may take enforcement actions directly on the basis of their own information collected through intelligence and other sources. The revenue administration of VAT is under the Member (VAT) at the NBR, he reports to the Chairman on overall VAT related information. In the field level, the *VAT Audit, Intelligence and Investigation Directorate, Dhaka*, is under the Member (VAT), but for enforcement actions, the Directorate reports to the respective Commissioner at the Commissionerate. The Circle Super usually reports to the controlling Divisional Officer (Deputy/Assistant Commissioner), who reports to the Commissioner at its head office at the Commissionerate office (*vide* NBR, 2001c, pp. 479-492). In some emergency cases, there is also urgent reporting. For example, the officer conducting an inspection, search or seizure of suspicious vehicle carrying taxable goods, shall, within the next working day or if it is not possible within additional two work days, submit a report to the controlling officer or, as the case may be, the ordering officer, recording the reason for the delay [u/r 7(4)].

8.07 Penal Provisions for Noncompliance of the VAT Laws

To combat noncompliance, there are a number of penal provisions in the VAT Act/Rules. Both financial (in the form of fine or penalty interest) and nonfinancial (imprisonment, keeping the business under lock and key, cancellation of VAT registration) penalties are provided in the VAT laws. Section 37 is the main source of penal provision for noncompliances. However, there are other provisions also (Box 8.1). For offences (noncompliances) mentioned in sub-section (1) of

[24] Computation is based on the date of publication mentioned in the Annual Reports.

Dhaka University Institutional Repository

section 37, there is provision of fine only and nothing is mentioned here relating to tax evasion. Starting from rigid fine of Tk. 25,000 in 1991-92, now (from 2007-08 to date) the fine is now at least Tk. 5,000 and not exceeding Tk. 25,000. In this list of noncompliances, "failure to maintain prescribed files and records, electronic cash register (ECR) or computer" has been added only from 2008-09 (because of its mandatory introduction from July 1, 2008). Table 8.12 shows a chronology of the offences and penalties u/s 37(1).

Table 8.12: A Chronology of Offences and Penalties u/s 37(1)

Offence under clauses of section 37(1)		Penalty u/s 37(1)
1991-92 to 2009-10	(a) failure to apply for registration in spite of the necessity of registration under the VAT Act (u/s 15); or (b) failure to submit any return within the stipulated time (u/s 35 and u/r 24); or (c) failure to inform the VAT officer about any change in the information regarding registration (u/s 18); or (d) failure to comply with the directions of any summon under section 25 (i.e., for presence of any person physically or through any authorized representative in order to give witness or to submit any documents or any other things); or (e) violating any other provision of the VAT Act.	1991-92: Tk. 25,000 1992-93 to 1999-2000: not exceeding Tk. 25,000 2000-01 to 2004-05: at least Tk. 25,000 and not exceeding Tk. 50,000 2005-06: at least ***Tk. 10,000*** and not exceeding Tk. 50,000 2006-07: at least ***Tk. 5,000*** and not exceeding Tk. 50,000 2007-08 to 2009-10: at least Tk. 5,000 and not exceeding ***Tk. 25,000***
2008-09 to 2009-10	(dd) failure to maintain prescribed files and records, electronic cash register (ECR) or computer	

The offences (noncompliances) mentioned in sub-section (2) of section 37 are subject to penalty of fine or imprisonment or both, and there is classification of penalties into two groups: evasion-related offences (then punishment may be in the form of fine or imprisonment or both) and from 1999-2000, other irregularities not being in the form of evasion (then imposition of fine only). But for imprisonment, the concerned taxpayer must be adjudicated as a convict in the court of a Magistrate for the related wrongful act. For evasion-related offences, the fine was "Tk. 50,000 or double the amount of VAT and/or SD payable on the goods supplied or service provided, whichever is higher" in 1991-92 and now (2009-10), it is "minimum fine of ***equal*** amount and maximum of ***two and half times*** of the amount of VAT and/or SD payable on the goods supplied or service provided." For evasion-related offences, if the offender is convicted in the court of a Magistrate, the punishment was "an imprisonment for a term of not exceeding one year or fine of Tk. 50,000 or both types of punishment" in 1991-92 and now (2009-10) it is "an imprisonment for a term of not less than three months and not more than two years or a minimum fine of ***equal*** amount and maximum of two and half times of the amount of VAT and/or SD payable or both types of punishment". For irregularities other than evasion, the punishment was started in 1999-2000 in the form of "a fine of Tk. 25,000 in case of irregularities other than tax-evasion", which is now (from 2007-08 to date) "a fine of minimum Tk. 10,000 and maximum Tk. 1 lakh in case of irregularities other than tax-evasion". Over the years, the list of offences has included additional offences (11 clauses in 1991-92 to 16 clauses in 2009-10 with expanded items in 2 initial clauses). Refer to Table 8.13 for a chronology of the offences and penalties u/s 37(2). There are some other offences mentioned in sections 37, 38 and 6 and in rules 4 and 35 [Box 8.1 shows details along with the penalty].

Dhaka University Institutional Repository

Table 8.13: A Chronology of Offences and Penalties u/s 37(2)

Offence under clauses of section 37(2)		Penalty u/s 37(1)
1991-92 to 2009-10	(a) failure to submit the tax invoice or submit such a tax invoice which is untrue in respect of important facts; or (b) submission of such return which is untrue in respect of important facts; or (b) evasion of tax or trying to evade tax by submitting any forged or false documents; or (d) not maintaining of files and records, which are required to be maintained according to the VAT Act and the VAT Rules, or destruction or modification or mutilation of such records, or substantiation of those as false, or not maintaining of such records as per the requirement of the VAT Act; or (e) making knowingly a false statement or false declaration; or (f) obstructing at the time of entering or preventing from entering into the place of business any VAT officer authorized under the VAT Act in order to inspect or seize any files/records, books or other documents relating to VAT; or (g) engaged in taking any goods or in obtaining their possession or in transacting them in spite of knowing or having reason to believe that VAT and/or SD payable on those goods have been evaded; or (h) taking any input tax credit through forged or false invoice; or (i) evading or attempting to evade VAT or SD by any other means; or (j) giving any tax invoice in which the amount of VAT is mentioned without being a registered person; or (k) doing any acts or abetting in doing any acts mentioned in preceding clauses.	1991-92: Tk. 50,000 or double the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not exceeding one year or fine of Tk. 50,000 or both types of punishment. 1992-93 to 1998-99: ***Not exceeding Tk. 1 lakh*** or double the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not exceeding one year or fine of ***not exceeding Tk. 1 lakh*** or both types of punishment. 1999-2000: ***Fine of two and half times*** of the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of ***not less than 3 months*** and not more than 2 years or a fine of not exceeding Tk. 1 lakh or both types of punishment; and ***a fine of Tk. 25,000 in case of irregularities other than tax-evasion***. 2000-01 to 2002-03: ***Minimum fine of equal amount and maximum of two and half times*** of the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not less than 3 months and not more than 2 years or a minimum fine of equal amount and maximum of two and half times of the amount of VAT and/or SD payable or both types of punishment; and a fine of ***minimum Tk. 25,000 and not exceeding Tk. 1 lakh*** in case of irregularities other than tax-evasion. 2003-04 to 2005-06: Minimum fine of equal amount and maximum of two and half times of the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not less than 3 months and not more than 2 years or a minimum fine of equal amount and maximum of two and half times of the amount of VAT and/or SD payable or both types of punishment; and a fine of minimum Tk. 25,000 and ***not exceeding Tk. 3 lakh*** in case of irregularities other than tax-evasion. 2006-07: Minimum fine of ***half*** the amount and maximum of ***twice*** the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not less than 3 months and not more than 2 years or a minimum fine of ***half*** the amount and maximum of ***twice*** the amount of VAT and/or SD payable or both types of punishment; and a fine of minimum ***Tk. 10,000*** and not exceeding Tk. 3 lakh in case of irregularities other than tax-evasion.
1992-93 to 2009-10	(aa) for goods supplied or services provided, failure to pay VAT and/or SD, or to submit the return even after the expiry of stipulated time in spite of being directed twice;	
2000-01 to 2009-10	(jj) not using stamp or banderole or special sign or mark on specified goods as per official gazette notification or using those not as per specification under the VAT law u/s 6(4A);	
2003-04 to 2009-10	(jjj) removal of goods under the VAT Act/Rules without maintaining the required balance in the Current Account, through which the output tax can be paid or adjusted against the sum total of deposited amount and credit receivable for input tax paid;	

Dhaka University Institutional Repository

Table 8.13: A Chronology of Offences and Penalties u/s 37(2) ... *cont'd*

Offence under clauses of section 37(2)		Penalty u/s 37(1)
2004-05 to 2009-10	(bb) attempt to evade VAT without recording information regarding sales in Sales Account Book (Musak-17) and payable VAT in Current Account Book (Musak-18);	2007-08 and 2008-09: Minimum ***25 percent*** and maximum ***75 percent*** of the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not less than three months and not more than two years or a minimum 25 percent and maximum of 75 percent of the amount of VAT and/or SD payable or both types of punishment; and a fine of minimum Tk. 10,000 and maximum ***Tk. 1 lakh*** in case of irregularities other than tax-evasion. 2009-10: Minimum fine of ***equal*** amount and maximum of ***two and half times*** of the amount of VAT and/or SD payable on the goods supplied or service provided; and on being adjudicated as a convict in the court of a Magistrate for that wrongful act, an imprisonment for a term of not less than three months and not more than two years or a minimum fine of ***equal*** amount and maximum of ***two and half times*** of the amount of VAT and/or SD payable or both types of punishment; and a fine of minimum Tk. 10,000 and maximum Tk. 1 lakh in case of irregularities other than tax-evasion.
2005-06 to 2009-10	(jjj) rendering service under the VAT Act/Rules without maintaining the required balance in the Current Account, through which the output tax can be paid or adjusted against the sum total of deposited amount and credit receivable for input tax paid;	
2008-09 to 2009-10	(d) not maintaining of electronic cash register (ECR) or computer which are required to be maintained according to the VAT Act and the VAT Rules, or destruction or modification or mutilation of such ECR or computer, or substantiation of those as false, or not maintaining of such ECR or computer as per the requirement of the VAT Act; (f) obstructing at the time of entering or preventing from entering into the place of business any VAT officer authorized under the VAT Act in order to inspect or seize any ECR or computer;	
2009-10	(cc) failure in submission of any files, books or any other documents relating to value added tax for the purpose of audit or inspection even after directed twice by the concerned VAT officer;	

In case of search and seizure of vehicle containing goods, if the owner of the seized goods or the vehicle carrying the seized goods applies for interim release of the seized vehicle during the proceeding of the case and furnishes an undertaking in Form "Musak-5Ka" [Personal Bond] to the effect that the vehicle will be produced, in the interest of adjudication, at the place, time and in the manner specified by the adjudicating officer and if the owner fails so to produce, he shall be liable to punishment under section 37, the concerned adjudicating officer shall release the vehicle in favour of the applicant within twenty four hours of the receipt of the application [u/r 7(3B)].

Regarding time dimension of taking action against an evasion, it is mentioned that the authorized VAT officer (not below the rank of an Assistant Commissioner) shall take appropriate action under the VAT Act within a reasonable time [u/s 26(4)]. It is noted that section 37 is for imposition of penalty and possible prosecution for intentional irregularities and there is no time bar here. There is no scope of recovery of evaded tax under section 37 and appeal can be made in the High Court Division against the order of penalty and prosecution under section 37 (Hossain, 2008, p. 443).

Dhaka University Institutional Repository

Box 8.1: Penal Provisions for Noncompliance of the VAT Laws (30.06.2009)

1. **Penalty in addition to any offences committed under the VAT Laws: Monthly additional tax @ of 2 percent on the unpaid VAT and/or SD with the unpaid tax** [u/s 37(3) and 37 (3A) of the VAT Act] for failure by a registered person (a) to submit return within the stipulated date, or (b) to pay VAT and/or SD within the stipulated date.[25]
2. **Business premises to be locked and registration to be cancelled** [u/s 37(4)(a) of the VAT Act] for (a) failure by a registered person to pay VAT and/or SD within 3 months after the end of tax-period in spite of receiving notices twice in this respect from the concerned officer, or (b) committing any offence stated in sections 37(2) and 38 at least twice during a period of 12 months.
3. **Business premises to be locked** [u/s 37(4)(b) of the VAT Act] for failure by a person liable to be registered within one month of receiving an order for compulsory registration under section 15(4).
4. **Confiscation of the goods produced or manufactured** [u/s 38(1) of the VAT Act] in case of a person liable to be registered, for production or manufacture of taxable goods or engaged in business of taxable goods before being registered.
5. **Goods to be confiscated and a sum of minimum equal amount and maximum two and half times of the VAT and/or SD payable on the goods to be paid by the registered person, his agent or any person involved with the removal** [u/s 38(2) of the VAT Act] for (a) removal of any taxable goods from business premises without invoice, or (b) supply of goods or services without paying tax shown in the invoice or the tax applicable on goods or service; or (c) removal of any taxable goods from business premises with invoice, but the invoice is not attached with the goods up to the destination, by a registered person; or (d) not using or using improper stamp or banderole or special sign or mark on specified goods u/s 6(4A).
6. **Penalty of minimum equal amount and maximum two and half times of VAT and/or SD and the confiscation of goods or services (where applicable)** [u/r 35 of the VAT Rules] for violation of any provision of the VAT Rules 1991 by a registered person.
7. **VAT deductible at source with 2 percent monthly interest** for failure to deduct/collect VAT at source and **a personal fine of maximum Tk. 25,000** for failure to deposit the VAT deducted at source in the Treasury within two months of deduction/collection [u/s 6(4C) of the VAT Act].
8. **Fine** as the adjudicating VAT officer thinks fit to impose for releasing any confiscated vehicle by its owner (u/s 41).
9. **Additional tax @ 2 percent per month on outstanding TT (turnover tax) including a maximum penalty of Tk. 5,000** [u/r 4(13A) of the VAT Rules] for failure to pay TT duly by a TT enlisted person.

8.08 Appeal, Revision or Rectification

For the purpose of mitigating the grievances, there are provisions on appeal, revision and rectification, but there is no specific provision regarding appeal/reference to the High Court Division (HCD) or the Appellate Division (AD) of the Supreme Court. Rather there is categorical provision creating a bar on the jurisdiction of civil court (section 61).

Appeal: There are two different types of appeal authority to mitigate the grievances of the taxpayers: (1) Appeal authority in judicial nature (u/s 42) with respect to cases filed or notice of demand issued; and (2) Higher executive authority to whom the ordering authority is a subordinate with respect to declaration of price or input-output coefficient or input tax credit, etc. The major provisions regarding appeal of a judicial nature are provided in section 42. The appeal can be made against any decision or order made by any VAT Official under the VAT Act or the VAT Rules *except* against the following orders [u/s 42(1)]: (a) order of confiscation or sale given for the recovery of public due [u/s 42(1)]; (b) order of sale of the imported goods given by an

[25] The effectiveness of any provision regarding punishment for an offence committed under the VAT Act/Rules shall not be prejudiced by the payment of VAT and/or SD along with this monthly 2% additional tax [u/s 37(3A) from 1997-98].

Dhaka University Institutional Repository

appropriate customs official if the goods are not cleared or warehoused or transshipped after unloading within a specified period [u/s 42(1)]; (c) order of reducing the period of warehousing of imported goods given by the appropriate customs Commissioner [u/s 42(1)]; and (d) an order of the NBR revising the order of a VAT officer [u/s 42(3)].

Both the VAT authority and the taxpayers (any aggrieved VAT Official or any other aggrieved person) can make an appeal [u/s 42(1)] within 90 days (earlier from 1991-92 to 2008-09, it was 3 months) of the concerned decision or order. From 01.07.1991 to 30.09.1995, appeal can be made to the Collector (Appeal) or to the NBR.[26] Thereafter the Customs, Excise and VAT Appellate Tribunal was established u/s 196 of the Customs Act with effect from 01 October 1995. Under section 42(5), any indisposed appeal pending to the NBR was supposed to be shifted to the Appellate Tribunal. Then the provision of time-extension was incorporated in the VAT Act. In case of appeal to the Commissioner (Appeal), he can extend the period up to next 60 days (earlier from 1995-96 to 2008-09, it was 2 months) after the first 90 days if he is satisfied with due reasons [proviso to section 42(1A)]. The present provision (2009-10) of appeal procedure can be shown in the following table (Table 8.14).

Table 8.14: Appeal Procedure under the VAT Laws

Appeal	To whom	Against whose order/decision	Conditional deposit to Treasury or VAT officer authorized for this purpose
First Appeal	Commissioner (Appeal), VAT	Decision/order made by an Additional Commissioner, VAT or any VAT Official below the rank of the Additional Commissioner.	10% of the tax evaded amount for tax evaded case and 10% of the penalty amount for such cases where there is no evasion*
	Customs, Excise and VAT Appellate Tribunal	Decision/order made by a Commissioner, VAT, or any VAT Official not below the rank of a Commissioner	10% of the tax evaded amount for tax evaded case and 10% of the penalty amount for such cases where there is no evasion**
Second Appeal	Customs, Excise and VAT Appellate Tribunal	Decision/order made by a Commissioner (Appeal), VAT	10% of the tax evaded amount for tax evaded case and 10% of the penalty amount for such cases where there is no evasion[a]
* From 1991-92 to 1995-96, 100% of demanded tax or imposed penalty (may be 50% through cash deposit and 50% through bank guarantee) or without any conditional deposit if the appellate authority allows considering the hardship of the appellant. From 1996-97 to 1998-1999, 25% of demanded tax or imposed penalty For 1999-2000, 2004-05 to 2008-09: 10% of demanded tax or imposed penalty For 2000-01 to 2003-04, 5% of demanded tax or imposed penalty			
** From 1991-92 to 1995-96, 100% of demanded tax or imposed penalty (may be 50% through cash deposit and 50% through bank guarantee) or without any conditional deposit if the appellate authority allows considering the hardship of the appellant; From 1996-97 to 1998-1999, 50% of demanded tax or imposed penalty; For 1999-2000, 2004-05 to 2006-07: 25% of demanded tax or imposed penalty; and For 2000-01 to 2003-04 and 2007-08 and 2008-09: 10% of demanded tax or imposed penalty.			
[a] Separate provision of conditional deposit made from 2004-05 and from 2004-05 to 2006-07, 15% of demanded tax or imposed penalty; For 2007-08 to 2008-09, 10% of demanded tax or imposed penalty.			

Source: The original VAT Act and the Finance Acts/Ordinances from 1992 to 2009.

[26] From 01.07.1991 to 30.09.1995, the VAT appeal was regulated by an SRO (SRO No. 230-Ain/91/11, dated 30.07.1991, w.e.f. 01.07.1991 and not yet repealed but has become irrelevant) and then appeal was made to the Collector (Appeal) against the order of any VAT officer below the rank of a Collector; and to the NBR against the order of a Collector or an order passed by the promoted Collector (Appeal) during his posting at a lower position before promotion (NBR, 2001b, p. 14). The designation of "Collector" has been changed to "Commissioner" from 1995-96.

Dhaka University Institutional Repository

From 2006-07, the decision regarding any appeal has to be made within 9 months (earlier from 1995-96 to 1999-2000, the period was 6 months and from 2000-01 to 2005-06, the period was for 12 months) from the date of appeal. In case failure to do so, the claim of the appellant shall be accepted [u/s 42(4)]. Outside the formal appeals under section 42, there are few situations where written application can be made raising objections to a higher executive authority against the order of subordinate. These can be made against orders which are related to various declarations such as on price of goods/services, input-output coefficient, etc. or on cancellation of claim on input tax credit.

Revision/Correction: There are several provisions in the VAT laws through which revision or correction can be made in the order/decision of a VAT officer by the NBR or the Government on its own motion or on application by the concerned person [sections 43, 44, 45, and 71].

Appeal to the High Court Division: There is no explicit provision in the VAT Act on appeal to the High Court Division. However, a writ petition can be filed in the High Court Division under sub-article (2) of Article 102 of the Constitution of Bangladesh for a direction on or for declaring any act or proceeding to be without lawful authority and of no legal effect only after exhaustion of other equally efficacious remedy available. If any law provides for any remedy to any wrong done in respect of anything in exercise of power under that law by creating a forum ordinarily that remedy is to be availed of by the aggrieved person. Writ petition is an extraordinary remedy provided by the High Court Division to an aggrieved person when no other equally efficacious remedy is provided by law to him because whenever there is a wrong done to a person he should have a remedy against the same. Whenever the High Court Division is satisfied that the remedy provided by law is not equally efficacious it may entertain a writ petition filed by an aggrieved person in spite of availability of remedy provided by law [*vide* the verdict of case in the Appellate Division (AD), *Bangladesh and others vs. Mizanur Rahman*[27] (Judgment on 01.06.2000), *The Bangladesh Law Chronicles*, Vol. 5, 2000, AD part, p. 142)]. Further, in the case of *M A Hai vs. TCB, 40 DLR (AD) 206* it is held that availability of alternative remedy by way of appeal or revision will not stand on the way when the question of law and interpretation of statute is involved [*vide* the verdict of case in the Appellate Division (AD), *Government of Bangladesh and others vs. Iqbal Hasan Mahmood alias Iqbal Hasan Mahmood Tuku*[28] (Judgment on 20.05.2008), *The Dhaka Law Reports*, Vol. 60, 2008, AD part, p. 151].

8.09 Recovery of Delinquent Revenue

In section 37 of the VAT Act, there are provisions of imposition of penalty and prosecution for intentional irregularities or tax evasion, but there is no scope of recovery of evaded tax under this section. For the purpose of recovery of under-paid or under-imposed tax or outstanding tax, provisions of sections 55 and 56 are applicable. In this section, the provisions on realization of such delinquent revenue without any further penalty have been discussed.

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[27] 9 BLC (AD) (2000) 134 [*The Bangladesh Law Chronicles*, Vol. 5, 2000, AD part, pp. 134-145].

[28] 60 DLR (AD) (2008), 147 [*The Dhaka Law Reports*, Vol. 60, 2008, AD part, pp. 147-151].

Dhaka University Institutional Repository

a. ***Recovery of Unintentionally Underpaid or Under-imposed Tax without Penalty [u/s 55]:*** Under section 55, in a case where VAT and/or SD due on taxable goods supplied or service rendered has not been assessed or paid or has been short-assessed or short-paid or has been erroneously refunded or a drawback on VAT or other taxes has erroneously been paid u/s 13 or duty and taxes payable on any goods supplied or service rendered in Bangladesh, has been adjusted due to inadvertence or wrong interpretation, the concerned VAT officer shall, within 3 years from the concerned date of action, issue a show cause notice demanding the duty or VAT mentioned in the notice. From 2009-10, a new provision has been inserted in section 55 to clarify that 3-year time limit to raise a demand by the VAT officer will not be applicable for the cases related to tax evasion [sub-section (1) of section 55 amended and a new proviso inserted thereto by the Finance Act 2009].

b. ***Recovery of Conclusively Ascertained Outstanding Tax without Further Penalty [u/s 56]:*** Where any amount of VAT and/or SD assessed, or monetary penalty imposed, or money demanded under a legal document, is due from any person, a VAT officer, not below the rank of an Assistant Commissioner, may take several steps to recover the outstanding tax. There is no scope of further imposition of penalty here and there is also no time-bar in taking the steps. The actions than can be taken may be as follows:

(1) *Deduction from money under the control of VAT, Customs, Excise or Income Tax Officials:* The VAT official may deduct the Government due from any money due to such person from, and held under the control of, the concerned recovery officer or any officer of VAT or other taxes [u/s 56(1)(a)].

(2) *Recovery from the defaulter's money kept with other person:* The VAT official may require, by a notice, in writing, the person from whom any money is due or may become due later on to the person from whom the Government money is due, to pay to the amount mentioned in the notice [u/s 56(1)(b)].

(3) *Deduction from the defaulter's bank account and freezing the same:* If the defaulter taxpayer has any bank account, the VAT official may issue a notice in prescribed form to recover the due tax from the account. The recovery officer may issue warrant to freeze the bank account in prescribed form. Besides if the due revenue is not collected due to the failure of any bank officers, his salary may be held up until the collection of the government dues [u/s 56(1)(b), 56(1)(bb), 56(4) and 56(5), rules 43(2) and 43(3)].

(4) *Stopping the removal of goods/rendering of service:* The VAT official may stop removal of any goods or rendering of service from the business premises of the defaulter person [u/s 56(1)(c)].

(5) *Seizure of transport (with/without goods):* The VAT official may seize the transport (with or without goods) of the business firm until the due money is fully paid or realized [u/s 56(1)(c)].

(6) *Keeping business premises under lock and key:* The VAT official may keep business premises of the defaulter person under lock and key until the due money is fully paid or realized [u/s 56(1)(d)].

Dhaka University Institutional Repository

(7) *Attachment and sale or sale without attachment of movable/immovable property:* The VAT official may attach and sell or sell without attachment the movable or immovable property of the person from whom the money is due [u/s 56(1)(e)].

(8) *Sale of goods under the control of the VAT officer:* The VAT official may recover the money due, by seizing and selling the goods of the person from whom it is due, if the goods remain under control of a VAT officer or customs officer [u/s 56(1)(f)].

(9) *Recovery from the new owner of the defaulter's business on transfer of ownership:* If the money due relates to a business firm and the ownership of the firm has been transferred, the VAT official may realize the money from the person to whom the business firm has been transferred [u/s 56(1)(g)].

(10) *BIN-lock and stopping the clearance of imported or exported goods:* The VAT official may lock the BIN (Business Identification Number) and stop release of imported or exported goods [u/s 56(1A)].

(11) *Filing a certificate case:* The VAT official may file a certificate case to the Certificate Officer of the concerned district. Under rule 43(1), the defaulter shall be given two letters (with at least 7-day time for each letter) to pay his dues before filing the case [u/s 56(2) and 56(3) and rule 43(1)].

8.10 Refund of Excess Revenue

Under section 67, the refund by a VAT-payer shall be claimed within 6 months from the date of payment. Under rule 34A, in the case of claim for refund of the taxes (VAT/SD/TT) paid by a registered/enlisted person through inadvertence, erroneously or due to misinterpretation or any other reason, the applicant shall have to submit to the concerned Divisional Officer or Commissioner of the Custom House or any officer, not below the rank of Assistant Commissioner, authorized by him in this behalf, the refund claim in Form "TR-31"[29], in triplicate, within 6 months of the payment of the tax. However, if Form "TR-31" is not readily available, the application may be submitted in plain paper instead of the said Form, and after so submitting the application the applicant shall have to fill in the said Form properly and get it regularized within next 15 days of the submission of the application. The refund claim shall have to be disposed of within 90 days of the receipt of the application. From 2003-04, in case of refund of any tax due to cancellation of registration, the six-month time-bar shall not be applicable [u/s 19(3)].

8.11 Taxpayer Assistance by VAT Authorities

The taxpayer assistance or service is a neglected issue in the tax culture in Bangladesh. When the guideline for functional distribution of field-level offices and management was developed in September 1995 for smooth VAT administration (NBR, 2001c, pp. 232-243), then it was planned that there would be an **Information & Services Unit** at all the three layers of offices (Circle Office, Divisional Office and Commissionerate Office). But when a revised guideline was issued in this regard in June 1999 (NBR, 2001c, pp. 479-492), then the unit was renamed as **Taxpayers**

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Information & Services Unit, and its provision at Circle Office was eliminated. However, at the Circle Office, the Inspector is responsible for 'taxpayer training' and 'giving explanation to any issues raised by the taxpayers on VAT' (NBR, 2001c, p. 481), previously these responsibilities were on the **Information & Services Unit** at Circle Office (NBR, 2001c, pp. 234-235). In the 1999 guideline, the **Information & Services Unit** at Divisional Office and Commissionerate Office is in charge of giving taxpayer assistance (NBR, 2001c, p. 486, 490-491). The extent and quality of services from these units were questionable and as a result, the NBR has issued a general order in June 2004 (General Order No. 11/Musak/2004, dated 29.06.2004) to start a **Service Desk** as a front office at all field level VAT offices to help the taxpayers and to create tax awareness (Hossain, 2008, pp. 809-810). At Commissionerate Office, the Service Desk is to be operated under the leadership of Joint/Deputy/Assistant Commissioner who has transparent idea on the overall activities of a Commissionerate office. He will be assisted by another officer and a staff. At Divisional Office and Circle Office, the Service Desk is to be operated under the leadership of the Divisional Officer and the Superintendent respectively. Here also the team leader will be assisted by another officer and a staff. On a separate day in a week will be marked to provide the taxpayer service along with the routine daily assistances.

Only in November 2007, a Help Desk is opened in the NBR Head Office[30] to help the visitors and other persons desiring for assistance on taxes. The publication of the *Citizens Charter* of the NBR (published in January 2008; NBR, 2008b and also available at NBR's website) is also a good initiative to get the answers to preliminary queries to tax administration in terms of jobs done by various tax offices, their location, and means of communicating with the offices. Quoting from former NBR chairman Abdul Mazid, it was reported that the NBR's *Citizens Charter* is expected to help taxpayers know about their rights to service and services to be provided by the taxmen. The charter is also meant to ensure better tax services for taxpayers and through this, taxpayers would also be apprised of detailed activities of revenue department and its countrywide offices through the citizens charter (*The New Age*, 29.11.2007).

8.12 Large Taxpayer Unit (LTU): A Perusal

The NBR has established the Large Taxpayers Unit (LTU) under the *Reforms In Revenue Administration (RIRA)* project according to the recommendations of the International Monetary Fund (IMF) to help boost tax collection from large enterprises (*The Financial Express*, 13.04.2008). Although the LTU was introduced in 1999 for income tax purpose, only in 2004, provisions were incorporated in the Value Added Tax Act 1991 with a view to establishing a Large Taxpayer Unit or LTU for VAT [the Finance Act 2004]. As defined in clause (ss) of section 2 of the VAT Act, 'Large Taxpayer Unit or LTU' means a Large Taxpayer Unit formed under section 8D of the VAT Act. According to the provision of section 8D, the Board (NBR) may, for the purpose of realization of value added tax from the taxpayers of any specified limit or class and

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[29] 'TR' means "Treasury Rules".

[30] The Help Desk is at Room No. 199, 1st Floor, NBR, Dhaka (started on 12.11.2007 and opened on all working days from 9.00 am to 5.00 pm). *Vide* the press releases available at website of NBR (www.nbr-bd.org, accessed 15.9.09).

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supervision thereof, constitute, by notification in the official Gazette, in the whole of the country or in any specified area, required number of Large Taxpayers Units or LTU consisting of such class of taxpayers. In section 20, a post of "Commissioner, Large Taxpayer Unit, Value Added Tax" was also created. On 23 September 2004, a notification was published in the Gazette to establish the LTU-VAT effective from 1 October 2004 with a total of 154 units from the Customs, Excise and VAT Commissionerate of Dhaka (North) and Dhaka (South) (Khan, 2005, p. 664). Then on 8 November 2004, additional number of enterprises from VAT Commissionerate, Chittagong and VAT Commissionerate, Sylhet was included ion the LTU-VAT. The list has further been extended by another notification dated 11.8.2008 to 166 business entities (*vide* Hossain, 2008, pp. 820-825, for the detailed list).

As shown in Table 8.15, in terms of revenue performance, the LTU-VAT has its significant contribution. In its full functioning first financial year (2005-06), the contribution of the LTU-VAT towards total tax collection of the NBR is around 23 percent and since the LTU is responsible to collect local stage taxes only, its dominant contribution is visible (41 percent of total local stage taxes collected by the NBR). Although in amount, there was increase over the last year (8.5 percent in 2006-07 over 2005-06; and 21.9 percent in 2007-08 over 2006-07), but there was a mild decline over 2006-07 and 2007-08 in comparison to proportion to NBR tax revenues. Over the first 8 months of 2008-09, the LTU-VAT has collected over 39 percent of total local stage taxes collected by the NBR.

Table 8.15: Revenue Performance of the LTU-VAT

(Figures in million taka)

Tax Collection	2005-06	2006-07	2007-08	2005-08 (Average)	2008-09 (July-Feb)
NBR (Total)	340,024.3	372,193.2	474,356.6	395,524.7	305,172.8
NBR (Local)	187,279.3	215,567.6	275,887.4	226,244.8	175,738.3
LTU-Total Tax: Amount	77,026.7	83,546.5	101,884.4	87,485.8	69,056.1
% increase over last year		8.5	21.9		
% of NBR (Total)	22.7	22.4	21.5	22.1	22.6
% of NBR (Local)	41.1	38.8	36.9	38.7	39.3

Source: Compiled from Tax Data for 2005-06 to 2007-08 taken from the *Annual Reports 1996-97 to 2007-08* of the NBR (NBR, 2007c; 2008a; 2009) and tax data for 2008-09 collected from the NBR on 15.09.2009 and tax data on LTU-VAT collected from the LTU-VAT on 05.04.2009.

8.13 Computerization of VAT Administration

The importance of the computerization was considered at the very beginning of introducing the VAT in Bangladesh. In the IMF Mission's report (August 1990), which recommended to introduce VAT from January 1, 1991, it has been mentioned that "The mission considers the benefits from computerization are so great that the authorities should not introduce it without proper computer support unless fiscal or organizational issues make it absolutely necessary to do so" (Shome, Holland and O'Sullivan, 1990, p. 17). However, the IMF mission saw no possibility of developing an adequate computer system by January 1, 1991 and they found no "justification for postponement as implementation would be possible even with a manual system if that proves to be absolutely necessary" (Shome, Holland and O'Sullivan, 1990, p. 16).

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Sol Dubroof, who has helped authorities to computerize VAT in Europe, Asia, and the Pacific (Tait, 1991, p. viii), has mentioned the recognized fact that 'computerized taxpayer master file systems have proven to very effective' in the following ways: (1) performing typical manual tasks, but more quickly and accurately, including computing correct tax, printing assessment and other notices and many of the accounting operations; (2) performing new clerical functions such as preaddressing tax forms, identifying stopfilers, generating delinquency notices, cross-checking internal and external sources to identify nonfilers, underreporting of sales or overstating purchases; (3) improving assistance and services to taxpayers by expediting delivery of tax forms and refund checks and by providing them quick responses; (4) assisting assessors, auditors, and investigators by relieving them of many clerical tasks, and thus providing more time for them to devote to technical work, identifying tax returns with the highest examination potential, and providing them with "hot leads" concerning nonfilers and possible fraud cases; (5) assisting collection officers to expedite arrears collection by providing them with quick access to taxpayers' data on sources of income and assets, as well as computerized phone contacts to delinquent taxpayers; and (6) providing revenue managers and executives with timely and accurate accounting, statistical and management reports, as well as quick access to other required data (Dubroof, 1991, pp. 58-59).

In August, 1990, the computerization at the NBR was use of small PCs (personal computers) and a higher capacity machine was about to be delivered. There was no computerization at Collectorate/Commissionerate level (Shome, Holland and O'Sullivan, 1990, p. 17). Starting with the limited capacity of the Computer Cell of the NBR, the major project on computerization undertaken so far was the ***Excise, Taxes & Customs (ETAC) Data Computerization Project*** with the major finance from the World Bank begun primarily in December 1989.[31] Under the ETAC Data Computerization Project, at the beginning, 16 computers and incidental materials were purchased in October 1991 and 2 Assistant Programmers and 12 Computer Operators were appointed in December 1991. Its implementation period was initially from December 1989 to June 1995, but several times its activities were extended and finally ended in June 1999 (NBR, 1996b, p. 23; NBR, 1999d, p. 41). Another important computerization was the implementation of ASYCUDA (Automated SYstem for CUstoms DAta) software, which was launched as a project of the NBR in 1991 with the financial assistance from the UNDP. The project is redesignated as SPEED (Special Processing of Electronically Entered Declaration) at its implementation stage. The project has gone on live since August 1, 1994 in Customs House, Dhaka and since June 3, 1995 in Customs House, Chittagong (Hussain, 1997, p. 75)

[31] As reported in NBR's *Annual Report 1994-95*, the ETAC Data Computerization Project under the IDA TA-6 debt agreement and assisted by the World Bank was started initially in December 1989 and approved by the Ministry of Planning in February 1990, but its formal functioning started in October 1991. Initially its implementation period was from December 1989 to June 1995 and subsequently re-fixed up to June 1997 (NBR, 1996b, p. 23). Later on, the implementation period was further extended first up to June 1998, then again up to June 1999 (NBR, 1998, p. 44). According to the last finalization, total allocated project cost was Tk. 18,521.4 million (project assistance Tk. 17383.7 million and Government of Bangladesh Tk. 2137.7 million), of which 15.92% for international consultants, 27.75% for equipment, 17.83% for remuneration for human resources, 12.79% for foreign training, 8.17% for local training, 2.02% for local consultants and 15.82% for others. Up to June 1999, total expenditure was Tk. 17661.8 million, which was 90.74% of the total allocation, of this 11.2% was financed by GOB (NBR, 1999d, pp. 41-42).

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The ETAC Data Computerization Project was a huge computerization project. In its initial phase, it was limited to computerization of direct tax, excise/VAT and Research & Statistics Wing. In 1995, in its amended second phase, the computerization of Customs Wing was included. In 1998, in its third amended phase, it included the reduction of the project cost, preparation of VAT map, and subscription of ASYCUDA software used in compilation, storage and analysis of import data in customs houses was reduced. Up to June 1999, huge hardware and recruitment were done under the project and a total of 1535 officers/employees were trained locally on VIS (VAT Information System), CIS (Customs Information System), ITIS (Income Tax Information System), etc. and 88 officers were trained abroad on several issues on computerized taxation system including "Tax Computerization" and "Revenue management" (NBR, 2000, pp. 39-46). Under this project, in 1997-98, LAN (Local Area Network) has been set for online exchange of information between the NBR, all of its filed level head offices, and offices of the Finance Minister and the Finance Secretary of all the field offices (NBR, 1998, p. 48). The VAT related important outputs of the ETAC Data Computerization Project were: (1) the establishment of VIS (VAT Information System) Cell, in which revenue data management is being done through maintenance and processing revenue data and generation of required reports [4 standalone reports, 9 comparative reports and 6 Commissionerate reports, as reported by Islam (1997, p. 55)]; (2) the establishment of a VAT Registration Cell at the NBR to provide VAT registration within 24 hours; and (3) development of a VIS software, which is being used in the Commissionerate offices to give the VAT Registration Certificate, entry of returns' data, generation of analytical reports, issuance of notices and monitoring. However, a number of important elements of the project was failed to implement (e.g., VAT Revenue mapping, computerization of all the VAT offices beyond the existing Commissionerate offices). About the final output, the conclusive comment is that the project has created an idea on the importance of the computerization of the revenue administration (NBR, 2000, pp. 39-46).

Recently (on 02.09.2009), the NBR has signed a Memorandum of Understanding (MoU) with the International Finance Corporation (IFC), a member of the World Bank Group, to avail the technical support for establishing digital NBR within the shortest possible time. The technical assistance is to execute the plan, the primary objective of which is to simplify, streamline and automate a number of government-to-business (G2B) services. The IFC will assist NBR by recommending measures to modernize the revenue administration for short-, medium- and long-terms and thus will pave the way to build the desired digital Bangladesh. Under this project the NBR will also able to issue TIN certificates and Business Identification Number (BIN) online once the plan is implemented. The main focus of the technical assistant program includes creation of central data centre at the NBR, automation of Duty Exemption and Drawback Office (DEDO), installation of ASYCUDA world, online VAT registration and return submission, setting up one-stop taxpayers service, e-payment of taxes, etc. (*The Financial Express*, September 3, 2009).

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8.14 Summary

"The introduction of a VAT requires considerable effort in educating taxpayers and training tax administrators" (Stotsky, 1995b, p. 280). But Bangladesh has implemented VAT to some extent hastily without much training to its tax administrators under a manual system. The VAT administration centrally lies with the VAT Wing of the National Board of Revenue (NBR), which is under the overall indirect tax administration of the Government. After the introduction of the VAT, its administration was assigned totally to the Customs and Excise Department of the NBR.

Under section 20 of the VAT Act, the NBR appoints the 12 types of VAT officials with 13 specific designations. The *Assistant Commissioner of Customs & Excise* in BCS (Customs & Excise) cadre has been recruited through the Bangladesh Public Service Commission (BPSC). Some posts may be filled in through promotion. However, the tax administration is highly affected by a significant number of vacant posts (around 28 percent of the overall sanctioned posts). The VAT related Customs, Excise and VAT Department has 7,585 sanctioned posts, against which 4,909 employees are working in the field level offices and thus about 35 percent of the sanctioned posts are vacant. The NBR, the apex body in charge of the whole revenue organization, is headed by the Secretary of IRD as the *ex-officio* Chairman. Except the Chairman of the NBR and two members [Member (VAT), and Member (Customs and VAT Administration)], there are five (5) First Secretaries and twelve (12) Second Secretaries who are directly related to VAT administration and management. Besides under the supervision of the Member (VAT), there are 9 VAT related Branches headed by 4 First Secretaries, who are assisted by 9 Second Secretaries. Since 2008-09, the customs, excise and VAT administration consists of 23 administrative units (22 under the NBR and 1 under the IRD; 22 local and 1 foreign, of the local units 14 are related to revenue collection). There is a three-tire VAT administration in the field level: Commissionerate at top (headed by the Commissioner, VAT), then Divisional Office (headed by Deputy/Assistant Commissioner, VAT), and then Circle Office at root level (headed by Superintendent, VAT).

In Bangladesh, audit of VAT may be a *regular audit* or *targeted audit.* The audit of VAT is conducted mainly by the Audit Teams formed in the Commissionerate Office with *one* Superintendent and *two* Inspectors with overall responsibility on the Joint Commissioner (Audit). The Audit Unit in the Commissionerate Office is responsible for both *taxpayer audit* and *internal audit.* The *VAT Audit, Intelligence and Inspection Directorate* also performs VAT audit avoiding any duplication on same entity. Under the VAT laws, in addition to VAT audit, there are provisions for several other enforcement actions including inspection, inquiry/investigation and search; supervised supply; seizure and forfeiture; imposition of restriction on removal of goods; summon and arrest; filing cases; imposition of penalty and prosecution; and steps for recovery of delinquent revenue.

To combat noncompliance, there are a number of penal provisions in the VAT Act/Rules. Both financial and nonfinancial penalties are provided in the VAT laws. Section 37 is the main source of penal provision for noncompliances in terms of penalty or prosecution or both. For the purpose

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of mitigating the grievances, there are provisions on appeal, revision and rectification, but there is no specific provision regarding appeal to the High Court Division (HCD) or the Appellate Division (AD) of the Supreme Court. Rather there is categorical provision creating a bar on the jurisdiction of civil court (section 61). However, a writ petition can be filed in the HCD under sub-article (2) of Article 102 of the Constitution when no other equally efficacious remedy is provided by the VAT law or when the question of law and interpretation of statute is involved.

For the purpose of recovery of under-paid or under-imposed tax, the concerned VAT officer shall take enforcement action, within 3 years from the date of due. For the purpose of recovery of outstanding conclusively ascertained tax, a number of actions can be taken by the VAT authority including the deduction from money under the control of tax authority, recovery from the defaulter's money kept with other person, deduction from the defaulter's bank account and freezing the same, stopping the removal of goods/rendering of service, seizure of transport (with/without goods), keeping business premises under lock and key, attachment and sale or sale without attachment of movable/immovable property, etc. The excessive VAT is to be claimed as a refund in Form "TR-31", in triplicate, within 6 months of the payment of the tax (except for due to cancellation of registration). The refund claim shall have to be disposed of within 90 days of the receipt of the application.

From 2004-05, there is a **Service Desk** as a front office at all field level VAT offices to help the taxpayers and to create tax awareness. Only in November 2007, a Help Desk is opened in the NBR Head Office to help the visitors and other persons desiring for assistance on taxes. The publication of the *Citizens Charter* of the NBR published in January 2008 is also a good initiative to get the answers to preliminary queries to tax administration.

The NBR has established the Large Taxpayers Unit (LTU), VAT in 2004. Presently there are 166 large business entities under the control of LTU-VAT, which is collecting over 39 percent of total local stage taxes collected by the NBR. Starting with the limited capacity of the Computer Cell of the NBR, the major project on computerization undertaken under the *Excise, Taxes & Customs (ETAC) Data Computerization Project* from December 1989 to June 1999. The hardware, software, humanware, training, networking, and other logistics on computerization were implemented under the project, but its continuing effect is not noteworthy.

In the budget speech of 2009-10, the Finance Minister has also proposed the creation of VAT Divisional Office in each district and necessary circle offices, creation of three new VAT Commissionerates at greater Dhaka and Chittagong, one Appeal Commissionerate, new VAT Survey Directorate, two Appellate benches, increase in manpower, logistics and transports for various field offices of Customs and VAT including the Airport. Besides, he has proposed to create separate ICT Wing of NBR along with an ICT Commissionerate towards building ***Digital Bangladesh***. Moreover, positions of Member under Customs and VAT Administration have been proposed to increase and the number of officers and staff working in different field offices administering customs and VAT has also been proposed to increase (Muhit, 2009, pp. 110-111).

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CHAPTER NINE

IMPLICATIONS OF REGULATORY CHANGES ON VALUE ADDED TAXATION SYSTEM

9.1 Introduction

Changes in the fiscal statutes are a common phenomenon in order to achieve the revenue target of the government as well as to guide the economic activities in consistent with the economic policy of the sitting political government. These changes are made by placing a Bill in the Parliament, which is passed by the Parliament as the Finance Act. According to section 3 of the Provisional Collection of Taxes Act 1931 (amended by section 2 of the Finance Act 1997), any provision for imposition or increase of customs duty, excise duty or value added tax (VAT) or supplementary duty (SD) or turnover tax (TT) proposed in the Finance Bill may have immediate effect from the introduction of the Bill. In each and every year (even at the time of enacting the VAT Ordinance 1991 as the VAT Act 1991 within forty days), there are a number of changes made in the VAT Act 1991. Below is a review on the major regulatory changes made in the VAT laws.

9.2 A Note on the Chronology of Regulatory Changes

According to the interpretations provided in Article 152 of the Constitution of Bangladesh, "law" means any Act, ordinance, order, rule, regulation, byelaw, notification or other legal instrument, and any custom or usage, having the force of law in Bangladesh (GOB, 2008a). The Value Added Tax Act 1991 (Act No. 22 of 1991) is the parent statute within the coffer of the VAT laws. Other constituents of the VAT laws include the following: (a) the Value Added Tax Rules 1991; (b) Notification (*Prgnapan*), popularly known as S.R.O. (Statutory Rules and Order); (c) Order (*Standing Order*, *General Order*, *Order*, and *Special Order*); (d) Circular (*Paripatra*); (e) Clarifications with File Reference; (f) Letter of Explanation; and (g) Verdicts of the Appellate Authority and the Supreme Court of Bangladesh. A critique on these statutory elements is given below:

(a) ***The Value Added Tax Act 1991:*** The Value Added Tax Act 1991 is the 22nd Act of 1991 repealing the Value Added Tax Ordinance 1991, the 26th Ordinance of 1991, promulgated by the then Acting President on 31 May 1991 (when the Parliament was not in a session) and published in the Bangladesh Gazette on 1 June 1991, during the regime of a democratic government led by Bangladesh Nationalist Party (from 20 March 1991 to 26 February 1996 under the 5th Parliament).[1] In the ensuing session of the Parliament (which was held from 10 June to July 15, 1991), the Value Added Tax Bill 1991 was placed by the then Finance

[1] Under Article 93 of the Constitution, at any time when Parliament stands dissolved or is not in session, if the President is satisfied that circumstances exist which render immediate action necessary, he may make and promulgate such Ordinances as the circumstances appear to him to require, and any Ordinance so made shall, as from its promulgation have the like force of law as an Act of Parliament. The Ordinance shall be laid before Parliament at its *first meeting* following the promulgation of the Ordinance and shall, unless it is earlier repealed, cease to have effect at the expiration of 30 days after it is so laid or, if a resolution disapproving of the Ordinance is passed by Parliament before such expiration, upon the passing of the resolution (GOB, 2008a).

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Minister in the Parliament on 01 July 1991 and passed on 09 July 1991. The Presidential assent was given on 10 July 1991 and also the Act was published in the Official Gazette on the same day. The VAT Ordinance had 73 sections with 41 sections without any sub-sections and remaining 32 sections with 2 to 5 subsections each (87 sub-sections in total) and three schedules. In the newly passed VAT Act had the same number of total sections with similar distributions but only with two added sub-sections (89 sub-sections in total) and also the same three schedules. The First Schedule was for the goods exempted from VAT, the Second Schedule was for taxable services, and the Third Schedule was for goods and services subject to supplementary duty (SD) along with the statutory rates of SD. To make a change in the VAT Act, amendments were made in terms of insertion of a new section or a new sub-section in any existing section, substitution of any existing section fully or any sub-section(s) of an existing sections, the lingual amendment by substitution of some existing words with another single or set of word(s) or by inserting some additional word(s). Adding/repealing/amending clause(s) to any section/sub-section may also be done. Sometimes proviso(s) to a section/sub-section may be inserted/withdrawn/amended. Insertion of an "Explanation" may also be added/withdrawn/amended. In the schedules, amendments (insertion or deletion or revision of some items) may also be done or the whole schedule may be substituted frequently. But whatever be done in the VAT Act, everything must be done through an Act of Parliament or an Ordinance when the Parliament is dissolved or not in a session. During a normal time, the annual Finance Bill is placed in the Parliament by the Finance Minister just after his budget speech usually on the second Thursday of June with the proposed amendments in a fiscal statute. The Finance Bill is passed as the Finance Act on 29 or 30 June after a threadbare debate in the Parliament over a period of 18 to 23 days with less number of working days. But during a caretaker government regime[2] (when there is no Parliament), the Finance Adviser is supposed to prepare the Finance Bill to be promulgated as the Finance Ordinance by the President to change the fiscal statutes. The changes through the Finance Act/Ordinance are mainly for implementing the fiscal measures to give the effect of the constitutional binding under Article 83: "No tax shall be levied or collected except by or under the authority of an Act of Parliament" (GOB, 2008a). Thus, changing a tax statute is a regular annual event. Usually the proposed changes in the VAT Act (for affecting value added tax, supplementary duty and turnover tax) and other indirect tax laws under the control of the NBR (Customs Act and Excise and Salt Act) are given immediate effect (from the point of time, when the Finance Minister places the Finance Bill) under the provision of section 3 of the Provisional Collection of Taxes Act, 1931 (Act No. XVI of 1931), which says: "Where a bill to be introduced in the Parliament on behalf of Government provides for the imposition or increase of a duty of customs or excise or value added tax or supplementary duty or turnover tax the Government may cause to be inserted in the Bill a declaration that it is expedient in the public

[2] The caretaker governments (CG) were led by Justice Muhammad Habibur Rahman (30 March 1996 to 23 June 1996), Justice Latifur Rahman (15 July 2001 to 10 October 2001), President Iajuddin Ahmed (29 October 2006 to 12 January 2007) and Dr. Fakhruddin Ahmed (12 January 2007 to 6 January 2009). During the last unusual tenure of the CG, the state of emergency was declared on 11 January 2007 and the general election was held on 29 December 2008 for constituting the 9th Parliament.

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interest that any provision of the Bill relating to such imposition or increase shall have immediate effect under this Act." This provision is usually applied by the Finance Minister. As mentioned by Akbar Ali Khan (2008), the former NBR Chairman, "With a view to forestalling destabilizing speculations and evasion of taxes, new or increase in indirect taxes in Bangladesh are made effective on the very day budget is announced, long before the budget is approved by the Parliament" (Khan, 2008, p. 16). For this reason, administrative year for tax departments are also not similar to standard financial year (starting from July 1 of a year up to June 30 of the next year) [Table 9.05]. According to Khan (2008), the dependency of Bangladesh on indirect taxes, particularly on customs revenue (import-stage taxes, such as customs duty, VAT at import-stage and SD at import-stage) is the main reason of such unusual provision. Table 9.01 has shown the structural dominance of import-stage taxes in the overall tax structure. The share of import-stage taxes was very high in the second half of the 1990s (around 55 percent of total taxes and over 44 percent of total revenue). Over the recent years, the share has been declining successively, although the most recent projections are based on the continuing global recession.

Table 9.01: Import-Stage Taxes in Bangladesh during the VAT Regime

Financial Year (FY)	Import-stage Taxes as % of Total Tax			Import-stage Taxes as % of Total Revenue		
	Total Tax	VAT	VAT & SD	Total Tax	VAT	VAT & SD
1991-92 to 1994-95	51.9	18.1	18.9	41.7	14.6	15.2
1995-96 to 1999-2000	54.9	19.9	24.2	44.3	16.0	19.5
2000-05	49.1	17.1	23.0	40.1	14.0	18.8
2005-06	42.0	15.1	10.7	33.8	12.1	8.6
2006-07	41.5	15.1	10.3	32.8	11.9	8.1
2007-08	41.2	12.7	9.9	34.2	10.5	8.2
2008-09	38.8	15.3	9.2	31.2	12.3	7.4
2009-10	32.3	14.7	8.4	26.0	11.8	6.8
2005-06 to 2009-10	**38.5**	**16.5**	**20.4**	**31.1**	**13.3**	**16.5**
1991-92 to 2007-08	**47.9**	**17.6**	**21.9**	**38.9**	**14.3**	**17.7**
1995-96 to 2009-10	**44.2**	**17.2**	**21.8**	**35.8**	**14.0**	**17.6**

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on NBR's *Annual Reports 1992-93 to 2007-2008* (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009c).

As explained by Akbar Ali Khan (2008), secrecy in the budget is needed in countries where a significant portion of the revenue comes from indirect taxes. Any prior knowledge about the increase in the rate of indirect taxes creates scope for rent seeking. In countries where much of the revenue comes from direct taxes,[3] leaking of changes in tax rates does not give rise to much speculation. As long as customs revenues continue to be disproportionately important in Bangladesh, revenue proposals in the budget will have to be kept secret. A legal structure (provision of section 3 of the Provisional Collection of Taxes Act, 1931 giving immediate effect of the indirect tax proposals) has been established to protect Government revenues when new taxes or higher rates are proposed. Secrecy of tax proposals has to be guarded till the budget is tabled in the Parliament (Khan, 2008, pp. 15-16). However, with respect to

[3] The share of tax on international trade in total revenue was only 1% in industrial countries; 6% in East Asia; 5% in middle-income countries in 2005 (*World Development Indicators 2007* of the World Bank; *vide* Khan, 2008, p. 16).

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VAT, the comment made by Khan (2008) that "the change in the uniform VAT rate is less destabilizing" (Khan, 2008, p. 15) is partly true regarding the tax rates only, because as mentioned earlier, the width and breadth of changes in a tax law might be related to plethora of so many things and even the uniform standard rate of VAT has been twisted into a number of ad hoc (truncated) rates.

From 1992-93 to 2009-10, the VAT Act has been amended by 16 Finance Acts and 2 Finance Ordinances[4] for 2007 and 2008. The Finance Act is usually published in the Bangladesh Gazette on the date of Presidential assent given thereto (except for the Finance Act 1994 published on the next day of the Presidential assent). In case of the Finance Ordinance, it is usually published on the date of promulgation. The date of publication in the Bangladesh Gazette is usually the closing day of the preceding financial year (30 June), except for the Finance Acts of 1994 (published on 1.7.1994), 1996 (on 10.9.1996)[5], 2000 (on 29.6.2000) and 2006 (on 29.6.2006) and the Finance Ordinance 2007 (28.6.2007). Table 9.02 has provided a detailed account of quantitative changes in the VAT Act by these 18 Finance Acts/Ordinances. Starting with 73 sections, it went to 76 with three new sections in 1994 [section 8A (Turnover Tax Determination Commission); section 8B (Powers and Duties of the Commission); section 8C (Application and Appeal to the Commission)]. Two sections (sections 18A and 71A) were inserted in 1996, one section (section 24A) in 1999 and one section (section 71AA) in 2000 and then total number of sections was 80. In 2002, with the deletion of 3 earlier new sections (sections 8A, 8B and 8C, but section 8C with its 1995 amended title "Application, Appeal etc. to the Commission"), the number of sections became 77. With further insertion of 3 sections (sections 8D, 26A and 26B) in 2004, 1 section (section 34A) in 2006, and 1 section (section 72A) in 2009, now the total number of effective sections is 82 (around 12 percent increase from 1991). The number of sub-sections (in sections with sub-sections) was 89 in 1991 and it has become 144 in 2009 (around 62 percent increase). If one sub-section is assumed to have similar weight of one section, the cumulative growth is around 45 percent. The highest number of amendments affecting 20 sections (including 12 sections where the designation "Collector" has been changed to "Commissioner") were in 1995, 18 sections in 2000, 17 sections in 1992 (including 5 sections where Bengali spelling of "Form" has been changed), and 15 sections in 2002 (Table 9.02). In total 85 sections so far enacted (including the deleted 3 sections 8A, 8B and 8C), there are 35 sections where there were no amendments. Of the remaining 50 sections (including sections 8A and 8C), mostly changed sections are: section 2 (15 times), section 37 (13 times), sections 5 and 9 (10 times), sections 3, 13, 15 and 72 (7 times), and sections 6, 26, 38 and 42 (9 times). In section 2 (Definitions), in 1991, there were 26 clauses from (a) to (z) and now in 2009, there are 36 valid clauses with 8 clauses within the initial range of letters and 2 clauses outside the ranges.

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4 The *Finance Ordinance 2007* has been enacted as the *Finance (2007-2008 Financial Year) Act 2009* [Act No. 9 of 2009] published in the official Gazette on 24.2.09, w.e.f. 1.7.2007. The *Finance Ordinance 2008* has been enacted as the *Finance (2008-2009 Financial Year) Act 2009* [Act No. 10 of 2009] published in the official Gazette on 24.2.2009, w.e.f. 1.7.2008.

5 The term of the Government run by the Awami League-led Alliance was from 23 June 1996 to 15 July 2001 under the 7th Parliament and the budget process was delayed.

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Table 9.02: Number of Sections, Sub-sections and Frequency of Amendments thereon

Sections (Sec.)	1991(O)[a]	1991(A)[b]	1992	1993	1994	1995	1996	1997	1998
with 2 sub-sections (SS)	16	15	14	12	14	14	13	13	15
with 3 sub-sections	11	11	11	13	13	12	11	11	11
with 4 sub-sections	3	4	5	4	4	4	5	5	5
with 5 sub-sections	2	2	1	1	1	1	2	1	1
with 6 sub-sections	0	0	0	0	2	2	1	2	2
with 7 sub-sections	0	0	1	1	1	1	2	2	1
with 8 sub-sections	0	0	0	1	1	2	2	2	3
with 9 sub-sections	0	0	0	0	0	0	0	0	0
with 10 sub-sections	0	0	0	0	0	0	0	0	0
No. of Sec. with SS[6]	**32**	**32**	**32**	**32**	**36**	**36**	**36**	**36**	**38**
No. of Sec. without SS	**41**	**41**	**41**	**41**	**40**	**40**	**42**	**42**	**40**
Total No. of Sections	**73**	**73**	**73**	**73**	**76**	**76**	**78**	**78**	**78**
No. of SS in Sec. with SS	*87*	*89*	*93*	*99*	*115*	*120*	*125*	*126*	*131*
No. of Sec. newly inserted	---	---	0	0	3	0	2	0	0
No. of Sec. substituted fully	---	---	0	0	0	0	0	0	1
No. of Sec. amended partly	---	---	17[c]	7	4	20[d]	17	13	9
No. of Sec. deleted fully	---	---	0	0	0	0	0	0	0
Total No. of Sec. affected	---	---	17	7	7	20	19	13	10

Table 9.02 *.....cont'd*

Sections (Sec.)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
with 2 sub-sections (SS)	14	14	14	13	13	13	13	13	13	13	14
with 3 sub-sections	10	10	10	9	8	8	7	7	7	7	7
with 4 sub-sections	7	5	5	5	6	6	7	7	7	7	7
with 5 sub-sections	1	1	2	3	2	3	3	3	2	2	2
with 6 sub-sections	2	4	3	3	3	4	4	4	5	5	4
with 7 sub-sections	1	1	1	0	1	1	1	1	1	1	2
with 8 sub-sections	3	2	2	1	1	0	0	0	0	0	0
with 9 sub-sections	0	1	1	1	1	2	2	2	2	2	1
with 10 sub-sections	0	0	0	0	0	0	0	0	0	0	1
Total Sec. with SS	**38**	**38**	**38**	**35**	**35**	**37**	**37**	**37**	**37**	**37**	**38**
Total Sec. without SS	**41**	**42**	**42**	**42**	**43**	**43**	**43**	**44**	**44**	**44**	**44**
Total Sections	**79**	**80**	**80**	**77**	**78**	**80**	**80**	**81**	**81**	**81**	**82**
No. of SS in Sec. with SS	*134*	*139*	*138*	*123*	*126*	*138*	*139*	*139*	*140*	*140*	*144*
No. of Sec. newly inserted	1	1	0	0	1	2	0	1	0	0	1
No. of Sec. substituted fully	1	0	0	0	1	5	0	0	1	0	0
No. of Sec. amended partly	11	18	9	15	8	10	4	11	8	5	14
No. of Sec. deleted fully	0	0	0	3	0	0	0	0	0	0	0
Total No. of Sec. affected	**13**	**19**	**9**	**18**	**10**	**17**	**4**	**12**	**9**	**5**	**15**

[a] This is the original VAT Ordinance 1991 (published in the Bangladesh Gazette on 01.06.1991).
[b] This is the original VAT Act 1991 (published in the Bangladesh Gazette on 10.07.1991).
[c] Including 5 sections [sec. 2(i), 17, 31, 32 and 35], where Bengali spelling of "Form" has been changed.
[d] Including 12 sections [sec. 2(h), 3(2), 20, 22, 26(1), 27(1), 39(2), 40, 42, 48, 52 and 72], the designation "Collector" has been changed to "Commissioner".

Note: From 1992 to 2009, the number of sections or sub-sections is after the amendments by the Finance Act/Ordinance of the concerned year.

Sources: The original *VAT Ordinance* and *Act 1991*, and the *Finance Act/Ordinance* from *1992* to *2009*.

[6] Sec. 38 is treated as section with 2 sub-sections, although it has not started with "(1)" and in case of its 9 amendments over 9 years, once "Clause (1)" has been mentioned [by Finance Act 1996 in its sec. 6(11)] for making the change, but in other 7 cases (except by the Finance Act 2009), reference of sub-section has been mentioned.

Dhaka University Institutional Repository

A note on some correction of errors and erroneous correction: Below is an account of some corrections of errors and an extreme example of erroneous correction made in the statute, questioning the efficiency level of the VAT Policy and Budget Branch of the VAT Wing in the NBR.

1995: Section 8C was inserted under section 9(3) of the Finance Act 1994 under the title "Application and Appeal to the Commission." The tile is corrected under section 8(5) of the Finance Act 1995 as "Application, Appeal etc. to the Commission", but to substitute the words "Application and Appeal" by words "Application, Appeal etc.", in section 8(5) of the Finance Act 1995, words "Order and Appeal" were mentioned erroneously to be replaced. How section 8C was deleted by the Finance Act 2002.

1998: Next correction is related to the starting point a statute. The title of section 1 was "Short title, application and commencement" in 1991. After seven years, by the Finance Act 1998, it was changed to "Short title and commencement", the title similar to the title followed in the Income Tax Ordinance 1984.

2001: Under clause (d) of section 85 of the Finance Act 2000: in clause (*murdhanya na murdhanya na*) [(oo)] of section 2, definition of "*pa murdhanya na*" ["consideration"] was given as:

(*pa murdhanya na*) "*murdhanya na murdhanya na*" ..... in place of
(*murdhanya na murdhanya na*) "*pa murdhanya na*" .....

In the next year, the correction of the above error was done under clause (b) of section 71 of the Finance Act 2001.

2009: The word "in exchange of goods" [*panyer bimimaye*] was wrongfully mentioned in the clause (qq) [definition of 'commercial importer'] and clause (qqqq) [definition of 'trader'] of section 2 under the Finance Act 2004. These have been replaced by the correct words "in exchange of consideration" [*paner bimimaye*]. The definition of 'Divisional Officer' [under clause (za) of section 2] has been shifted to a new clause [clause (qqqqq) of section 2] to rectify the incorrect order of Bengali letter. It is interesting to note that an erroneous correction was done in section 6 based on unsubstantiated publication of the VAT Act published by the NBR (National Board of Revenue), if any. The Bengali word *"kartrik"* (which means "by") has been replaced by Bengali word *"kartan"* (which means "deduction") in sub-section (4B) of section 6 [*vide* section 49 of the Finance Act 2009]. But in the Finance Act 1993 and the Finance Act 2000, by which sub-section (4B) was inserted and amended, there was no Bengali word *"kartrik"*.

2009: Definition of *"deemed to be exported"* has been inserted in clause (*ba*) of section 2 [clause (zc) in English]. But there is already clause *(ba)* in section 2 for definition of "concerned officer" [clause (w) in English]. In Bangla there are two '*ba*' letters – first one is '*bargio ba*' and second one is '*antasthya ba*'. Since there is no physical difference of these letters, now second '*ba*' (*antasthya ba*) is not given in the set of Bangla alphabets to avoid confusion. Referring two definitions ["concerned officer" and "deemed to be exported"] in Bangla language will create confusion for their erroneous clause references with Bangla letters of same physical shape.

Amendments of the Schedules to the VAT Act: Table 9.03 below shows the frequency of amendment or substitution of the three schedules of the VAT Act. Over 18 years (from 1992 to 2009), the First Schedule has been amended thrice and substituted 5 times, without any amendment in 10 years (1993, 1996 to 1999, 2001, 2003, 2005, 2008 and 2009). When the

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Second Schedule contained only the list taxable services (from 1991-92 to 1999-2000), then it was amended each year (except in 1993), but after its substitution by a list of tax exempted services by the Finance Act 2000 from 2000-01, it was further substituted once in 2004, and amended 5 times without any amendment in 3 years (2001, 2005 and 2009). The Third Schedule (the list of goods and services subject to SD) has another regular trend of substitution each year, with double substitutions in 2 years (1995 and 1999).

Table 9.03: Frequency of Amendment/Substitution of Schedules to the VAT Act

Schedule to the VAT Act	1991(O)[a]	1991(A)[b]	1992	1993	1994	1995	1996	1997	1998
First Schedule	n/a	n/a	A	---	A	S	---	---	---
Second Schedule	n/a	n/a	A	---	A	A	A	A	A
Third Schedule	n/a	n/a	S	S	S	S(2)	S	S	S

Table 9.03 .....*cont'd*

Schedule to the VAT Act	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
First Schedule	---	S	---	A	---	S	---	S	S	---	---
Second Schedule	A	S	---	A	A	S	---	A	A	A	---
Third Schedule	S(2)	S	S	S	S	S	S	S	S	S	S

n/a = not applicable --- = no change A = amended partly
S = substituted fully S(2) = substituted fully twice with two schedules after a time gap

[a] This is the original VAT Ordinance 1991 (published in the Bangladesh Gazette on 01.06.1991).
[b] This is the original VAT Act 1991 (published in the Bangladesh Gazette on 10.07.1991).

Note: From 1992 to 2009, the amendment/substitution is by the Finance Act/Ordinance of the concerned year.

Sources: The original *VAT Ordinance* and *Act 1991*, and the *Finance Act/Ordinance* from *1992* to *2009*.

Table 9.04: Frequency of Amendment to the VAT Rules

FY	Amending SRO No.	No. of Rules (Rules inserted)
1991-92		42 (Rules 1-42 by SRO No. 3)
1991-92	25, 35, 50	42
1992-93	--	42
1993-94	85	42
1994-95	90, 106	42
1995-96	117, 125, 127	43 (rule 32A)[a]
1996-97	128, 139, 140	46 (rules 3A, 17A and 43)[b]
1997-98	150	47 (rule 34A)[c]
1998-99	175, 195	47
1999-2000	212	47
2000-01	265	47
2001-02	306, 319, 320	47
2002-03	340, 364	47
2003-04	370, 386	48 (rule 41A)[d]
2004-05	408, 433	50 (rules 3B, 11A, and 31A inserted; rule 31 deleted)[e]
2005-06	441, 454	50
2006-07	458	50
2007-08	470, 483, 487, 488	49 (rule 11A deleted)[f]
2008-09	489, 506	49
2009-10	511, 527	51 (rules 3AA and 31B)[g]

[a] On 15.07.1996 rule 32A inserted by SRO No. 127.
[b] On 28.07.1996 rules 3A, 17A and 43 inserted by SRO No. 128.
[c] On 12.06.1997 rule 34A inserted by SRO No. 150.
[d] On 12.06.2003 rule 41A inserted by SRO No. 370.
[e] On 10.06.2004 rules 3B and 11A inserted and rule 31 deleted by SRO No. 408 and on 21.10.2004 rule 31A (with earlier provision of rule 31) inserted by SRO No. 433.
[f] On 27.06.2007 rule 11A deled by SRO No. 470.
[g] On 11.06.2009 rule 3AA inserted by SRO No. 511 and on 30.06.2009 rule 31B inserted by SRO No. 527.

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

Dhaka University Institutional Repository

(b) ***The Value Added Tax Rules 1991:*** The Value Added Tax Rules 1991 is prescribed as an SRO (SRO No. 178-Ain/91/3-Musak, dated 12.06.1991, published in the official Gazette on the same date) containing 42 rules. Then it was amended 37 times at least once in a year, thrice in 3 years and maximum 4 times in 2007-08, except for 1992-93 (Table 9.04). Now (on 30 June 2009), the VAT Rules 1991 has 51 rules with 9 added rules (rule 11A was deleted after 3 years and rules 31 was deleted with re-insertion as rule 31A after a short-break).

(c) ***Notification/S.R.O.:*** Notification (*Prgnapan*), popularly known as S.R.O. (Statutory Rules and Order[7]) issued by the Government or the VAT Wing of the NBR. Issuance of SRO is provided a provision of the VAT Act and since the VAT Rules 1991 is itself an SRO and subordinate law under the VAT Act, under any provision of the VAT Rules 1991, no authority is provided to issue notification. In case of issuance of SRO issued by the Government, it must be under the order of the President by the Secretary of the Internal Resources Division (IRD) under this designation and not in the designation of the Chairman, NBR. When it is issued by the NBR, it is to be issued under the order of the NBR by the First Secretary or Second Secretary of the VAT Wing of the NBR. There are several sections where the Government is empowered to issue a notification, such as: section 2(e) [for tax period beyond one month, e.g., SRO No. 161]; section 5(3) [list of goods to be taxed on retail price, e.g., SRO No. 388]; section 6(4AA) [list of services subject to withholding VAT, e.g., SRO No. 521]; section 13(1) [disallowance of drawback of SD on inputs used in producing exportable goods/services, e.g., SRO No. 448]; section 14(1) [exemption of goods and services beyond First Schedule and Second Schedule, e.g., SRO No. 528]; section 20 [appointment of VAT authorities by the NBR for a jurisdiction, e.g., SRO No. 476]; proviso to section 31 [method and types of books of accounts and records to be maintained by a registered person, e.g., SRO No. 156]; and section. 48A [giving the power of a Magistrate to a VAT officer, e.g., SRO No. 132].

The NBR is also authorized to issue a notification under a number of sections of the VAT Act, such as: section 3(5)(b) [explanation for determining the periphery of taxable services, e.g., SRO No. 491]; second proviso to section 5(2) [amount and rate of value addition for payment of VAT for a good or class of goods, e.g., SRO No. 418]; section 72, read with section 5(4) [the imposition of tax on the basis of actual value in case of specified services,

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[7] There are as many as 47 definitions given for the acronym 'SRO' in the Internet-based dictionary for acronyms [http://acronyms.thefreedictionary.com/, accessed 22.06.2009.]. But only two are related to tax or revenue: State Revenue Office (Australia), and Statutory Regulation Order (UK). In our country, the newspaper frequently mentions the acronym 'SRO' with an elaboration of "statutory regulatory order" (*The Daily Star*, 12.6.2005). One renowned professional accountant, Mr. M. A. Baree FCA has mentioned three elaborations for SRO. In his 1992 book on *Law and Practice of Bangladesh Income Tax*, SRO has been mentioned as "Special Revenue Order" (*vide* Baree, 1992, p. xv). But in a newly authored version of the same book on *Law and Practice of Bangladesh Income Tax*, SRO has been referred to as "Statute Regulatory Order" (*vide* Baree, 2005, p. 1; Baree, 2007, viii). However, in his another book on *Value Added Tax (VAT) in Bangladesh*, SRO has been mentioned to mean "Statutory Regulatory Order" (Baree, 2006, p. 1). The Chancery Law Chronicles (CLC) has provided the abbreviation of "SRO" as "Statutory Rules and Order" [http://www.clcbd.org/, accessed 15.09.2009]. In the *Cab Express (BD) Ltd. vs. Commissioner, Customs and others case* [reported in *9 BLC (2004), 398*], SRO has been mentioned as a Statutory Regulatory Order (*The Bangladesh Law Chronicles*, Vo. IX, 2004, the HCD part, p. 410). In the budget documents, SRO is rarely available with its elaboration. Once Late Md. Saifur Rahman, ex-finance minister, in his seventh budget speech of 1995-96, mentioned, "During last four years, no Statutory Rule and Order (S.R.O.) was issued in between the budgets for raising additional revenue" (Rahman, 1995, pp. 2-3).

Dhaka University Institutional Repository

e.g., SRO No. 522]; section 72, read with section 6(4) [power to make rule to prescribe method of payment of VAT and/or SD in advance for a good/service or class of goods/services, such as advance trade VAT (ATV) for commercial importer, e.g., SRO No. 431]; section 72, read with section 6(4A) [use of stamp or banderole or special mark or design, e.g., SRO No. 457]; section 23 [delegation of authority of one VAT officer on another one, e.g., SRO No. 451]; section 32 [method and form of tax invoice, e.g., SRO No. 505]; section 72, read with section 46(2) [value added tax consultant, e.g., SRO No. 178]; section 72 [general power to make rules, e.g., SRO No. 479]. Table 9.05 has shown the inventory of 525 SROs so far issued by the Government or the NBR, by using a systematic consecutive serial number from 1 to 535 with 10 missing numbers [7, 9, 12, 13, 21, 51, 229, 232, 264, and 369].

Table 9.05: An Inventory of VAT SROs

FY	Date Range for SROs		SRO No.		SRO No. not Issued	No. of SRO Issued		
	from	To	from	to		Budget Time[a]	There-after	Total
1991-92	02.06.1991	21.04.1992	1	51	7, 9, 12, 13, 21, 51	8[b]	31	45[c]
1992-93	18.06.1992	20.03.1993	52	62	—	7	4	11
1993-94	20.07.1993	21.04.1994	63	89	—	17	10	27
1994-95	09.06.1994	08.05.1995	90	113	—	13	11	24
1995-96	15.06.1995	15.07.1996	114	127	—	5	9	14
1996-97	28.07.1996	06.04.1997	128	149	—	10	12	22
1997-98	12.06.1997	26.01.1998	150	174	—	19	6	25
1998-99	11.06.1998	27.05.1999	175	211	—	18	19	37
1999-2000	10.06.1999	11.05.2000	212	264	229, 232, 264	23	27	50
2000-01	08.06.2000	07.06.2001	265	305	—	22	19	41
2001-02	07.06.2001	11.06.2002*	306	339	—	18	16	34
2002-03	06.06.2002	06.03.2003	340	368	—	17	12	29
2003-04	12.06.2003	19.05.2004	369	407	369	24	14	38
2004-05	10.06.2004	15.03.2005	408	440	—	21	12	33
2005-06	09.06.2005	25.05.2006	441	457	—	11	6	17
2006-07	08.06.2006	08.05.2007	458	469	—	9	3	12
2007-08	27.06.2007	26.06.2008	470	488	—	11	8	19
2008-09	29.06.2008	19.05.2009	489	510	—	16	6	22
2009-10	11.06.2009	—**	511	535	—	25	n/a	25
Total No.				**535**	**10**	**294**	**231[c]**	**525**

[a] SROs issued on or after the date of placing the budget and up to 31 July of the FY.
[b] SROs issued in July 1991.
[c] Including 6 (six) SROs issued up to 30.06.1991, i.e., before the effective imposition of VAT from 01.07.1991.
* This date is conflicting due to the date of last SRO applicable for FY 2001-02, but effective from 01.01.2002 (SRO No. 145-Ain/2002/339-Musak, dated 11.06.2002, w.e.f. 01.01.2002).
** This should be the last date before the budget date in 2010. Here, information is compiled up to 30.6.2009.

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

It is interesting to note that the NBR has issued some SROs according sections of the VAT Act, under which the Board is authorized to issue an order (Table 9.06).

Dhaka University Institutional Repository

Table 9.06: VAT SROs issued by the NBR in place of Order

Section	Type of Order	Purpose	Example
8(4)	Order (Gazetted)[a]	Compulsory VAT registration irrespective of annual turnover	SRO No. 523
14(2)	Special Order[b]	Exemption of goods and services	SRO No. 254
14(1A)	Special Order[8]	Exemption of VAT and/or SD under an international agreement or bilateral agreement	SRO No. 254[d]
15(2)	General or Special Order[c]	Central registration except for production-stage	SRO No. 119

[a] Considering the public interest and being satisfied after reasonable investigation
[b] After mentioning the reason
[c] Provision enacted in 1994, then from 1994-95 to 1996-97, "General or Special Order (Gazetted)".
[d] SRO No. 13-Ain/2000/254-Musak, dated 19.01.2000 (exemption of VAT and/or SD on passenger-carrying bus and its required spare parts, fuel and other usable goods in case of imported from India to Bangladesh, under the Agreement for Regulation of Motor Vehicle Passenger Traffic).

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

Table 9.07: Effective Number of VAT SROs on 30.06.2009

FY	SRO Serial Nos.	Total SROs	SRO not Issued	SRO Issued	SRO Re-pealed	Incon-sistent/ Irrelevant SRO[a]	One-time SRO[b]	SRO for Repeal only[c]	Effective SROs
1991-92	1-51	51	6	45	35	3	1	2	4
1992-93	52-62	11	—	11	8	1	—	—	2
1993-94	63-89	27	—	27	20	2	—	1	4
1994-95	90-113	24	—	24	15	1	—	1	7
1995-96	114-127	14	—	14	7	—	2	—	5
1996-97	128-149	22	—	22	13	—	—	—	9
1997-98	150-174	25	—	25	18	—	—	2	5
1998-99	175-211	37	—	37	31	1	—	—	5
1999-2000	212-264	53	3	50	36	1	—	1	12
2000-01	265-305	41	—	41	25	1	—	3	12
2001-02	306-339	34	—	34	23	1	—	1	9
2002-03	340-368	29	—	29	23	—	—	2	4
2003-04	369-407	39	1	38	22	3	—	1	12
2004-05	408-440	33	—	33	18	—	—	3	12
2005-06	441-457	17	—	17	4	—	—	—	13
2006-07	458-469	12	—	12	2	—	—	—	10
2007-08	470-488	19	—	19	8	—	—	—	11
2008-09	489-510	22	—	22	6	—	—	—	16
2009-10	511-535	25	—	25	1	—	—	—	24
Total	**1-535**	**535**	**10**	**525**	**315**	**14**	**3**	**17**	**176**

[a] Of these 14 SROs, SRO No. 11 was related to appeal rules, and from 1995-96 (15.06.1995), after substitution of sub-section (1) of section 42 and insertion of sub-section (1A) in section 42 by the Finance Act 1995, appeal is guided under section 42 and hence SRO No. 11 became inconsistent. Other 13 SROs (SRO Nos. 27, 43, 61, 70, 76, 91, 193, 257, 271, 326, 395. 396 and 400) are irrelevant.
[b] These 3 SROs are: SRO Nos. 1 (valid without any current effect), 123 and 124.
[c] These 17 SROs are: SRO Nos. 26, 54, 69, 112, 157, 162, 220, 277, 278, 279, 316, 358, 382, 420, 429, 422 and 343.

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

[8] Currently two valid special orders u/s 14(1A) are: Special Order No. 18/Musak/2004, dated 10.10.2004, and Special Order No. 04/Musak/2005, dated 02.05.2005 (Hossain, 2008, pp. 505-508).

Dhaka University Institutional Repository

But how many SROs are being effective and how they are available, that is a big question, because only twice the NBR has published the volumes on SROs once in 1999 (NBR, 1999b) and thereafter in 2001 (NBR, 2001b). After collecting and scanning all the SROs so far issued, it has been found that out of 525 SROs, only 176 are effective on 30 June 2009 and the distribution of their issuance date is covering all the 19 years from 1991-92 to 2009-10 (Table 9.07 above).

The distribution of yearly effective SROs is shown in Table 9.08. The number of effective SROs was 41 at the end of first year (1991-92) and this has been increasingly increased and on 30 June 2009 has reached to 176. However, as shown in Table 9.09, out of 176 SROs, the principal SROs are only 66 including the SRO No. 3 (the original VAT Rules 1991) and other 110 SROs are those which have amended other SROs. In this regard, it is to be mentioned that 37 SROs have amended the single SRO (SRO No. 3) on the VAT Rules (Table 9.04 regarding the distribution of these 37 SROs). Of the remaining 65 principal SROs (except SRO No. 3 or SRO amending it), 39 are yet untouched without any amendments and 26 SROs have been amended once to maximum 8-times (Table 9.10).

Table 9.08: Annual Effective Number of VAT SROs

Financial	SROs Issued		SROs Ineffective						SROs Effective	
Year (FY)	No.	Cum.	Repealed	Inc/Irr	1-time	SfR	Total	Cum.	on	Cum.
1991-92	45	45	01	1	1	1	04	4	21.04.1992	41
1992-93	11	56	02	1	—	1	04	8	20.03.1993	48
1993-94	27	83	21	1	—	1	23	31	21.04.1994	52
1994-95	24	107	17	—	—	1	18	49	08.05.1995	58
1995-96	14	121	07	1	2	—	10	59	15.07.1996	62
1996-97	22	143	18	—	—	—	18	77	06.04.1997	66
1997-98	25	168	18	2	—	2	22	99	26.01.1998	69
1998-99	37	205	09	—	—	—	09	108	27.05.1999	97
1999-2000	50	255	27	1	—	1	29	137	11.05.2000	118
2000-01	41	296	37	1	—	3	41	178	07.06.2001	118
2001-02	34	330	25	2	—	1	28	206	11.06.2002	124
2002-03	29	359	30	1	—	2	33	239	06.03.2003	120
2003-04	38	397	27	—	—	1	28	267	19.05.2004	130
2004-05	33	430	31	3	—	3	37	304	15.03.2005	126
2005-06	17	447	16	—	—	—	16	320	25.05.2006	127
2006-07	12	459	03	—	—	—	03	323	08.05.2007	136
2007-08	19	478	05	—	—	—	05	328	26.06.2008	150
2008-09	22	500	14	—	—	—	14	342	19.05.2009	158
2009-10	25	525	07	—	—	—	07	349	30.06.2009	176
Total	**525**		**315**	**14**	**3**	**17**	**349**			

Note: **"Cum."** stands for "Cumulative Number"; **"Inc/Irr"** for "Inconsistent/Irrelevant SRO" mentioned in the year when becomes inconsistent or irrelevant; **"1-time"** for "one-time SRO without any future application"; and **"SfR"** for "SRO for Repeal of other one or more SROs". Date mentioned above is the last date of the corresponding financial year for consideration of an SRO for the financial year.

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

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Table 9.09: Number of Valid SROs in FY 2009-10 (on 30.06.2009)

Description of SROs	Main SROs	Amending SROs	Total SROs
VAT Rules* and the amendment thereof	1	37	38
Valid SROs not yet amended	39	0	39
Valid SROs with 1 amendment	11	11	22
Valid SROs with 2 amendments	4	8	12
Valid SROs with 3 amendments	3	9	12
Valid SROs with 4 amendments	4	16	20
Valid SROs with 6 amendments	2	12	14
Valid SROs with 8 amendments	1	8	9
Valid SROs with 9 amendments	1	9	10
Total	**66**	**110**	**176**
Total except the VAT Rules	***65***	***73***	***138***

* SRO No. 3 is the original VAT Rules, amended by 37 SROs (SRO Nos. 25, 35, 50, 85, 90, 106, 117, 125, 127, 128, 139, 140, 150, 175, 195, 212, 265, 306, 319, 320, 340, 364, 370, 386, 408, 433, 441, 454, 458, 470, 483, 487, 488, 489, 506, 511, and 527).

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

Table 9.10: Effective VAT SROs on 30.06.2009 with SRO Nos.

FY	SRO No. (SRO for purpose other than amending VAT Rules) as on 30.06.2009		
	Not yet amended	Main SRO Amended	Amending SRO as per year of issuance, but not necessarily amending corresponding SRO
1991-92	14	—	—
1992-93	56	—	—
1993-94	73, 79, 84	—	—
1994-95	94, 98	104, 113	110
1995-96	—	119	122
1996-97	132, 144	129	142, 143, 148
1997-98	156	151, 161	173
1998-99	—	178, 209	205
1999-2000	219, 250, 252, 254	218, 228	239, 241, 245, 255, 256
2000-01	293, 294	295, 296	270, 282, 290, 291, 301, 304, 305
2001-02	313	324	317, 318, 330, 338
2002-03	368		353
2003-04	388, 393, 403, 406	376, 384, 401	378, 391, 405
2004-05	418, 423	410, 430, 431	411, 414, 424, 425, 426
2005-06	445, 448, 451, 455, 457	443, 444	446, 447, 449, 456
2006-07	467		460, 461, 462, 463, 469
2007-08	476, 481, 482	479	472, 477, 478, 480, 484, 486
2008-09	494, 503, 505	491	492, 496, 497, 498, 500, 501, 502, 504, 508, 510
2009-10	521, 525, 528	522, 523, 524	513, 514, 515, 516, 517, 518, 519, 520, 526, 529, 530, 531, 532, 533, 534, 535
Total No.	**Thirty Nine**	**Twenty six**	**Seventy three**

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

Since often the issuance of SROs at an interval after the budget has been passed is highly criticized on the ground that the Government may use discretionary fiscal measures through these SROs, so the number of SROs during the budget time and those issued after budget might be one indicator of the extent of fiscal stabilization. As shown in Table 9.05, over 1992-93 to 2008-09, a total of 455 SROs were issued with an annual average of 27 SROs (minimum 11 in 1992-93 and maximum 50 in 1999-2000). During the budget period, total of

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261 SROs were issued with an annual average of 15 SROs (minimum 5 in 1995-96 and maximum 24 in 2003-04). The post-budget, total of 194 SROs were issued with an annual average of 11 SROs (minimum 3 in 2006-07 and maximum 27 in 1999-2000). Thus, 1992-93, 1995-96, 1997-98, 2005-06, 2006-07, 2007-08, and 2008-09 are stabilized years. On the other hand, 1996-97, 1998-99, 1999-2000, 2000-01 and 2001-02 are destabilizing years.

Effective Special Rules as SRO under the VAT Laws: Within the large gamut of SROs, so far 11 SROs have been issued as special rules, of them, 8 effective special rules are as follows:

Sl.	Special Rules	Latest SRO (amended)
1.	The Special Functional Procedure for Imposition of Duty on Exhibitor of Cinema (Cinema Hall) Rules 1996	SRO No. 127-Ain/96/129-Musak, dated 28.07.1996[9]
2.	The Organization of Entertaining Cultural Program with the help of Foreign Artists (Registration and Imposition of Duty) Rules 1997	SRO No. 134-Ain/97/151-Musak, dated 12.06.1997
3.	The Value Added Tax Consultants (License) Rules 1998	SRO No. 117-Ain/98/178-Musak, dated 11.06.1998
4.	Removal of Tea from Tea Garden (Special) Rules 1999	SRO No. 94-Ain/99/209-Musak, dated 03.05.1999[10]
5.	The Method of Collection of Advance Value Added Tax from Ship-Breaking Yards Related (Special) Rules 1999	SRO No. 138-Ain/99/218-Musak, dated 10.06.1999 (amended by SRO Nos. 282, 496 and 515)
6.	The Cigarettes Containing Tobacco Imported or Produced (Method of Use of Stamp or Banderol in Packets) Order 2001	SRO No. 247-Ain/2001/324-Musak, dated 03.09. 2001 (amended by SRO No. 330)
7.	The Value Added Tax on Seasonal Brickfields Rules 2004	SRO No. 60-Ain/2004/401-Musak, dated 09.03. 2004 (amended by SRO Nos. 463, 500 and 517)[11]
8.	The Imposition of Tax on the Basis of Actual Value in Case of Specified Services Rules 2008	SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009[12]

Three special rules issued as SRO and repealed subsequently are as follows:

Sl.	Special Rules repealed	Latest SRO (repealed)
1.	The Seized Goods and Conveyance (Interim Release) Rules 1999[13]	SRO No. 132-Ain/99/213-Musak, dated 10.06.1999 (Repealed by SRO No. 180-Ain/2000/279-Musak, dated 08.06.2000)
2.	The Determination of Total Sale Price (Excluding Value Added Tax) of Taxable Goods Supplied by Traders (Special) Rules 2001[14]	SRO No. 144-Ain/2001/309-Musak, dated 07.06.2001 (Repealed by SRO No. 174-Ain/2003/382-Musak, dated 12.06.2003)
3.	The Domestic Airline Ticket Tax Collection Rules 1999	SRO No. 156-Ain/99/230-Musak, dated 14.06.1999 [Repealed by SRO No. 115-Ain/2004/303-ATT, dated 10.06.2004, issued under issued u/s 11(2) of the *Finance Ordinance 1986*]

[9] SRO No. 188-Ain/91/4-Musak, dated 20.06.1991.
[10] SRO No. 197-Ain/91/20-Musak, dated 30.06.1991.
[11] SRO No. 137-Ain/99/217-Musak, dated 10.06.1999.
[12] SRO No. 192-Ain/91/16-Musak, dated 30.06.1991.
[13] SRO No. 135-Ain/97/152-Musak, dated 12.06.1997.
[14] SRO No. 116-Ain/98/177-Musak, dated 11.06.1998.

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The special rules issued for collecting tax on airline ticket was not issued under the VAT Act and there is no such provision in the VAT Act to raise such tax. But issuance of a VAT SRO under the concerned statutory provisions on 'airline ticket tax' (ATT) was very unusual to give the tax collection responsibility on the VAT authority. For that reason, when the tax is withdrawn, the concerned SRO (SRO No. 230) was repealed by an ATT SRO issued under section 11(2) of the Finance Ordinance 1986. Another two SROs [SRO No. 18-Ain/91/8-Musak, dated 27.01.1992 (w.e.f. 01.07.1991) and SRO No. 280-Ain/94/88-Musak, dated 27.09.1994,; where SRO No. 8 was amended by SRO No. 88] were issued u/s 14(1) of the VAT Act, but they were repealed by a single SRO issued jointly u/s 21(b) of the Customs Act and u/s 66 of the VAT Act 1991 (SRO No. 151-Ain/99/1787/Customs & VAT, dated 10.06.1999).

(d) ***Order:*** The NBR has the authority to issue an order in prescribed situations under the VAT Act or the VAT Rules. Rule 38 is the general provision authorizing the NBR to issue an order. From 1991-92 to 1997-98, under the provisions of original rule 38 (Power to issue supplementary directive), in respect of any matters arising out of the VAT Rules, the Board or the Collectorate/Commissioner may issue directives from to time. From 1998-99, under the provision of amended rule 38 (Power to issue order or notification or clarification or circular), in respect of any matters arising out of the VAT Rules, the Board, the Commissioner or the Director General of the Directorate may issue, with respect to the matters related to its or his own jurisdiction, order, notification, clarification or circular. Under two sections of the VAT Act [sections 5(7) and 6(4AA)], the NBR can issue an order. Under section 5(7), an order may be issued for ***tariff value*** (the order must be Gazetted and must be issued considering the public interest and being satisfied after reasonable investigation). The NBR has so far issue ***Order***, ***General Order*** (GO), and ***Special Order***. Example include ***order*** [e.g., for tariff value on SIM Card Supplier (S012.20), *vide* Order No. 06/Musak/2006, dated 08.06.2006], ***general order*** [e.g., for tariff value on machine made biscuit, *vide* General Order No. 17/Musak/2009, dated 30.06.2009], and ***special order*** [e.g., for fabrics made of fiber and thread in power loom with shuttle, *vide* Special Order No. 36/Musak/2004/428, dated 11.12.2004, amended through deletion of entries by General Order No. 12/Musak/2009, dated 11.06.2009]. Under section 6(4AA), the NBR may issue an ***Order*** for prescribing the method of withholding VAT and the NBR has issued a ***general order*** under this provision [*vide* General Order No. 23/Musak/97, dated 08.09.1997 [u/s 6(4B) and u/r 38] (NBR, 2001c, pp. 362-365); amended by General Order No. 05/Musak/2009, dated 11.06.2009 [u/s 6(4B) and u/r 38]. Except the preceding types of orders (*General Order*, *Order*, and *Special Order*), the VAT Wing of the NBR may also issue a ***standing order*** (e.g., Standing Order No. 6/Musak/91, dated 21.01.1991 issued u/r 38 regarding determination of price in case of supply of goods through tender; *vide* NBR, 2001c, pp. 11-12).

(e) ***Circular:*** As mentioned above, under rule 38, the NBR can issue a circular (*Paripatra*). Usually a circular (in confidential nature) is issued on the day of placing the budget to make the field-level VAT officials aware about the latest changes in the VAT laws through the budget having immediate effect. There are some infrequent circulars also issued by the NBR,

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for instances, the circular made on "regarding taking actions on the basis of an application without any name" and the circular made on "regarding the deduction and collection of value added tax at source" [*vide* NBR, 2001c, pp. 158-159; 380-382].

(f) ***Clarifications:*** Under rule 38, the NBR can also issue a clarification and this is frequent matter of the VAT officials. Clarifications are made with File Reference and may be in the form of ***office memo*** [*vide* NBR, 2001c, pp. 257-258, 301-302], ***office order*** [*vide* NBR, 2001c, pp. 390-393], or ***minutes*** [*vide* NBR, 2001c, pp. 303-305].

(g) ***Letter of Explanation:*** Under rule 38, the NBR can also issue an open letter explaining any issue creating confusion or may be issued to a particular person requesting an explanation. It may be in the form of "Explanation" or "Letter of Explanation" or simply a "Letter" "Correcting Letter" or "Message" and also with a file reference [e.g., the correcting letter addressed to a VAT Officer (NBR, 2001c, p. 14), telex message addressed to a VAT Officer (NBR, 2001c, p. 15)].

(g) ***Verdicts of the Appellate Authority and the Supreme Court of Bangladesh:*** In the fiscal law, usually there are provisions of remedy for a taxpayer aggrieved in any form. No civil court can entertain a case on VAT due to the bar imposed on the jurisdiction of civil court (section 61). In the VAT Act, there are provisions of appeal to Commissioner (Appeal) and the Customs, Excise and VAT Appellate Tribunal. The verdict of an appeal to the Commissioner (Appeal) is binding until the order is contested by either the affected VAT official or taxpayer in the Appellate Tribunal within the stipulated time of three months or extended time. The verdict of the Appellate Tribunal shall be binding on all the parties concerned. There is a general order of the NBR in this regard (General Order, dated 21.11.1996; *vide* Hossain, 2008, p. 458), according to which in case of any insistency between any order of the VAT official and the order of the Tribunal, the Tribunal's order shall prevail. There is no explicit provision of appeal or reference that can be made to the Supreme Court, which comprises the Appellate Division (AD) and the High Court Division (HCD) according to Article 94 of the Constitution. But since under section 42(1A)(b), the appeal is subject to disposal in the Appellate Tribunal according to the Customs Act, under which an appeal can be made to the High Court Division (under sections 196D, 196F, 196G and 196H of the Customs Act), the order of the Appellate Tribunal can be contested in the High Court Division. A writ petition can also be filed in the High Court Division under sub-article (2) of Article 102 of the Constitution of Bangladesh when no other equally efficacious remedy is provided by the VAT law or when the question of law and interpretation of statute is involved. According to Article 111 of the Constitution, the law declared by the Appellate Division (i.e., the verdicts) shall be binding on the High Court Division and the law (i.e., the verdicts) declared by either division (AD or HCD) of the Supreme Court shall be binding on all courts subordinate to it (GOB, 2008a). However, the VAT authority is little aware about the verdicts of the VAT related cases in the courts. There are no authoritative sources of the judgments of these cases. There are a good number of law journals publishing monthly the verdicts of the AD and the HCD, but only in the *Dhaka Law Reports* (DLR), the *Bangladesh Law Chronicles* (BLC) and the *Mainstream Law Reports* (MLR), few VAT related cases were published.

Dhaka University Institutional Repository

The VAT Act 1991 is such an Act, which has no chaptering. This year, the VAT Rules 1991 has incorporated a new rule (rule 37B), astonishingly which has no title. The VAT law is highly inter-linked with other related statutes particularly with the Customs Act for its border-stage administration and appeal procedure. The title of rule 16 (Issue of invoice in the case of supply and export of taxable goods) signifies that it is meant for 'taxable goods', but a list of services was incorporated in this rule in 2008. Reference of 9 effective statutes[15] and 4 repealed statutes[16] have been mentioned in the VAT Act: 12 statutes in 25 sections (sections 2, 3, 4, 5, 6, 7, 12, 13, 24A, 25, 28, 29, 40, 42, 46, 48A, 50, 51, 54, 60, 66, 67, 68, 70, and 73) out of 82 sections of the VAT Act and 2 statutes (1 common and 1 new) in the First and Third Schedules of the VAT Act.

9.3 Some Important Changes in the VAT Statutes: A Critical Review

Since its inception, making changes in the VAT laws is a regular event. The VAT Ordinance 1991 was promulgated on 31 May 1991 and it was published on 1 June 1991. Next day, SRO No. 1 was issued by the Government to make registration-related sections (sections 15, 16, 17 and 18) and administration-related sections (sections 20, 21 and 22), and section on the NBR's rule-making power (section 72) effective from 2 June 1991 and other sections from 1 July 1991. SRO No. 2 was issued also on the same day to exempt producers of taxable goods and providers of taxable services having annual turnover not exceeding Taka 5 lakh (initially fixed at Tk. 2 lakh) from compulsory registration u/s 15. The VAT Rules 1991 was prescribed by the NBR on 12 June 1991. The VAT Act 1991 was passed on 9 July 1991 repealing the VAT Ordinance 1991 and it was published in the Gazette on the next day. VAT replaced sales tax at import stage and 'business turnover tax' at local stage. The tax net of excise duty was the main tax-base of the VAT shifting the excise dutiable goods under the VAT net, except few commodities, such as tobacco products, natural gas, petroleum products and also a few services (services rendered by bank, services rendered by loans and investments, services rendered by WASA and Services rendered by enterprises other than cinema houses providing entertainments). A uniform 15 percent VAT rate was imposed at import-cum-production stage[17] with a big list of exemptions in the First Schedule and on 29 selected services through the Second Schedule. Except for importers, turnover tax (TT) was imposed at the rate of 2 percent on those having annual turnover below that Tk. 15 lakh and VAT at 15 percent for those having minimum annual turnover of Tk. 15 lakh. Exports were made zero-rated to completely eliminate VAT thereon. Supplementary duty (SD) was imposed at the rate of 10 to 85 percent on luxurious, non-essential and socially undesirable goods and services enumerated in the Third Schedule. Cottage industry benefit of complete VAT and SD exemption was introduced (through an SRO) for industries having maximum investment

[15] The Penal Code 1860 (Act XLV of 1860); the Code of Criminal Procedure, 1898 (Act V of 1898); the Code of Civil Procedure, 1908 (Act V of 1908); the Excise and Salt Act, 1944 (I of 1944); the Customs Act, 1969 (IV of 1969); the National Board of Revenue Order, 1972 (P.O. No. 76 of 1972); the Income Tax Ordinance, 1984 (XXXVI of 1984); the Gift Tax Act, 1990 (Act No. 22 of 1990); and the Narcotics Control Act, 1990 (Act No. 20 of 1990).

[16] The Gift-tax Act, 1963 (XIV of 1963); the Business Turnover Tax Ordinance, 1982 (XVII of 1982); the Sales Tax Ordinance, 1982 (XVIII of 1982); and the Value Added Ordinance, 1991 (Ordinance No. 26 of 1991).

[17] It is interesting to note that at the beginning u/s 3(3) of the VAT Act, VAT was collectible from importers, producers and taxable service renderers, but there was a provision in section 5(3) to impose VAT on the basis of retail price, i.e., VAT was extendable indirectly up to retail stage at the beginning.

Dhaka University Institutional Repository

in plant, machinery and equipment up to Tk. 3 lakh. In the budget of 1991-92, to tax target was shown under the head 'Value added tax' except for a target of an additional collection of Tk. 250 crore stated by the Finance Minister in his budget. Below is a year-wise enumeration of some important changes made in the VAT statutes, mainly covering the amendments made by the Finance Acts or Ordinances in the VAT Act.

(a) ***Changes in the VAT Act by the Finance Act 1992 in 1992-93***: The major changes in the VAT Act by the Finance Act 1992 are: (i) Definition of 'output tax' was changed to exclude SD from it [u/s 2(b)]; (ii) The contract-based production was treated as producers of goods in place of earlier treatment of services [u/s 2(q)] and a provision was further incorporated not to include raw materials provided by others in the value of goods [sub-section (6) inserted to section 5, although withdrawn in 1994]; (iii) Refund under zero-rating was withdrawn for SD paid on inputs to be prescribed through notification [u/s 2(v)]; (iv) The definition of "total receipts" for service renderers was amended to include SD in the tax base [u/s 2(x)]; (v) Provision of tariff value was the most important qualitative change of this year [sub-section (7) inserted to sec. 5]; (vi) The tax-base for supplementary duty (SD) for goods subject to retail-price based VAT u/s 5(3) was made same for SD also [clause (d) inserted in sec. 7(2)]. This change is also a major inconsistency from the viewpoint normal taxation; (vii) Provision was made to exempt any good or service from turnover tax [sub-section (3) inserted to sec. 8]; (viii) Drawback for export under invoice-based or flat rate according to predetermined input-out coefficient was introduced [sub-section (3) inserted to sec. 13]; (ix) Penalty of Tk. 25,000 u/s 37(1) [i.e., minor offences for failure regarding registration, submission of return, etc.] was amended to 'not exceeding Tk. 25,000' [u/s 37(1)]. The list of offences u/s 37(2) [i.e., mainly evasion-related noncompliance] was extended to include "failure to pay VAT and/or SD, or to submit the return even after the expiry of stipulated time in spite of being directed twice" and the penalty of Tk. 50,000 was amended to 'not exceeding Tk. 1 lakh' [u/s 37(2)]. The NBR's authority to make rules in imposition of penalty of Tk. 50,000 u/s 72(3) was amended to 'not exceeding Tk. 1 lakh' [u/s 37(2)].

(b) ***Changes in the VAT Act by the Finance Act 1993 in 1993-94***: The important changes in the VAT Act by the Finance Act 1993 are: (i) The definition of "total receipts" for service renderers was amended to exclude 'advance income tax' from the tax base [u/s 2(x)]; (ii) Provision of withholding VAT was introduced [sub-sections (4A)[18], 4(B) and (4C) inserted in sec. 6]; (iii) Provision was inserted to give drawback of VAT and SD paid locally in order to implement an international agreement [sub-section (4) inserted to sec. 13]; (iv) Provision was made to outsource external auditor for inventory audit and audit of books of accounts of a registered person [sub-section (3) inserted to sec. 26];[19] (v) Provision was inserted to give a person the opportunity of hearing before imposition of penalty [sub-section (5) inserted to sec. 37]; and (vi) Power of search was decentralized from the NBR to its authorized VAT officer [sec. 48 amended].

[18] Sub-section (4A) of section 6 inserted by the Finance 1993 was re-serialized as sub-section (4AA) by the Finance Act 2000 and the reference of sub-section (4A) in sub-sections (4B) and (4C) was amended by the FA 2001.

[19] Shifted to sub-section (3) of section 26A inserted by the Finance 2004.

Dhaka University Institutional Repository

(c) ***Changes in the VAT Act by the Finance Act 1994 in 1994-95***: The key changes in the VAT Act by the Finance Act 1994 are: (i) The definition of "input" was amended to include "'packaging materials' used in marketing by the supplier of goods [u/s 2(c)]; (ii) Provision was made to establish a "Turnover Tax Determination Commission" [section 8A (Turnover Tax Determination Commission); section 8B (Powers and Duties of the Commission); section 8C (Application and Appeal to the Commission) were inserted]; (iii) Provision was made for central registration for the head office [proviso inserted to section 15(2)]; and (iv) Provision for optional VAT registration was made for sellers, transferor or lessor of goods produced in Bangladesh or renderer of services other than those listed in the Second Schedule [u/s 17(2)].

(d) ***Changes in the VAT Act by the Finance Act 1995 in 1995-96***: The major changes in the VAT Act by the Finance Act 1995 are: (i) The long traditional designation of "Collector" was changed to "Commissioner"; (ii) Implication of section 25A of the Customs Act 1969 (value certified by a pre-shipment agency, where applicable) for tax-base of SD was incorporated, although it was inserted in the Customs Act in 1994-95 [u/s 7(2)]; (iii) Time bar of six-month period on drawback claim on export was inserted [proviso to section 13(1)]; and (iv) The Appeal procedure was changed totally. Previously appeal can be made to the Board or a VAT officer not below the rank of a Joint Commissioner directed by the Government. From 1995-96, appellate authority was redesigned to create the post of Commissioner (Appeal) and the Customs, Excise and VAT Appellate Tribunal [u/s 42].

(e) ***Changes in the VAT Act by the Finance Act 1996 in 1996-97***: The important changes in the VAT Act by the Finance Act 1996 are: (i) Trading-stage VAT was introduced, without making any distinction between wholesaler and retailer, treating them as merchandisers [u/s 2(qqqq)] and they were treated as "supplier" for tax payment [u/s 3(3)(d)]; (ii) Value for tax base was to be determined in case of imported inputs on the basis of value at customs point under sections 25 or 25A of the Customs Act [u/s 5(2)]; (iii) VAT was to be ascertained on the basis of the consideration to be received from the consumers, in case of sale of other's branded goods [u/s 5(2A)]; (iv) Provision for delegation of Magistracy power on the VAT officers was made [new section 48A]; and (v) Provisions for freezing the bank account and taking steps to stop the salary payment of a bank officer on his failure to comply with the instruction of VAT officers in recovering the outstanding tax were made to recover the outstanding dues under the VAT Act [u/s 56].

(f) ***Changes in the VAT Act by the Finance Act 1997 in 1997-98***: The key changes in the VAT Act by the Finance Act 1997 are: (i) TT rate was increased to 4% from 2% [u/s 8(1)]; (ii) Provision was made to determine VAT based on prescribed rate of value addition for goods to be supplied by traders [second proviso to sec. 5(2)]; (iii) Tax-base of supplementary duty was changed to "value on which import duty is imposed" to "duty paid value" [u/s 7(2)]; (iv) Provision was made for interim release of confiscated goods under pending adjudication [proviso to sec. 27(1)] and for interim release of seized vehicle under pending adjudication against bank guarantee [proviso to sec. 39(2)]; and (v) The provision of refund was made for the first time [sec. 67 was renamed as "Refund" in place of "Time limit of drawback claim" and substituting sub-section (1) of sec. 67 and new rule 34A on refund inserted].

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(g) ***Changes in the VAT Act by the Finance Act 1998 in 1998-99***: The major changes in the VAT Act by the Finance Act 1998 are: (i) The "prescribed date" for submission of VAT return was changed from "within 20th day of the month succeeding the tax period" to "within 10th day of the month succeeding the tax period" [u/s 2(o)]; (ii) Condition of bank guarantee for interim release of seized vehicle under pending adjudication was withdrawn [proviso to sec. 39(2)]; (iii) Application to the NBR for correcting any errors u/s 44 was restricted in case where the registered person has not availed the opportunity of an appeal u/s 42 [second proviso to sec. 44(1)]; and (iv) Provision made to give license to VAT consultants [u/s 46(2)].

(h) ***Changes in the VAT Act by the Finance Act 1999 in 1999-2000***: The important changes in the VAT Act by the Finance Act 1999 are: (i) Provision was made in general for advance payment of VAT and/or SD [u/s 6(4)]; (ii) The scope of SD was widened to cover the goods and services on which it is reasonable to impose SD considering the public interest [u/s 7(1)]; (iii) Provision for compulsory registration irrespective of annual turnover was introduced [u/s 8(4)]; (iv) The period of maintenance of records and documents was reduced from 6 years to 4 years, except for the disputed tax period until the disposal of disputes [u/s 33]; and (v) Provision was made to give award to VAT officers or employees in recognition of extraordinary intelligence, integrity and courage in case of revealing or preventing tax evasion or any supplier of essential information on tax-evasion [72(2)(k)].

(i) ***Changes in the VAT Act by the Finance Act 2000 in 2000-01***: The key changes in the VAT Act by the Finance Act 2000 are: (i) Second Schedule was replaced to include the services exempted from VAT and "taxable services" was defined to mean services not included in the Second Schedule [u/s 2(g)]; (ii) The definition of "consideration" was inserted for the first time with spelling mistakes [u/s 2(oo)]; (iii) Inconsistent provision was made to realize VAT by registered person from the buyers of their goods or services [u/s 3(3A)]; (iv) Provision was made to introduce the method of tax payment by using stamp or banderole or special sign or mark of specified size and design [u/s 6(4A)[20]]; (v) Most aggressive amendment of the year is the substitution of sub-section (1) of section 9 by inserting a total 11 types of items in sub-section (1) of section 9 where input tax credit was restricted and due to this provision, the VAT system has become a type of ordinary sales tax to a great extent;[21] (vi) Restriction imposed on entering into business premises and examination of inventory and documents in case of established registered person was withdrawn [u/s 26(4)]; (vii) Provision was made to maintain commercial documents relating to taxable and exempted goods and services [clause (ee) in section 31]; (viii) New section 71AA was introduced for awarding the supplier of information or the VAT officers or the officer or employees any other government body or local authorities for their effort in revealing tax evasion and contravention of law, etc. [clause (kk) of sec. 72(2)].

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[20] This is new sub-sec. (4A) of sec. 6. Sub-sec. (4A) of sec. 6 inserted by the FA 1993 was re-serialized as sub-sec. (4AA) by the FA 2000 and the reference of sub-sec. (4A) in sub-sec. (4B) and (4C) was amended by the FA 2001.

[21] *Vide* the details in section 5.7.07 (Right to Take Input Tax Credit) in Chapter 5.

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(j) ***Changes in the VAT Act by the Finance Act 2001 in 2001-02***: The major changes in the VAT Act by the Finance Act 2001 are: (i) The definition of "Divisional Officer" was introduced to refer to "the VAT officer in charge of a VAT Divisional Office" and the definition was given at a clause without maintaining the Bengali alphabetical serial [u/s 2(za)[22]]; (ii) Inconsistent provision for realizing VAT by registered person from the buyers of their goods or services was withdrawn [subsection (3A) of section 3 repealed]; (iii) One distortionary provision was made to prescribe the "amount of value addition" in addition to earlier provision of 'rate of value addition' (1997-98) in case of any good or class of goods to be supplied by traders [second proviso to section 5(2) amended].

(k) ***Changes in the VAT Act by the Finance Act 2002 in 2002-03***: The important changes in the VAT Act by the Finance Act 2002 are: (i) The "Turnover Tax Determination Commission" established in 1994-95 was abolished [sections 8A, 8B and 8C deleted]; (ii) A provision was made for cancellation of registration after disposal of any pending tax liability [u/s 19(1A)]; (iii) Right of authorized VAT officers to enter place and premises of production, rendering of service, and trading to inspect stock of goods, service and inputs and to examine accounts and records was expanded for turnover tax or cottage industry enlisted entities ["Explanation" to u/s 26[23]]; (iv) Power of adjudication of the VAT officers except for export/import was revised or enhanced for various officers [u/s 40]; (v) Time-bar for claiming refund was extended from 4 months to 6 months [u/s 67].

(l) ***Changes in the VAT Act by the Finance Act 2003 in 2003-04***: The key changes in the VAT Act by the Finance Act 2003 are: (i) Central registration was cancelled for production stage [proviso to section 15(2)]; (ii) Inapplicability of six-month time-bar for claiming refund was made for any refund arising due to cancellation of registration [u/s 19(3)]; and (iii) Provision was made to relax the restriction of transfer of ownership before full payment of all taxes by allowing the buyer on submission of unconditional bank guarantee for payment of tax [proviso to section 59].

(m) ***Changes in the VAT Act by the Finance Act 2004 in 2004-05***: The major changes in the VAT Act by the Finance Act 2004 are: (i) Since October 1, 2004, commercial importers were also treated as trader at import stage for collecting VAT at trading stage as an advance trade VAT (ATV) [u/s 2(qq)]; (ii) Provision was made to fix a term for registration certificate applicable for supplier or importer or service provider [u/s 15(3A)] and one-year registration was provided for "commercial importer" to be renewable on application [new rule 11A inserted]; (iii) Provision was made to supply goods at uniform price to be printed on the body or container or package by the producer or importer after paying all taxes at production stage by the producer and at supply-stage by the importers [u/s 5(2B)]; and (iv) Provision was made to establish a Large Taxpayer Unit or LTU-VAT [section 2(ss) and section 8D inserted].

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[22] Shifted to clause (qqqq) of section 2 by the Finance 2009 at its correct serial.

[23] Shifted to sub-section (6) of section 26 fully substituted by the Finance Act 2004.

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(n) ***Changes in the VAT Act by the Finance Act 2005 in 2005-06***: The important changes in the VAT Act by the Finance Act 2005 are: (i) Provision has been made to fix the rate of drawback of VAT and applicable duty on certain goods by the government through the official gazette [u/s 13(1A)]; (ii) In line with the supply of goods, rendering of taxable services with negative balance in VAT Current Account was enumerated as an offence subject to penalty [clause (jjj) of section 37(2) amended]; and (iii) The time limit has been extended from 30 days to 90 days for bringing the goods back to the factory, in cases where the goods are damaged or unfit for consumption or when there is a material change in the nature of supply [clause (a) of proviso to sub-rule (1) of rule 17A amended].

(o) ***Changes in the VAT Act by the Finance Act 2006 in 2006-07***: The key changes in the VAT Act by the Finance Act 2006 are: (i) Provision was made to give the certified photocopy of VAT related documents on application by a person against a fee to be determined by the Board [new section 34A]; (ii) The time limit for disposal of VAT appeal cases was reduced form 12 months to 9 months for Commissioner (Appeal) and Customs, Excise and VAT Appellate Tribunal [u/s 42(4)]; and (iii) For the purpose of recovery of outstanding dues from the defaulter's money kept with other person, previously the time for payment of the tax was "within 7 days of receipt of the notice". It was extended to "within 15 days of receipt of the notice" [u/s 56(1)(b)].

(p) ***Changes in the VAT Act by the Finance Ordinance 2007 in 2007-08***: The major changes in the VAT Act by the Finance Ordinance 2007 are: (i) A new provision has been incorporated to issue a unified registration number to each registered person for VAT and income tax [u/s 15(5)]; (ii) The provision of annual renewal of VAT registration by commercial importers has been withdrawn [rule 11A repealed]; (iii) A new post "Director General, Central Intelligence Cell" was included in the list of VAT authorities [u/s 20(cc)]; and (iv) The mandatory provision of submitting Mushak Challan 11 was relaxed by allowing the issuing units to issue challan in their own formats incorporating extra information [u/r 16(3B)].

(q) ***Changes in the VAT Act by the Finance Ordinance 2008 in 2008-09***: The important changes in the VAT Act by the Finance Ordinance 2008 are: (i) The LTU-VAT was given the responsibility of collecting excise duty and SD from the entities under its control [u/s 8D]; and (ii) The installment system for recovery of outstanding dues introduced in 2003-04 was changed from "demanded fines and penalties" to "demanded duties and taxes" [u/s 55(4)].

(r) ***Changes in the VAT Act by the Finance Act 2009 in 2009-10***: The key changes in the VAT Act by the Finance Act 2009 are: (i) Long delayed amendment was made in the definition of 'supply' to include 'trade' along with the place of manufacturing or production [sub-clause (iv) of clause (y) of section 2 has been amended]; (ii) The definitions of "export" and "deemed to be exported" were inserted for the first time in section 2; (iii) A provision was inserted in the Act [a new sub-clause (aa)[24] u/s 3(2)] to accommodate the decision of the Government to provide VAT exemption under international treaty or memorandum of understanding; (iii) In order to keep the commodity price under control, the provision to

[24] Clause (aa) is clause *(kaka)* in Bangla.

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accept the unit price of some goods and services fixed by any Government was incorporated in the Act [new sub-sec. (2C) in sec. 5]; (iv) A new provision was inserted in the Act to empower the NBR to fix and collect VAT and SD on a minimum value even if the service provider deliver service free of charge [new proviso to sec. 5(4)]; and (v) Provisions were included in the Act to prepare an authentic English text of the VAT Act, 1991 [new sec. 72A inserted] and the VAT Rules, 1991 [sub-sec. (1) of sec. 72A amended].

Thus the changes in the VAT Act are frequent and numerous. However, the notable amendments over the years are probably the following:

1. Provision of tariff value since 1992-93;
2. Provisions of withholding VAT and outsourcing of external auditing professional since 1993-94;
3. Changing the long traditional designation of "Collector" to "Commissioner" and distinct appeal procedure through creation of the post of Commissioner (Appeal) and the Customs, Excise and VAT Appellate Tribunal since 1995-96;
4. Introduction of trading-stage VAT and provision for delegation of Magistracy power on the VAT officers since 1996-97;
5. Introduction of VAT refund system since 1997-98;
6. Introduction of licensing to VAT consultants since 1998-99;
7. Introduction of compulsory registration irrespective of annual turnover since 1999-2000;
8. Introduction of advance trade VAT (ATV) on commercial importers since October 1, 2004;
9. Establishment of Large Taxpayer Unit or LTU-VAT in 2004-05; and
10. New provision to issue a unified registration number to each registered person for VAT and income tax incorporated in 2007-08, without any implementation yet.

However, sometimes some proposed changes could not be enacted by the final version of the Finance Act. For instance, in 2009-10, a provision of taking assistance by VAT authority was made wider by incorporating Rapid Action Battalion (RAB) was proposed in the Finance Bill of 2009 [u/s 24 of the VAT Act], but it was not incorporated in the passed Finance Act 2009.

9.4 Summary

The VAT statutes encompass the VAT Act 1991, the VAT Rules 1991, notification or SRO, order, circular, clarifications with file reference, letter of explanation; and verdicts of the VAT appellate authority and the High Court and Appellate Divisions. The VAT law is extensively inter-linked with other related statutes particularly with the Customs Act. The VAT Act had 73 sections at beginning and from 1992-93 to 2009-10, it has been amended by 18 Finance Acts or Ordinances and in 2009 the total number of effective sections becomes 82. The VAT Rules 1991 had 42 rules at the beginning and up to June 30, 2009, it has been amended by 37 SROs and total number of rules is now 51. Up to 30.6.2009, a total number of 525 SROs has been so far issued, with a total of effective 176 SROs on 30.6.2009. Under the nature of SROs, so far 11 special rules were prescribed, of them, 8 are now effective. Out of the frequent changes in the VAT Act, the significant amendments over the years include the provisions of tariff value, withholding VAT, outsourcing of external auditing professionals, VAT refund system, compulsory registration irrespective of annual turnover, and ATV on commercial importers.

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CHAPTER TEN

FINDINGS ON THE ASSESSMENT OF THE VAT SYSTEM IN BANGLADESH

10.01 Introduction

This chapter starts with the critical assessment of the extent of the achievement of objectives of introducing VAT in Bangladesh. Although in some of the earlier chapters, the structure and management of VAT have been discussed, here also a critical appraisal of the functioning of the VAT system has been provided. Then various aspects of the VAT system with empirical emphasis have been delineated including the tax compliance, price effects, equity and efficiency aspects, contribution of VAT in tax structure, grievances of the business community and inherent distortions and malpractices in the taxation. Then few case studies have provided to exemplify the practical aspects of VAT in practice. The empirical survey findings based on questionnaire have been described in this chapter. The research hypotheses have also been tested in this chapter.

10.02 An Assessment on the Achievement of Objectives of Introducing Value Added Tax

As enumerated in chapter 5, there were several reasons of introducing the value added tax in Bangladesh. Based on those reasons, in this section, the extent of achievement of the following objectives of introducing value added tax has been examined:

1) Removal/prohibition of the cascading effects of input taxation at different stages of production;
2) Generation of more internal resources than that Excise Duties and Sales Tax used to provide;
3) Introducing Value Added Tax as the main vehicle for resource mobilization;
4) Adopting a flat rate of taxation on a broader base, covering a wide range of goods except the primary agricultural products;
5) Bringing transparency in the taxation system;
6) Consolidating the tax administration;
7) Activating the overall economy by mobilizing more internal resources; and
8) Bringing the consistency in the tax-GDP ratio.

10.02.1 Removal/Prohibition of the Cascading Effects of Input Taxation at Different Stages of Production

Under the previously applicable indirect taxation system (excise/sales/business turnover taxation), there was no scope of taking credit/refund of the amount of tax paid at preceding stage of production or distribution chain. Thus any tax paid at earlier stage was included in the tax-base of the concerned stage with a cascading effect of increasingly higher tax-liability at latter stages,

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hence there was an inducement for vertical integration, which is against the specialization of the economy. Under the provision of section 9 of the VAT Act, input tax (tax paid at earlier stage) is deductible as a credit from the output tax to determine the net tax liability. In case of zero-rate (export), the input tax is creditable/refundable as a drawback. Thus, one basic objective of introducing VAT to avoid *cascading taxation*[1] has been tried to achieve. The difficulty in allowing input tax credit arises due to poor documentation and scanty accounting system particularly prevailing in the service and trading sectors. In general, in cases of most of the services, the value-addition would be 100 percent of the service charge and the computation of actual value-addition requires detailed recording of payments for goods/services bought. To ease the administrative steps for service taxation, the special rules were made to impose VAT using 'truncated value-bases' (without allowing input tax credit). Currently (2009-10), there are six (6) truncated value-bases (10, 15, 30, 33.35, 60 and 100 percent) and six (6) net rates of VAT (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent) for 52 services under 45 heading numbers [Table 5.1 in chapter 5], one truncated value-base (10 percent) for traders (both wholesale and retail traders) and one truncated value-base (15 percent) for commercial importer being local supplier [Table 5.2 in chapter 5]. Thus, the option of forgiving 'input tax credit' by giving tax on the truncated value-bases is against the basic norm of implementing VAT-mechanism. On the other hand, the other taxes under the VAT Act (turnover tax and supplementary duty) are not allowed for credit as input tax and thus they are nothing but cascading taxes. Besides, a small negative list from 1993-94 and a comprehensive list since 2000-01 for disallowing full or partial input tax credit was incorporated in the law, which has changed the very characteristics of the VAT system. The much wider exempted sectors including the First and Second Schedules and a huge number of SROs/orders [as on June 30, 2009, there are 30 SROs prescribed under section 14(1), two special orders under section 14(1A) and two general orders under section 14(2), which are related to exemption of goods and services; Table 5.5 in Chapter 5] are also absorbing the input VAT, where VAT is not functioning in its ideal form of multi-stage effect.

10.02.2 Generation of More Internal Resources than that Excise Duties and Sales Tax Used to Provide

As shown in Table 10.01, in 1990-91, there were 83 items of goods[2] under 12 sections (section I to section XII) in Part-I of the First Schedule to the Excise and Salt Act and also 9 excisable service[3] in section XIII in Part-II of the First Schedule to the Excise and Salt Act. Out of these excisable goods and services, in FY 1991-92, 71 items of goods (i.e., 85.5 of the goods) and 8

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1 The *cascading taxation* usually means the imposition of a multiple-stage indirect tax (sales/turnover tax) at each stage of the production-distribution system with no provision for the deduction of the tax paid at previous stages and the cumulative tax at each stage of production-distribution chain is levied on a price which includes the tax levied at the previous stage and thus producing a compounding tax effect or "cascading" effect (Garner, 1977, pp. 9-10).

2 *Vide* the *Finance Ordinance 1983* for a substituted First Schedule to the Excise and Salt Act 1944, and the subsequent amendments made by the *Finance Ordinances* from *1984* to *1986*, and the *Finance Acts* from *1987* to *1990*.

3 These are: (i) hotels and restaurants, (ii) decorators and caterers, (iii) cinema houses and other enterprises providing entertainments, (iv) automobile garages and workshops, (v) bank, (vi) telephone and teleprinters, (vii) video-cassette shops, (viii) loans and investments, (ix) Water and Sewerage Authority (WASA) [Table 7.1 in Chapter 7].

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services[4] (i.e., 88.9 percent of services) were shifted to the VAT system. Consequently, an overall 85.9 percent of the total number of items of goods and services previously under the excise tax-net were brought under the VAT-net. There were about 5,000 taxpayers at the end of 1989-90 under the excise tax (Shome, Holland and O'Sullivan, 1990, p. 25). The NBR's initial plan of VAT coverage was only with the excise taxpayers as evidenced by the comment made by Shome, Holland and O'Sullivan (1990), "At present, there is no plan for a comprehensive activity and it appears that the authorities will be satisfied to simply register the initial 5,000 at the implementation date and to allow the base to grow over time as new taxpayers are identified" (Shome, Holland and O'Sullivan, 1990, p. 25).

Table 10.01: Excise Taxation in 1990-91 and 1991-92

Excisable Items in FY 1990-91 (FY91)			Excisable Items in FY 1991-92		
Part	Section	Item No.	Item No. of FY91	Name of Items in FY91	Heading No. (H.S. Code) in FY1991-92
I (Goods)	I	01.01-01.05	01.01	Betelnuts	08.02
	II	02.01-02.06	02.04	Tobacco	24.01, 24.02, 24.03
	III	03.01-03.16	03.02	Salt	25.01
			03.03	Petroleum oil	27.09
			03.10	Motor Spirit	27.10
			03.12	Petroleum jelly	27.12
			03.15	Asphalt	27.14 (2714.909)
			03.16	Petroleum products, not otherwise specified	27.11, 27.13, 27.14 (2714.10)
	IV	04.01-04.13	–	–	–
	V	05.01-05.02	–	–	–
	VI	06.01-06.02	–	–	–
	VII	07.01-07.04	07.01	Paper, all sorts	48.01 (only newsprint)
			07.04	Bank cheques, all sorts	49.07
	VIII	08.01-08.08	–	–	–
	IX	09.01-09.03	09.03	Bricks, all sorts	69.04 (non-refractory building bricks, other than facing bricks)
	X	10.01-10.11	10.01	Gold and silver and products thereof	71.06
	XI	11.01-11.13	–	–	–
	XII	12.01-12.09	–	–	–
	Total	*83 items*	*12 items*		
II (Services)	XIII	13.01-13.09	13.05	Services rendered by bank	S032.00
	Total	*9 items*	*1 item**		

* Two new services [Services rendered by bank (S032.00) and Services rendered by loans and investments (S033.00)] were also brought under excise tax.

Sources: The *Finance Ordinance 1983* for a substituted First Schedule to the Excise and Salt Act 1944, and the subsequent amendments made by the *Finance Ordinances* from *1984* to *1986*, and the *Finance Acts* from *1987* to *1990* and a substituted First Schedule again by the *Finance Act 1991* (with H.S. Code for goods).

[4] But with one existing excisable services [Services rendered by WASA (S034.00)], two new services [Services rendered by bank (S032.00), and Services rendered by loans and investments (S033.00)] were brought under the excise duty [the *Finance Act 1991*].

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The sales tax and business turnover tax (BTT) were repealed and the total tax-base thereof was made subject to VAT taxation. In FY 1992-93, most of the excisable goods including petroleum products, natural gas, tobacco products (cigarette, cigar/*cheroot*, smoking tobacco, *jarda*, etc.), and two excisable services [Services rendered by loans and investments (S033.00) and Services rendered by WASA (S034.00)] were taken under the VAT system. But cotton and synthetic thread and cloth, which were not subject to excise or VAT, were taken under the excise taxation at a rate of 2.5 percent *ad valorem*. From FY 1992-93 to FY 2003-04, *few* goods (Betelnuts, unmanufactured tobacco, cigarettes containing tobacco manufactured manually, salt, newsprint and cloth and cloth goods)[5] and *one* service [Services rendered by bank (S032.00)] were under the excise taxation. Since 1991-92, the goods were listed in the Part-I of First Schedule of the Excise and Salt Act 1944 against H.S. Codes (Harmonized Commodity Description and Coding System). From 2004-05, excise duty on goods was withdrawn completely (Part-I of the First Schedule of the Excises and Salt Act was repealed) and two services were included in the list of exercisable services (Part-II of the First Schedule of the Excise and Salt Act 1944 substituted), viz., "Services rendered by bank" (S032.00) by the way of maintaining deposit account, and "Services rendered by Airline" (S033.00) through issuing a domestic 'Airline Ticket per seat'.[6] Thus since 2004-05, all previously excisable goods and services except the above two services are now under the VAT-net.

If the revenue collection performance is checked, there is no doubt that this objective has been achieved a lot. In 1990-91, sales tax and excise duty were collected at an amount of Tk. 25,458.3 million. In the first year of introduction of VAT (1991-92), the combined collection of VAT and excise duty was Tk. 31,386.1 million, which was 23.3 percent higher than last year's combined tax from sales tax and excise duty) and the combined tax from VAT, supplementary duty (SD), turnover tax (TT) and excise duty (ED) was 25.3 percent higher than last year's combined tax from ales tax and excise duty (Tk. 31,908.3 million) (NBR, 1994; 1995). As evidenced from Table 10.02, the joint tax revenue from sales tax and excise duty was average 38.9 percent during the last five years before introducing VAT (1986-87 to 1990-91). After introduction of VAT, the share of tax collection under the VAT laws (VAT, supplementary duty and turnover tax) in the total tax has increasingly been increased over the years. During 1991-92 to 1995-96, the individual tax collection from VAT was average 28.5 percent, the combined tax collection under the VAT laws (VAT, SD and TT) was average 39.8 percent and the combined tax from VAT, SD, TT and ED was average 44.2 percent. During 2006-07 to 2009-10, these ratios have become respectively average 35.7 percent (for VAT only), average 51.7 percent (for VAT, SD and TT), and average 52.2 percent (for VAT, SD, TT and ED).

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[5] The coverage for excisable goods were: (i) from FY 1992-93 to FY 1999-2000: existing 5 specific H.S. Codes under 5 Heading Numbers; and new 28 "All H.S. Codes" under 28 Heading Numbers; (ii) from FY 2000-01 to FY 2002-03: existing 4 specific H.S. Codes under 4 Heading Numbers and 28 "All H.S. Codes" under 28 Heading Numbers; and (iii) in FY 2003-04: 7 (existing 4 and new 3) specific H.S. Codes under 4 Heading Numbers and existing 28 "All H.S. Codes" under 28 Heading Numbers.

[6] The excisable services have been recoded as "Service Rendered by Bank (E032.00)" and "Service Rendered by Airline (E033.00)" according to SRO No. 119-Ain/2009/302-Abgari, dated 11.06.2009, although the codes have not been amended in the Part-II of the First Schedule of the Excise and Salt Act 1944 (as shown in the *Finance Act 2004* at the time of last amendment).

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Table 10.02: Comparative Revenue Performance from Sales Tax and Excise Duty vs. Taxes under the VAT Laws

(Figures as a percent of Total Tax)

FYs	Sales Tax	Excise Duty (ED)	Sales Tax & ED	VAT (Import)	VAT (Local)	VAT (Total)	VAT, SD & TT	VAT, SD, TT & ED
1972-73 to 1975-76	15.3	29.3	44.7					
1976-77 to 1980-81	18.7	21.8	40.6					
1981-82 to 1985-86	14.7	23.6	38.3					
1986-87 to 1990-91	11.9	27.0	38.9					
1991-92 to 1995-96		4.5		18.8	9.7	28.5	39.8	44.2
1996-97 to 2000-01		1.5		19.4	12.3	31.7	47.9	49.3
2001-02 to 2005-06		0.8		16.8	16.2	33.0	50.9	51.6
2006-07 to 2009-10		0.4		16.5	19.2	35.7	51.7	52.2
1991-92 to 2009-10		**1.1**		**17.3**	**16.2**	**33.5**	**49.6**	**50.7**

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009c).

The joint contribution of sales tax and excise duty to in the increase of total tax was Tk. 696.9 million (28.8 percent of total increase) in 1979-80 and Tk. 3,897.6 million (44.8 percent of total increase) in 1989-90. In the last year of pre-VAT regime (1990-91), the joint contribution of sales tax and excise duty to increase in total tax was Tk. 2,643.7 million (30.3 percent of total increase). In 1991-92, the collection from ED was reduced by Tk. 3,441.0 million (due to significant shifting of excise tax-base to VAT-net) and the VAT collection in this very first year of VAT became Tk. 17,352.7 million, thus the cumulative increment in VAT and ED became Tk. 13,911.7 million, which was 105.9 percent of total increase in tax from last year (Tk. 13,133.7 million). This overwhelming performance is only due to the contribution of VAT, which was even not incorporated into the budget of 1991-92. Except for 1992-93, when the joint tax collection from VAT and ED declined, the tax collection has increased each year and the most outstanding annual performance has been witnessed in 1999-2000 (160 percent of total increase in total tax was due to combined tax from VAT, SD, TT and ED) [Table 10.03 and Table 10.04].

However, in relative term, the share of sales tax and excise duty in total tax was around 45 percent during first half of the seventies, then it declined to around 41 percent during 1976-77 to 1980-81, further declined to 38 percent during 1981-82 to 1985-86 and then slightly increased to 39 percent during 1986-87 to 1990-91, with an overall average of around 39.2 percent during 1972-73 to 1990-91. After introduction of VAT, the joint share of VAT and excise duties in total tax was around 33.0 percent during 1991-92 to 1995-96, around 33.2 percent during 1996-97 to 2000-01, around 33.8 percent during 2001-02 to 2005-06, and around 36.1 percent during 2006-07 to 2009-10, with an overall average of around 34.6 percent during 1991-92 to 2009-10. In the VAT regime (1991-92 to 2009-10), the average share of combined tax collection under the VAT laws in total tax was around 50 percent, and adding the excise duty, this share further increased to around 51 percent [Table 10.05].

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Table 10.03: Incremental Annual Tax Collection

(Figures in million Taka)

Financial Year (FY)	ΔST	ΔED	Δ(ST & ED)	Δ(Total VAT)	Δ(VAT & ED)	Δ(VAT, SD & TT)	Δ(VAT, SD, TT & ED)	Δ(Total Tax)
1974-75	187.8	624.0	811.8					1,416.0
1979-80	403.9	293.0	696.9					2,422.1
1984-85	952.5	943.5	1,896.0					5,947.3
1989-90	1,285.7	2,611.9	3,897.6					8,695.2
1990-91	1,662.8	980.9	2,643.7					8,723.4
1992-93				8,284.6	-2,439.8	17,892.0	7,167.6	13,542.6
1993-94				1,825.1	95.8	4,240.5	2,511.2	4,697.6
1994-95				7,173.3	7,371.8	9,964.4	10,162.9	16,312.9
1995-96				3,971.3	4,024.0	6,892.3	6,945.0	8,180.7
1996-97				4,781.6	4,982.5	7,262.0	7,462.9	12,788.2
1997-98				2,494.0	2,608.5	4,641.0	4,755.5	13,399.1
1998-99				2,718.1	2,804.0	4,658.9	4,744.8	9,573.8
1999-2000				3,148.0	3,526.9	4,919.6	5,298.5	3,311.5
2000-01				12,049.3	12,190.3	19,202.5	19,343.5	36,960.8
2001-02				6,056.1	6,215.8	8,356.2	8,515.9	15,377.7
2002-03				7,952.1	8,224.3	16,051.7	16,323.9	34,019.1
2003-04				9,339.9	7,743.1	17,568.1	15,971.3	27,136.5
2004-05				17,438.6	17,295.3	20,680.6	20,537.3	38,946.9
2005-06				18,997.0	19,164.6	25,726.6	25,894.2	42,029.7
2006-07				14,241.3	14,464.7	12,378.9	12,602.3	35,458.9
2007-08				38,890.6	39,199.0	56,006.7	56,315.1	106,743.4
2008-09[a]				24,586.9	24,826.2	32,147.0	32,386.3	52,967.5
2009-10[b]				26,649.5	26,876.9	46,396.1	46,623.5	89,099.4
2009-10[c]				26,790.0	27,030.0	40,440.0	40,680.0	84,297.1

Note: Total tax = Total of revenues from taxes. Δ=Increase in the concerned year from the preceding year.

[a] Based on Actual for NBR taxes and Revised Budget for Non-NBR taxes in 2008-09.

[b] Based on Actual for NBR taxes and Revised Budget for Non-NBR taxes in 2008-09 and Original Budget for all taxes in 2009-10.

[c] Based on Revised Budget for all taxes in 2008-09 and Original Budget for all taxes in 2009-10.

Source: Computation based on figures up to 2007-08 taken from the *Annual Reports 1992-93 to 2007-08* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and actual data for 2008-09 collected from the NBR on 15.09.2009 and data for 2009-10 from GOB (2009a; 2009b; 2009c).

Table 10.04: Contribution in Incremental Annual Tax Collection

Financial Year (FY)	Percentage of Total Increase in Total Tax							
	Sales Tax (ST)	Excise Duty (ED)	ST & ED	VAT (Total)	VAT & ED	VAT, SD & TT	VAT, SD, TT & ED	Total Tax
1974-75	13.3	44.1	57.3					
1979-80	16.7	12.1	28.8					
1984-85	16.0	15.9	31.9					
1989-90	14.8	30.0	44.8					
1990-91	19.1	11.2	30.3					
1992-93				61.2	-18.0	132.1	52.9	100.0
1993-94				38.9	2.0	90.3	53.5	100.0
1994-95				44.0	45.2	61.1	62.3	100.0
1995-96				48.5	49.2	84.3	84.9	100.0
1996-97				37.4	39.0	56.8	58.4	100.0
1997-98				18.6	19.5	34.6	35.5	100.0
1998-99				28.4	29.3	48.7	49.6	100.0
1999-2000				95.1	106.5	148.6	160.0	100.0

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Table 10.04: Contribution in Incremental Annual Tax Collection ... *cont'd*

Financial Year (FY)	Percentage of Total Increase in Total Tax							
	Sales Tax (ST)	Excise Duty (ED)	ST & ED	VAT (Total)	VAT & ED	VAT, SD & TT	VAT, SD, TT & ED	Total Tax
2000-01				32.6	33.0	52.0	52.3	100.0
2001-02				39.4	40.4	54.3	55.4	100.0
2002-03				23.4	24.2	47.2	48.0	100.0
2003-04				34.4	28.5	64.7	58.9	100.0
2004-05				44.8	44.4	53.1	52.7	100.0
2005-06				45.2	45.6	61.2	61.6	100.0
2006-07				40.2	40.8	34.9	35.5	100.0
2007-08				36.4	36.7	52.5	52.8	100.0
2008-09[a]				42.3	42.7	66.0	66.3	100.0
2009-10[a]				31.8	32.1	48.0	48.3	100.0

Note: Total tax = Total of revenues from taxes.

[a] Based on figures from Revised Budget for FY 2008-09, and from Original Budget for FY 2009-10

Source: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009a; 2009b; 2009c).

Table 10.05: Share of Sales Tax, Excise Duty and Taxes under the VAT Laws

FYs	Percentage of Total Tax			
	ST & ED	VAT & ED	VAT, SD & TT	VAT, SD, TT & ED
1972-73 to 1975-76	44.7			
1976-77 to 1980-81	40.6			
1981-82 to 1985-86	38.3			
1986-87 to 1990-91	38.9			
1972-73 to 1990-91	**39.2**			
1991-92 to 1995-96		33.0	39.8	44.2
1996-97 to 2000-01		33.2	47.9	49.3
2001-02 to 2005-06		33.8	50.9	51.6
2006-07 to 2009-10		36.1	51.7	52.2
1991-92 to 2009-10		**34.6**	**49.6**	**50.7**

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009c).

10.02.3 Introducing Value Added Tax as the Main Vehicle for Resource Mobilization

The tax structure of Bangladesh is heavily dependent on indirect taxes, particularly on border-stage taxes. As shown in Table 10.06, during the first decade of the VAT regime (1991-92 to 2000-01), the average share of indirect taxes in total taxes was around 77.1 percent. During the next five years (2001-02 to 2005-06), the average remains almost similar with a slight decline (76.5 percent), but during the recent years, due to global recession, a falling trend has been witnessed with around 68.8 percent target in the most recent budget of 2009-10 (average 70.3 percent over 2006-07 to 2009-10). But the share of total VAT revenue as a percent of different indicators (internal trade tax, external trade tax, indirect tax, total tax, total GDP and non-agricultural GDP) has usually an increasing trend and the shares are significant.

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Table 10.06: Tax Structure in Bangladesh during the VAT Regime

(Figures in percentage)

FYs	Internal Trade Tax	External Trade Tax	Indirect Tax	Direct Tax	Total Tax
1991-92 to 1995-96	24.1	52.0	76.1	23.9	100.0
1996-97 to 2000-01	25.0	52.7	77.7	22.3	100.0
2001-02 to 2005-06	29.4	47.1	76.5	23.5	100.0
1991-92 to 2000-01	*24.6*	*52.5*	*77.1*	*22.9*	*100.0*
1991-92 to 2005-06	*27.1*	*49.7*	*76.8*	*23.2*	*1000*
2006-07	32.0	40.1	72.1	27.9	100.0
2007-08	31.0	39.9	70.9	29.1	100.0
2008-09 (RB)	31.9	38.4	70.3	29.7	100.0
2009-10 (B)	32.4	36.4	68.8	31.2	100.0
2006-07 to 2009-10	31.8	38.5	70.3	29.7	100.0

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009c).

Table 10.07: VAT as a Fiscal Instrument

FYs	VAT Revenue as a Percent of							VAT (Import) as % of ETT	VAT (Local) as % of ITT
	ITT	ETT	Indirect Tax	Total Tax	Total Revenue	GDP	NA GDP		
1991-92 to 1995-96	118.4	54.8	37.5	28.5	22.8	2.1	2.7	36.2	40.2
1996-97 to 2000-01	127.2	60.2	40.8	31.7	26.1	2.3	3.1	36.8	49.5
2001-02 to 2005-06	112.3	70.0	43.1	33.0	26.7	2.7	3.4	35.6	55.3
2006-07	110.2	88.0	48.9	35.3	27.9	2.9	3.6	40.3	59.7
2007-08	114.7	89.0	50.1	35.5	29.5	3.3	4.0	42.8	59.6
2008-09*	113.6	94.2	51.5	36.2	29.1	3.3	4.0	43.9	60.6
2009-10*	110.1	97.9	51.8	35.6	28.7	3.3	4.0	44.0	60.7
2006-07 to 2009-10*	112.2	92.8	50.8	35.7	28.8	3.2	3.9	43.0	60.2
FYs	VAT Law Taxes (VLT) as a Percent of							VLT (Import) as % of ETT	VLT (Local) as % of ITT
	ITT	ETT	Indirect Tax	Total Tax	Total Revenue	GDP	NA GDP		
1991-92 to 1995-96	165.1	76.5	52.3	39.8	31.8	2.9	3.8	38.8	81.4
1996-97 to 2000-01	191.8	90.8	61.6	47.9	39.3	3.5	4.6	46.2	94.1
2001-02 to 2005-06	173.1	107.9	66.5	50.9	41.1	4.2	5.3	47.2	97.4
2006-07	158.6	126.6	70.4	50.8	40.2	4.2	5.2	47.9	98.5
2007-08	165.1	128.1	72.2	51.1	42.5	4.7	5.8	51.6	98.6
2008-09*	165.2	137.0	74.9	52.7	42.3	4.8	5.8	55.2	98.7
2009-10*	160.8	143.0	75.7	52.0	41.9	4.8	5.9	55.2	98.7
2006-07 to 2009-10*	162.6	134.5	73.6	51.7	41.8	4.7	5.7	52.9	98.6

Note: ITT = Internal Trade Taxes; ETT = External Trade Taxes; NA GDP = Non-agricultural GDP; VLT = VAT+SD+TT.
*Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Sources: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009), GOB (2009c) and *Bangladesh Economic Survey 2002* (p. 148) and *Bangladesh Economic Survey 2009* (p. 231), Dhaka: Finance Division, MOF, GOB.

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As shown in Table 10.07, of the total indirect taxes, the average share of VAT revenue was around 38 percent during 1991-92 to 1995-96; thereafter this share has been increasing (around 41 percent during 1996-97 to 2000-01; around 43 percent during 2001-02 to 2005-06; and around 51 percent during 2006-07 to 2009-10). The recent budget target has been shown at a higher ratio (51.5 percent in 2008-09 and 51.8 percent in 2009-10). The ratio of total VAT law taxes (VLT), i.e., VAT, supplementary duty and turnover taxes, to total taxes shows the significant increasing dominance of the VAT statute in raising taxes (around 40 percent during 1991-92 to 1995-96; around 48 percent during 1996-97 to 2000-01; around 51 percent during 2001-02 to 2005-06; and around 52 percent during 2006-07 to 2009-10).

The high increasing ratio of total VAT law taxes (VLT), to total indirect taxes shows that ultimate indirect taxes would constitute mainly of taxes under the VAT statute (around 52 percent during 1991-92 to 1995-96; around 62 percent during 1996-97 to 2000-01; around 67 percent during 2001-02 to 2005-06; and around 74 percent during 2006-07 to 2009-10). The very high increasing ratio of total VAT law taxes (VLT), to total domestic stage trade taxes shows the negligible presence of other taxes outside the VAT statute (around 81.4 percent during 1991-92 to 1995-96; around 94.1 percent during 1996-97 to 2000-01; around 97.4 percent during 2001-02 to 2005-06; and around 98.6 percent during 2006-07 to 2009-10).

Only in the recent budget (2009-10), the ratio of total VAT revenue to total taxes/revenue and the ratio of total VAT law taxes to total taxes/revenue have been slightly reduced due to targeted decline at import-stage taxes for global recession, but if the ratio of import-stage VAT to total border taxes is considered, it has increased slightly over last year (43.9 percent in 2008-09 and 44.0 percent in 2009-10) and the ratio of local-stage VAT to total domestic trade taxes has also increased slightly over last year (60.6 percent in 2008-09 and 60.7 percent in 2009-10). Regarding the VAT law taxes, these ratios (the ratio of import-stage VAT law taxes to total border taxes; and the ratio of local-stage VAT law taxes to total domestic trade taxes) have been constant over the last two years (55.2 percent and 98.2 percent respectively). This indicates the high potentiality of VAT to be the most important fiscal instrument in mobilizing internal resources.

10.02.4 Adopting a Flat Rate of Taxation on a Broader Base, Covering a Wide Range of Goods Except the Primary Agricultural Products

As stated earlier, there are *three* types of taxes imposed under the VAT Act: (1) *value added tax (VAT)* on goods not exempted under the First Schedule and other SROs/orders under section 14 of the VAT Act, payable by importers, manufacturers and/or suppliers of those goods, and services not exempted under the Second Schedule and other SROs/orders under section 14 of the VAT Act payable by service-providers, but in the case of the manufacturer or trader of 'taxable goods' or the renderer of 'taxable services', the annual turnover is to be Tk. 40 lakh or more

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(from 2009-10);[7] (2) *turnover tax (TT)* payable by the manufacturer or trader of 'taxable goods' or the renderer of 'taxable services' who have annual turnover of less than Tk. 40 lakh (from 2009-10), and (3) *supplementary duty (SD)* on the goods and services listed in the Third Schedule of the Act, which are characterized primarily as 'luxurious, non-essential and socially undesirable' and since FY 1999-2000, 'other goods and services on which imposition of supplementary duty is reasonable for the interest of public.' The standard tax rate for VAT is 15 percent (for taxable goods and services), with a zero-rate also (on exports and food items and other things supplied in a country-leaving conveyance for consumption outside Bangladesh). Although, the adoption of truncated value-bases (along with a net VAT rate from 2003-04) have caused some existences of multiplicity of practical tax rates (6 rates in 1997-98 and 1998-99; 10 rates during 1999-2000 to 2001-02; 4 rates in 2002-03; and 6 rates thereafter from 2003-04 to 2009-10; *vide* Table 5.1 in Chapter 5), but VAT rate is a single flat or uniform rate. The rate of turnover tax (TT) is also uniform at 4 percent (2 percent up to 1996-97). But the rates of SD are multiple – a minimum number of 4 rates in the first year (1991-92) to as many as maximum 29 rates (11 basic rates and 18 higher rates) in 2000-01; also there were 27 rates (11 basic rates and 16 higher rates) in 1999-2000; and 27 rates (12 basic rates and 15 higher rates) in 2001-02 [*vide* Table 5.3 in Chapter 5].

10.02.5 Bringing Transparency in the Taxation System

The VAT is an accounts-based taxation system and taxpayers must have maintained some statutory books. Under statutory obligations, a registered person "shall" maintain *Purchase Accounts Book, Sales Accounts Book, Invoice Book, Account Current Book* in prescribed format and other commercial documents (including vouchers, cash memos, cash book, primary or journal book, bank account and accounts or documents related thereto, trial balance, ledger, financial statements, bank reconciliation statements and audit report). Since FY 2003-04, computer-based maintenance of accounts is allowable and from 2008-09, in prescribed cases, accounts have to be maintained through use of electronic cash register (ECR), or computer or any other electronic equipment. The period of maintenance of records and documents is 4 years from 1999-2000 (earlier it was 6 years), except for the disputed tax period until the disposal of disputes [u/s 33]. Since the beginning, failure in maintaining of files and records, which are required to be maintained according to the VAT Act and the VAT Rules, or destruction or modification or mutilation of such records, or substantiation of those as false, or not maintaining of such records as per the requirement of the VAT Act is a punishable offence subject to fines, or imprisonment or both. The failure to maintain prescribed files and records, electronic cash register (ECR) or computer (from 2008-09) is also enumerated as a minor offence subject to fines only [u/s 37].

Vatable transactions must be documented in any of the prescribed eleven types of invoices or similar documents [such as invoices in Form "Musak-11", "Musak-11Ka", "Musak-11Ga", "Musak-11Gha", consolidated invoice in "Musak-11", computer generated invoice (from 2002-

[7] For FY 1991-92 and FY 1992-93, the threshold limit was Taka 5 lakh, for FY 1993-94, the limit was Taka 7.5 lakh, for FY 1994-95 to FY 1998-99, the limit was Taka 15 lakh, for FY 1999-2000 to FY 2007-08, the limit was Taka 20 lakh and for FY 2008-09, the limit was Taka 24 lakh.

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03), invoice in own format (from 2007-08), bill of entry, "Musak-12" (Credit Note) by canceling invoice in case of necessity of repealing invoice or partial or full return of supply of goods or rendering of services or excess tax mentioned in any invoice, "Musak-12Ka" (Debit Note) by canceling invoice in case of lesser tax mentioned in any invoice, and another special invoice for transfer of goods by a centrally registered organization in prescribed form]. The introduction of mandatory ECR (electronic cash register) in hotels and other shops from July 1, 2008 will ensure this documentation at retail stage through ECR generated invoice.[8] Documentation creates everything more transparent than any self-claim. Application of single rate also makes the tax system very simple.

10.02.6 Consolidating the Tax Administration

As mentioned in Chapter 8, there are 5 Customs Houses, 8 Commissionerates and 1 Large Taxpayer Unit (LTU) under the ambit of the NBR which are related to revenue collection. There are also 2 Commissionerates and 5 Directorate-level units related to valuation, enforcement, training, appeal and incentives. Under the 8 VAT Commissionerates, there are 30 Divisional Offices and 112 Circle Offices. The Customs, Excise and VAT Department has 7,585 sanctioned posts (2,851 officials and 4,734 support staff), against which 4,909 employees (2,021 officials and 2,888 support staff) are working in the field level Customs, Excise and VAT offices.

Under the VAT system, the tax administration is targeted to increase taxpayers' voluntary compliance. One objective of introducing VAT was to consolidate the tax administration, but it is still far away. The VAT administration is consolidated to a great extent with the customs and excise administration. But the excise department was in charge of introduction and implementation of the VAT system in Bangladesh. Under the public recruitment system, the officials under BCS (Customs & Excise) are also responsible for VAT administration. However, its consolidation with income tax is, although more appropriate, not yet made. Because a taxpayer subject to VAT is very likely subject to income tax and, but for withholding VAT and income taxes, the obligation is beyond the taxpayer status. There is high possibility of avoiding interactions with the tax authorities altogether, if there is no consolidation.

In 2007-08, a new provision has been incorporated to issue a unified registration number to each registered person for VAT and income tax, but the timing and procedure of giving this unified registration is to be fixed by the NBR through Gazette notification [sub-section (5) inserted to section 15 by the Finance Ordinance 2007]. In the Income Tax Ordinance 1984, section 184BBB [Unified Taxpayer's Identification Number (UTIN)] was also inserted by the Finance Ordinance 2007 stating that "An assessee having taxpayer's identification number (TIN) when registered with VAT authority and obtained a business identification number (BIN) shall be given a Unified Taxpayer's Identification Number (UTIN) in such manner as may be prescribed by the Board." The NBR planned to introduce unified taxpayer identification number (UTIN) in 2007-08 on experimental basis in country's two existing large taxpayers units (LTUs) – LTU-Income Tax,

[8] Prescribed by the SRO No. 192-Ain/2008/494-Musak, dated 29.06.2008 (w.e.f. 01.07.2008).

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created in 1999 and LTU-VAT, established with an effect from 1 October 2004 – to prevent tax evasion. However, the introduction of UTIN requires rectification of the existing taxpayers' base eliminating false or duplicate TINs. Without such correction, it would be difficult for the NBR to adopt an appropriate UTIN (*The Financial Express*, 18.12.2007).

As a major policy decision, in February 2008, the NBR has decided to merge its two main large taxpayer units (LTUs) with effect from June 2008, as a part of an International Monetary Fund (IMF) advice to prevent the tax-evasion of the big taxpayers. Officials familiar with the latest move said the creation of a single unit would make it easier to assess a company from all the angles. Presently, there is very little coordination between the income tax and the VAT units. A company is assessed differently by the two wings of a same Board. A single unit can easily scrutinize the sales and the net annual profit of the same company from different aspects, making it difficult for the company to evade tax. A member of the NBR will head the new unit while two commissioners specialized in VAT and income tax would assist him. The creation of a single unit was earlier opposed by the NBR officials, who thought it would curb their power and lead to reduction of the number of officials. The NBR had initiated a joint auditing of files of both LTUs in 2005, but was forced to stop it after only two months due to non-cooperation from the tax officials (*The Financial Express*, 12.02.2008). The decisions of introducing UTIN or merger of two LTUs have not yet materialized (by the end of September 2009) due to main opposition from the indirect tax wings of the NBR.

The automation of the tax administration with required computer networking might achieve the consolidation. Starting with the limited capacity of the Computer Cell of the NBR, the major project on computerization undertaken by the NBR was its *Excise, Taxes & Customs (ETAC) Data Computerization Project* started primarily in December 1989 and finally ended in June 1999. Under the ETAC Data Computerization Project, the establishment of VIS Cell and VAT Registration Cell, and development of VIS software were a major achievement including the arrangement of hardware, training etc. Another important computerization was the implementation of ASYCUDA going on live since August 1, 1994 in Customs House, Dhaka and since June 3, 1995 in Customs House, Chittagong. Under this project, in 1997-98, LAN has been set for online exchange of information between the NBR, all of its filed level head offices, and offices of the Finance Minister and the Finance Secretary of all the field offices. In September 2009, the NBR has initiated another large initiative to build the desired digital Bangladesh through automating a number of government-to-business (G2B) tax-related services. After full automation it might be expected that the consolidation of tax administration will be materialized.

10.02.7 Activating the Overall Economy by Mobilizing More Internal Resources

VAT has been introduced as a consumption tax with allowing the full deduction of 'machinery' as an input from the 'output value' (sale proceeds of taxable goods and services) in order to compute the tax-base (i.e., value added). Although the initial coverage was up to import and production stages, since 1996-97 the VAT-net has been expanded to wholesale and retail stages.

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The inclusion of services under the VAT-net has become all-pervasive since FY 2000-01 with a list of services exempted from VAT (Second Schedule of the VAT Act), i.e., services outside that list are subject to VAT. Initially the number of VAT taxable services were 29 taxable services under 24 heading numbers, but now the number is theoretically unlimited, although for practical purposes this number has been kept limited to a total of 95 taxable services (including one service recoded into five services) under a total of 73 heading numbers [Table 7.2 in Chapter 7] for which the scope has been defined [the valid SRO[9] in this regard]. Goods other than primary unprocessed agricultural products and food items listed in the First Schedule of the VAT Act (live animals or poultry, human or animal hair, parts of animal body or animal products, parts of plant, green or dried vegetables, fruits, unprocessed spices, food items, oil seeds, natural gums or like products, wood, uncarded wool or cotton, and raw jute, etc.) and few other goods and services exempted for special economic and social considerations [u/s 14] are subject to VAT. Thus almost the whole economy has been covered under the VAT-net and as a consumption tax, VAT is supposed to streamline the economic activities with corrective measures by applying supplementary duty (SD) on demerit or luxurious goods. By allowing the investment in machinery as an input cost, the VAT system is prone to increased investment.

10.02.8 Bringing the Consistency in the Tax-GDP Ratio

Bangladesh is unable to raise enough resources through taxes. Taxes to GDP (gross domestic ratio) ratios, which indicate the ability to tap resources from a growing economy, are usually very low in Bangladesh. As shown in Table 10.08, during 1972-73 to 1974-75 the tax-GDP ratio and the revenue-GDP ratio were only 3.56 and 3.88 percent respectively. Over the years these ratios have a fluctuating trend. The tax-GDP ratio and the revenue-GDP ratio increased to 6.24 and 7.31 percent respectively during 1975-76 to 1979-80, but the ratios fell to 5.26 and 6.29 percent respectively during 1980-81 to 1984-85. Thereafter the ratios have been improving gradually over the years (5.46 and 6.53 percent respectively during 1985-86 to 1989-90; 6.97 and 8.64 percent respectively during 1990-91 to 1994-95; 7.20 and 8.91 percent respectively during 1995-96 to 1999-2000; 8.14 and 9.96 percent respectively during 2000-01 to 2004-05; and 8.93 and 11.05 percent respectively during 2005-06 to 2009-10). In the recent budget (2009-10), the tax-GDP ratio has been targeted at its highest ever 9.31 percent and the revenue-GDP ratio at 11.57 percent (Table 10.08).

In South Asia, the tax-GDP ratio or the revenue-GDP ratio is usually low (HDC, 1999: 79), but the case of Bangladesh is more alarming. As shown in Table 10.09, Bangladesh has the lowest tax-GDP ratio in the South Asian region in recent years (2003 and onwards). Maldives is the country having the highest tax-GDP ratio and revenue-GDP ratio in the region. In terms of revenue-GDP ratio, Bhutan ranks the second best country. Bangladesh is far below than the regional average even. Only in the report *Human Development in South Asia 1999: The Crisis of Governance,* Bangladesh was shown at a better position in terms of tax-GDP ratio data than that of India, Nepal and Bhutan in the year of 1996.

[9] SRO No. 189-Ain/2008/491-Musak, dated 29.06.2008, amended by SRO No. 105-Ain/2009/513-Musak, dated 11.06.2009 and SRO No. 176-Ain/2009/529-Musak, dated 30.6.2009.

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Table 10.08: Periodic Average Tax and Revenue as a Percentage of GDP

Financial Year (FY)	As a Percentage of GDP				
	Total Tax Revenue			Total Non-Tax Revenue	Total Revenue
	NBR	Non-NBR	Total		
1972-73 to 1974-75	3.42	0.14	3.56	0.32	3.88
1975-76 to 1979-80	5.89	0.35	6.24	1.07	7.31
1980-81 to 1984-85	4.91	0.35	5.26	1.02	6.29
1985-86 to 1989-90	5.05	0.41	5.46	1.06	6.53
1990-91 to 1994-95	6.46	0.51	6.97	1.68	8.64
1995-96 to 1999-2000	6.74	0.46	7.20	1.72	8.91
2000-01 to 2004-05	7.76	0.38	8.14	1.82	9.96
2005-06 to 2009-10	8.52	0.41	8.93	2.13	11.05
2009-10	**8.88**	**0.43**	**9.31**	**2.26**	**11.57**
1972-73 to 1979-80	5.31	0.30	5.62	0.89	6.51
1980-81 to 1989-90	5.00	0.39	5.39	1.05	6.44
1990-91 to 1999-2000	6.63	0.48	7.11	1.70	8.81
2000-01 to 2009-10	8.24	0.40	8.64	2.02	10.66
Pre-VAT Regime (1972-73 to 1990-91)	5.12	0.38	5.50	1.06	6.56
VAT Regime (1991-92 to 2009-10)	7.84	0.42	8.26	1.94	10.20
Overall 38 years (1972-73 to 2009-10)	7.49	0.42	7.91	1.83	9.74

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on the NBR's *Annual Report 2007-2008* (NBR, 2009) and GOB (2009a; 2009b).

Table 10.09: Tax-GDP Ratios and Revenue-GDP Ratios in SAARC Countries

(Percentage of GDP)

Country	Tax-GDP Ratio			Revenue-GDP Ratio				
	2008[a]	1996	2003	*Asian Development Outlook 2009* [ADB, 2009]				
	2009 IEF	HDC (1999)	HDC (2005)	2004	2005	2006	2007	2008
Bangladesh	8.5	10.7	8	10.1	10.5	10.7	10.2	11.2
Bhutan	10.7	8.0	8[b]	36.0	30.5	35.0	35.0	37.8
India	17.7	10.3	9	19.7	19.8	21.1	22.2	–
Maldives	20.5	20.5	21[b]	34.5	48.1	52.5	58.2	51.3
Nepal	10.9	8.8	9	13.4	14.1	12.9	14.1	15.6
Pakistan	10.6	15.3	11	14.1	13.8	14.1	14.9	14.3
Sri Lanka	15.3	16.9	14	14.9	15.5	16.3	15.8	15.6
South Asia	**13.5[c]**	**11[d]**	**9[d]**	**20.4[c]**	**21.8[c]**	**23.2[c]**	**24.3[c]**	**24.3[c]**

[a] Mainly 2008 data, based primarily on *Tax Publications* by Big 4 Accounting Firms in 2008.
[b] 1998 data [c] Simple average [d] Weighted average

Sources: (1) Data of *2009 Index of Economic Freedom* (IEF) by the Heritage Foundation (www.heritage.org) are available at http://en.wikipedia.org/wiki/List_of_countries_by_tax_revenue_as_percentage_of_GDP, accessed 11.07.2009. (2) Tax-GDP ratio data for 1996 from HDC (The Mahbub ul Haq Human Development Centre) (1999), *Human Development in South Asia 1999: The Crisis of Governance* (Karachi: Oxford University Press); and for 2003 from HDC (2006), *Human Development in South Asia 2005: Human Security in South Asia* (Karachi: Oxford University Press). (3) Revenue-GDP ratio from 2004 to 2008 from Asian Development Bank (ADB) (2009), *Asian Development Outlook 2009: Rebalancing Asia's Growth*, available at http://www.adb.org/Documents/Books/ADO/2009/, accessed 12.7.2009.

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The trend of annual tax-GDP ratios shows that these are of fluctuating nature up to 1989-90. After liberation, the trend is an increasing one up to 1978-79 except one year (1974-75, the year of famine, when the tax-GDP ratio was only 3.46 percent). During the last half of the eighties (1985-86 to 1989-90), the tax-GDP ratios were almost stagnant (the average was 5.46 percent). In 1990-91, the tax-GDP ratio was 5.96 percent and the revenue-GDP at 7.23 percent. With the introduction of VAT, the tax-GDP ratio reached to 6.61 percent and the revenue-GDP at 8.21 percent in 1991-92. The tax-GDP ratio reaches to around 7 percent and the revenue-GDP ratio exceeds 9 percent first in 1992-93 (the second year after introduction of value added tax). Except three years (1997-98 to 1999-2000), the revenue-GDP ratio was always above 9 percent. The ratio crosses 10 percent in 2002-03 and 11 percent in 2007-08. The tax-GDP ratio also crosses 8 percent in 2002-03 and 9 percent in 2007-08 (annual statistics given in Table A.10.1 in the Chapter-end *Annexed Data Tables*). However, it can be claimed that the annual tax-GDP ratio of Bangladesh over the years has become much more consistent now and the credit is largely due to introduction of VAT. Suffice it to say, based on the preceding discussions, the objectives of introducing VAT have been achieved to a large extent.

10.03 A Critical Appraisal of the Functioning of the VAT System

In this section a critical appraisal of the structural array of basic issues of VAT system in Bangladesh, particularly on number of taxes under the VAT laws, tax rates, VAT taxpayers, tax period, tax credit mechanism, price declaration, Account Current system, statutory books of account, tax invoice, tax refund, and VAT deducted at source (VDS), has been provided below.

(a) ***Taxes:*** To the common people, the VAT statute is for only tax on value addition, but in reality, it is for multiple taxes. As per the statutory definition of the VAT Act of Bangladesh, "tax" means value added tax or, as the case may be, value added tax and supplementary duty payable on the goods supplied or service rendered and it shall in the cases mentioned in section 13 of the Act, include value added tax, supplementary duty, import duty, excise duty and all other types of duty and tax (except advance income tax), paid on inputs [under section 2(ddd) and under rule 2(b)].[10] Thus for imposition purpose, here two taxes (VAT and supplementary duty) have been mentioned and for the purpose providing drawback of taxes paid on inputs used in producing exported goods under section 13, tax includes all taxes and duties except AIT (advance income tax). If the whole gamut of the over-abundant legal materials is scanned, ***five*** types of taxes are being so far realized (i.e., *for imposition purpose*) under the regulatory framework of VAT. These are the routine ***three*** taxes: VAT under section 3, the supplementary duty (SD) under section 7 and the turnover tax (TT) under section 8; and ***two*** other taxes: airline ticket tax (ATT) over 1999-2000 to 2003-04 and excise duty since 2008-09. The tax on airline ticket was first imposed under section 11 of the *Finance Ordinance 1986* and from 1986-87, the tax was collected by the (Direct) Taxes Department under the guidelines of the Tax on Airline Ticket Rules, 1986 prescribed under

[10] The definition of "tax" was first given in clause (b) of rule 2 of the VAT Rules. By the FA 2009, the same definition has been shifted in clause (ddd) of section 2 of the VAT Act. In rule 2(b), the definition has been replaced as: "tax" means tax as defined in clause (ddd) of section 2" [*vide* SRO No. 103-Ain/2009/511-Musak, dated 11.06.2009.

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section 11(2) of the Finance Ordinance 1986. In June 1999, a VAT SRO[11] was prescribed to shift the tax collecting responsibility to the VAT authority from 1999-2000. In 2004, Section 11 of the Finance Ordinance 1986 was repealed under section 44 of the *Finance Act 2004* and Part-II of First Schedule[12] to the Excise and Salt Act 1944 was substituted, containing two excisable services: Services rendered by bank (S032.00)[13] and Services rendered by airlines (S033.00)[14]. From 2004-05, for collecting excise duty on airline's services a new rule[15] has been promulgated. Thus, from 1999-2000 to 2003-04, the ATT was also a VAT law tax, without any statutory sanctioning in the VAT Act. Since 2008-09, the Large Taxpayer Unit, Value Added Tax (LTU-VAT) was given the statutory responsibility of collecting excise duty through amendment of section 8D of the VAT Act. But section 8D is not the relevant section for imposition of any tax under the VAT statute. The responsibility can be given by amending the relevant section of the Excise and Salt Act. Thus, this change is a legal distortion made in the VAT Act. Another interesting point is that the statutory definition of "tax" does not include the turnover tax (TT) for imposition purpose, although section 8 is there to impose and collect turnover tax on small taxable entities.

(b) ***Tax Rates:*** Is the claim that VAT is imposed at a uniform rate appropriate? As mentioned earlier (section 10.02.4), the rate of VAT is all along at 15 percent, with an added zero-rate for exports. In every cases, where there is an ad hoc tax rate prescribed, the VAT rate has been mentioned at 15 percent. What is twisted is in the name of 'value addition'. For producers, who are liable to pay VAT on the basis of retail price,[16] the effective tax rate is 17.25 percent in place of 15 percent, because it is applicable on 'tax-inclusive price'. Since 2004-05, for traders of taxable goods, the rate of value addition was prescribed at 10 percent in general, hence the net rate is 1.5 percent, and based on some regional classification, a specific minimum annual value addition as well as minimum annual VAT (ranging from Tk. 1,200 to Tk. 4,200), payable annually or monthly, have been prescribed for small retailers.[17] Considering this *specific VAT* and net VAT rate, the annual turnover is assumed here far below than the annual threshold limit (from Tk. 80,000 to Tk. 280,000) and based on the

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[11] SRO No. 156-Ain/99/230-Musak, dated 14.06.1999, which was repealed by SRO No. 115-Ain/2004/303-ATT, dated 10.06.2004, issued under u/s 11(2) of the *Finance Ordinance 1986*.

[12] This is the Schedule-1 of the Finance Act 2004 shown in its Eighth Chapter.

[13] Under the VAT laws, same service code is used for "Consultancy Firm & Supervisory Firm" (S032.00), which has vatable since 28.07.1996 and subject mandatory registration irrespective of turnover since 06.06.2002. Under SRO No. 119-Ain/2009/302-Abgari, dated 11.06.2009, issued u/s 12A(1) of the Excise and Salt Act, the service code under excise system for "Services rendered by bank" has been changed from "S032.00" to "E032.00", without amending the Part-II of First Schedule to the Excise and Salt Act..

[14] Under the VAT laws, same service code is used for "Leaseholder" (S033.00), which has vatable since 28.07.1996 and subject mandatory registration irrespective of turnover since 12.06.2003. Under SRO No. 119-Ain/2009/302-Abgari, dated 11.06.2009, issued u/s 12A(1) of the Excise and Salt Act, the service code under excise system for "Services rendered by airlines" has been changed from "S033.00" to "E033.00", without amending the Part-II of First Schedule to the Excise and Salt Act..

[15] The Recovery of Excise Duty on Domestic Airline (Airline Ticket) Rules 2004, *vide* S.R.O. No. 182-Ain/2004/300-Abgari, dated 10.06.2004.

[16] Applicable on "cigarette containing tobacco, manufactured mechanically" (since 01.07.1992), and aerosol and disinfectant (since 11.06.1998).

[17] The latest SRO is SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

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annual turnover threshold of Tk. 20 lakh[18], the effective VAT rate becomes 0.06 percent to 0.21 percent only. Since 2004-05, for commercial importers of taxable goods, there is another rate of VAT, which was 1.5 percent up to 2008-09 and 2.25 percent from 2009-10. For service renderers, the net VAT rates are 6 in number (1.5, 2.25, 4.5, 5.0025, 9, and 15 percent) from 2003-04 to 2009-10 including the standard rate. Thus the tax rates are affected by diversity in application with uniformity in superficiality.

(c) ***Taxpayers:*** Who is the taxpayer under the VAT statute? According to section 3(3), the VAT is payable by the importer of taxable goods at import-stage, supplier of taxable goods at production-stage, service-renderer of taxable services and supplier of taxable goods at trading stage. However, they are the persons who are legally obliged to pay the tax to the treasury and hence they are "legal taxpayers", but as an indirect tax, the consumers or final buyers of the taxable goods and services are the "real taxpayers" to the extent the tax (usually to be specified on the tax invoice[19]) falls on them depending on the price-elasticity of the product or the ad hoc mechanism of declared price contained in the VAT law. In the verdict of the High Court Division case [*Dr. Ahmed Hossain vs. Chairman, Bangladesh Telegraph and Telephone Board, Dhaka and others*[20] (judgment on 12.11.1997)], the following observation can be cited:

> "A careful study of sections 3(1), 5(4), 9(1) and 15(1) to the VAT Act will reveal that the value added tax is an indirect tax on consumption of goods or services. It is a tax that is collected fractionally along the whole chain of distribution, from the point of production or importation to the supply to the consumers. It is levied, in such a manner that none is applied directly on the trader whether he is an importer, a manufacturer, or a distributor. Ultimately, it falls on the consumer. The only duty lies on any trader is to keep an accurate record and pay over the tax thus collected to the Government" [*The Dhaka Law Report*, Vol. 50, 1998, the High Court Division part, p. 118].

The verdict of the above High Court Division case was maintained by the Appellate Division in its verdict on the case *ABM Bayezid vs. Chairman, BTTB and others*[21] (judgment on 16.02.2002). Thus, the real taxpayers under the VAT system are the consumers of the taxable goods and services. However, since 1993-94, when a provision of withholding VAT of prescribed taxable services has been incorporated in the VAT Act [under sub-sections (4AA)[22], 4(B) and (4C) of section 6], then the recipients or consumers of those selective taxable services are the legal and real taxpayers under the VAT Act. For the purpose of recovery of outstanding tax or penalty under section 56, the persons from whom that tax/penalty can be recovered include the Customs, Excise or Income Tax

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18 For FY 1991-92 and FY 1992-93, the threshold limit was Taka 5 lakh; for FY 1993-94, the limit was Taka 7.5 lakh; for FY 1994-95 to FY 1998-99, the limit was Taka 15 lakh; for FY 1999-2000 to FY 2007-08, the limit was Taka 20 lakh; for FY 2008-09, the limit was Taka 24 lakh and for FY 2009-10, the limit is Taka 40 lakh.

19 If the VAT is not separately mentioned on the invoice, then the VAT shall be the 'gross sale' multiplied by the VAT factor $^{15}/_{115}$ [u/r 23(4)].

20 *50 DLR (1998) 115*; *The Dhaka Law Reports (DLR)*, Vol. 50, 1998, the High Court Division part, pp. 115-121.

21 *8 BLC (AD) (2003) 112*; *The Bangladesh Law Chronicles (BLC)*, Vol. 8, 2003, the Appellate Division part, pp. 112-115.

22 Initially inserted as sub-section (4A) by the Finance 1993, then was re-serialized as sub-section (4AA) by the Finance Act 2000.

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officials (in case of the defaulter's surplus money due with the Customs, Excise or Income Tax officials), or a different person (in case of the defaulter's money kept with that person), or a bank (where the defaulter has an account having deposits), or the new owner of the defaulter's business (in case of transfer of ownership to the new owner). There is also another practice in case of institutional purchasing of taxable goods or services from an unregistered person (which is illegal but abundantly available even in the City Corporation area due to lack of awareness or enforcement), where the buyers deposit the due VAT to the treasury directly to make themselves relieved from legal obligation of VAT payment.

(d) ***Tax Period:*** The tax period is usually a month [u/s 2(e)]. But according to an SRO,[23] the tax period may be a quarter or a half year for selective cases: 3-month period for two types of producer of goods and exporters [Brick; and Hundred percent export oriented enterprises] and two services [Indenting firm (S014.00) and Shipping agent (S035.00)] and a 6-month period for five services [Construction firm (S004.00), Clearing & forwarding agent (S015.20), Consultancy firm and supervisory firm (S032.00), Leaseholder (S033.00), and Procurement provider (S037.00)]. But for the small retail traders of taxable goods, paying *specific VAT*, the tax period may be one year or a month.[24] Thus, regarding the tax period the couple of options include one month, one quarter, a half-year and a full year.

(e) ***Tax Credit:*** The tax credit is the fundamental characteristic of the VAT system. Under standard procedure, a VAT registered person is allowed to take input tax credit. But over the years, there are so many restrictions created on disallowance of input tax credit in terms of extensive areas of disallowance, extent of allowance (partial credit) or time limitation of taking the credit, that the beauty of the VAT system seems to be disappeared. Although there was no explicit provision of zero-rating for cottage industries, but under the relevant SROs on cottage industry facility, initially taxes (VAT and/or SD) were exempted and there was no specific restriction on taking input tax credit if paid at procurement stage of inputs. After two years of the introduction VAT, in 1993-94, for the first time provision was made to disallow input tax credit for the entities enjoying the cottage industry benefit. In 1996-97, input tax credit was disallowed for VAT paid on the basis of tariff value or related to services subject to VAT payment based on truncated value-base. In 2000-01, the input tax credit seems to be pervasively restricted creating about a dozen of areas where it would not be allowed fully or partially. Thereafter, over the next three years (2001-02 to 2003-04), the list of disallowances on input tax credit was expanded further and in 2009-10, wee observe the further extension of the list. Besides, the preparation of the price declaration form (something writing in one column or in other column in the prescribed form "Musak-1), the VAT authorities try to cancel the input tax credit illogically. Possibly the harshest comment in this regard is made by a VAT Inspector as follows:

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[23] The latest SRO is SRO No. 144-Ain/97/161-Musak, dated 12.06.1997, amended lastly by SRO No. 106-Ain/2009/514-Musak, dated 11.06.2009.

[24] The latest SRO is SRO No. 172-Ain/2004/418-Musak, dated 10.06.2004.

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> "Due to a fatal, odious and great offence through not following an artificial method of mentioning the value addition in the price declaration form on the left side by not writing on the right side or not mentioning on the left side by writing on the right side, one group is besotted in a solemn festival of foiling accepted input tax credit declining the legal right under rule 19 and section 9. With a desire to kill the credit network which infuses life into the VAT system, the warriors of the crusade are spending their days and nights. In this case, the true single-minded ones are uncompromising in showing non-observance regarding their dutifulness and competency without permitting a slight alteration. Order of canceling credit by one scratch is served and carried out without any deference to justice and natural law" (Khan, 2007, p. 864).[25]

(f) ***Price Declaration:*** In Bangladesh, the VAT system is rarely based on actual transaction-based documents and hence it is usually against normal functioning of the market. There are as many as ten (10) types prices or values considered for imposition of VAT at different stages: **two** values/prices (the duty-paid *transaction value* or the PSI *certified price*) at import stage for the imported taxable goods; **four** values/prices (the *consideration* in normal situation, *sub-contract price* in case of contract-based production, or *retail price* or *tariff value* in prescribed products, and the *tender value* for tender-based supply) at production stage; **two** values/prices (the *total price* in normal situation or the *truncated value addition* or *lump sum value addition* in prescribed cases) at trading stage for the supply of taxable goods; and **two** values/prices (the *total receipts* in normal situation or the *truncated value addition* or *tariff value* in case of the prescribed services) at service stage for the provision of taxable services. This is not the end. Usually the declared price accepted by the VAT office is taken for imposition of VAT. The Review Committee constituted by the NBR u/s 193C of the Customs Act can review the PSI *certified price* mentioned on the Clean Report of Findings (CRF) issued by the pre-shipment inspection agencies (PSI). And the Base-Value Review Committee constituted by the NBR under rule 3(7) of the VAT Rules 1991 can critically evaluate the declared price analyzing the cost structure and, where the declared price is lower than the price of similar product in the market, considering the issue of subsidy or loan waiver as a reason of this price advantage to recommend in fixing the revised price for imposition of VAT. In any case, these Review Committees are quickly responsive to any upward revision of the declared price and in rare case, they are in favour of downward revision. Even in case of application for diminution, they take time unreasonable to approve the price.

(g) ***Account Current System:*** The tax payment system followed in Bangladesh can be stated as *Account Current System*. One of the major statutory document, a registered person is required to maintain is the Current Account Register (or Account Current Register). Under the Account Current system, before removal of any consignment of goods from the place of manufacture or production or business, the registered person is required to pay the tax through necessary adjustment in account current and for this purpose, there shall have to be sufficient balance in his account current "Musak-18" [Account Current] [u/r 23(2)]. Thus, the tax payment system is an advance deposit system. The removal of goods does not necessarily mean a final transaction. Sometimes it might be up to a distributor's venue or a sales center.

[25] Translated from Bengali writing.

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The final sale to consumer and realization of bill may take a long time, but the Government is taking the money in advance without any *easy* future recourse. There is limited scope of adjustments in case of return or other contingencies, but the degree of compliance might force the registered person disinterested to take the scope. There are instances where the inadvertent problems of treasury deposit arise due to bank holiday, but the VAT authorities closely watch the Account Current with detailed checking on the removal of taxable goods during weekend regarding the assurance of positive balance in the account. Bata Shoe Company (Bangladesh) Limited is in such type of problems frequently, although they try to deposit huge amount to the treasury on the last weekday to ensure it. But due to pressurized order, there might be risk sometimes and then they stop the physical delivery of supply order.[26]

(h) ***Statutory Books of Account:*** Probably this is the area for which the compliance burden of VAT is so high. Under the statutory obligations, the taxpaying entities are required to maintain several books of accounts (i.e., purchase account book, sales account book, account current book, and invoice book) in prescribed format, which are often additional set of documents, and the sole purpose is the VAT compliance. The frequent changes in the format, styles and contents also create a lot of problem in proper compliance. Only from 2003-04, a provision has been incorporated in the VAT laws to allow the maintenance of computer print copy of the statutory books. Maintenance of the books of documents for at least four years is also a physical pressure on the office space of the VAT taxpayers. The mandatory maintenance of accounts through the use of electronic cash register (ECR), or computer or any other electronic equipment since July 1, 2008 has also enhanced the compliance cost through investment in equipment and hiring skill, and the use of ECR or POS (point of sales) software is still very minimum possibly for poor enforcement. The NBR identified 2,726 service sector retailers in Dhaka, Chittagong, Rajshahi, Sylhet and Khulna city corporations to bring under the mandatory ECR system from January 1, 2009. However, the installation of electronic cash register in the country's five city corporation areas is moving at snail pace as only 26 per cent of the identified shops installed the machines until February 16, 2009, according to the NBR's recent data. The ECR installation rate in the capital city is only 30 percent, in the Chittagong port city only 5 percent, in Sylhet 1.6 percent, in Khulna 36.3 percent and in Rajshahi 59.4 percent (*The New Age*, 23.02.2009).

(i) ***Tax Invoice:*** There are as many as about a dozen types of invoices that can be issued under the VAT system. Under the standard system, an invoice is to be issued in triplicate by using double faced carbon, and the use of such folded carbon makes a physical barrier in using any mechanical device and depositing the second copy of the invoice to the local VAT office within five working days (initially it was only 24 hours) has made the system practically unfeasible. Since 2002-03, the computer generated invoice can be allowed subject to approval of the VAT authority. From 2007-08, invoice can be issued in own format by a registered person containing information of invoice in Form "Musak-11" along with any other additional information as desired by the registered person. The third copy of the invoices is to

[26] Information obtained through personal visit to the factory office of Bata Shoe Company (Bangladesh) Limited in March 2009.

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be maintained for at least four years. The problem is when the invoice does not contain the tax figure or does contain the figures but not at standard rate, the input tax credit system might be subject to instant disallowance. Obtaining a correct invoice with the seller's registration number with standard format is also sometimes a difficult issue.

(j) ***Tax Refund:*** As noted by Mika Casanegra de Jantscher and Carlos Silvani (1991), in most of the developing countries, "the legal and administrative framework is such that officials become reluctant to give tax refunds. Taxpayers often have to comply with tortuous procedures to obtain any kind of tax refund" (de Jantscher, and Silvani, 1991, p. 36). Bangladesh is not an exception. Referring to section 5(2) of the VAT Act, Saleheen (2003), has also mentioned that "In fact, the VAT legislation in Bangladesh under no circumstances entertains negative value addition resulting in the refund of VAT paid on purchases" (Saleheen, 2003, p. 16). Initially there was no provision of refund system in Bangladesh. Only from 1997-98 (i.e., after 6 years of the introduction of VAT), the provision was enacted to allow refund of tax under section 67 and under rule 34A in case of payment or over-payment due to inadvertence, error or misinterpretation or any other acceptable reason. The observance of Treasury Rules (TR), through difficult process of obtaining the physical authentication of the receiving officer in the treasury, and application for refund in prescribed form "TR-31," which is not normally available are instances of some devious procedural rigidities. The time bar of six months from the date of the tax payment is also a constraint. However, there is other reverse problem on the part of the tax administrators also. In case of zero-rated exports, particularly for exporters having both local and international supplies, there is a possibility of both refund in the form of drawback as well as credit for same export.

(k) ***Withholding VAT:*** Probably this is the most distortionary application of the VAT system. Provision of withholding VAT for prescribed services has been incorporated in the VAT statute since 1993-94 except for standard input tax credit system. Started with 5 services, now in 2009-10, the services subject to VAT deduction at source are 27 in number and the rates are on truncated value-base (*vide* Table 6.6 in Chapter 6). Although the rates of deduction are prescribed, but it should be applied on the amount exclusive of the VAT amount and if the VAT amount is specifically mentioned on the invoice based on the prescribed rate, no further computation is necessary. But the practice varies from organization to organization. For instance, Dhaka City Corporation has applied 4 percent TDS (tax deducted at source) for the contractors having a bill above Tk. 25 lakh[27] and 4.5 percent VDS (VAT deducted at source) on the same gross bill of construction contractors,[28] although the VDS should be on pre-VAT amount and TDS should be on total bill. For example, in a bill of Tk. 205,905, dated 27.10.2005, the City Corporation has deducted Tk. 8,236 as TDS, which is correct, but deducted Tk. 9,266 (at the rate 4.5 percent on Tk. 205,905) as VDS in place of Tk. Tk. 8,867 (at the rate 4.5 percent on pre-VAT Tk. 197,038, which is Tk. 205,905 multiplied by $^{4.5}/_{101.5}$)

[27] From January 5, 2002, the rate of TDS on execution of contract or sub-contract is: Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%.

[28] From 10.06.1993, VDS is applicable on Construction Firm (S004.00) at 4.5 percent.

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and thus, the net bill received by the contractor has been Tk. 188,403 in place of a higher amount (Tk. 188,802).[29]

Since the VAT deducted at source (VDS) is collected by the buyer/consumer entity, which may not be a registered person, the procedure is usually an unusual application. The conditional enactment of this VDS for getting a payment as allowable deduction under the income tax system has caused its abnormal practice in many cases. Because from 1993-94, under section 30 of the Income Tax Ordinance 1984, no deduction on account of allowance from *income from business or profession* shall be admissible in respect of several items, including one item related to VAT under clause (aa) of section 30 of the Income Tax Ordinance 1984. The inadmissible deduction under this clause (aa) is: "any payment made by an assessee to any person if tax thereon has not been deducted and credited in accordance with the provisions of Chapter VII[30] and value added tax thereon has not been collected or deducted and credited in accordance with provisions of the Value Added Tax Act, 1991 (Act No. 22 of 1991)" (Adhikary, 2009a, pp. 75-76). The provision regarding VDS under the income tax statute has created a lot of irrational treatment of VDS and TDS particularly regarding supply of goods. Since the beginning of the Income Tax Ordinance 1984, section 52 is related to income tax deduction at source (TDS) on some items including any payment on account of supply of goods at a rate[31] prescribed under rule 16 of the Income Tax Rules 1984. In the VAT laws, from July 02, 1997, "Procurement Provider" (S037.00), being a supplier of goods, has also been incorporated in the list of services subject to withholding VAT at 2.25 percent (3 percent from 1997-98 to 2001-02). According to the statutory definition, "Procurement Provider" means a person, organization or association supplying or rendering any goods or service or both to different government, semi-government, autonomous bodies, non-government organizations (NGO), bank, insurance or limited companies against quotation or tender. Under this definition, how a "procurement provider" can be a service provider (in place of a trader), that might be questioned. But the confusion is probably regarding the words "supplying or rendering any goods or service" because VAT cannot imposable on "any goods or service", it must be on vatable goods and vatable services. Since TDS is applicable in case of supply of "any goods", so while applying the TDS, the deducting entities are collecting VDS also, for not to be penalized under section 30 (disallowance of deduction) as well as 2 percent penalty interest per month under section 57

[29] It is known from the copy of Bills received by M/S Impex Construction, 31/3 Syed Aowlad Hossain Lane, Dhaka for the year 2005-2006.

[30] In Chapter VII of the Income Tax Ordinance 1984, on July 1, 2008, there were 49 sections (sections 48 to 63) related to withholding income taxes. Out of these sections nine sections (section 48, 49, 57-63) are for listing and other administrative issues. In other 40 sections (sections 50-56), there were 43 specific items for income tax deducted at sources (TDS) for 2008-09. By the Finance Act 2009, one new section (section 52 O) has been introduced and one existing section (section 53DD) has been deleted. Thus for 2009-10, the number items remains the same [43 specific items for TDS under 40 sections (sections 50-56)] and these items have been enumerated in a new schedule [Eighth Schedule] enacted by the Finance Act 2009.

[31] From January 5, 2002, the rate of TDS is: (a) In case of oil supplied by oil marketing companies: Up to Tk. 2 lakh–nil; and above Tk. 2 lakh @ 0.75%; (b) in other cases: Up to Tk. 1 lakh–nil; above Tk. 1 lakh & up to Tk. 5 lakh @ 1%; above Tk. 5 lakh & up to Tk. 15 lakh @ 2.5%; above Tk. 15 lakh & up to Tk. 25 lakh @ 3.5%; and above Tk. 25 lakh @ 4%. From this deduction, any tax deducted at import stage on goods used in the execution of contract.

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and enforcement actions under section 117A through verification under the Income Tax Ordinance.

Thus, the VAT system has been functioning in such a way where distortions or deviations from an ideal system are observed in a good number of situations. From the above discussion, these include recent enactment of imposition of excise duty on the applicable LTU entities, earlier airline ticket tax collection under VAT SRO, introducing multiplicity in tax rates through ad hoc measures showing only superficial uniformity, provision of withholding VAT, existence of taxpayers outside the legal provision due to withholding VAT and undocumented purchase or purchase from unregistered persons, allowing multiple alternative tax periods in addition to regular monthly submission of VAT return, a substantial number of restrictions on taking input tax credit, collection of VAT on the basis of taxpayers' declared price (which might be as many as ten types) and disallowing the market system, advance collection system of VAT through improper account current method, maintenance of statutory books of documents for VAT purpose and storing them for at least four years, prescribed multiple options for VAT invoices, and the complicated system of refund.

10.04 Price Effects of VAT

Alan A. Tait (1990), in his paper titled "VAT Revenue, Inflation, and the Foreign Trade Balance," has mentioned that a VAT proposal is usually subject to opposition because "the greatest controversy surrounds its effect on retail price" (Tait, 1990, p. 17). Tait (1990) has attempted to identify the price effect of VAT by testing four hypotheses about the price effects of VAT through a sample survey of thirty-nine countries. Out of these sample countries, only one country (Ecuador) introduced a VAT as a completely new tax, and even in that case other taxes (on mining) were reduced; all other countries in the sample replaced other taxes with a VAT. Given the situation of very recent introduction of VAT in four countries and insufficient data in another four countries, Tait found that there were seven pure *shift cases* (Denmark, Uruguay, Netherlands, Ecuador, Bolivia, Honduras, and Norway) and one additional pure shift case (Turkey) based on monthly data. Two countries (Honduras and Norway) are *shift cases plus acceleration*. Ten counties were considered as *acceleration cases* and thirteen countries were found to have *no (or very little) effect* on the rate of change of the CPI (consumer price index) (pp. 17-27). In case of shift in the CPI, the effect should be seen by an upward shift in the intercept term of the CPI through time before and after the change but in an unchanged (or little changed) slope because the tax increase is a once-and-for-all shift. In acceleration case, the price-effect of VAT is inflationary in a continuing fashion, because of "changes in relative tax burdens, uncertainty, and tax myopia" (Tait, 1990, pp. 18-19).

The rates of inflation over the years in Bangladesh during the VAT-regime (as shown in Table 10.10) have a fluctuating trend. But if the rate of inflation in 1991-92 (the first year of introduction of VAT) and that in 1996-97 (the year of extending the VAT-net to retail stage) are

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examined, the finding is to some extent astonishing. In 1991-92, the rate of inflation declined from preceding year's 8.3 percent to 4.6 percent only (around 45 percent decline) and in 1996-97, the rate of inflation declined from preceding year's 6.7 percent to 2.5 percent only (around 63 percent decline and the second lowest over 19 years from 1991-92 to 2008-09). However, in 1994-95, 1997-98 and in 2007-08, the rate of inflation was much more alarming (8.9 percent, 8.7 percent and 9.9 percent respectively), whereas except for 1996-97, in 2000-01 and 2001-02, the rate of inflation was less than 3 percent (1.9 percent and 2.8 percent respectively). Thus, it is least likely impact of VAT on this general rate of inflation.

Table 10.10: Rate of Inflation

(Base: 1985-86 = 100 up to 1995-96; thereafter 1995-96 = 100)

FY	Rate of Inflation	FY	Rate of Inflation
1990-91	8.3 (8.94)	2000-01	1.9
1991-92	4.6 (5.09)	2001-02	2.8
1992-93	2.7	2002-03	4.4
1993-94	3.3	2003-04	5.8
1994-95	8.9	2004-05	6.5
1995-96	6.7	2005-06	7.2
1996-97	2.5	2006-07	7.2
1997-98	8.7	2007-08	9.9
1998-99	7.1	2008-09 (up to March '09)	7.5
1999-2000	2.8		

Note: Figures in parentheses are the rate of inflation, based on average percentage change in Cost of Living Index (Base: 1973-74 = 100) reported in *Economic Trend, Monthly* (published by Statistics Department, Bangladesh Bank), Vol. XVIII, No. 3, March. 1993, pp. 10-11 (Table 10.11 below).

Sources: *Bangladesh Economic Survey 2002* (p. 148) and *Bangladesh Economic Survey 2009* (p. 231), Dhaka: Finance Division, Ministry of Finance, Government of Bangladesh.

Based on relative changes in the Cost of Living Index, as reported by Bangladesh Bank, there was much inflationary pressure in 1990-91, but it declined in 1991-92 (Table 10.11). During the first two months of 1991-92, the inflationary condition based on Cost of Living Index was to some extent higher, but the month-end average rate of inflation had a continuing declining trend throughout the year. The point-to-point average rate of inflation had a continuing declining trend throughout the first half of the year (July-December 1991), thereafter there was a slight increasing trend up to May 1992, but in the last month of 1991-92, again there was a fall in rate of point-to-point inflation.

The changes in annual average consumer price indices of middle income group at Dhaka, Chittagong and Khulna also showed that in the preceding year of introduction of VAT (1990-91), the change was very significant in most of the cases. But in 1991-92, the changes were subject to decline except for Khulna town for "Housing & Household Requisites" and also for "Miscellaneous" items, but these were not susceptible to imposition of VAT. There were increases in 1991-92, but those were not countable. The clothing and footwear, where VAT was imposed, the changes were also insignificant (Table 10.12).

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Table 10.11: Rate of Inflation Measured by Percentage Change in Cost of Living Index (Base: 1973-74 = 100)

Period	Point to Point	Average
1990-91	7.77	8.94
1991-92	**6.19**	**5.09**
July	7.70	9.17
August	7.40	9.34
September	6.53	9.33
October	4.68	8.90
November	2.05	8.03
December	1.94	7.20
January	3.23	6.47
February	3.86	5.83
March	4.10	5.30
April	6.80	5.24
May	6.90	5.21
June	6.19	5.09
July-September	6.53	9.33
October-December	1.94	7.20
January-March	4.10	5.30
April-June	6.19	5.09
1992-93		
July	4.74	4.85
August	4.49	4.62
September	5.01	4.50
October	3.06	4.36
November	1.64	4.32
December	1.49	4.28

Sources: *Economic Trend, Monthly* (published by Statistics Department, Bangladesh Bank), Vol. XVII, No. 11, November 1992, pp. 10-11; and Vol. XVIII, No. 3, March 1993, pp. 10-11.

According to the report in *Bangladesh Economic Survey, 1991-92*, last year (1991-91) the food productions in the country was severely affected in the southern region due to the devastating cyclone on 29 April 1991, and that in the northern region due to flood and for some reasons of inconsistency between production and distribution, the price of most of the food items increased in 1991-92. But through taking different measures – such as OMS (open market sale) of food items with a target of 25.0 lakh metric ton, declaration of 392 important *bazaars* in 64 districts as controlled market under the control of a district market committee headed by the Deputy Commissioner of each district, and adoption of precautionary monetary and debt policies [*Bangladesh Economic Survey, 1991-92*, p. 120]. But nothing is mentioned about any fiscal measures for which the inflation might be an effect.

About few other issues, which might be related to VAT, can be seen as follows (for 1991-92):

(a) *Increase in price of Cement (Bangladeshi) over 1990-91 based on yearly average price:* Dhaka 6.10 percent; Chittagong 3.63 percent; and Khulna 24.10 percent;
(b) *Increase in price of Cement (Imported from Indonesia) over 1990-91 based on yearly average price:* Dhaka 6.10 percent; Chittagong 4.76 percent; and Khulna 10.77 percent;

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(c) *Increase in Prices on the basis of Construction Cost Index (Building) Bangladesh over 1990-91 on the basis of this Index (Base: 1969-70=100):* General 5.24 percent; Building materials 5.33 percent; Wage rate 3.04 percent; and Transport charges 13.43 percent;

(d) *Increase in Wholesale Price Index of Industrial Products over 1990-91 on the basis of this Index (Base: 1969-70=100):* Manufacturing Industry 7.17 percent; Agricultural products (total) 2.78 percent; Industrial products (total) 5.68 percent; All groups of both agricultural and industrial products 3.68 percent and

(e) *Increase in National Wage Rate Indices over 1990-91 on the basis of these Indices (Base: 1969-70=100):* General 4.79 percent; Manufacturing Industry 4.19 percent and construction 1.68 percent [*vide Statistical Yearbook of Bangladesh, 1998* (December, 1999), pp. 443-448].

Table 10.12: Changes in Annual Average Consumer Price Indices of Middle Income Group at Dhaka, Chittagong and Khulna over the Preceding Year (Base: 1973-74 = 100)

Town/Weight /Year	Foods	Fuel & Lighting	Housing & Household Requisites	Clothing & Footwear	Miscell-aneous	General
Dhaka:						
Weight	63	8	12	6	12	100
1990-91	6.93	40.21	7.30	6.68	1.98	8.85
1991-92	5.56	6.67	3.00	2.76	4.85	5.08
1992-93	-1.17	4.66	5.94	2.93	4.23	1.38
1993-94	0.44	0.57	7.72	2.13	2.16	1.77
1994-95	7.81	-4.43	2.06	1.86	6.83	5.22
1995-96	5.74	1.58	0.67	0.00	2.67	4.07
1996-97	4.91	2.52	1.91	7.74	1.81	3.91
1997-98	7.27	2.46	4.03	4.23	8.57	6.35
Chittagong:						
Weight	61	7	13	5	14	100
1990-91	8.40	32.52	9.32	6.53	3.49	8.64
1991-92	4.02	1.68	7.72	1.60	3.24	4.60
1992-93	-3.31	1.65	9.24	2.62	6.27	0.80
1993-94	3.42	5.37	6.73	3.58	-1.60	3.57
1994-95	8.28	3.70	2.43	2.47	3.25	5.87
1995-96	5.99	3.87	8.37	0.96	4.84	6.03
1996-97	1.44	7.59	0.36	2.63	1.39	1.59
1997-98	2.01	4.93	3.05	0.23	14.01	4.03
Khulna:						
Weight	68	9	8	6	9	100
1990-91	7.17	21.79	11.96	4.59	-2.59	8.17
1991-92	4.62	3.86	14.42	2.08	6.64	5.39
1992-93	-2.44	-0.56	9.09	1.81	11.20	0.44
1993-94	3.59	1.36	11.33	1.56	1.87	3.93
1994-95	6.33	-0.89	1.80	0.44	5.86	4.76
1995-96	3.12	0.45	5.20	0.22	4.38	2.94
1996-97	-1.10	-2.81	5.31	3.91	-0.77	-0.26
1997-98	4.17	-3.35	5.13	2.51	-1.45	2.86

Sources: Compiled on the basis of data from the *Statistical Yearbook of Bangladesh, 1998* (Dhaka: Bangladesh Bureau of Statistics, Statistics Division, Ministry of Planning, Government of Bangladesh; December, 1999), pp. 443-448.

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In 1991-92, the alarming or mentionable price hike could be traced with cement at Khulna region (24.10 percent for Bangladeshi cement and 10.77 percent for imported Indonesian cement), but since in other areas the level of inflation was not so significant, the reason might not be related to imposition of VAT. In case of "transport charges" within the construction cost index (building), the price increased by 13.43 percent, but only from 1999-2000, the services provided by "Transport Contractor" (S048.00) have been vatable. Thus, the reason must be from other issue(s).

However, in Bangladesh, there is a general tendency of raising prices at the time of placing budget and sometimes, the media reporting on potential changes in prices of goods and services depending on the partial or full imposition/withdrawal of any tax or duty or increase/decrease of the tax rates, although the real taxation must be a delayed one depending on the actual arrival of imported goods or market supply of produced goods. In case of new or enhanced tax, the concerned businessmen react quickly, but not in the reverse case of withdrawal or reduction of tax. After the first budget of the VAT regime (although there was no tax in the budgetary estimates in the name of VAT), according to a market survey at Baitul Mukarram electronic market at Dhaka, traders responded quickly to the budget (placed on 12 June 1991) by increasing the prices of certain commodities falling under duty increase list but showed little interest in case of items under reduction list. An importer of air-cooling systems pointed out that the traders were uncertain about the tariff proposal and the implication of the VAT due to the non-availability of its details. Thus, the upward revision of price was not for the VAT, but for the increase in customs duty rates (*The Bangladesh Times*, 17.06.1991).

The growth rate of total VAT (Base: 1992-93) and the rate of inflation (taken from Table 10.10) over 1993-94 to 2007-08 are shown below:

FY	1993-94	94-95	95-96	96-97	97-98	98-99	99-00	2000-01
Growth rate of VAT	7.1	35.1	50.6	69.2	79.0	89.6	101.8	148.8
Rate of inflation	3.3	8.9	6.7	2.5	8.7	7.1	2.8	1.9
FY	**2001-02**	**02-03**	**03-04**	**04-05**	**05-06**	**06-07**	**07-08**	**----**
Growth rate of VAT	172.5	203.5	239.9	307.9	382.0	437.6	589.3	----
Rate of inflation	2.8	4.4	5.8	6.5	7.2	7.2	9.9	----

Source: Computation based on Table 10.10 above and the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009).

The Pearson's correlation coefficient (r), between the growth rate of total VAT and the rate of inflation over 1993-94 to 2007-08 (thus, n = 15), is 0.42502, which is significant at $p > 0.11$; and hence the correlation is *not* significant at 0.05 percent (2-tailed). This also indicates that the price effect of the VAT has been negligible. Hence, it can be said that the *first* research hypothesis *[$H1_A$: There does exist inflationary implications of VAT]* cannot be substantiated (i.e., the null hypothesis is accepted).

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10.05 Equity Aspect of VAT

As reported in *Human Development in South Asia 1999: The Crisis of Governance*,

> Tax effort is not only minimal but also regressive in South Asia. The bulk of this tax burden falls on the poor people, as nearly three-fourths of total revenues in South Asia are obtained by levying indirect taxes. Though many indirect taxes may be progressive and several direct taxes may be regressive, an over-reliance on indirect taxes is generally perceived to be more harmful to the lower income groups than to the rich (HDC, 1999, p. 80).

In line with this generalization, Bangladesh is not an exception. With the very low tax effort, the taxation system of Bangladesh is also primarily perceived to be regressive in nature due to its over-reliance on indirect taxes. Around 70 percent of tax revenue comes from indirect taxes (Table 10.06). Thus the share of indirect taxes in total tax revenue is little less than around two and half times of direct taxes in Bangladesh. This is higher than most of the South Asian countries where the share of indirect tax in total tax revenues is little more than double that of direct taxes. In the SAARC region, the share of direct tax in total tax of Bangladesh is also below its regional average (HDC, 1999, p. 184), although a little improvement recently.

In the European Union, taken as a whole, in 2007, the overall tax ratio in the 27 Member States (EU-27) amounted to 39.8 percent of GDP (in the weighted average); this value is about 12 percentage points above those recorded in the United States and Japan. The EU tax-to-GDP ratio is high not only compared to these two countries but in general; amongst the major non-European OECD members, only New Zealand has a ratio that exceeds 35 percent of GDP (European Communities, 2009, p. 5). The unweighted average tax-GDP ratio in the 30 OECD countries was 35.9 percent in 2006, with maximum tax-GDP ratio of 49.1 percent in Denmark and minimum tax-GDP ratio of 24.5 percent in Turkey; the tax-GDP ratio of other important countries was 44.5 percent in Belgium; 44.2 percent in France; 43.5 percent in Finland; 37.1 percent in the UK; and 28.0 percent in the USA. In these countries, the average ratio of consumption taxes and other taxes on goods and services in the total tax structure was only 33 percent (www.oecd.org; accessed 15.09.2009).

During the first half of nineties, the situation in Bangladesh was alarming while the direct taxes are compared to international trade taxes. It was expected to increase the share of direct tax to offset the declining international trade taxes in the wake of liberalization. But the share of international trade taxes in total tax also started to rise from 50.1 percent in 1992-93 to over 54.9 percent in 1995-96. On the other hand, the share of direct taxes in total tax revenues started to fall from 26.7 percent to 20.80 percent for the corresponding years. Thus the so-called progressive direct taxes with its falling trend caused the reduced coverage of the progressive element of whole tax system and the increasing trend of international trade taxes made the tax system more regressive in nature because they were ultimately passed on to the final consumers. From 74.7 percent in 1990-91, the share of indirect taxes in total taxes jumped to 75.1 percent due to the unexpectedly high collection of VAT in the first year without any budgetary provision. But the share decreased in 1992-93 (73.3 percent) and thereafter the share increased gradually up to 1995-

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96 and then it was to some extent stable at an average of 78.3 percent during 1995-96 to 1999-2000. However, after 2002-03, the share of indirect taxes has been declining slowly and in 2009-10 budget, it has been targeted at below 70 percent for the first time (68.8 percent), although the average share over 2005-06 to 2009-10 is still above 70 percent (71.0 percent). But the disquieting situation is that the dominance of local trade taxes in proportion to total taxes has been increasing. The decline in the share of indirect taxes in total taxes is mainly due to fall in international trade taxes, which has a falling trend since 1999-2000, except a slight increase only in 2003-04. But the VAT at import-stage has strong share with slight decline recently and the pace of diminution is insignificant. The share of VAT at local stage in total taxes has been increasing over the years (9.4 percent in 1991-92 to 1994-95; 11.7 percent in 1995-96 to 1999-2000; 15.3 percent in 2000-01 to 2004-05; and 19.0 percent in 20005-06 to 2009-10), although from the yearly viewpoint, only in three years (1995-96, 2002-03, and 2007-08), there was a slight decline in its share from last year. For this reason, the share total VAT in total taxes have been increasing over preceding year except a slight decrease in 2002-03, when the share of indirect tax did not fall due to around 38.4 percent increase in taxes from local stage supplementary duty, another tax under the VAT Act (Table 10.13). Consequently, to all these, VAT is the major contributing fiscal instrument. Thus the regressive tax structure, for which the VAT is highly liable, tends to violate the principle of equity in taxation.

Table 10.13: Year-wise Tax Structure vs. VAT

FY	Internal Trade Tax	External Trade Tax	Indirect Tax	Direct Tax	VAT (Import)	VAT (Local)	VAT (Total)
1991-92	24.0	51.2	75.1	24.9	16.1	5.9	22.0
1992-93	23.2	50.1	73.3	26.7	18.7	9.0	27.7
1993-94	24.4	49.0	73.4	26.6	17.6	10.6	28.2
1994-95	24.4	53.5	77.9	22.1	19.5	11.0	30.5
1995-96	24.3	54.9	79.2	20.8	21.0	10.7	31.7
1996-97	25.1	53.9	79.0	21.0	20.7	11.5	32.3
1997-98	24.5	54.1	78.6	21.4	19.6	11.4	31.0
1998-99	23.8	54.3	78.1	21.9	19.3	11.5	30.9
1999-00	25.4	51.4	76.8	23.2	19.1	13.1	32.2
2000-01	25.8	50.7	76.5	23.5	18.6	13.7	32.3
2001-02	27.2	49.2	76.4	23.6	17.6	15.1	32.8
2002-03	28.8	48.8	77.6	22.4	16.7	14.8	31.5
2003-04	29.3	48.0	77.3	22.7	16.0	15.7	31.8
2004-05	28.6	48.2	76.9	23.1	17.1	16.3	33.4
2005-06	31.8	43.0	74.8	25.2	16.6	18.2	34.8
2006-07	32.0	40.1	72.1	27.9	16.2	19.1	35.3
2007-08	31.0	39.9	70.9	29.1	17.1	18.5	35.5
2008-09 (RB)	31.9	38.4	70.3	29.7	16.9	19.3	36.2
2009-10 (B)	32.4	36.4	68.8	31.2	16.0	19.6	35.6
1991-92 to 1994-95	**24.0**	**51.1**	**75.1**	**24.9**	**18.1**	**9.4**	**27.5**
1995-96 to 1999-2000	**24.6**	**53.7**	**78.3**	**21.7**	**19.9**	**11.7**	**31.6**
2000-01 to 2004-05	**28.1**	**48.9**	**77.0**	**23.0**	**17.1**	**15.3**	**32.4**
20005-06 to 2009-10	**31.8**	**39.1**	**71.0**	**29.0**	**16.5**	**19.0**	**35.6**

Note: Figures of FY 2008-09 are from 'Revised Budget' and Figures of FY 2009-10 are from original 'Budget'.

Source: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009c).

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As evidenced by Musgrave (1971) using a global sample, the ratio of indirect tax to total taxes is related inversely to per capita income, because the economic structure of low income economies is not suited to the imposition of progressive (i.e., direct) taxes, while indirect taxes can be imposed readily (Musgrave, 1971, pp. 142-149). But in Bangladesh, the bivariate Pearson correlation coefficient (*r*) between VAT to total tax ratio and per capita GDP over 1991-92 to 2007-08 (n=17) is highly positive (r = +.779), which is significant at the 0.01 level (2-tailed); and the same between VAT to total tax ratio and per capita non-agricultural GDP is also highly positive (r = +.771) being significant at the 0.01 level (2-tailed).[32] This indicates the pervasiveness of the VAT beyond its imposition on the non-agricultural base as it is claimed to be and the consequent regressivity thereof.

However, the exemption of VAT is also significantly expansive. The First Schedule and the Second Schedule have enumerated the general extensive lists of goods and services respectively outside the tax-net of VAT. Along with the numerous ad hoc lists of exemptions, the substantial shrinkage of the VAT network can be stated as an attempt to make the VAT system to some extent equitable.

Table 10.14: Extent of Exemption Related SROs

FY	Number of SROs			Exemption related SROs	
	Total	Related to VAT Rules	Other	Number	% of Other SROs
1991-92	45	4	41	18	43.9
1992-93	11	--	11	4	36.4
1993-94	27	1	26	18	69.2
1994-95	24	2	22	18	81.8
1995-96	14	3	11	5	45.5
1996-97	22	3	19	9	47.4
1997-98	25	1	24	8	33.3
1998-99	37	2	35	16	45.7
1999-2000	50	1	49	25	51.0
2000-01	41	1	40	23	57.5
2001-02	34	3	31	17	54.8
2002-03	29	2	27	13	48.1
2003-04	38	2	36	13	36.1
2004-05	33	2	31	14	45.2
2005-06	17	2	15	9	60.0
2006-07	12	1	11	5	45.5
2007-08	19	4	15	6	40.0
2008-09	22	2	20	7	35.0
2009-10	25	2	23	12	52.2
Total	**525**	**38**	**487**	**240**	**49.3**

Source: Compiled from the scanning of all the SROs prescribed so far up to 30.06.2009.

As mentioned in Table 10.14, in terms of number of exemption related SROs as a percentage of SROs other than those related to the VAT Rules, the extent of ad hoc exemptions was around one-third (in 1998-99) to maximum around 82 percent (in 1994-95). Out of total 487 SROs so far prescribed (up to 30 June 2009) for the purposes other than for issuing/amending the VAT Rules, 240 SROs (above 49 percent) are related to exemptions. In 2008-09, there were 41 SROs effective

[32] Computation is based on the *Annual Report 2007-2008* of the NBR (NBR, 2009), GOB (2009c) and *Bangladesh Economic Survey 2002* (p. 148) and *Bangladesh Economic Survey 2009* (p. 231), Dhaka: FD, MOF, GOB.

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for exemption (28 main SROs and 13 amending SROs), which have been 43 in number (30 main SROs and 13 amending SROs) in the latest year of 2009-10.

There is also another aspect of introducing equity under the VAT system, which is related to effective reduced rate for selective taxable services. Starting from 1993-94, a number of taxable services have been brought under this reduced rate scheme (rate lower than the standard rate of 15 percent). The range of coverage of this reduced rate was from the lowest 7.3 percent in 1996-97 to the highest 37.6 percent of total number of taxable services in 2009-10 (Table 10.15).

Table 10.15: Extent of Taxable Services under Reduced Rate

FY	Number of Taxable Service Codes				
	Total	Under TVA	Under Standard Rate only	Under Reduced Rate	Under Reduced Rate (% of Taxable Services)
1991-92	29	11	11	0	0.0
1992-93	36	11	11	0	0.0
1993-94	36	13	10	3	8.3
1994-95	37	13	10	3	8.1
1995-96	37	13	10	3	8.1
1996-97	41	13	10	3	7.3
1997-98	48	17	7	10	20.8
1998-99	53	20	7	13	24.5
1999-2000	69	27	6	21	30.4
2000-01	70	26	6	20	28.6
2001-02	70	26	6	20	28.6
2002-03	72	25	8	17	23.6
2003-04	75	28	10	18*	24.0
2004-05	80	37	16	21*	26.3
2005-06	81	37	16	21*	25.9
2006-07	82	38	16	22*	26.8
2007-08	86	47	15	32*	37.2
2008-09	86	47	15	32*	37.2
2009-10	93	52	17	35*	37.6

Note: TVA means "truncated value addition".

* Including "Advertising Firm (S007.00)" for which 100 and 60 percent rates of TVA prescribed.

Source: All the relevant SROs starting from SRO No. 192-Ain/91/16-Musak, dated 30.06.1991, w.e.f. 01.07.1991, to the latest SRO No. 114-Ain/2008/522-Musak, dated 11.06.2009, amended by SRO No. 179-Ain/2009/532-Musak, dated 30.6.2009 (Table 5.1 in Chapter 5).

10.06 Efficiency Aspect of VAT

According to the fourth maxim of Adam Smith, "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state" (Smith, 1977, p. 1105). Smith has further mentioned that a tax may either take out or keep out of the pockets of the people a great deal more than it brings into the public treasury, in *four* ways: (i) salary and perquisites of tax officers; (ii) obstruction of some industry and discouragement of certain branches of business through diminishing fund and ability; (iii) the forfeitures and other penalties relating to tax evasion; and (iv) enforcement costs relating to "the frequent visits and the odious examination of the tax-

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gatherers"; and thus taxes are frequently so much more burdensome to the people than they are beneficial to the sovereign (Smith, 1977, pp. 1105-1106). However, from the administrative point of view, the tax collection in Bangladesh can be said to be efficient. As mentioned in Table 10.16, the NBR, the apex fiscal authority, is very careful about their targeted expenditures. In 2005-06, the NBR has spent only around 80 percent of the budgeted expenditure of Tk. 5,581 million. In the following two years, the extent of expenditure was about 89 percent (2006-07) and 93 percent (2007-08), with an average of 87.5 percent over these three years.

Table 10.16: Budgeted and Actual Cost of Revenue Collection by Tax Authorities

(in million Taka)

Sl. #	Items	Budget			Actual		
		2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
1.	National Board of Revenue (NBR)						
	(a) NBR (Head Office)	91.3	169.1	127.3	83.5	169.1	104.0
	(b) Banderole, Excise Stamp and Label Printing	1,750.0	1,200.0	950.0	764.9	727.0	794.3
	(c) Pre-Shipment Inspection (PSI)	2,100.0	2,500.0	3,130.0	2,077.6	2,475.8	3,029.6
	(d) Customs Office, Brussels	8.8	9.8	13.9	9.8	8.9	13.8
	(e) Large Taxpayer Unit (Tax)		12.8			10.1	
	(f) Large Taxpayer Unit (VAT)			13.9			13.8
	(g) Rewards:						
	NBR (Head Office)			14.6	24.2		14.6
	Direct Taxes	45.0		26.3	4.3	19.8	25.1
	Indirect Taxes			18.0		5.2	14.8
	Bangladesh Rifles			14.0		9.0	14.0
	Bangladesh Police			5.0		3.0	5.0
	Bangladesh Naval Force			1.5		1.5	1.5
	Bangladesh Coast Guard			0.6		0.4	0.5
	Sub-Total (Rewards)	**45.0**	**60.0**	**80.0**	**28.5**	**38.9**	**75.5**
	Sub-Total	**3,995.1**	**3,951.7**	**4,315.1**	**2,964.3**	**3,429.8**	**4,031.0**
2.	Direct Taxes and Miscellaneous Taxes	582.8	690.0	745.9	576.7	672.3	705.9
3.	Indirect Taxes	1,003.0	987.0	1,070.2	907.9	916.5	968.3
	Total	**5,580.9**	**5,628.7**	**6,131.2**	**4,448.9**	**5,018.6**	**5,705.2**
	(% of Budgeted Expenditure)				**(79.7)**	**(89.2)**	**(93.1)**

Source: Compiled from the *Annual Reports 2005-2006*, *2006-2007* and *2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR).

But the collection efficiency is often measured in terms of cost of raising Taka 100 of tax revenue. In 1992-93, the total average tax collection cost was only Taka 1.00 for Taka 100 collected (Taka 1.55 for Taka 100 of direct taxes and Taka 0.72 for Taka 100 of indirect taxes) [NBR, 1994, p. 22]. The information from 1993-94 to 2007-08 has been provided in Table 10.17. According to the information provided in Table 10.17, the average tax collection cost per Taka 100 of tax collected was only Taka 0.84 over 1993-94 to 1997-98; then it increased to a great extent to Tk. 1.50 during 1998-99 to 2002-03; and then again declined to some extent to Taka 1.31 during 2003-04 to 2007-08. But the gap between average costs for collecting indirect tax in comparison to direct tax collection costs was also significant. The direct tax collection cost was 2.8 times of the indirect tax collection costs during 1993-94 to 1997-98; then it decreased to a great extent to 1.6 times during 1998-99 to 2002-03; and then again declined to some extent to 1.3 times during 2003-04 to 2007-08.

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The collection efficiency of VAT in terms of cost per Taka 100 of VAT revenue was even lower than that of other indirect taxes except for 2002-03 (Tk. 1.08 against Tk. 0.98). Just after introduction of the trading-stage VAT in 1996-97, the VAT collection cost declined to a great extent (at around Tk. 0.51 per Tk. 100 of VAT revenue) up to 1998-99, then started to increase slightly, which might be due to the habituation of a new tax and inventing the means of avoiding enforcement. But the introduction of ATV (advance trade VAT) for commercial importer in 2004-05, the VAT collection cost declined to the lowest Tk. 0.49 per Tk. 100 of VAT revenue. As a periodic average, the VAT collection cost per Taka 100 of revenue was Taka 0.60 over 1993-94 to 1997-98; then it increased to some extent to Tk. 0.77 during 1998-99 to 2002-03; and then again declined to some extent to Taka 0.54 during 2003-04 to 2007-08 (Table 10.17).

Table 10.17: Tax Collection Efficiency of the Tax Authority

(in million Taka)

Heads	Annual Tax Collection Costs (million Taka)									
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
Direct Taxes and Miscellaneous Taxes	297.4	322.9	326.0	316.4	346.5	365.0	412.4	444.1	453.0	463.6
Indirect Taxes	590.9	593.8	603.1	556.9	580.8	625.6	711.0	890.7	1,524.6	1,960.6
NBR (Head Office)	47.7	45.7	51.1	44.1	52.6	50.7	467.6	1,766.8	1,605.6	2,163.0
Total	**936.0**	**962.4**	**980.2**	**917.3**	**979.9**	**1,041.3**	**1,591.0**	**3,101.6**	**3,583.2**	**4,587.2**
Heads	**Average Annual Tax Collection Costs (per Taka 100 of Tax)**									
VAT*	0.81	0.66	0.61	0.51	0.52	0.51	0.54	0.59	0.92	1.08
Non-VAT	0.84	0.68	0.64	0.53	0.49	0.51	0.60	0.59	0.95	0.98
Total Indirect Tax	**0.83**	**0.67**	**0.63**	**0.52**	**0.50**	**0.51**	**0.58**	**0.59**	**0.94**	**1.02**
Total Direct Tax	1.60	1.93	1.88	1.69	1.59	1.42	1.48	1.22	1.15	1.04
Total Tax	**1.04**	**0.91**	**0.86**	**0.73**	**0.71**	**0.70**	**1.05**	**1.65**	**1.77**	**1.94**

Table 10.17: Tax Collection Efficiency of the Tax Authority ..... *cont'd*

Heads	Annual Total Tax Collection Costs (million Taka)							
	2003-04	2004-05	2005-06	2006-07	2007-08	93-94 to 97-98	98-99 to 02-03	03-04 to 07-08
Direct Taxes and Miscellaneous Taxes	471.5	491.2	581.0	692.1	731.0	1,609.2	2,138.1	2,966.8
Indirect Taxes	1,220.9	1,240.5	1,682.6	1,657.6	1,805.0	2,925.5	5,712.5	7,606.6
NBR (Head Office)	2,162.9	2,175.6	2,185.3	2,668.9	3,169.2	241.2	6,053.7	12,361.9
Total	**3,855.3**	**3,907.3**	**4,448.9**	**5,018.6**	**5,705.2**	**4,775.8**	**13,904.3**	**22,935.3**
Heads	**Average Annual Tax Collection Costs (per Taka 100 of Tax)**							
VAT*	0.57	0.49	0.59	0.56	0.50	0.60	0.77	0.54
Non-VAT	0.58	0.54	0.67	0.62	0.52	0.62	0.76	0.58
Total Indirect Tax	**0.58**	**0.52**	**0.63**	**0.59**	**0.51**	**0.61**	**0.76**	**0.56**
Total Direct Tax	0.94	0.84	0.78	0.76	0.60	1.73	1.23	0.75
Total Tax	**1.47**	**1.31**	**1.31**	**1.35**	**1.20**	**0.84**	**1.50**	**1.31**

* Computed from the cost of indirect taxes applying the ratio of VAT to total indirect taxes and assuming the same annual growth rate of total cost for collecting indirect taxes from preceding year.

Source: Compiled from the *Annual Reports 1992-93* to *2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR).

As reported by *Human Development in South Asia 1999: The Crisis of Governance*, South Asian countries have been "unable to set up economically sensible tax systems that could lead to larger incentives for tax compliance and greater opportunities for production" due to several inefficiencies, such as: (i) an over-reliance on trade taxes for revenue generation and consequent encouragement of smuggling and discouragement of domestic production; (ii) multiple tax rates, lack of harmonization between state and federal taxes, and a large number of concessions creating a complex taxation framework, which encourages tax dodging and discourages production; (iii) a

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proliferation of tax anomalies that has too often treated production as an unproductive activity (through heavy reliance on input taxation, resulting in a system that taxes industrial inputs relatively more than the finished goods) (HDC, 1999, pp. 80-81). The problem of harmonization between state and federal taxes is non-existent in Bangladesh, but other features of inefficiencies are present here in the overall taxation system with the South Asian common characteristics. But if the fiscal attributes of the VAT are analyzed, it can be said that it has significantly reduced the dependency on border trade taxes through shifting the tax-collection effort on the domestic trade stage. The uniform standard rate of VAT, which has been followed without any revision since its inception, and the input-tax credit mechanism are the strong characteristics of the tax system which have been working against many sorts of inefficiencies including the speculation at the time of placing the budget in the Parliament, multiplicity of tax rates, and cascading burden. These features have ensured the elimination of input taxation, complete exemption of the export trade and the cottage industries. From its initial standardized shape, the VAT in Bangladesh is now affected by the adoption of a number of *ad hoc* measures (such as use of pre-declared price as tax-base, truncated value-bases and net rates for service sectors, over-reliance on SROs for exemption and other special rules, use of tariff value and retail price, etc.) and this has created some indiscriminate incongruity in the system.

10.07 Contribution of VAT in the Tax Structure

The elasticity of the VAT (i.e., the natural responsiveness of the value added tax with respect to changes in the non-agricultural Gross Domestic Product, which is the broader tax-base of VAT) and the buoyancy of the VAT (i.e., the response of VAT to an automatic growth of the non-agricultural Gross Domestic Product and from discretionary changes in the VAT system) in Bangladesh are very high (Table 10.18; computed using equations 4.1 to 4.5 in Chapter 4). The unadjusted results of these two measures show that during the initial periods, the VAT was nothing but a 'money machine' (which was the most important point of opposition to a US VAT raised by the conservatives; *vide* Tait, 1988, p. 34). Only during 1996-97 to 2000-01, it was least elastic even in comparison to the NBR taxes or total taxes and least buoyant in its position in comparison to other periods, but more strongly buoyant than the NBR taxes or total taxes. The elasticity indicator above 2 and the buoyancy statistic above 1 of the VAT over the seventeen years show unimaginable ability of the tax in raising revenue.

Table 10.18: Elasticity and Buoyancy of VAT and Other Taxes with respect to Non-Agricultural GDP

	Value Added Tax (VAT)		NBR Tax and Total Tax		
Period	Elasticity	Buoyancy	1991-92 to 2007-08		
1991-92 to 1995-96	2.920	2.048	NBR Tax	Elasticity	1.362
1996-97 to 2000-01	1.094	0.973	NBR Tax	Buoyancy	0.108
2001-02 to 2005-06	1.324	1.254	Total Tax	Elasticity	1.323
2006-07 to 2007-08	1.892	1.786	Total Tax	Buoyancy	0.112
1991-92 to 2007-08	2.293	1.263			

Sources: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009), GOB (2009c) and *Bangladesh Economic Survey 2002* (p. 148) and *Bangladesh Economic Survey 2009* (p. 231), Dhaka: Finance Division, MOF, GOB.

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As indicated by Table 10.19, there is always an annual increase of VAT over the preceding year and the rate of this escalation ranges from 5.7 percent (in 1997-98) to the maximum of 47.7 percent (in 1992-93, the second year after the introduction of VAT), which might be a jumping rate for newly expanded tax coverage. Another observation is that the rate of increase in case VAT is *usually higher* until the recent decline in border stage taxation (2008-09 and 2009-10) than the rate of increase in case of total tax (except for 1997-98, 1998-99 and 2002-03). The same situation is also applicable for the overall tax collection under the VAT statute (VAT, SD and TT).

Table 10.19: Extent of Annual Increase over the Preceding FY

FY	Percentage of Increase over the preceding FY							
	Sales Tax (ST)	Excise Duty (ED)	ST & ED	VAT (Total)	VAT & ED	VAT, SD & TT	VAT, SD, TT & ED	Total Tax
1974-75	43.9	74.8	64.3					49.0
1979-80	16.6	11.5	14.0					19.9
1984-85	27.2	15.8	20.0					25.1
1985-86	3.3	11.6	8.4					11.3
1986-87	16.9	18.4	17.8					17.1
1987-88	0.8	28.2	18.0					14.4
1988-89	-7.2	18.5	10.3					9.5
1989-90	25.5	18.8	20.6					17.9
1990-91	26.3	5.9	11.6					15.3
1991-92		-19.7						19.9
1992-93				47.7	-7.8	100.1	22.5	17.1
1993-94				7.1	0.3	11.9	6.4	5.1
1994-95				26.1	25.4	24.9	24.4	16.8
1995-96				11.5	11.1	13.8	13.4	7.2
1996-97				12.4	12.3	12.8	12.7	10.5
1997-98				5.7	5.7	7.2	7.2	10.0
1998-99				5.9	5.8	6.8	6.7	6.5
1999-00				6.5	6.9	6.7	7.0	2.1
2000-01				23.3	22.4	24.5	23.9	23.0
2001-02				9.5	9.3	8.6	8.5	7.8
2002-03				11.4	11.3	15.2	15.0	16.0
2003-04				12.0	9.6	14.4	12.8	11.0
2004-05				20.0	19.5	14.8	14.6	14.2
2005-06				18.2	18.1	16.1	16.0	13.4
2006-07				11.5	11.6	6.7	6.7	10.0
2007-08				28.2	28.1	28.2	28.1	27.3
2008-09[a]				13.9	13.9	12.6	12.6	10.6
2009-10[b]				13.2	13.2	16.2	16.1	16.2
2009-10[c]				13.3	13.3	13.8	13.8	15.2

Note: Total tax = Total of revenues from taxes.

[a] Based on Actual for NBR taxes and Revised Budget for Non-NBR taxes in 2008-09.

[b] Based on Actual for NBR taxes and Revised Budget for Non-NBR taxes in 2008-09 and Original Budget for all taxes in 2009-10.

[c] Based on Revised Budget for all taxes in 2008-09 and Original Budget for all taxes in 2009-10.

Sources: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009a; 2009b; 2009c); and actual data for 2008-09 collected from the NBR on 15.9.09.

The compound growth rates of total VAT at local stage (20.09 percent for the whole VAT regime up to the budget period of 2009-10), total VAT at both stages (15.38 percent for the VAT regime) and total taxes under the VAT laws (17.64 percent for the VAT regime) are also always higher than the same rate for the total taxes (12.32 percent for the VAT regime). As indicated by Table 10.20, for other shorter periods, the above findings are also substantiated. Only in cases of VAT at

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import stages has some lower rate of compound growth, but those rates are also substantially positive (except for 1995-96 to 1999-2000, when it was only 4.64 percent).

Table 10.20: Extent of Compound Growth over a Period

(Figures in Percentage)

Period in VAT Regime	VAT (Import)	VAT (Local)	VAT (Total)	VAT & ED	VAT, SD & TT	VAT, SD, TT & ED	Total Tax
1991-92 to 1994-95	20.38	38.93	25.91	5.08	40.89	17.49	12.85
1995-96 to 1999-2000	4.64	12.78	7.60	7.68	8.34	8.37	7.21
2000-01 to 2004-05	9.79	17.30	13.15	12.35	13.20	12.67	12.18
2000-01 to 2007-08	12.69	19.10	15.67	15.17	14.67	14.35	14.09
2005-06 to 2009-10[a]	14.85	18.01	16.54	16.49	15.67	15.65	15.83
1991-92 to 1999-2000	11.64	20.80	14.63	7.11	20.29	12.34	9.29
1991-92 to 2004-05	11.69	20.24	14.82	9.82	18.38	13.29	11.18
1991-92 to 2007-08	12.61	20.48	15.61	11.49	18.05	13.91	12.19
1991-92 to 2009-10[a]	12.30	20.09	15.38	11.72	17.64	13.96	12.32
1995-96 to 2004-05	8.55	16.38	11.71	11.31	12.20	11.91	11.07
1995-96 to 2007-08	10.52	17.65	13.51	13.19	13.30	13.08	12.45
1995-96 to 2009-10[a]	10.42	17.55	13.52	13.24	13.45	13.26	12.58
1991-92 to 1995-96	19.11	29.39	22.13	6.54	33.56	16.46	11.41
1996-97 to 2000-01	7.18	14.87	10.12	10.02	11.06	10.96	10.11
2001-02 to 2007-08	13.35	18.51	15.93	15.51	15.39	15.11	14.72

Note: Total tax = Total of revenues from taxes.

[a] Based on figures from Revised Budget for FY 2008-09, and from Original Budget for FY 2009-10

Sources: Computation based on the *Annual Reports 1992-93 to 2007-2008* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and GOB (2009a; 2009b; 2009c).

The revenue collection behaviour of VAT as a "money machine" is also evidenced by the actual collection of VAT as a percent of (revised) budget. As shown in table 10.21, over the 18 years (from 1991-92 to 2008-09), in 11 years (i.e., above 61 percent time) VAT has been collected above the target (from 100.1 percent in 2008-09 to maximum 105.8 percent in 1994-95), with an overall average collection at 100.5 percent from 1991-92 to 2008-09. During other years, the collection was 95.7 percent of the target in 1999-2000 to 99.7 percent in 2005-06, that is, very very closer to the budgeted target, because in two years the rate of achievement of budgeted target was around 96 percent (1999-2000 and 2002-03); around 98 percent in another two years (1996-97 and 1997-98); around 99 percent in another two years (1993-94 and 2004-05); and around 100 percent in other one year (2005-06). Although the non-NBR taxes were collected at average 125.1 percent of the budget during 1991-92 to 1995-96, with a maximum of 148.2 percent of the budget in 1992-93. But in general, the revenue from VAT is a high achiever with a consistent enhanced target successively over the years. If the local-stage VAT and the import-stage VAT are considered separately (Table 10.22), the rate of budget achievement is lower on an average than 100 percent in case of import-level VAT, but increasing slightly over the periods to its full achievement (average 97.9 percent during 1995-96 to 1999-2000; average 98.7 percent during 2000-01 to 2004-05; and average 99.4 percent during 2005-06 to 2008-09). However the rate of budget achievement is higher on an average than 100 percent in case of domestic VAT also with an increasing trend (average 100.1 percent during 1995-96 to 1999-2000; average 101.4 percent during 2000-01 to 2004-05; and average 102.8 percent during 2005-06 to 2008-09). These data support the *second* research hypothesis *[$H2_A$: The VAT has significant contribution to the internal revenue generation in compared to other types of taxes]* and the null hypothesis is rejected.

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Table 10.21: Annual Tax Collection as a Percent of Revised Budget

FY	VAT	Other NBR Tax	Total NBR Tax	Non-NBR Tax	Total Tax	Non-Tax Revenue	Total Revenue
1991-92	103.6	99.1	100.1	137.9	102.1	107.9	103.1
1992-93	102.5	98.8	99.9	148.2	102.5	101.8	102.4
1993-94	99.0	95.5	96.5	130.2	98.4	111.0	100.9
1994-95	105.8	98.7	100.9	122.6	102.2	88.2	99.2
1995-96	103.2	97.4	99.3	102.7	99.5	98.6	99.3
1996-97	97.7	93.1	94.7	109.3	95.6	104.6	97.2
1997-98	97.8	97.9	97.9	110.0	98.6	74.1	93.7
1998-99	101.3	99.6	100.1	87.7	99.3	79.5	95.5
1999-2000	95.7	93.9	94.5	87.4	94.1	116.5	98.5
2000-01	104.0	101.9	102.6	84.3	101.5	72.7	95.9
2001-02	100.4	96.0	97.5	92.3	97.2	79.9	93.6
2002-03	96.4	101.2	99.6	88.8	99.1	99.7	99.2
2003-04	101.6	94.6	96.8	99.0	96.9	91.7	95.9
2004-05	98.6	97.7	98.0	98.0	98.0	100.0	98.4
2005-06	99.7	98.1	98.7	88.8	98.2	99.0	98.4
2006-07	100.7	98.5	99.3	104.9	99.6	100.8	99.8
2007-08	103.9	102.8	103.2	113.3	103.6	80.5	98.8
2008-09	100.1	98.5	99.1				
91-92 to 95-96	102.9	97.8	99.3	125.1	100.8	100.2	100.7
96-97 to 00-01	99.5	97.5	98.2	94.5	98.0	88.7	96.2
01-02 to 05-06	99.3	97.5	98.1	93.2	97.9	94.7	97.3
06-07 to 07-08	102.5	100.8	101.4	109.4	101.8	89.6	99.3
91-92 to 00-01	100.7	97.7	98.6	105.7	99.1	93.2	97.9
01-02 to 07-08	100.6	98.8	99.4	99.0	99.4	92.7	98.0
91-92 to 07-08	100.6	98.4	99.1	101.9	99.3	92.9	98.0
91-92 to 08-09	100.5	98.4	99.1				

Sources: Budgeted figures up to 2008-09 taken from the *Bangladesh Economic Survey 2002-03 to 2008-09* (Dhaka: Finance Division, MOF, GOB) and figures of 2009-10 taken from GOB (2009a; 2009b). Other figures up to 2007-08 taken from the *Annual Reports 1992-93 to 2007-08* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and data for 2008-09 collected from the NBR on 15.09.2009.

Table 10.22: Actual Collection of NBR Taxes as a Percent of Budget (as classified by NBR)

NBR Taxes	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Import Duty	98.0	94.4	101.8	99.7	93.8	106.9	100.8	113.4	97.1
VAT (Import)	101.6	95.8	99.0	99.6	94.3	104.2	94.9	94.2	101.7
SD (Import)	117.8	102.1	91.5	94.1	116.4	101.4	95.1	82.0	92.1
Total Tax (Import)	100.3	95.4	100.0	99.1	96.1	105.2	97.9	102.1	97.9
Excise Duty	101.7	98.2	100.3	108.9	108.8	100.1	97.1	102.7	93.4
VAT (Local)	102.3	101.4	95.8	104.2	97.9	103.8	107.6	99.0	101.6
SD (Local)	104.1	93.6	97.3	99.1	92.3	99.5	92.5	111.1	98.5
Turnover Tax	212.7	30.8	CWT	118.2	102.3	93.3	64.7	45.2	CWT
Total Tax (Local)	103.2	97.1	96.9	102.1	96.1	101.8	100.6	104.1	100.1
Total Indirect Tax	101.1	95.9	99.0	100.0	96.1	104.0	98.8	102.9	98.7
Income Tax	96.9	96.0	93.8	101.1	87.4	97.2	92.4	88.5	89.3
Travel Tax	105.3	97.2	92.1	99.7	102.7	97.9	85.9	76.1	98.1
Other Tax	106.4	90.4	70.8	93.8	91.5	65.4	114.5	37.0	40.8
Total Direct Tax	97.8	95.7	92.4	100.8	88.1	97.1	92.2	87.6	89.6
Total Tax	100.6	95.9	97.9	100.1	94.5	102.6	97.5	99.6	96.8
VAT (Total)	101.9	97.7	97.8	101.3	95.7	104.0	100.4	96.4	101.6
Total Tax (VAT Laws)	103.3	96.8	97.2	100.0	97.0	102.7	97.9	97.9	99.6

Note: CWT means 'collection without target'.

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Table 10.22: Actual Collection of NBR Taxes as a Percent of Budget... ..... *cont'd*

NBR Taxes	FY 05	FY 06	FY 07	FY 08	FY 09	95-96 to 99-00	00-01 to 04-05	05-06 to 08-09
Import Duty	98.9	95.0	98.5	103.2	97.5	97.6	102.8	98.7
VAT (Import)	99.0	95.3	100.9	103.1	97.9	97.9	98.7	99.4
SD (Import)	109.0	90.0	97.2	95.1	97.7	103.2	95.8	95.1
Total Tax (Import)	100.1	94.6	99.4	102.4	97.7	98.1	100.4	98.6
Excise Duty	96.3	98.9	99.2	100.6	100.5	103.8	98.6	99.9
VAT (Local)	98.3	104.1	100.6	104.7	102.0	100.1	101.4	102.8
SD (Local)	94.9	100.2	99.6	98.0	91.8	96.9	99.1	96.9
Turnover Tax	114.2	115.4	100.0	85.3	91.0	103.2	89.3	97.5
Total Tax (Local)	96.9	102.4	100.2	101.9	98.1	98.8	100.3	100.4
Total Indirect Tax	98.9	97.8	99.7	102.2	97.9	98.3	100.4	99.4
Income Tax	95.3	102.9	97.7	106.7	102.6	94.4	92.4	102.7
Travel Tax	84.9	85.7	105.1	95.0	99.5	99.3	87.6	96.5
Other Tax	84.0	14.5	95.0	6.0	13.0	88.7	59.7	34.9
Total Direct Tax	94.8	102.2	98.0	106.2	102.5	94.4	92.1	102.5
Total Tax	98.0	98.7	99.3	103.2	99.1	97.7	98.7	100.2
VAT (Total)	98.7	99.7	100.8	103.9	100.1	98.7	100.0	101.2
Total Tax (VAT Laws)	98.9	98.9	100.3	101.8	98.0	98.6	99.2	99.7

Sources: Budgeted and actual figures up to 2007-08 are taken from the *Annual Reports 1992-93 to 2007-08* of the NBR (NBR, 1994; 1995; 1996b; 1997; 1998; 199d; 2000; 2001d; 2003; 2004; 2005; 2007a; 2007b; 2007c; 2008a; 2009) and budgeted figures of 2008-09 taken from GOB (2009a; 2009b), and actual data for 2008-09 collected from the NBR on 15.9.2009.

"C-efficiency" Ratio (CER) and VAT Revenue Productivity (VRP): Using the IMF's methodology [developed by Ebrill, Keen, Bodin and Summers (2002)] the effectiveness of VAT in raising revenue has been measured by calculating C-efficiency ratio (formula in Equation 4.6 in Chapter 4) and VAT revenue productivity (formula in Equation 4.7 in Chapter 4). The annual and periodic computations from 1991-92 to 2008-09 for Bangladesh have been shown in Table 10.23, which also shows the picture of 18 Asia-Pacific countries including Bangladesh over 2001-2003. From the preceding discussion, all the indicators have shown that in the context of Bangladesh, the fiscal performance of VAT is tremendous. But these ratios show that Bangladesh has been successful to tap only a fraction of the potential. Starting with a 0.11 C-efficiency ratio and 0.10 VRP in 1991-92, the ratios have been improved gradually over the years (except for 1997-98 to 1999-2000, when a slight decline has been attested) and in 2008-09 the ratios become 0.27 and 0.22 respectively. Thus Bangladesh is able to collect VAT from only 27 percent of the aggregate consumption expenditure. In comparison to other Asia-Pacific Countries, the performance of Bangladesh is the worst over 2001-2003 as shown in Table 10.23. The best performing country is New Zealand, which is collecting nearing the maximum potential (98 percent of its consumption is subject to VAT). If the periodic weighted average of these ratios are considered, the degree of improvement can be visualized easily. Over 1991-1995, the CER and VRP ratios were 0.15 and 0.13 respectively, which were 0.18 and 0.15 respectively over 1995-2000; 0.22 and 0.18 respectively over 2000-2005; and 0.26 and 0.21 respectively over 2005-2009; with an overall weighted average of 0.22 and 0.18 respectively over 1991-92 to 2008-09. However, the pace of the C-efficiency ratio is more than that of the revenue productivity ratios. Numerous exemptions, pervasive ad hoc measures, weak or corrupt enforcement, poor tax culture and a host of similar measures have contributed towards this poor efficiency of VAT.

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Table 10.23: C-Efficiency Ratio (CER) and VAT Revenue Productivity (VRP) in Bangladesh and Other Asia-Pacific Countries

Asia-Pacific Countries				Bangladesh		
Country	CER	VRP	Applicable Year	FY	CER	VRP
Australia	0.56	0.41	2002	1991-92	0.11	0.10
Bangladesh	0.21	0.17	2001	1992-93	0.16	0.14
Cambodia	0.28	0.24	2003	1993-94	0.16	0.14
China, P.R.: Mainland	0.65	0.39	2002	1994-95	0.17	0.15
Fiji	0.64	0.55	2002	1995-96	0.18	0.15
Indonesia	0.45	0.35	2001	1996-97	0.19	0.16
Japan	0.64	0.48	2003	1997-98	0.19	0.15
Korea	0.69	0.46	2003	1998-99	0.18	0.15
Mongolia	0.69	0.56	2003	1999-2000	0.18	0.15
Nepal	0.32	0.29	2001	2000-01	0.20	0.17
New Zealand	0.98	0.72	2003	2001-02	0.21	0.17
Papua New Guinea	0.31	0.26	2003	2002-03	0.21	0.17
Philippines	0.40	0.31	2003	2003-04	0.22	0.17
Singapore	0.54	0.30	2003	2004-05	0.24	0.19
Sri Lanka	0.26	0.25	2001	2005-06	0.25	0.20
Thailand	0.54	0.36	2003	2006-07	0.24	0.19
Vanuatu	0.72	0.60	2001	2007-08	0.27	0.22
Vietnam	0.65	0.49	2002	2008-09	0.27	0.22
UWA[1] (all countries)	0.53	0.40	UWA	**1991-2009**	**0.20**	**0.17**
UWA (14 countries)[2]	0.48	0.37	UWA	**2000-2009**	**0.23**	**0.19**
Weighted average (WA)			WA	1991-95	0.15	0.13
				1995-2000	0.18	0.15
				2000-05	0.22	0.18
				2005-2009	0.26	0.21
				1991-2009	**0.22**	**0.18**
				2000-2009	**0.24**	**0.19**

[1] 'UWA' means 'Unweighted average'. [2] UWA excluding Australia, Japan, Korea and New Zealand.

Source: Figures for Asia-Pacific Countries taken from Newhouse and Zakharova (2007, p. 20). Figures for Bangladesh computed on the basis of Tax data up to 2007-08 taken from the *Annual Report 2007-08* of the NBR (NBR, 2009) and data for 2008-09 collected from the NBR on 15.9.2009; and data on GDP and Total Consumption from *Bangladesh Economic Survey 2002* (p. 148) and *Bangladesh Economic Survey 2009* (p. 231), Dhaka: Finance Division, MoF, GOB.

VAT from Goods, Trading and Services: The structure of VAT revenue has been given in table 10.24. If the VAT collection according to stages is considered, up to 2004-05, it was dominated by the import-stage VAT (average around 52 percent from 2001-02 to 2004-05; and average around 47 percent from 2005-06 to 2007-08). Within local-stage VAT, the share of service-stage VAT has been increasing over the years (average around 19.8 percent of total VAT from 2001-02 to 2004-05; and average around 26.5 percent from 2005-06 to 2007-08). Trading-stage VAT has also been increasing over the years (average around 1.7 percent of total VAT from 2001-02 to 2004-05; and average around 4.5 percent from 2005-06 to 2007-08) and the provision of ATV (advance trade VAT) since October 2004 for commercial importer has been the contributing factor (average 84.4 percent of trading VAT comes from ATV and it consists of around 3.8 percent of total VAT). Thus in 2007-08, around 73.1 percent of total VAT is collected on goods and the rest 26.9 percent from services; 48.1 percent of total VAT comes from import-stage collection (it would be 52.3 percent, if ATV is considered, because ATV is collected as local VAT at import-stage), which is 17.9 percent of total NBR taxes; and 17.1 percent of all taxes; the

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Table 10.24: VAT Collection according to Stages or Types of Commodities

(amount in million Taka)

Sl.	VAT Collection on	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1.	Goods (Local)	18,187.1	20,816.7	24,675.3	26,653.0	28,139.2	31,527.5	35,695.9
2.	Trading (Local)*	364.3	596.2	1,068.3	3,692.0	5,245.6	6,138.8	8,527.7
3.	Services (Local)	13,724.6	15,190.3	17,423.9	20,769.3	31,340.4	37,045.0	47,573.5
4.	Goods (Import)	37,578.1	41,203.0	43,978.6	53,470.4	58,856.5	63,111.7	84,916.5
	VAT (Total)	**69,854.1**	**77,806.2**	**87,146.1**	**104,584.7**	**123,581.7**	**137,823.0**	**176,713.6**
	ATV at 1.5%	--	--	--	n/a	4,267.1	5,143.8	7,389.1
	(% of Trading VAT)	--	--	--	--	(81.3)	(83.8)	(86.6)
		Percent of Total VAT						
1.	Goods (Local)	26.0	26.8	28.3	25.5	22.8	22.9	20.2
2.	Trading (Local)*	0.5	0.8	1.2	3.5	4.2	4.5	4.8
3.	Services (Local)	19.6	19.5	20.0	19.9	25.4	26.9	26.9
4.	Goods (Import)	53.8	53.0	50.5	51.1	47.6	45.8	48.1
	VAT (Total)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	ATV at 1.5%	--	--	--	n/a	3.5	3.7	4.2
		Percent of Total Tax (NBR)						
1.	Goods (Local)	9.0	8.8	9.4	8.9	8.3	8.5	7.5
2.	Trading (Local)*	0.2	0.3	0.4	1.2	1.5	1.6	1.8
3.	Services (Local)	6.8	6.4	6.7	6.9	9.2	10.0	10.0
4.	Goods (Import)	18.6	17.4	16.8	17.9	17.3	17.0	17.9
	VAT (Total)	**34.6**	**32.9**	**33.3**	**35.0**	**36.3**	**37.0**	**37.3**
	ATV at 1.5%	--	--	--	n/a	1.3	1.4	1.6
		Percent of Total Tax (All)						
1.	Goods (Local)	8.5	8.4	9.0	8.5	7.9	8.1	7.2
2.	Trading (Local)*	0.2	0.2	0.4	1.2	1.5	1.6	1.7
3.	Services (Local)	6.4	6.1	6.4	6.6	8.8	9.5	9.6
4.	Goods (Import)	17.6	16.7	16.0	17.1	16.6	16.2	17.1
	VAT (Total)	**32.8**	**31.5**	**31.8**	**33.4**	**34.8**	**35.3**	**35.5**
	ATV at 1.5%	--	--	--	n/a	1.2	1.3	1.5

* Including VAT on "Trade Service (S043.00)" up to 2005-06.

Source: Compiled from the *Annual Reports 2001-2002* to *2007-2008* of the NBR (Dhaka: Research and Statistics Wing, NBR).

Table 10.25: VAT Registered Persons

Type of VAT Registered Person	1992-93	2003-04	2004-05		2005-06	
	30.06.1993	30.06.2004	New	30.06.2005	New	30.06.2006
Manufacturer	6,067	25,329	3,388	28,717	2,552	31,269
Importer	16,749	75,634	7,258	82,892	6,201	89,093
Exporter	3,533	18,894	2,062	20,956	2,284	23,240
Service Renderer	28,299	257,503	2,062	259,565	12,394	271,959
Supplier (Trader)	n/a	73,955	31,458	105,413	16,212	121,625
Total*	**48,987**	**373,174**	**50,664**	**423,838**	**31,319**	**455,157**

Type of VAT Registered Person	2006-07		2007-08		2008-09	
	New	30.06.2007	New	30.06.2008	New	30.06.2009
Manufacturer	3,060	34,329	2,647	36,976	2,212	39,188
Importer	6,312	95,405	6,182	101,587	5,167	106,754
Exporter	2,323	25,563	2,453	28,016	2,089	30,105
Service Renderer	21,254	293,213	24,616	317,829	17,098	334,927
Supplier (Trader)	70,034	191,659	23,036	214,695	16,071	230,766
Total*	**94,334**	**549,491**	**50,585**	**600,076**	**34,853**	**634,929**

*Total is not the summation of all the categories, because there is overlapping of registration.

Source: Research and Statistics Wing of NBR (September 2009).

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merchandisers (wholesaler and retail traders) contribute only 4.8 percent of total VAT (i.e., 1.8 percent of total NBR taxes; and 1.7 percent of all taxes), whereas the manufacturers of goods contribute around 38.9 percent of local VAT (i.e., 7.5 percent of total NBR taxes; and 7.2 percent of all taxes).

If the number of legal VAT-payers or the VAT registered persons is considered (Table 10.25), in 2007-08, about 20.2 percent of manufacturing-stage VAT collection has been achieved from 36,976 registered manufacturer (i.e., 6.2 percent of total VAT registered persons); 48.1 percent of import-stage VAT collection has been achieved from 101,587 (i.e., 16.9 percent of total VAT registered persons); 26.9 percent of service-stage VAT collection has been done from 317,829 service providers (i.e., 53.0 percent of total VAT registered persons); 4.8 percent of trading stage VAT is collected from 214,695 wholesaler and retail traders (i.e., 35.8 percent of total VAT-payers). The current number of VAT registered persons (as on 30 June 2009) is 634,929 including 30,105 exporters (4.7 percent of total VAT registered persons), who are completely exempted from VAT through zero-rating. If the second year-end number of VAT registered persons is considered (48,987 in total), up to 2008-09, the annualized average compound growth of these numbers is at about 17.4 percent, which is a significant average.

However, within the list of goods yielding VAT at local stage, out of 115 items in the recent list, only 12 items contribute around three-fourth of local stage VAT from goods, and 34 items yield the most of the revenue (90 percent) [Table 10.26]. The top-ranked goods yielding highest VAT include demerit goods like cigarette (rank 1) and *biri* (rank 5), also essential goods like medicines (rank 2), petroleum gas (rank 3), and some semi-luxury goods like cement (rank 4), soap (rank 6) and tea (rank 7).

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Table 10.26: Top Ranked Goods Yielding the Highest Amount of VAT (Local)

(VAT in million Taka)

Sl. #	H.S. Code	Items of Goods	2005-06	2006-07		2007-08			
			Rank	VAT	Rank	VAT	Rank	% of Total	Cum. %
1	24.02	Cigarettes	1	7,404.4	1	9,027.9	1	25.3	25.3
2	30.00	Medicines (All sorts)	3	4,974.6	2	5,582.2	2	15.6	40.9
3	27.10	Petroleum Gas	2	4,759.5	3	4,432.6	3	12.4	53.3
4	25.23	Cement	4	1,911.0	4	1,583.9	4	4.4	57.8
5	24.02	*Biri*	5	1,107.3	5	1,316.1	5	3.7	61.5
6	34.01	Soap	7	391.4	12	899.8	6	2.5	64.0
7	9.02	Tea	9	712.8	6	724.4	7	2.0	66.0
8	69.00	Non-Ceramic Bricks	10	698.5	7	693.3	8	1.9	68.0
9	72.13	MS Products	12	408.2	11	692.2	9	1.9	69.9
10	15.07	Vegetable Oil	8	567.6	9	675.7	10	1.9	71.8
11	48.19	Packaging Materials	11	454.2	10	583.3	11	1.6	73.4
12	19.05	Other Food Products	19	295.2	16	481.1	12	1.3	74.8
13	48.00	Paper (All sorts)	15	347.6	13	465.3	13	1.3	76.1
14	4.90	Other Milk Products*	33	293.0	18	406.2	14	1.1	77.2
15	64.00	Footwear	35	347.6	13	383.4	15	1.1	78.3
16	27.10	POL Products	6	579.6	8	364.8	16	1.0	79.3
17	32.09	Paints & Varnishes	16	294.2	17	362.1	17	1.0	80.3
18	85.44	Wires & Cables	21	276.9	19	328.0	18	0.9	81.2
19	19.05	Biscuit	22	217.7	22	316.8	19	0.9	82.1
20	49.09	View/Greeting Card	89	0.0	103	304.2	20	0.9	83.0
21	70.00	Glass & Glassware	24	220.3	21	260.6	21	0.7	83.7
22	15.13	Coconut Oil	29	107.6	34	243.1	22	0.7	84.4
23	33.04	Cosmetic Product	18	269.1	20	231.9	23	0.6	85.0
24	22.00	Beverage	20	177.0	25	218.2	24	0.6	85.7
25	52.05	Cotton Yarn	n/a	174.7	26	216.3	25	0.6	86.3
26	28.00	Chemicals	14	174.1	27	188.6	26	0.5	86.8
27	72.04	Scrap	25	157.2	29	183.4	27	0.5	87.3
28	72.10	CI Sheet	17	345.1	15	163.9	28	0.5	87.8
29	72.07	CR Coil	97	66.5	42	148.4	29	0.4	88.2
30	28.04	Oxygen/Carbon Dioxide	26	130.6	31	147.1	30	0.4	88.6
31	39.26	Plastic Products	32	114.2	32	145.2	31	0.4	89.0
32	85.06	Electricity Battery	31	76.5	39	144.4	32	0.4	89.4
33	4.02	Milk (Condensed)	13	148.6	30	137.5	33	0.4	89.8
34	85.35	Electrical Goods	30	111.8	33	129.7	34	0.4	90.2
	(% of Total VAT on Goods)		(88.6)		(89.8)		(90.2)		

* Other than "Milk (Condensed)" [33rd item] and "Ice Cream".

Acronym key: CI = Corrugated iron; CR = Cold rolled; H.S. Code = Harmonized Commodity Description and Coding System; MS = Mild steel; POL = Petroleum, oil and lubricant.

Source: Compiled from the *Annual Reports 2005-2006, 2006-2007* and *2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR).

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Table 10.27: Top Ranked Services Yielding the Highest Amount of VAT (Local)

(VAT in million Taka)

Service Code	Items	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07		2007-08	
		Rank	Rank	Rank	Rank	Rank	VAT	Rank	VAT	Rank
S012.00	Telephone, Teleprinter, Telex, Fax or Internet Firm & SIM Card Supplier	3	2	1	1	1	12991.3	1	18172.1	1
S004.00	Construction Firm	1	1	2	2	2	10708.5	2	11339.3	2
S057.00	Electricity distribution	2	3	3	3	4	3350.4	3	4433.7	3
S056.00	Banking and Non-banking Service	n/a	n/a	n/a	n/a	n/a	1597	4	2482.2	4
S037.00	Procurement Provider	6	8	8	5	7	876.9	7	1304.8	5
S027.00	Insurance Service	5	4	4	4	5	1020	5	1143.2	6
S033.00	Leaseholder	11	7	10	7	6	943.1	6	1090.6	7
S015.00	C & F Agents	8	9	7	6	8	698.5	8	919.8	8
S005.00	Warehouse	4	6	6	8	15	201.2	14	829.1	9
S001.10	Hotels	12	11	12	11	10	515.3	10	770.5	10
S007.00	Advertising Agency	10	10	11	9	9	581.1	9	674.4	11
S025.00	WASA	13	12	13	12	14	496.5	11	553.7	12
S001.20	Restaurants	19	16	15	15	13	274.3	13	423.8	13
S032.00	Consulting & Supervisory	26	23	33	24	31	81.6	20	209.2	14
S054.00	Advertising in the satellite channel programs	41	47	39	35	24	63.8	25	200.2	15
S020.00	Survey Organization	7	20	14	14	11	385.1	12	199.2	16
S029.00	Clinics & Hospitals	27	24	25	23	18	109.3	16	189.9	17
S003.10	Motor Garage, Workshop & Dockyard	30	30	20	22	22	86.4	18	142.2	18
S008.00	Printing Press & Binders	17	14	16	16	19	77.6	21	138.8	19
S010.20	Building Development Agency	16	25	40	26	25	123.5	15	126.6	20
S022.00	Sweetmeat Shop	25	19	22	21	20	72.6	22	120.3	21
(% of Total VAT on Services)		(90.8)	(90.5)	(90.2)	(92.8)	(84.6)	(95.2)		(95.6)	

Source: Compiled from the *Annual Reports 2001-2002* to *2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR).

But within the list of services yielding VAT at local stage, out of 69 items in the recent list, only 4 major types of services [(i) Telephone, Teleprinter, Telex, Fax or Internet Firm & SIM Card Supplier; (ii) Construction Firm; (iii) Electricity distribution; and (iv) Banking and Non-banking Services;] yield around 76.6 percent of VAT from service sector; along with another two services [(1) Procurement Provider; and (2) Insurance Service], the extent of contribution is around 81.7 percent of service VAT. However, 21 services out of 69 types of services (i.e., 30.4 percent of major number of services) yield around 96 percent of service VAT (Table 10.27).

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Table 10.28: Jointly Top Ranked Goods and Services Yielding the Highest Amount of VAT (Local)

(VAT in million Taka)

Sl. #	H.S. Code	Items of Goods	2006-07			2007-08			
			VAT	%	Cum.	VAT	Rank	%	Cum.
S1	S012.00	Telephone, Teleprinter, Telex, Fax or Internet Firm & SIM Card Supplier	12,991.3	18.9	18.9	18,172.1	1	21.8	21.8
S2	S004.00	Construction Firm	10,708.5	15.6	34.6	11,339.3	2	13.6	35.4
G1	24.02	Cigarettes	7,404.4	10.8	45.4	9,027.9	3	10.8	46.3
G2	30.00	Medicines (All sorts)	4,974.6	7.3	52.6	5,582.2	4	6.7	53.0
S3	S057.00	Electricity distribution	3,350.4	4.9	57.5	4,433.7	5	5.3	58.3
G3	27.10	Petroleum Gas	4,759.5	6.9	64.4	4,432.6	6	5.3	63.6
S4	S056.00	Banking and Non-banking Service	1,597.0	2.3	66.8	2,482.2	7	3.0	66.6
G4	25.23	Cement	1,911.0	2.8	69.6	1,583.9	8	1.9	68.5
G5	24.02	*Biri*	1,107.3	1.6	71.2	1,316.1	9	1.6	70.1
S5	S037.00	Procurement Provider	876.9	1.3	72.5	1,304.8	10	1.6	71.7
S6	S027.00	Insurance Service	1,020.0	1.5	73.9	1,143.2	11	1.4	73.0
S7	S033.00	Leaseholder	943.1	1.4	75.3	1,090.6	12	1.3	74.3
S8	S015.00	C & F Agency	698.5	1.0	76.3	919.8	13	1.1	75.5
G6	34.01	Soap	391.4	0.6	76.9	899.8	14	1.1	76.5
S9	S005.00	Warehouse	201.2	0.3	77.2	829.1	15	1.0	77.5
S10	S001.10	Hotels	515.3	0.8	77.9	770.5	16	0.9	78.5
G7	9.02	Tea	712.8	1.0	79.0	724.4	17	0.9	79.3
G8	69.00	Non-Ceramic Bricks	698.5	1.0	80.0	693.3	18	0.8	80.2
G9	72.13	MS Products	408.2	0.6	80.6	692.2	19	0.8	81.0
G10	15.07	Vegetable Oil	567.6	0.8	81.4	675.7	20	0.8	81.8
S11	S007.00	Advertising Agency	581.1	0.8	82.3	674.4	21	0.8	82.6
G11	48.19	Packaging Materials	454.2	0.7	82.9	583.3	22	0.7	83.3
S12	S025.00	WASA	496.5	0.7	83.7	553.7	23	0.7	84.0
G12	19.05	Other Food Products	295.2	0.4	84.1	481.1	24	0.6	84.6
G13	48.00	Paper (All sorts)	347.6	0.5	84.6	465.3	25	0.6	85.1
S13	S001.20	Restaurants	274.3	0.4	85.0	423.8	26	0.5	85.6
G14	4.90	Other Milk Products	293.0	0.4	85.4	406.2	27	0.5	86.1
G15	64.00	Footwear	347.6	0.5	85.9	383.4	28	0.5	86.6
G16	27.10	POL Products	579.6	0.8	86.8	364.8	29	0.4	87.0
G17	32.09	Paints & Varnishes	294.2	0.4	87.2	362.1	30	0.4	87.4
G18	85.44	Wires & Cables	276.9	0.4	87.6	328.0	31	0.4	87.8
G19	19.05	Biscuit	217.7	0.3	87.9	316.8	32	0.4	88.2
G20	49.09	View/Greeting Card	0.0	0.0	87.9	304.2	33	0.4	88.6
G21	70.00	Glass & Glassware	220.3	0.3	88.3	260.6	34	0.3	88.9
G22	15.13	Coconut Oil	107.6	0.2	88.4	243.1	35	0.3	89.2
G23	33.04	Cosmetic Product	269.1	0.4	88.8	231.9	36	0.3	89.5
G24	22.00	Beverage	177.0	0.3	89.1	218.2	37	0.3	89.7
G25	52.05	Cotton Yarn	174.7	0.3	89.3	216.3	38	0.3	90.0

Source: Compiled from the *Annual Reports 2006-2007* and *2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR).

However, if the combined list of goods and services is taken, then 25 goods out of 115 types of goods and 13 services out of 69 major types of services yield 90 percent of combined VAT revenue from goods and services. However, up to three-fourth of such revenue comes from 5 types of goods and 8 major types of services (Table 10.28).

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10.08 Outstanding, Recovery and Drawback of VAT

If the outstanding VAT is considered, there is a grave picture and the cumulative backlog has been increasing over the years creating the very poor efficacy of the enforcement ability of the VAT administration. Table 10.29 has shown the overall outstanding indirect taxes including VAT. Considering the proportion of VAT within the indirect tax structure (36.8 percent at import-stage and 49.5 percent at local stage from 1995-96 to 2000-01 and 35.6 percent at import-stage and 55.3 percent at local stage from 2001-02 to 2005-06), around 44 percent of overall indirect taxes comes from VAT. Based on this extent, at the end of 2005-06, around Tk. 6.88 billion of VAT revenue was outstanding. Although the trend of year-end outstanding indirect taxes has been fluctuating in nature, yet the recent situation has become alarmingly voluminous.

Table 10.29: Outstanding, Recovery and Drawback of Indirect Taxes or VAT

(amount in million Taka)

Outstanding/Recovery/Drawback	30 June of					
Outstanding Indirect Taxes	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Import-dependent taxes	6,760.3	7,270.3	10,896.5	10,755.6	12,237.6	6,068.3
Local production-stage taxes	9,251.9	11,389.0	1,810.7	1,880.9	2,334.1	3,693.8
Total Outstanding	**16,012.2**	**18,659.3**	**12,707.2**	**12,636.5**	**14,571.7**	**9,762.1**
Increase/(Decrease) over last year	**83.5**	**16.5**	**(31.9)**	**(0.6)**	**15.3**	**(33.0)**
Recovery from outstanding taxes	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**2000-01**
Import-dependent taxes	335.8	771.6	1,000.0	452.7	447.4	452.7
Local production-stage taxes	0.0	349.1	56.3	50.6	70.4	50.6
Total	**335.8**	**1,120.7**	**1,056.3**	**503.3**	**517.8**	**503.3**
(% of Last Year-end Outstanding)	**(3.8)**	**(7.0)**	**(5.7)**	**(4.0)**	**(4.1)**	**(3.5)**
Drawback of VAT (Import)	47	10.1	6.3	36.9	68.1	42.4
Credit & Drawback of VAT (Local)	417.8	349.6	426.6	346.6	398.6	773.7
Total VAT Drawback and Credit	**464.8**	**359.7**	**432.9**	**383.5**	**466.7**	**816.1**

Table 10.29 ..... *cont'd*

	30 June of					Simple (S)
Outstanding Indirect Taxes	**2002**	**2003**	**2004**	**2005**	**2006**	**Average**
Import-dependent taxes	5,786.8	5,095.2	4,377.7	4,315.5	3,442.2	7,000.5
Local production-stage taxes	5,242.9	7,254.4	8,280.3	3,107.6	12,213.1	6,041.7
Total Outstanding	**11,029.7**	**12,349.6**	**12,658.0**	**7,423.1**	**15,655.3**	**13,042.2**
Increase/(Decrease) over last year	**13.0**	**12.0**	**2.5**	**(41.4)**	**110.9**	**13.4**
Recovery from outstanding taxes	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**S. Average**
Import-dependent taxes	291.0	72.1	755.7	512.7	490.4	507.5
Local production-stage taxes	153.9	240.0	368.7	2,455.1	291.1	371.4
Total	**444.9**	**312.1**	**1,124.4**	**2,967.8**	**781.5**	**878.9**
(% of Last Year-end Outstanding)	**(4.6)**	**(2.8)**	**(9.1)**	**(23.4)**	**(10.5)**	**(7.1)**
Drawback of VAT (Import)	7.5	42.4	38.1	11.1*	12.2	29.3
Credit & Drawback of VAT (Local)	655.9	773.7	675.0	197.1	624.6	512.7
Total VAT Drawback and Credit	**663.4**	**816.1**	**713.1**	**208.2**	**636.8**	**541.9**

*Based on last year's proportion.

Source: Compiled from the *Annual Reports 1992-93* to *2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR).

No information about the outstanding and recovery was provided in the NBR's *Annual Report 2006-2007*, but for 2007-2008, total outstanding indirect taxes on 30 June 2008 were Tk. 31,213.8 million, of which the import-related outstanding taxes were at an amount of Tk. 2,278.4 million (NBR's *Annual Report 2007-2008*, p. 60). Of the amount the local stage outstanding taxes were

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treated as 'outstanding VAT' amounting to Tk. 28,935.4 million. Taking the ratio of VAT at import-stage to all border-stage taxes (which was 42.8 percent in 2007-08), the import-stage outstanding VAT was Tk. 975.2 million on 30 June 2008. Thus the combined outstanding VAT at both import and local stages was about Tk. 30 billion (or Tk. 29,910.6 million). As shown in Table 10.30, the local stage VAT remains outstanding mainly due to different types of unsettled legal suits (88.2 percent of outstanding local VAT is related to this incidence). Around 70 percent of local stage VAT has become pending for legal suits in the Supreme Court (around 59 percent for legal suits at the High Court Division and around 11 percent for legal suits at the Appellate Division). Around 8 percent of outstanding local VAT is due to appeals at the Customs, Excise and VAT Appellate Tribunal, another 8 percent of outstanding local VAT is due to indisposed local revenue audit cases, and the rest of the outstanding local VAT is for appeals at Appeal Commissionerate (1.0 percent) and certificate cases (1.9 percent). From the view point of Commissionerates, Dhaka (South) is the most incapable Commissionerate, it follows the Large Taxpayer Unit (LTU) and Dhaka (South). The rate of recovery from the outstanding local VAT is very poor (average 7.4 percent of the last year-end outstanding over 1994-95 to 2005-06).

Along with this recovery of outstanding VAT, there is another negative dimension of VAT revenue, which is a refund of VAT at import-stage as a drawback and in the name of credit and drawback of VAT at local stage, and given mainly to encourage exports (actual or deemed). Although the volume of these drawback and credit is average of Tk. 0.54 billion per annum, still it has some impact and there is possibility of misuse of these negative flow of VAT (Table 10.29). Where the manufacturer of a taxable good is a local supplier as well as an exporter, then the taxpayer may use input tax credit first and then go for refund of the surplus credit, if any. These dual rights may create an opportunity of duplication of same benefit, once as a credit, and again as a drawback.

Table 10.30: Outstanding VAT (Local) in 2007-2008

(amount in million Taka)

Commis-sionerate	Outstanding VAT (Local) due to Cases						
	Appellate Division	High Court Division	Appellate Tribunal	Appeal Commis-sionerate	Certif-icate Case	Other (Local Revenue Audit)	Total Related to Cases
LTU	5.8	2,300.5	1,349.9	1.0	0.0	1,477.7	**5,134.9**
Dhaka (South)	623.8	4,670.8	442.2	50.7	13.3	0.0	**5,800.8**
Dhaka (North)	1,751.1	4,003.3	286.0	115.6	46.4	521.6	**6,724.0**
Chittagong	0.0	3,642.7	80.1	116.6	161.2	0.0	**4,000.6**
Rajshahi	0.0	616.9	3.7	0.0	233.4	201.1	**1,055.1**
Jessore	4.0	1,469.2	26.5	7.8	7.2	112.5	**1,627.2**
Khulna	678.1	208.4	0.0	0.0	74.6	64.0	**1,025.1**
Sylhet	0.0	117.6	23.8	0.0	11.2	0.0	**152.6**
Total	**3,062.8**	**17,029.4**	**2,212.2**	**291.7**	**547.3**	**2,376.9**	**25,520.3**
(% of Total)	**(10.6)**	**(58.9)**	**(7.6)**	**(1.0)**	**(1.9)**	**(8.2)**	**(88.2)**

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Table 10.30: Outstanding VAT (Local) in 2007-2008 ..... *cont'd*

Commis-sionerate	Recoverable Outstanding	Total Outstanding VAT (Local)		Recovery from 2007-08 Outstanding
		Amount	(% of Total)	
LTU	1,490.4	6,625.3	(22.9)	117.0
Dhaka (South)	227.9	6,028.7	(20.8)	83.7
Dhaka (North)	383.0	7,107.0	(24.6)	203.4
Chittagong	297.6	4,298.2	(14.9)	96.9
Rajshahi	567.7	1,622.8	(5.6)	64.2
Jessore	394.1	2,021.3	(7.0)	91.8
Khulna	1.2	1,026.3	(3.5)	18.0
Sylhet	53.2	205.8	(0.7)	24.0
Total	**3,415.1**	**28,935.4**	(100.0)	**699.0**
(% of Total)	**(11.8)**	**(100.0)**		

Source: Compiled from the *Annual Report 2007-2008* of the NBR (Dhaka: Research and Statistics Division, NBR; April 6), p. 118.

Although resolving tax disputes in the court of law cannot be undertaken straightway, there is huge number of pending tax cases in the Supreme Court. Up to September 2009, there are 16,172 cases relating to taxes are pending in the Supreme Court with an outstanding of Tk. 65.51 billion of revenue. Of the cases, Tk 31.12 billion was held up in 2,023 value added tax-related cases, Tk. 17.39 billion in 12,569 cases on customs duty, most of them related to pre-shipment inspections (PSI) and Tk. 17.00 billion in 1,580 cases related to income tax. Thus, VAT represents 47.5 percent of total outstanding (to be settled by the court order) through 12.5 percent of total cases; customs duty represents 26.5 percent of total outstanding through 77.7 percent of total cases; and income tax represents 26.0 percent of total outstanding through 9.8 percent of total cases. The reasons of huge backlog of unresolved cases include the negligence of the panel lawyers and tax officials, absence of separate benches for tax cases (presently six benches have the 'jurisdiction' to hear the cases to expedite revenue collection), and lack of judges having sound background with adequate experience on tax laws (*The Financial Express*, 14.10.2009). Here the important thing is that the number of cases on VAT is much lower than customs-related cases (1:6.21), but the revenue implication is far higher in case of VAT than that of customs duty (1:0.56).

10.09 Grievances of the Business Community and Inherent Distortions in the Present VAT System

At its inception, VAT was seemed to be a *vet* (the Bengali term, often pronounced as *vat*, which means 'a tribute paid to a prince or a complimentary gift or present paid to a superior especially during an interview') by the then ruling government to the public, since they had come then through a new election in the first quarter in 1991 and just after coming in power, they introduced VAT through their very first budget of FY 1991-92 (although as a conditionality of the Enhanced Structural Adjustment Facility or ESAF provided by the International Monetary Fund and the World Bank).[33] Most of the political parties, except the ruling party and their allies, vehemently

[33] The major policy initiative by the Fund-Bank (the International Monetary Fund and the World Bank) for Bangladesh was the Structural Adjustment Facility (SAF), which was approved on February 6, 1987 for a period of three years from 1985-86 to 1988-99 and with a gap of 1989-90, the Enhanced Structural Adjustment Facility (ESAF), an extension of the SAF, was approved on August 10, 19990 for a further period of three years from 1990-91 to 1992-93 (Hussain, 1994, pp. 182-185).

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protested the introduction of VAT in FY 1991-92. Some political parties opposed the introduction of VAT just for a new tax as a political culture of protesting the sitting government party without giving any argument. Some parties (such as Bangladesh National Awami Party) reacted that VAT cannot be a good tax for an import-dependent country like Bangladesh because through VAT, if price fixation is given to the traders, it would compel the buyers to pay increased price. Others (such as Janata Mukti Party) reacted that if the corruption of tax administration is not removed and administrative reforms are not done, there would be ample suspicion about the extent of success of the introduction of VAT. Like the political parties, some faction of the business community, even the tax lawyers protested the introduction of VAT and they claimed its immediate withdrawal. Even most of the ruling party (Bangladesh Nationalist Party) lawmakers while discussing in a Parliamentary Party meeting (on 29 June 1991) opposed the introduction of the VAT system proposed in the budget of 199-92. Amidst serious criticism and protests, VAT was termed as a *Very Anxious Taxation*.

For implementation of VAT there should be given enough preparatory time. Even in the EC (European Community) where VAT is the most dominant indirect tax in a developed economic environment, sufficient preparatory time was taken before final implementation. In the EC directives of April 1967 for the introduction of comprehensive form of VAT, a lead time of 32 months was given up to January 1970 (Bannock and Peacock, 1989, p. 121). Argentina took around four decades starting with a partial VAT in 1935 before implementation of the full-fledged VAT in 1975 (Due, 1970, p. 125; Khadka, 1997, p. 13). As a first country in Asia, South Korea introduced VAT in 1977 with an implementation period of long five years after conceiving the question in 1971 (TEC, 1979). But what is about introduction of VAT in Bangladesh? In October 1989, the World Bank recommended introduction of VAT within three years. However, the IMF proposed the hasty introduction of VAT with effect from January 1991. The Government enacted the VAT statute (*VAT Ordinance*) on 31 May 1991 making 8 sections thereof (relating to registration under VAT system and the appointment and powers of VAT authorities) made effective from 02 June 1991 and other sections from 01 July 1991. So the introduction of VAT in Bangladesh was no doubt a very quick step and there was not even enough publicity also. In May 1991, the NBR published in vernacular language a bundle of *six* booklets for publicity purpose, covering six issues, such as general information, persons required for registration, rights and compulsions of the registered persons, visit of tax officials in the business enterprises, maintenance of books and submission of return, and information for exporters. However, these documents were not circulated well with the NBR initiatives. Interested persons were allowed to collect them on their own will and requirements. Media publicity was very insufficient (scattered newspaper advertisements were made only in second and third weeks of June 1991. Usually a 'staff guide and manual' is a prerequisite and it should be ready for the staff training sessions well in advance (a year) of the date of VAT introduction (Tait, 1988, p. 173). But in Bangladesh, a manual was prepared with the help of a consultant (Crown Agents) sponsored by the British Overseas Development Assistance (ODA) and was published by the NBR under the title ***VAT Control Manual*** as a publication marked 'Highly Confidential' on 11 September 1996, i.e., after more than five years after introduction of VAT.

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The hasty and easy implementation of VAT in Bangladesh became possible since the private sector showed the best possible cooperation. If the beginning reaction of the business community on the budget of FY 1991-92 (through which VAT was implemented) is analyzed, it would be found as a mixed one but largely supporting without making any categorical reaction about VAT. The Federation of Bangladesh Chamber of Commerce and Industry (FBCCI), the Dhaka Chamber of Commerce and Industry (DCCI), the Metropolitan Chamber of Commerce and Industry (MCCI), the Bangladesh Chamber of Industries (BCI), other regional chambers of commerce and industry and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) reacted mainly with positive tone without mentioning anything about VAT. The FBCCI appreciated the measures taken in the budget of 1991-92 to consolidate the country's shattered economy through denationalization, restructuring of tariff and internal resource mobilization of resources, but regretted lack of pragmatic steps towards planned industrialization. The DCCI described the curtailment of tax holiday (from year 2000 to year 1995, proposed in the budget of 1991-92) as unjustified and stated that any sudden change in a long-term policy would definitely discourage industrial investment. The MCCI welcomed most of the budget proposals, saying the budget (of 1991-92) was oriented towards domestic resource mobilization and deregulation (*The Bangladesh Times*, 14.06.1991). However, some trade bodies demanded withdrawal of VAT, which they expected to discourage local production in their industrial sector and enhance price (the statements of reaction of Bangladesh Nut, Bolt, Screw and Allied Products Manufacturers Association and Bangladesh Printing Industries, on 29 June 1991, *vide The Bangladesh Times,* 30.06.1991, p. 8).

In the beginning year (1991-92) of VAT, the traders were uncertain about the tariff proposal and the implication of the VAT just after the budget (after 12 June 1991), because the government did not announce the details of the VAT, the rates and stages of VAT (*The Bangladesh Times*, 17.06.1991).

In a unique opportunity of a stakeholder consultation organized under an initiative of an apex chamber body (in October 2001), the researcher has enumerated the following common difficulties in relation to the VAT-payment of the business community, which have been also the source of their grievances on VAT:

a) huge number of arithmetic calculations are needed just for the VAT system,
b) the complication for multiple stages of VAT due to numerous change of hands in the wholesale stages before sales to final consumer,
c) the volume of invoices processed increased manifold for requirement by VAT law,
d) understanding VAT circulars/instructions is often difficult,
e) exemptions/adjustments allowed partially,
f) disallowance of obsolete/rejected goods,
g) disallowance of lower sales value of obsolete/rejected goods,
h) additional recording in VAT-related books,
i) existing accounting system/recording not allowed,
j) second hand schemes (e.g., doing VAT-work by using external people) taken often to handle VAT,
k) extra import paperwork/documentation regarding import or export, and
l) disagreement on tax liabilities.

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These difficulties are still equally valid due to the continuation of the overall VAT system in almost similar fashion, *except* at retail stage, where regional exemption was allowed in some years (for example, for two years 2000-01 and 2001-02, there was exemption of supplementary duty for traders in City Corporation and municipal areas and exemption of VAT and/or SD for traders outside City Corporation and municipal areas; *vide* SROs 292, 297 and 347)[34] and the allowance of input tax credit was almost absent due to pervasive use of truncated value addition for both goods and services. However, the recent mandatory introduction of 'electronic cash register' (ECR) or 'point of sales' (POS) software at stores in the supermarkets from 2008-09 has created additional problems for them, particularly burdensome compliance costs for small retailers. Along with the problems relating to additional investments in the equipment, hiring extra personnel for their use, frequent electricity failure causing bar on their application, and the most important impact of the ECR/POS software is possibly the cultural shock on the 'inexistence of documentation-based sales' in significant number of retail outlets and the possible evasion-threats from both VAT-men and income tax authorities.

Below is an analytical review of some of the inherent distortions of the present VAT system:

(a) *Cascading effect for tax on tax:* VAT is claimed to be a tax, which is superior to the cascading sales tax for its avoidance of 'tax on tax'. Apparently under an ideal situation, VAT is not a 'tax on tax' only with respect to the VAT itself, but under section 5 of the VAT Act, it is a tax on some other taxes, if applicable, such as customs duty, regulatory duty under the Customs Act and the supplementary duty under the VAT Act. Besides the truncated value-bases and other ad hoc measures to pay net VAT and a host of input tax credit disallowances have the inherent tendency to create restriction on shifting the full tax burden on the final consumers, which causes the cascading effect of VAT revenue.

(b) *Complexities in the existing VAT system:* Two often quoted complexities regarding an income tax are the uncertainties about the actual tax liability and the sheer length of the tax code (Slemrod and Bakija, 2000, pp. 133-134). Complexities in a tax system also arise out of exemptions, rate differentiation, and other special features. In case of VAT, if the tax rate is not uniform and universal in its application, the VAT suffers from unnecessary complexities, which tend to obscure the simplicity and merits of value added taxation. There is little uncertainty in determining the VAT liability for a particular VAT-payer (although absence of statutory definition of 'value added', the very tax-base of VAT, and multiple tax-bases at different stages for different goods or services and conflicting treatment of declared price and actual higher market price sometimes create different measurement of tax liability), but the tax code on VAT is undoubtedly of 'sheer length' at its present volume along with all the SROs, orders, circulars, letter of explanations, office memoranda and verdicts of court cases. The single rate VAT (including zero-rate for export) introduced in Bangladesh and its initial implementation at this standard state now suffers from a number of limitations including non-uniform multiple net VAT rates for service providers and traders, allowing ad hoc drawback for exporters in place of input tax

[34] Exemption was allowed as per SRO No. 287-Ain/2000/292-Musak dt. 20.9.2000 (w.e.f. 18.6.2000 as per amendment by SRO No. 287-Ain/2000/297-Musak, dt. 21.12.2000) and repealed by SRO No. 122-Ain/2002/347-Musak, dt. 6.6.2002.

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credit. The universality feature of VAT in Bangladesh is affected by multiple statutory exemption schedules and numerous SROs on exemptions.

As an antonym of the word 'complexity', 'simplicity' means a tax system being "simple enough for taxpayers to understand" and with respect to VAT in the UK, Wilkinson (1992) has asserted that "In its basic principles VAT is easy to understand, but how the VAT system actually works is probably a mystery to most people" (Wilkinson, 1992, pp. 26-27). In Bangladesh, there are a number of difficulties to the VAT taxpayers due to genuine problems in perceiving the VAT laws for its intricate language with numerous alternatives and frequent changes and also for absence of any 'authentic English text' of the laws (statutory provision made only by the Finance Act 2009 in June 2009 to do that).[35] The complexities are a product of special rules, not of the basic character of the VAT. The VAT regulations in Bangladesh include many of these special rules for a particular class of product or services with a frequent change therein and often with overlapping problem. For example, last year (2008-09), three services [Private Medical College (S070.0), Pathological Laboratory (S029.30) and Specialist Doctor (S044.0)] were taxable and in case of any institution providing all these services were supposed to pay VAT on those services. But this year (2009-10), Specialist Doctor (S044.0) has been exempted from VAT. On the part of any institution providing all these services, the charging and payment of VAT are now a complicated matter, due to the involvement of a specialist doctor in other two services.

(c) *Regulatory distortion and malpractice with respect to VAT deduction at source:* Withholding VAT is an unusual distortion in the VAT system of Bangladesh (from 1993-94). But the example of 'travel agency' service is a bizarre instance with respect to this provision. Travel Agency (S016.00) was included in the list of services subject to withholding VAT from 1993-94 to 2002-03 and then in 2009-10; but the service was exempted for 15 years from 09.06.1994 to 10.06.2009 after initial 3 years of taxation from 01.07.1991 and taxable from current FY 2009-10. Thus 1994-95 to 2002-03, the inclusion of Travel Agency (S016.00) in the list of services subject to withholding VAT is nothing but a regulatory distortion. Because the service provided by 'travel agency' is tax-exempted, whereas the recipients of this service are liable to deduct VAT at the rate 15 percent at the time of paying the service charge. After inclusion of 'procurement provider' (a person, organization or association supplying or rendering vatable goods and/or service from 1997-98 to 2001-02, thereafter any goods and/or service) in the list of taxable services in 1997-98, the risk of withholding VAT on this 'travel agency' service was increasingly higher under the pervasive definition of "Procurement Provider (S037.00)". There is also another complaint of malpractice regarding withholding VAT. Under section 6(4C) of the VAT Act, the VAT deducted at source is to be considered as the payment of VAT on behalf of the service-provider. The payment to procurement provider is subject to deduction of

[35] Only in June 2009, provisions have been included in the Act to prepare an authentic English text of the Value Added Tax Act, 1991 [new section 72A inserted by the Finance Act 2009] and the Value Added Tax Rules, 1991 [sub-section (1) of section 72A amended by the Finance Act 2009].

Dhaka University Institutional Repository

VAT at source at the rate of 2.25 percent (3 percent from 1997-98 to 2001-02). According to this provision, for any supply of taxable goods to government, autonomous and semi-autonomous units or enterprises, VAT is being deducted at source, even the supply is not provided through 'procurement provider'. Pharmaceutical industries are often the direct supplier of their goods to government, autonomous and semi-autonomous units or enterprises, but VAT deducted as a source-tax on this supply is not deductible or adjustable as 'input tax' by the pharmaceutical companies. This is a malpractice against the principle of VAT taxation and the effective tax burden on pharmaceutical companies is higher than the standard rate.

There is another slow response to amendments in other statutes, where the term 'sales tax' has not yet amended and hence there is a possibility of in-action regarding VAT in place of repealed 'sales tax'. For example, in a statutory form prescribed under the Foreign Donations (Voluntary Activities) Regulation Rules 1978 [made under section 7 of the Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978 (Ordinance No. XLVI of 1978)], still contains "sales tax" instead of VAT. The Form FD-4, a project-wise variance reports prepared by all foreign funded NGOs and got it certified by the auditor, the Heads of Expenditures still include "Customs duty and Sales Tax (CDST)" [item (xii) out of 15 items]. Besides this, in the Securities and Exchange Rules, 1987 [prescribed on 28.09.1987, amended last by a Gazette notification dated 24.09.2003, published on 20.11.2003 and applicable for all listed publicly traded companies], still the 'sales tax' has been mentioned in the prescribed requirements to Balance Sheet in the Schedule [u/r 12(2)]. Within Part-I of the Schedule, *Current Assets* include "Tax refunds due from Government, showing separately excise duties, customs duties, sales tax, income-tax etc. [item 5(ix)]"; and *Current Liabilities* include "Provision for taxation, showing separately excise duties, customs duties, sales tax, income-tax etc. [item 10(B)(10)]".

(d) *Absence of definition of "deemed to be exported" in the VAT laws:* Under section 3(2)(a), goods and services exported or 'deemed to be exported' from Bangladesh are subject to 'zero-rate' of VAT. In literal sense, this provision is very liberal for export-promotion. But difficulty arises due to very limited scope of 'deemed to be export'. Up to 2008-09, there are 3 rules [rules 31A, 32 and 32A], under which three types of transactions of goods or services are now treated as 'deemed to be export': (1) supply of goods or provision of services in exchange of foreign currency against local or international tender by VAT-registered persons, (2) supply of goods or provision of services (if applicable) in exchange of foreign currency against internal back-to-back letter of credit (L/C) by VAT-registered persons, and (3) supply of goods or provision of services by backward linkage industrial enterprises in exchange of foreign currency to enterprises having (a) licence of hundred-percent export-oriented bonded warehouse or special bonded warehouse, (b) utilization permission/declaration in favour of the goods supplied or services provided and (c) possession of documents of internal back-to-back L/C or internal L/C certified by concerned banks and other prescribed documents. The GATS (General Agreement in Trade on Services) agreement defines trade in services under the *four modes* namely, (i) cross-

Dhaka University Institutional Repository

border supply, (ii) consumption abroad mode, (iii) commercial presence mode, and (iv) movement of natural persons mode. *Cross-border supply* does not require the physical movement of supplier or consumer and this would involve trade through electronic means, telecommunications, etc. and also through border-crossing by material substances that embody in them services (e.g., tele-medicine, exchange of lessons through Internet). *Consumption abroad mode* requires people to move abroad to absorb or consume services, i.e., it requires movement of consumers of the country to suppliers of another country (e.g., foreign students' educational expenditures, foreigners' treatment or traveling expenditures). In *commercial presence mode*, services are sold in the territory of a country by a legal entity which has established a commercial presence there, but which originates in the territory of another country (e.g., foreign direct investment in another country to provide services). In the case of *movement of natural persons mode*, the individuals (natural persons) move abroad territorially as suppliers of services (e.g., doctors/professionals hired by another country) (Prasad and Katti, 1998; Gupta, Goldar and Mitra, 1998). Any foreign exchange income through any of the above modes should be treated as export or deemed to be export. However, since the scope of 'deemed to be export' is limited by law, there should be an explanation to section 3(2)(a), or there should be a 'schedule' in this regard providing a list of transactions to be considered as 'deemed to be export' with a view to expanding its coverage treating all the four modes of trade in services as 'deemed to be export' as per the GATS definition. However, this problem has been solved to some extent only from 2009-10 by giving the statutory definitions of *"export"* and *"deemed to be exported"* by the Finance Act 2009. To meet the long-waited demand of the business community, these definitions have been inserted in clause (zb) and clause (zc)[36] respectively in section 2 of the VAT Act, 1991. According to these definitions, "export" means supply of any goods or services outside the geographical limit of Bangladesh including the sea areas under the country's jurisdiction [u/s 2(zb)]; and "deemed to be exported" means supply of raw materials, machinery, infrastructure or any other materials used in production, management, transport or marketing of such goods or services, which are not desirable for consumption or use inside Bangladesh, in exchange of foreign currency out of investment in foreign currency or direct repatriation from foreign country and includes water, electricity, gas, telephone or any other service if supplied as raw materials in exchange of foreign currency [u/s 2(zc)]. From 2009-10, a provision has also been inserted by the Finance Act 2009 in the VAT Act [a new sub-clause (aa)[37] under sub-section (2) of section 3] to accommodate the decision of the Government to provide VAT exemption under international treaty or memorandum of understanding (MoU). However, a new sub-clause (ii)[38] has been inserted in the proviso to sub-section (2) of section 3 to offset the claim of export for domestic use of goods and services delivered in foreign currency *except* provided under an international agreement or MoU as mentioned in sub-clause (aa) under sub-section (2) of section 3. A new rule (rule

[36] Clause (zb) and clause (zc) are clause *(la)* and clause *(antasthya ba)* in Bangla respectively.
[37] Clause (aa) is clause *(kaka)* in Bangla.
[38] Clause (ii) is clause *(aa)* in Bangla.

Dhaka University Institutional Repository

31B, without any title) has also been inserted for this purpose to prescribe the conditions for obtaining the tax exemption.

(e) *Discrimination between locally produced and imported goods:* There is another observed discrimination between 'domestically produced goods' and 'imported finished goods' in terms of tax-point under VAT system. Foreign finished goods enter into local market by crossing import stage with different export incentives from the country of origin/export and then the advance trading VAT (at 1.5 percent from 2004-05 to 2008-09 and at 2.25 percent from 2009-10; or trading stage VAT up to September 2004). But locally produced goods may cross several tax-points such as import (for raw materials), one or more production stages, wholesale and retail stages. Thus, domestically produced goods have to face more number of tax-points causing more hassle and irritation. Besides, VAT shall be paid in advance at each stage of production and distribution, although there is genuine risk of 'no sale' or 'bad debt'.[39] The situation becomes the worst due to almost obvious presence of smuggling without any taxation.

(f) *Equal treatment for unequal traders [wholesalers and retail traders]:* For 1998-99 and 1999-2000, wholesalers were treated as provider of 'trade service' (S043.00) subject to payment of VAT at a net rate of 1.5 percent. Retail traders were treated as supplier of taxable goods. Since 2000-01, both the wholesalers and retailers of all taxable goods are brought under the same umbrella of VAT-treatment. This might ease the VAT administration, but in a highly competitive business condition at the wholesale stage [and up to 7 June 2000, having earlier low effective tax rate], the wholesalers are now fallen into a situation worse than before due to the equal consideration of wholesale and retail trades. However, the widening the coverage of the tax-base with a uniform effective rate has simplified the tax system. But the use of truncated value-base for payment of VAT is an option for the traders by forgiving the input tax credit and under the second condition of the concerned S.R.O. [No. 137-Ain/97/154-Mushak dated 12 June 1997] by which the traders are allowed to exercise this option, they can also apply to the concerned Divisional Officer to pay VAT with input tax credit before starting the next tax period.[40] The selective service providers who are entitled to pay VAT on the basis of truncated value-bases (without input tax credit) have that option to pay VAT on the basis of gross receipts with input tax credit at any time of submitting the return [*vide* S.R.O. No. 168-Ain/2000/267-Mushak dated 8 June 2000]. The possibility of financial benefit by giving lower tax liability with or without input tax credit might cause extra administrative burden made by some taxpayers at the cost of creating some additional hassle to tax office. Thus, the choice of opting in and out of the VAT payment on the basis of 'truncated value-base' has complicated the VAT administration.

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[39] VAT invoice in prescribed form is prepared in triplicate – first copy to be given to the buyers of goods or service-taker and in case of goods to be carried with the goods up to destination, second copy to be submitted to the local VAT office within 5 days (from 2007-08) and third copy to be maintained. VAT liability (excess of output-VAT over input-VAT) is to be paid before filing the VAT Return for each tax period within 10th working day of next month in usual case (rules 16, 17 and 23).

[40] Although the S.R.O. No. 137-Ain/97/154-Mushak dated 12 June 1997 has not been repealed, but a new S.R.O. [No. 143-Ain/2001/308-Mushak dated 7 June 2001] has been issued for same purpose, but there is no mention about how to switch to normal VAT-payment procedure at standard rate with input tax credit.

Dhaka University Institutional Repository

10.10 Findings of the Case Studies

Case study method was followed for understanding the practical aspect of VAT system in the corporate sector. The aspects of VAT include here VAT registration, VAT payment system, VAT documents, sales and VAT on sales, purchases and VAT on purchases, Treasury deposit of VAT, submission of VAT Return, and any unusual findings. Accounting and tax documents of six companies were minutely verified to perceive the fiscal practice in real world situation over past several years (usually a seven-year period). At the time of the study, it was also tried to find out the deviations, if any, relating to value added tax (VAT) from the point of statutory requirement. Due to strict confidentiality, the real names of the companies have not been disclosed. A disguised code name has been used for a company. The case studies have been undertaken at the beginning quarter of 2008 through verification of the concerned archival documents and books of accounts, observation of the tax functions dealt in by the companies, interviews with the concerned key executives involved in tax functions and also in some cases the external audit team members. Following documents and books of accounts have been consulted and examined in this regard:

- Audited financial statements and the audit reports;
- General Ledger;
- Cash Book and Bank Book;
- Sales Registers;
- Purchase/Import Registers, where applicable;
- VAT Registers;
- Bank Statements and Bank Reconciliation Statement;
- Certified Copies of Schedule-X (Annual Summary of Share Capital and List of Shareholders/Directors as required by Part-I of the Companies Act 1994) and Schedule-XII (Statement to be published by Banking and Insurance Companies and Deposit, Provident or Benefit Societies);

The tax documents found were photocopies, because the original copies of most of them were with the respective tax authorities and they were as follows:

- VAT and Income Tax Returns;
- Income Tax Assessment Orders, if the assessment completed;
- Income Tax First Appeal Order, if any;
- Income Tax Appellate Tribunal Order, if any;
- VAT or Income Tax Payment Chalans (as per Assessment Status) and/or the certificate of tax deducted at sources.

Following codes and code names have been used to present the case studies:

Code for Case Study (CS)	Code Name of the Company	Code for Case Study (CS)	Code Name of the Company
CS-1	EGMCL	CS-4	DCL
CS-2	CDL	CS-5	FCL
CS-3	NPL	CS-6	EPDCL

Maintaining the committed extent of confidentiality, a brief account of each of the case studies has been presented below:

Dhaka University Institutional Repository

CS-1 : EGMCL

EGMCL is a private limited company incorporated in erstwhile Pakistan under the Companies Act, 1913. The paid-up capital of the Company is about Taka 8 billion held by only corporate shareholders and thereby it is subsidiary company of another company. The company produces electronic durables and it was supposed to post-sales repair service also.

Major Findings on VAT: Following are some major observations on VAT compliance of the company:

(a) *VAT Registration:* EGMCL is registered for VAT purpose in a VAT circle of Dhaka city.

(b) *VAT Payment System:* VAT was paid by the company at standard rate of 15% on sales with input tax rebate on purchases.

(c) *VAT Documents:* VAT Current Book excerpts (prepared manually) are attached with the copies of monthly VAT Returns. Sales Registers and Purchase Registers are maintained through computerized system. Also they have manual system of maintaining statutory VAT Sales Account Book (maintained in Form VAT-17) and VAT Purchase Account Books (maintained in Form VAT-16) under rule 22(1) of the VAT Rules 1991. VAT is frequently deposited through Treasury Chalan.

(d) *Sales and VAT on Sales:* Sales were shown in the audited accounts as both pre-VAT and post-VAT figures and had no difference between these sales and those shown in the Sales Registers. Audited accounts showed lower sales in some of the years and higher sales in other years than the sales reported in VAT Returns, resulting in an under-reporting of more than Tk. 92 billion in total over the study period. Vatable annual sales range from Tk. 17-171 billion with an average of Tk. 69 billion; exempted annual sales range from Tk. 11-18 billion with an average of Tk. 14 billion (around 17 percent of total sales); the total sales in VAT returns range from Tk. 32-183 billion with an average of Tk. 84 billion and the sales mentioned in audited accounts range from Tk. 32-116 billion with an average of Tk. 70 billion. The under-reporting in audited accounts was maximum Tk. 67 billion to over-reporting of Tk. 9 billion, with an average of Tk. 13 billion of under-reporting. The company has huge surplus in its VAT Current Account of above Tk. 2 billion at the end of the concerned period of study. As per VAT Return, annual VAT on Sales was shown @ 15% and input VAT credit was claimed by showing purchases in those years.

(e) *Purchases and VAT on Purchases:* Purchases were mentioned in the VAT Returns, and credit of VAT on purchases was also taken properly.

(f) *Treasury Deposit of VAT:* On the basis of monthly VAT Returns, the Company deposited VAT in the Treasury regularly adjusting its initial credit balance in VAT Current Account. Due to excessive deposit in years before the period under study, in all the years, the Company had lower deposit of VAT, although as per the VAT law, deposit must always be higher than the estimated liability.

(g) *Submission of VAT Return:* The Company submitted monthly VAT return regularly and there were no appeals relating to VAT.

Dhaka University Institutional Repository

Final Remarks: The Company paid VAT at standard rate with claiming credit on purchases. There was normally over-reporting of sales in VAT Returns than sales shown in audited accounts, with a huge surplus deposit of VAT in VAT account current. With continuing annual huge losses, it might be a big question how the Company has been running its existence.

CS-2 : CDL

CDL is a private limited company incorporated at the beginning of twenty-first century under the Companies Act, 1994. The paid-up capital of the Company is about half a million taka held by two corporate shareholders and two individual shareholders and it is controlled as a subsidiary company of another company. The Company's main business is related to sales and distribution of some branded beverages.

Major Findings on VAT: Major findings regarding value added tax (VAT) issues are as follows:

(a) *VAT Registration:* CDL uses decentralization in case of VAT registration and it has multiple registrations for different regional operation.

(b) VAT Payment System: VAT was paid by the company at 1.5% on sales without input tax credit.

(c) *VAT Documents:* The company maintains monthly VAT Current Account Book, Sales Registers (along with VAT Sales Account Book maintained in Form VAT-17), Purchase Registers (along with VAT Purchase Account Books maintained in Form VAT-16) and copies of Treasury Chalan for depositing VAT

(d) *Sales:* Sales were shown in audited accounts as 'exclusive of VAT and trade discount'. But sales were shown in Sales Register as 'inclusive of VAT and trade discount'. Thus, there were differences between sales in the audited accounts and Sales Register for the "VAT and trade discount". Audited accounts showed higher sales than that in VAT Returns by around Taka 1300 million over the years of study (with a range of Tk. 87 million to Tk. 404 million with an average of Tk. 215 million). But according to the company, these sales are not subject to VAT due to several reasons: (i) part of the sales are subject to exemption of trading stage VAT outside the Municipality or Paurasava areas;[41] and (ii) part of the sales are subject to payment of VAT at 1.5 percent on retail price as a settled VAT. The VAT authority has accepted the claim of the company.

(e) *VAT on Sales:* As per VAT Return, annual VAT on Sales was shown at 1.5 percent and no input VAT credit was claimed by showing no purchases in those years. VAT on Sales as per audited accounts was normally different from 1.5 percent (0 percent to 6.77 percent).

(f) *Purchases and VAT on Purchases:* Over the years of study, there was no difference between annual purchases reported in audited accounts and annual purchases mentioned in Purchase Register. Since purchases were not mentioned in the VAT Returns, there was no

[41] Some products were exempted over some years for sales in rural areas under an SRO.

Dhaka University Institutional Repository

question on VAT on purchases. Due to the fact that the Company paid VAT at 1.5 percent without claiming credit of VAT on purchases, the import/purchase level input VAT was not disclosed, although in the VAT Returns, disclosure was legally required.

(g) *Treasury Deposit of VAT:* On the basis of monthly VAT Returns, the Company deposited VAT in the Treasury regularly adjusting its initial credit balance in VAT Current Account. The Company has an insignificant amount of receivable (less than Tk. 1 thousand) as refundable VAT.

(h) *Submission of VAT Return:* The Company submitted VAT return regularly and there were no appeals relating to VAT.

Final Remarks: Regional VAT Registrations were taken by the Company and there were five VAT registration numbers. There was no mention of purchases in VAT Returns in any month. As per the provisions of the VAT Act 1991, total purchases should be disclosed in VAT Returns. But since the Company paid VAT at 1.5 percent of sales without claiming credit on purchase/import-level VAT, from the viewpoint of VAT liability, there was no impact thereof. The payment of VAT at 1.5 percent without claiming the input tax credit was done due to another reason which was related to choosing the option to pay legally lower amount of VAT, where the VAT under the input tax credit system was higher due to value addition at higher than 10 percent. There was significant over-reporting of sales in audited accounts over all the years of study except one year. But these under-reported sales in VAT returns are not subject to further VAT liability due to exemption or special type of VAT payment. The company has receivable of a negligible amount as refundable VAT.

CS-3 : NPL

NPL is a private limited company incorporated in the beginning of 2000 in Bangladesh under the Companies Act, 1994. The paid-up capital of the Company was around Taka 60 million held by three companies and three individuals and controlled by one holding company. Main business of the company is related to printing and publication.

Major Findings on VAT: According to the list of exempted services prescribed in the Second Schedule under section 3 of the Value Added Tax Act 1991, an agency or organization engaged in publishing books, newspapers, magazines or government gazette (except printing and binding agencies) is exempted from VAT. Due to the coverage of the business of the company up to the exempted items only, NPL is not subject to VAT Registration. But it is interesting to note that the Company mentioned a VAT Registration No. in its Income Tax Returns of three assessment years. It is not clear that for which purpose, this VAT Registration was taken or used, and it was not clarified by the new officials in charge.

However, the Company is liable to deduct VAT at sources on the payments of applicable services. Following services are of special mention, because they are related to the Company's business:

Dhaka University Institutional Repository

- Advertising Firm (Heading Number S007 and Service Code S007.00) @ 9% [in case of advertisements (except classified advertisements) published by non-government enterprises, non-government organizations (NGO), non-government banks and insurance and limited companies, any firm or person, price determined by the concerned newspaper authority] or @ 15% of price determined by the newspaper circulating the advertisement [with effect from 06.06.2002; SRO No. 121-Ain/2002/346-Musak dated 06.06.2002].
- Printing Press (Heading Number S008 and Service Code S008.10) [except printing charge on books, periodicals and educational materials for students] @ 4.5% of whole amount of receipts including prices of printing inputs.
- Audit and Accounting Firm (Heading Number S034 and Service Code S034.00) @ 4.5% of whole amount of receipts.
- Procurement Provider (Heading Number S037 and Service Code S037.00) @ 2.25% of the price of goods or services or price quoted in the tender.

However, in the books of accounts, audited accounts or other documents, there is no explicit disclosure about VAT deducted at sources and deposit thereof to the Treasury. But the concerned officials have confirmed that this provision is fully complied with.

Final Remarks: As per the findings, the Company submitted the income tax return duly by showing huge losses each year due to carry-forward of the loss of another business entity. As per the provisions of the VAT Act 1991, the Company is not liable to get VAT registration, but it took VAT Registration once without any recourse.

CS-4 : DCL

DCL is a private limited company incorporated in mid-eighties under the Companies Act, 1913. The paid-up capital of the Company has been about Taka 4.5 million mainly held and controlled by another company, although there is another individual shareholder. The Company's main business is related to import and distribution of different health and cosmetic products.

Major Findings on VAT: Major findings regarding value added tax (VAT) issues are as follows:

(a) *VAT Registration:* The company is registered in a VAT circle in Dhaka city.

(b) *VAT Payment System:* VAT was paid by the company at 1.5 percent on sales without input tax credit.

(c) *VAT Documents:* Copies of monthly VAT Current Book excerpts with the copies of VAT Returns were provided from January 2000 to December 2006. Sales Registers, Purchase Registers and copies of Treasury Chalan for depositing VAT were provided for up to December 2006. VAT Sales Account Book (maintained in Form VAT-17) and VAT Purchase Account Books (maintained in Form VAT-16) under rule 22(1) of the Value Added Tax Rules 1991, were also checked. The VAT documents were properly maintained.

Dhaka University Institutional Repository

(d) *Sales:* Sales were shown in audited accounts and also in Sales Register at VAT-exclusive amount. Usually there were no differences between sales in the audited account and Sales Register. But in VAT Returns there is significant under-reporting of sales. Over the seven years, the total under-reported sales were about Taka 12 billion (with a range of Tk. 1.0 billion to Tk. 2.8 billion and an annual average of Tk. 1.7 billion). But these sales are not subject to further VAT for three reasons: (i) part of the sales are subject to exemption of trading stage VAT outside the Municipality or Paurasava areas;[42] (ii) part of the sales are subject to payment of VAT at 1.5 percent on retail price as a settled VAT and (iii) part of the sales are subject to ATV (advance trade VAT) at 1.5 percent.

(e) *VAT on Sales:* As per VAT Return, annual VAT on Sales was shown at 1.5 percent and no input VAT credit was claimed by showing purchases only in two years.

(f) *Treasury Deposit of VAT:* On the basis of monthly VAT Returns, the Company deposited VAT in the Treasury regularly adjusting its initial credit balance in VAT Current Account. According to the estimate of the Company, it had surplus deposit in the VAT Current Account.

(g) *Submission of VAT Return:* The Company submitted VAT return regularly and there were no appeals relating to VAT.

Final Remark: As per the findings, the Company submitted the VAT return duly. VAT Returns showed a significant under-reporting of sales. Over the seven years, the Company had no further VAT liability and there was no appeal made by the company.

CS-5 : FCL

FCL is a private limited company incorporated in 2002 under the Companies Act, 1994. The paid-up capital of the Company is about Taka 5 million mainly held and controlled by another company. There are also three individual shareholders of the company. The main business of the company is to prepare and sell foods. Here the study period was for four years.

Major Findings on VAT: Major findings regarding VAT issues are as follows:

(a) *VAT Registration:* The company is registered in a VAT circle in Dhaka city.

(b) *VAT Payment System:* VAT was paid by the company at standard rate of 15 percent with input tax credit.

(c) *VAT Documents:* The company maintains VAT Current Book, Sales Register, Purchase Register (for Raw Materials and Packing Materials), and also the VAT Sales Account Book (maintained in Form VAT-17) and VAT Purchase Account Books (maintained in Form VAT-16).

(d) *Sales:* There was no difference between annual sales reported in audited accounts and annual sales shown in Sales Register. On the basis of annualized data, sales in VAT Return are usually higher than sales shown in audited accounts and Sales Register except in one

[42] Some products were exempted over some years for sales in rural areas under an SRO.

Dhaka University Institutional Repository

year, which was also very insignificant (less than Taka 5 thousand). On the monthly sales data, there were also differences between sales shown in Sales Register and sales in VAT Return. VAT Return showed higher sales in four months and significantly higher in one month. Sales as per Sales Register were higher in three months. But these differences have no significant impact on VAT payment, because the company has always a credit balance in VAT Current Account (i.e., there is creditable balance).

(e) *VAT on Sales:* Since there was no difference between annual sales reported in audited accounts and annual sales shown in Sales Register, VAT on Sales was same in audited accounts and Sales Register. But as per VAT Return, annual VAT on Sales was usually higher except in one year (which was a very insignificant amount). The cumulative VAT on Sales was higher by Taka 2.7 million over the four years. Due to the peculiarity of the products sold by the company (food items, instantly sold after preparation and not inventoried), it is expected that sales should be same in audited accounts and also in VAT Return.

(f) *Purchases and VAT on Purchases:* There was a significant difference between annual purchases (raw materials and packing materials) reported in audited accounts and annual purchases shown in Purchase Register. On the basis of annualized data, purchases in VAT Return are usually much lower than purchases shown in audited accounts and Purchase Register except in one year. But over the four years, total purchases shown in VAT Returns were significantly lower (about Tk. 67 million in comparison to audited accounts). This implies that the company is not disclosing the total facts about the purchases in the monthly VAT Returns. The reason as stated by the concerned officials is that the purchases are made in such a way that credit on that purchase cannot be taken and these purchases mainly include: (1) Purchases from unregistered informal suppliers; and (2) Purchases from registered suppliers without proper VAT Invoice. Due to these under-reported purchases in VAT Returns, the company failed to get huge credit on VAT, if VAT was really paid by the Company on those purchases.

(g) *Treasury Deposit of VAT:* In terms of treasury deposit, the Company has been depositing VAT regularly. Over the four years of study, the company's deposits of VAT in Treasury as a percentage of Net VAT Payable were usually more than 100 percent; thus the company paid more than the total VAT liability, maintaining a credit balance of around Taka 0.13 million only in VAT Current Account.

(h) *Submission of VAT Return:* The Company submits VAT return regularly and there were no appeals relating to VAT and also no penalty imposition was found.

(i) *Unusual findings:* It is of special mention that in two monthly VAT Returns, there were unusual claims of Credit on export, amounting to total Taka 40 thousand. But the Company did not report anything as "Sales of Zero-Rated Goods/Services" (which represent Export Sales) in those two months, thus it cannot claim credit on export.

Dhaka University Institutional Repository

Final Remarks: As per the findings, the Company submitted the income tax return and VAT return duly. There were significant under-reporting of purchases in VAT Returns due to purchases from unregistered persons and insignificant over-reporting of sales in VAT Returns.

CS-6 : EPDCL

EPDCL is a private limited company incorporated in late eighties under the Companies Act, 1913 but started business only in late nineties. The paid-up capital of the Company is about Taka 2.5 million. A controlling company and five individual shareholders hold the shares of the company. The company's business is related to distribution of electric products. The study period was for five years.

Major Findings on VAT: Key findings regarding VAT issues are as follows:

(a) *VAT Registration:* The company registered in one VAT circle in Dhaka city.

(b) *VAT Payment System:* VAT was paid by the company at standard rate of 15 percent on sales with input tax credit for first two years of study. For other three years, VAT was paid by the company at 1.5 percent on sales without input tax credit.

(c) *VAT Documents:* The company maintains all the statutory VAT accounts and documents and also its own Sales and Purchase Registers.

(d) *Sales:* There was no difference between annual sales reported in audited accounts and annual sales shown in Sales Register, except for VAT figure which was not shown in Sales Register. Audited accounts showed higher sales than VAT Returns in two years at a total of Taka 1.1 million, but lower sales of around Taka 0.45 million in one year. Over three years, audited accounts showed higher sales than VAT Returns by about Taka 0.7 million.

(e) *VAT on Sales:* As per VAT Return of the recent years, annual VAT on Sales were shown at 1.5 percent and no input VAT credit was claimed by showing no purchases in those years in the returns. VAT on Sales as per audited accounts was normally different from 1.5 percent (1.0 percent to 2.6 percent).

(f) *Purchases and VAT on Purchases:* Over the first three years of study, there was no difference between annual purchases reported in audited accounts and annual purchases mentioned in Summary Statements of Purchases. As per audited accounts, there were no purchases in the latest years and also not mentioned in the VAT Returns. Due to the fact that the Company paid VAT at 1.5 percent without claiming credit of VAT on purchases, the import/purchase level input VAT was not disclosed, although in the VAT Returns, disclosure was legally required.

(g) *Treasury Deposit of VAT:* On the basis of monthly VAT Returns, the Company deposited VAT in the Treasury regularly adjusting its initial credit balance in VAT Current Account. Over these years, the company's deposits of VAT in Treasury as a percentage of Net VAT Payable were around one-third in one year, but three times in another year, around double in another year, and at par in two years. Recently the Company had been submitting VAT

Dhaka University Institutional Repository

Returns with zero sales and thus the company ensured total payment of outstanding VAT liability.

(h) *Submission of VAT Return:* The Company submits monthly VAT return regularly and there were no appeals relating to VAT.

Final Remarks: There was no mention of purchases in VAT Returns over three years and over-reporting of sales in audited accounts over those years. As per the provisions of the VAT Act 1991, total purchases should be disclosed in VAT Returns. But since the Company paid VAT at 1.5 percent of sales without claiming credit on purchase/import-level VAT, from the viewpoint of VAT liability, there was no impact thereof. The Company closed its operation now, but still maintaining its existence to receive only future income out of equity-investments in some other companies.

Below is a summary the findings of the case study:

Issues	CS-1	CS-2	CS-3	CS-4	CS-5	CS-6
Nature of business	Producer of electronic durables	Sales and distribution of some branded beverages	Printing and publication	Import and distribution of different health and cosmetic products	Preparation and sales of foods	Distribution of electric products
VAT registration	Single registration in a VAT circle of Dhaka city	Multiple registrations for different regional operation	Exempted but VAT Registration was taken erroneously	Single registration in a VAT circle of Dhaka city	Single registration in a VAT circle of Dhaka city	Single registration in a VAT circle of Dhaka city
VAT payment system	At standard rate with input tax credit	At 1.5% on sales without input tax credit	Not applicable except for withholding VAT for some services	At 1.5% on sales without input tax credit and ATV at import-stage	At standard rate with input tax credit	Initially at standard rate with input tax credit and then at 1.5% on sales without input tax credit
VAT documents	Properly maintained through both manual and computerized systems	Properly maintained	Not applicable	Properly maintained	Properly maintained	Properly maintained
Sales	No difference between audited account and Sales Register, but both under- or over-reporting in VAT Returns	Difference between audited account and Sales Register for 'VAT and trade discount', but under-reporting in VAT Returns	Not applicable	No difference between audited account and Sales Register, but significant under-reporting in VAT Returns	No difference between audited account and Sales Register, but insignificant over-reporting in VAT Returns	No difference between audited account and Sales Register, but sizeable under-reporting in VAT Returns

Dhaka University Institutional Repository

Issues	CS-1	CS-2	CS-3	CS-4	CS-5	CS-6
VAT on sales	Huge surplus in VAT Current Account	Insignificant surplus	Not applicable	Reasonable surplus deposit in the VAT Current Account	Annual VAT on Sales was usually higher except in one year	VAT on Sales shown in VAT Return at 1.5% without input VAT credit, but as per audited accounts VAT shown at 1.0 to 2.6%
Purchases	Shown in the VAT Returns properly	Not shown in the VAT Returns	Not applicable	Not shown in the VAT Returns	Shown in the VAT Returns, but significantly lower than audited accounts	Not shown in the VAT Returns when VAT paid at 1.5%
VAT on purchases	Credit taken	No credit taken	Not applicable	No credit taken	Credit taken but significantly lower	No credit taken when VAT paid at 1.5%
Treasury deposit of VAT	Deposit properly	Ddeposit properly	Not applicable	Deposit properly	Deposit more than total VAT liability	deposit properly
Submission of VAT Return	Submitted monthly	Submitted monthly	Not applicable	Submitted monthly	Submitted monthly	Submitted monthly
Unusual findings	Questionable going concern assumption with continuing annual huge losses	Not applicable	Not applicable	Not applicable	In two VAT Returns, unusual claims of credit on export, without any reporting of zero-rated sales	Not applicable

10.11 Findings of the Empirical Survey

This section mainly discusses the findings of the finalized database on the basis of empirical survey based on two questionnaires (explained in section 4.7 in chapter 4 and given in Annex-I). The Questionnaire-I was administered on registered providers of vatable services and the Questionnaire-II on executives dealing with withholding VAT in companies where VAT registration is not required. The findings have been described below.

Findings of the Survey on VAT Registered Service Providers

At first, the findings of the empirical survey on 38 taxable services provided by 67 VAT registered persons have been discussed.

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Sample Size: The sample consists of 29 sole proprietorship entities, 9 partnership firms, 15 private limited companies, 5 public limited companies, 2 trusts, 4 individuals, 1 special public entity, and 2 non-profit entities (shown in Table 4.1 in chapter 4). Out of 67 respondents, 37 are classified as small entities and 30 as large entity. As shown in Table 10.31, the revenue raised from these 38 taxable services was around 56 percent of service sector VAT in 2007-08, although they have been selected randomly from the list of all 86 taxable services.

Table 10.31: Sample Services and the Yielding of VAT (Local) by Them

(VAT in million Taka)

Items of Services	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Hotels	244.9	255.6	281.4	303.7	449.2	515.3	770.5
Restaurants	85.0	114.8	137.5	162.9	224.0	274.3	423.8
Decorators & Caterers	1.6	1.8	2.4	17.4	5.7	5.1	9.7
Garage of Motor Vehicle and Workshop	15.0	17.4	44.5	42.3	54.4	86.4	142.2
Dockyard	97.8	19.6	48.3	27.2	39.9	35.7	29.2
Warehouse	632.0	617.5	675.5	469.1	178.9	201.2	829.1
Advertising Agency	293.0	258.3	323.6	404.2	491.3	581.1	674.4
Printing Press	98.2	188.0	107.2	100.4	68.9	77.6	138.8
Land Development Firm	34.0	0.0	0.3	14.6	2.8	28.2	42.0
Video/Audio Cassettes & Recording Shops	0.3	0.3	0.2	4.7	0.8	1.2	0.7
Telephone, Teleprinter, Telex, Fax or Internet Firm & SIM Card Supplier	2,517.8	3,611.40	4,823.00	6,447.5	11,963.3	12,991.3	18,172.1
Clearing & Forwarding Firm	343.6	372.2	569.0	598.1	575.2	698.5	919.8
Photographers	9.6	11.1	13.3	15.1	14.1	17.2	15.5
Sweetmeat Shop	27.4	35.8	40.8	43.3	57.9	72.6	120.3
Cinema Halls	42.2	34.8	35.0	32.6	31.4	29.8	30.6
Clinics & Hospitals	22.2	26.4	33.8	40.8	70.4	109.3	189.9
Beauty Parlour	2.1	4.1	5.5	7.5	17.90	23.6	39.2
Audit & Accounting Firm	1.3	4.3	3.2	7.5	4.0	6.1	16.5
A.C. Launch Service	40.0	2.1	0.0	8.6	0.0	1.6	0.8
Procurement Provider	538.9	383.0	423.4	617.1	789.3	876.9	1,304.8
Pathological Laboratory	17.6	18.2	23.5	29.0	38.8	58.3	76.3
Security Service	8.6	13.4	20.6	6.0	35.7	57.9	96.2
Mechanical Saw Mill	0.0	9.4	1.5	3.4	0.0	0.1	0.4
Rent-a-Car Service (excluding Taxi cab)	2.1	4.1	2.2	4.6	0.6	3.6	10.5
Architect/Interior Designer/Interior Decorator	0.1	1.3	1.2	0.5	0.3	0.3	2.9
Board Meeting Participant	2.2	4.7	7.0	3.1	1.8	2.1	4.3
Banking and Non-banking Service	239.7	622.7	745.8	381.4	234.4	1,617.6	2,510.9
Money Exchange						2.0	3.2
Amusement Park and Theme Park						11.8	19.6
Tailoring shop						6.9	11.6
Picnic Spot, Shooting Spot & Tourist Spot or Establishment						4.3	0.4
Seller of lottery ticket						0.0	0.0
Sub-total	**5,317.2**	**6,632.3**	**8,369.7**	**9,792.6**	**15,351.0**	**18,397.9**	**26,606.2**
(% of Total VAT on Services)	(37.5)	(44.5)	(48.4)	(47.2)	(50.0)	(49.7)	(55.9)

Source: Compiled from the *Annual Reports 2001-2002* to *2007-2008* of the NBR (Dhaka: R&S Division, NBR).

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The sample respondent vatable entities have been taken from 18 Circles under 8 Divisions, which are further under 3 Commissionerates showing its wide coverage (Table 10.32).

Table 10.32: Distribution of Survey Respondents

Division	Circle	Commissionerate			Circle Total		Division Total	
		Dhaka (N)	Dhaka (S)	LTU	No.	%	No.	%
LTU	LTU			2	2	(3.0)	2	(3.0)
Mirpur	Mirpur-1	1			1	(1.5)	5	(7.5)
	Mirpur-2	2			2	(3.0)		
	Savar	2			2	(3.0)		
Tejgaon	Tejgaon-1	2			2	(3.0)	7	(10.4)
	Tejgaon-2	2			2	(3.0)		
	Tejgaon-3	1			1	(1.5)		
	Tejgaon-5	2			2	(3.0)		
Kotoali	Armanitola		3		3	(4.5)	3	(4.5)
Lalbag	Keraniganj		2		2	(3.0)	2	(3.0)
Moham-madpur	Dhanmondi		14		14	(20.9)	19	(28.4)
	Mohammadpur		3		3	(4.5)		
	Rayer Bazar		2		2	(3.0)		
Motijheel	Motijheel		12		12	(17.9)	8	41.8)
	Rajarbag		2		2	(3.0)		
	Segunbagicha		11		11	(16.4)		
	Shiddheswari		3		3	(4.5)		
Sutrapur	Demra		1		1	(1.5)	1	(1.5)
Total (%)		12 (17.9)	53 (79.1)	2 (3.0)	67 (100.0)	(100.0)	67	(100.0)
Dhaka (N) = Dhaka (North); Dhaka (S) = Dhaka (South); LTU = Large Taxpayer Unit.								

Source: Database of the empirical survey.

The sample also represents 3 entities rendering one service, 10 entities rendering 10 services taking one from each service, and 54 entities rendering 27 services taking two from each service. These 67 entities represent 8 types of forms of entities (Table 4.1 in chapter 4): Sole Proprietorship (29, i.e., 43.3 percent), Partnership Firms (9, i.e., 13.4 percent), Private Limited Company (15, i.e., 22.4 percent), Public Limited Company (5, i.e., 7.5 percent), Trust (2, i.e., 3.0 percent), Individual (4, i.e., 6.0 percent), Special Public entity (1, i.e., 1.5 percent), and Non-profit entity (2, i.e., 3.0 percent).

Other attributes of the sample entities are: 47 entities (around 70.1 percent) are subject to truncated value addition, 16 entities (around 23.9 percent) are providing services, which are subject to VAT deducted at source (VDS), of which 14 are subject to VDS at net VAT rate given and other 2 are subject to VDS at standard rate; and 53 entities (around 79.1 percent) are subject to mandatory VAT registration. Given some missing information in some cases, following table (Table 10.33) shows the basic information on the sample respondent entities. Thus, in these sample entities, average of 227 employees are working per entity, where 10 employees on average are working in managerial position and average 141 are working as support staff. The average capital, total assets and annual turnover of these entities are Tk. 33,797 lakh, Tk. 35,660 lakh and Tk. 508 lakh respectively.

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Table 10.33: Basic Statistics of the Sample Entities

Statistics	No. of Employees			Figures in Lakh Taka		
	Total	Managerial Position	Support Staff	Capital	Total Asset	Annual turnover
Mean	227.3	10.3	141.0	33,796.9	35,659.9	508.3
Median	33.5	3	23	41	205	50.0
Mode	35	1	4[a]	10	3[a]	50.0
Std. Deviation	716.2	24.0	336.4	222395.6	132720.7	1429.2

[a] Multiple modes exist. The smallest value is shown.

Source: Database of the empirical survey.

In terms of age of VAT payments, 25.4 percent of the entities have experience of VAT payment over 10 years and similar number of entities is new also (Table 10.34). The mode of the total number of employees working in those entities is 35. Using this modal number of employees (which is 35 as mentioned in Table 10.33), 36 entities (53.7 percent of total number of entities) are identified as small (having employees up to 35 employees) and the remaining 46.3 percent are large (having employees above 35 employees).

Table 10.34: Age of VAT Payment of Survey Respondents

Age Class	Frequency			Percent	Cumulative Percent
	Small entity (up to 35 employees)	Large entity (above 35 employees)	Total		
Less than 2 years	9	8	17	25.4	25.4
2 to 4 years	5	7	12	17.9	43.3
4 to 6 years	6	2	08	11.9	55.2
6 to 8 years	6	3	09	13.4	68.7
8 to 10 years	3	1	04	6.0	74.6
10 years and more	7	10	17	25.4	100.0
Total	**36 (53.7%)**	**31 (46.3%)**	**67**	**100.0**	

Source: Database of the empirical survey.

Compliance of VAT: Out of all the organizational respondents (i.e., 63 excluding 4 individuals), 22 entities (34.9 percent of 63) report that they do not show VAT registration in the office in a conspicuous place. Regarding the maintenance of statutory books of accounts, the compliance rate is not noteworthy. As per findings, only 41.8 percent have reported that they maintain Purchase Account Book; 47.8 percent maintain Sales Account Book; 71.6 percent maintain Invoice Book; and only 26.9 percent maintain Account Current Book. As reported by the respondents, most of them follow manual accounting and submits the VAT return monthly (Table 10.35). Yet some follow POS (point of sales) software (10.4 percent of overall sample), some (7.5 percent) follow the ECR (electronic cash register) and few (3.0 percent) also follow both manual system and the ECR. One entity (one private medical college providing pathological laboratory services) follows 'other' method which consists of POS software for pathological laboratory services and manual accounting for other purposes. Thus, 53 entities (79.1 percent of respondents) follow manual accounting. Most of the respondent entities (77.6 percent of overall sample) submit their VAT returns monthly. However, the frequency of submission of VAT return also includes also

Dhaka University Institutional Repository

quarterly submission (4.8 percent), half-yearly submission (1.6 percent), annual submission (12.7 percent) and infrequent submission at the time of pressure by VAT officials (3.2 percent).

Table 10.35: Accounting Method and Frequency of Submission of VAT Return

Frequency of VAT Return Submission	Frequency on Method of Accounting						(Percentage)
	Manual Accounting	ECR	Manual and ECR	POS Software	Other	Total	
Monthly	41	4	0	6	1	52	(77.6)
Quarterly	2	1	0	0	0	3	(4.5)
Half-yearly	1	0	0	0	0	1	(1.5)
Annually	5	0	2	1	0	8	(11.9)
Infrequently	3	0	0	0	0	3	(4.5)
Total (% of valid cases)	**52 (77.6)**	**5 (7.5)**	**2 (3.0)**	**7 (10.4)**	**1 (1.5)**	**67 (100.0)**	**(100.0)**

Source: Database of the empirical survey.

As per findings, only 19.4 percent have reported that they submit some documents along with the return [Invoice only (11.9 percent), Account Current only (1.5 percent) and both Invoice and Account Current (6.0 percent)]. Only 18 respondents (26.9 percent of total respondents) have reported that they are liable to deduct VAT at source.

In terms of extra time, effort and cost for VAT and VAT-related activities, annual average time spent is 92 hours for small firms and 369 hours for large firms with a weighted average of around 194 hours; whereas the annual average extra cost is around Tk. 18 thousand for small firms and Tk. 1037 thousand for large firms with a combined average of Tk. 394 thousand (Table 10.36). However, 13.4 percent of respondents have reported that they have no extra effort or costs for VAT related activities.

Table 10.36: Extra Time, Effort and Cost for VAT and VAT-related Activities

Per Year Extra	Small Firm		Large Firm		Combined	
	Range	Mean	Range	Mean	Range	Mean
Time (Man hours)	0–450	92.1	0–800	368.6	0–800	193.9
Costs (Taka)	0–84,000	18,333	0–5 million	1,037,143	0–5 million	393,684

Source: Database of the empirical survey.

Fiscal Performance: With respect to annual turnover, 28.4 percent of the respondent entities have reported that their annual turnover was less than Tk. 24 lakh (threshold for turnover tax) last year and they were registered due to the provision of mandatory registration (79.1 percent of the respondents fall in this category). As shown in Table 10.37, a good number of entities (25.4 percent) had very high turnover (above Tk. 104 lakh). Based on actual figure, last year's taxable turnover ranges from insignificant and unbelievable Tk. 4000 to maximum Tk. 6100 lakh, with an average of Tk. 513.5 lakh (standard deviation Tk. 1267.3 lakh).

Regarding payment of VAT, last year's VAT payment ranges from insignificant Tk. 600 to maximum Tk. 850 lakh, with an average of Tk. 43.9 lakh (standard deviation Tk. 135.0 lakh). As shown in Table 10.38, most of the entities (31.3 percent) are paying VAT per annum at an amount less than Tk. 1 lakh. About half of them are paying VAT within Tk. 5 lakh. However, a good number of entities (about 15 percent) are paying VAT at a handsome amount (at least Tk. 40 lakh).

Dhaka University Institutional Repository

Table 10.37: Last Year's Annual Turnover

Annual Turnover	Frequency	Percent	Valid Percent	Cumulative Percent
Less than Tk. 24 lakh	19	28.4	34.5	34.5
Tk. 24 to Tk. 34 lakh	3	4.5	5.5	40.0
Tk. 34 to Tk. 44 lakh	2	3.0	3.6	43.6
Tk. 44 to Tk. 54 lakh	6	9.0	10.9	54.5
Tk. 54 to Tk. 64 lakh	1	1.5	1.8	56.4
Tk. 64 to Tk. 74 lakh	1	1.5	1.8	58.2
Tk. 74 to Tk. 84 lakh	1	1.5	1.8	60.0
Tk. 84 to Tk. 94 lakh	3	4.5	5.5	65.5
Tk. 94 to Tk. 104 lakh	2	3.0	3.6	69.1
Tk. 104 lakh and above	17	25.4	30.9	100.0
Total	**55**	**82.1**	**100.0**	
Missing	12	17.9	*Mean*	*513.5*
Total	67	100.0	*St. Deviation*	*1267.3*

Source: Database of the empirical survey.

Table 10.38: Last Year's VAT Payment

VAT Paid Last Year	Frequency	Percent	Valid Percent	Cumulative Percent
Less than Tk. 1 lakh	21	31.3	36.2	36.2
Tk. 1 to Tk. 5 lakh	12	17.9	20.7	56.9
Tk. 5 to Tk. 10 lkah	6	9.0	10.3	67.2
Tk. 10 to Tk. 15 lakh	6	9.0	10.3	77.6
Tk. 15 to Tk. 20 lakh	3	4.5	5.2	82.8
Tk. 40 lakh and above	10	14.9	17.2	100.0
Total	**58**	**86.6**	**100.0**	
Missing	9	13.4	*Mean*	*43.9*
Total	67	100.0	*St. Deviation*	*135.0*

Source: Database of the empirical survey.

Table 10.39: Last Year's VAT Payment

Frequency of VAT Deposit	Frequency	Percent	Valid Percent	Cumulative Percent
Monthly	36	53.7	62.1	62.1
Half-yearly	2	3.0	3.4	65.5
Annually	6	9.0	10.3	75.9
Infrequently	7	10.4	12.1	87.9
Through VDS only	3	4.5	5.2	93.1
Mainly through VDS and a small monthly deposit	3	4.5	5.2	98.3
Others	1	1.5	1.7	100.0
Total	**58**	**86.6**	**100.0**	
Missing	9	13.4		
Total	**67**	**100.0**		

Source: Database of the empirical survey.

All the entities have reported that they have properly deposited the VAT to the treasury, although there is wide variation in doing so. As shown in Table 10.39, most of them (53.7 percent) deposit the VAT monthly usually before submitting the VAT return, some (3.0 percent) pay half-yearly and some (9.0 percent) even pay annually, which is unusual, but they have not faced any enforcement problem. Some entities (4.5 percent) have been solely paying through withholding VAT (i.e., VAT deducted at source or VDS) only and similar number of entities are paying

Dhaka University Institutional Repository

mainly through VDS along with a small monthly deposit. Interestingly enough, some entities (10.4 percent) are paying taxes infrequently depending on the frequency and scale of enforcement. One entity has been found, which has not deposited anything to treasury by itself. It has given the money to the VAT official, who has deposited it.

As mentioned earlier only 26.9 percent of respondents have the obligations to deduct VAT at sources but 12 have deducted zero amount last year with an average of Tk. 25.3 lakh of VDS per entity (which is average Tk. 120.1 lakh per entity for the four entities doing VDS).

Problems Relating to VAT: As reported by the respondent entities, they face a number of problems with respect to VAT. In the questionnaire there were eight structured options and one was related to "no problem". They were also allowed to identify their own unique problem in the questionnaire. At the time of compilation of the data, this "no problem" has been grouped into two: (a) No problems on VAT payment or no general problem; and (b) No problems at all. The group-wise and combined results of the empirical survey have been shown in Table 10.40.

Table 10.40: Problems Faced by the Registered Persons

Combined Ranking*	Problems	Small Firm	Large Firm	Comb-ined
1	Delay in response from the VAT office to queries raised	55.6	51.6	53.7
2	Tax computed was excessive	33.3	51.6	41.8
3	Input tax credit totally disallowed	33.3	45.2	38.8
4	Interviews with VAT Officials were not satisfactory	25.0	32.3	28.4
5	Frequent asking for submission of various documents	27.8	29.0	28.4
6	Frequent visits of VAT persons cause business disturbance	25.0	32.3	28.4
7	No problems on VAT payment or no general problem	25.0	29.0	26.9
8	Frequent asking for upward revision of price	13.9	19.4	16.4
9	Input tax credit partially disallowed	8.3	9.7	9.0
10	Pressure on general increase in VAT	not opted	6.5	3.0
11	No problems at all	2.8	not opted	1.5
12	Behaviour of concerned VAT officials not satisfactory enough	2.8	not opted	1.5

* Based on percentage of respondents opted any problem.

	Kendall's tau-*b*	Spearman's *rho*
Correlation Coefficient	0.82930**	0.9568**
Sig. (2-tailed)	(0.000348)	(0.000009)

** Correlation is significant at the 0.01 level (2-tailed).

Source: Database of the empirical survey.

It is interesting to note that a good number of entities (26.9 percent of total; 25.0 percent of small entities and 29.0 of large entities) have reported to have "No problems on VAT payment or no general problem" and only one small entity (1.5 percent of total; 2.8 percent of small entities) have "No problems at all". Except the (no problems) responses, jointly the respondents have identified following 9 problems faced by them according to priority:

- Delay in response from the VAT office to queries raised (53.7 percent);
- Tax computed was excessive (41.8 percent);
- Input tax credit totally disallowed (38.8 percent);

Dhaka University Institutional Repository

- Interviews with VAT Officials were not satisfactory (28.4 percent);
- Frequent asking for submission of various documents (28.4 percent);
- Frequent visits of VAT persons cause business disturbance (28.4 percent);
- Frequent asking for upward revision of price (16.4 percent);
- Input tax credit partially disallowed (9.0 percent); and
- VAT officials' tendency of blackmailing (1.5 percent).

Following two problems have been identified as one-sided problem:

- "Pressure on gradual increase in VAT" opted only by large entities (6.5 percent of large entities, or 3.0 percent of overall entities); and
- "Behaviour of concerned VAT officials not satisfactory enough" opted only by small entities (2.8 percent of small entities, or 1.5 percent of overall entities).

According to the coefficients of Kendall's tau-*b* (0.82930) and Spearman's *rho* (0.9568), as shown in Table 10.40, the correlation regarding the identification of problems by two groups of respondents is significant at the 0.01 level (2-tailed) and hence their problems are common in nature. Consequently, it can be said that the *third* null hypothesis is rejected and the research hypothesis *[$H3_A$: The problems experienced by the taxpayers in relation to VAT are mostly common]* has been substantiated.

Difficulties Experienced vs. Expected Solutions: The VAT registered persons were asked to identify the difficulties their organization has experienced in relation to VAT through assigning ranks on 6 structured difficulties with open-ended options and also to enumerate the expected solutions of those difficulties as they desire to suggest again through assigning ranks on 7 structured solutions with open-ended options. The group-wise and combined results have been shown in Table 10.41 (Difficulties Experienced by the Registered Persons) and Table 10.42 (Solutions Suggested by the Registered Persons).

Table 10.41: Difficulties Experienced by the Registered Persons

Combined Rank	Difficulties	Small Firm		Large Firm		Combined
		s.m.	Rank	s.m.	Rank	s.m.
1	Difficulty in understanding the legal provision	1.6	1	1.3	1	1.5
2	Giving bribe to the VAT officials	2.0	3	not ranked	-	2.0
3	Non-availability of updated version of law	1.9	2	2.1	2	2.0
4	Extra unnecessary documents	3.1	4	2.6	3	2.9
5	Non-availability of updated SRO	3.2	6	2.9	4	3.0
6	Delay in getting refund	2.9	5	3.5	5	3.2
7	Refuse to make refund	4.0	7	not ranked	-	4.0
8	Discouraging computerized accounting	4.1	8	4.1	7	4.1
9	Financial hardship	7.0	9	4.0	6	5.0

Note: "s.m." means "sample mean".

	Kendall's tau-*b*	Spearman's *rho*
Correlation Coefficient	0.42258	0.56904
Sig. (2-tailed)	(0.11585)	(0.10980)

Correlation is not significant at any level (2-tailed).

Source: Database of the empirical survey.

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As shown in table 10.41, both groups of entities have experience of following common difficulties with respect to VAT management (according to combined priority of ranking):

- Difficulty in understanding the legal provision;
- Non-availability of updated version of law;
- Extra unnecessary documents;
- Non-availability of updated SRO (Statutory Rules and Order);
- Delay in getting refund;
- Discouraging computerized accounting; and
- Financial hardship.

However, following two problems uniquely related to small entities only:

- Giving bribe to the VAT officials;[43] and
- Refuse to make refund.

According to the coefficients of Kendall's tau-*b* (0.42258) and Spearman's *rho* (0.56904), as shown in Table 10.41, the correlation regarding the identification of problems by two groups of respondents is not significant at any level (2-tailed) and hence they experience different difficulties from their own perspectives. Hence, the *fourth* null hypothesis is rejected and the research hypothesis *[$H4_A$: There exists difference between the various groups of respondents about the difficulties faced by them related to VAT]* has been substantiated.

Regarding the solutions to solve those difficulties, the respondent entities have suggested the following group-wise and joint solutions (Table 10.42).

Table 10.42: Solutions Suggested by the Registered Persons

Combined Rank	Solutions Desired	Small Firm		Large Firm		Combined
		s.m.	Rank	s.m.	Rank	s.m.
1	Amount of tax should be reduced	1.0	1	not ranked	-	1.0
2	Responsive help desk in VAT office	1.8	2	1.7	1	1.8
3	Updated version of law in website	2.5	3	2.1	2	2.3
4	Updated SRO in website	2.8	4	2.9	4	2.8
5	Annual flat amount of tax	3.1	5	2.9	3	3.0
6	3-month tax period in place of 1 month	4.1	8	3.2		3.6
7	VAT rate should be around 5 to 10 percent	3.7	6	not ranked	-	3.7
8	Procedure of VAT payment should be made easier	4.0	7	not ranked	-	4.0
9	Allowing existing accounting system	4.1	8	4.4	5	4.3
10	Monthly flat amount of tax	5.4	10	4.7	6	5.0

Note: "s.m." means "sample mean".

	Kendall's tau-*b*	Spearman's *rho*
Correlation Coefficient	0.565058*	0.635851*
Sig. (2-tailed)	(0.028079)	(0.048148)

*Correlation is significant at the 0.05 level (2-tailed).

Source: Database of the empirical survey.

[43] The concerned respondent was unwilling to clarify the reason of giving this bribe, which might be associated with the evasion of VAT. As stated by A. Mishra (2006), "For taxpayers, if it is possible to avoid a penalty for tax evasion by paying a bribe to the inspector, then one will be tempted to collude to evade taxes. Similarly, if an honest taxpayer is subject to extortion by the inspector, the taxpayer will be equally encouraged to evade taxes. Hence, both forms of corruption lead to a distortion of incentives" (Mishra, 2006, p. 191). One money changer firm (S062.00) has recommended: "The VAT officials should not claim any bribe for payment of VAT and if it continues they would try not to pay VAT."

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As shown in table 10.42, both groups of entities have desired the following common solutions for mitigating their difficulties with respect to VAT management (as per combined priority of ranking):

- Responsive help desk in VAT office;
- Updated version of law in website;
- Updated SRO in website;
- Annual flat amount of tax;
- 3-month tax period in place of one month;
- Allowing existing accounting system; and
- Monthly flat amount of tax.

However, following three solutions are uniquely desired by small entities only:

- Amount of tax should be reduced;
- VAT rate should be around 5 to 10 percent; and
- Procedure of VAT payment should be made easier.

The above-mentioned expected solutions indicate the bearing of the tax burden as being higher in case of small firms, might be with respect to compliance costs and least ability to pass the tax burden onto their clients.

According to the coefficients of Kendall's tau-*b* (0.565058) and Spearman's *rho* (0.635851), as shown in Table 10.42, the correlation regarding the solutions desired by two groups of respondents significant at the 0.05 level (2-tailed). Thus, they are statistically on different footing with respect to the desired solutions with few exceptions. Hence, the *fifth* null hypothesis cannot be rejected and the research hypothesis *[$H5_A$: There exists difference between the various groups of respondents about the solutions desired by them to remove the problems and difficulties related to VAT]* has not been substantiated.

Perception about the Effect of VAT on Cash Flow: Under idealistic situation, since the VAT registered persons collect VAT from the buyers and then they pay VAT, sometimes the VAT itself might have positive impact on cash flow as an interest-free loan from Government if the payment can be legally delayed without any penalty; or at least there should be no effect, if it is to be paid as early as possible or paid through VDS (VAT deducted at source). But under Account Current method, when it is to be deposited first before any movement of goods (sales might be after a substantial gap after ex-factory delivery to sales center), the VAT has negative impact on cash flow. Since the respondents are service providing entities, they should have beneficial or no effect. As shown in Table 10.43, most of the respondents (67.7 percent of total) have reported that they have no effect of VAT on their cash flow; 14.5 percent have beneficial effect and 17.7 percent have reported that they have harmful effect of VAT, which might be for poor cash management. Firm-specific difference is here insignificant. Hence, the findings do not support the

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sixth research hypothesis *[$H6_A$: The VAT-payers have significant harmful effects on their cash flows due to the VAT collection and payment of VAT]* and the null hypothesis is accepted.

Table 10.43: Perception about Effect of VAT on Cash Flow

(Percentage of respondents)

Type of Respondent Firms	Effect upon the Business Cash Flow		
	Beneficial	Harmful	No Effect
Small Firms	13.9	16.7	63.9
Large Firms	12.9	16.1	61.3
Combined	**14.5**	**17.7**	**67.7**

Source: Database of the empirical survey.

At the concluding point, the respondents were requested to provide perception on the simplicity or complexity of the VAT on the basis of two statements. The findings have been shown in Table 10.44. The findings indicate that the substantial number of the respondents (46.3 percent of total respondents; 22.4 percent 'very pro' and 23.9 percent 'pro') think that "VAT is a simple method of collecting tax". Since on the other hand, only 30.1 percent of total respondents is in favour of stating the VAT as being unreasonably complicated (11.1 percent 'very pro' and 19.0 percent 'pro'), thereby to the respondents, VAT is largely thought to be a "simple tax system". However, the large firms mostly think that "As it stands, VAT is unreasonably complicated" in comparison to small firms.

Table 10.44: Service Provider's Attitude toward VAT

(Percentage of respondents)

Statements about VAT	Type of Respondent	Attitude toward VAT				
		Very Pro	Pro	Indifferent	Anti	Vary Anti
VAT is a simple method of collecting tax	Small Firms	22.2	25.0	25.0	19.4	2.8
	Large Firms	22.6	22.6	41.9	6.5	3.2
	Combined	**22.4**	**23.9**	**32.8**	**13.4**	**3.0**
As it stands, VAT is unreasonably complicated	Small Firms	8.3	22.2	44.4	16.7	2.8
	Large Firms	12.9	12.9	51.6	6.5	9.7
	Combined	**11.1**	**19.0**	**50.8**	**12.7**	**6.3**

Source: Database of the empirical survey.

Findings of Survey on Executives in Unregistered Entities Dealing with VAT

Based on the second questionnaire (Questionnaire-II), which represents few questions on some specific issues and perceptions on VAT contained in the first set of questionnaire and administered on the executives in unregistered entities dealing with VAT, the findings have been provided below.

Regarding the opinion on frequency of submission of VAT return, most of the executives thought that it should be 'monthly' or 'annually'. With respect to frequency of VAT payment, most of them thought that it should be monthly and the second preferred option was 'annually' (Table 10.45).

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Table 10.45: Frequency of Submission of Return and VAT Payment

Frequency of Submission of Return and VAT Payment	Percentage of Responses	
	of VAT Return	of VAT Payment
Monthly	40	40
Quarterly	10	20
Half-yearly	10	10
Annually	40	30
Total	**100**	**100**

Source: Database of the empirical survey.

According to their opinion, the problems faced by an entity in relation to VAT are as follows (as per priority):

- Interviews with VAT Officials were not satisfactory;
- Delay in response from the VAT office to queries raised;
- Frequent asking for submission of various documents;
- Input tax credit partially disallowed;
- Frequent asking for upward revision of price;
- Frequent visits of VAT persons cause business disturbance; and
- Tax computed was excessive.

The executives have opined that an entity experiences the following difficulties in relation to VAT (as per ranking):

- Difficulty in understanding the legal provision;
- Non-availability of updated version of law;
- Non-availability of updated SRO;
- Delay in getting refund;
- Extra unnecessary documents; and
- Discouraging computerized accounting.

The executives thought that following solutions might help an entity to redress their difficulties in relation to VAT:

- Responsive help desk in VAT office;
- Updated version of law in website;
- Updated SRO in website;
- Annual flat amount of tax;
- Monthly flat amount of tax;
- Allowing existing accounting system; and
- Three-month tax period in place of one month.

Regarding the effect of VAT on business cash flows, most of the executives (50 percent) thought that VAT has a beneficial effect; however, 30 percent think that VAT has a harmful effect on cash flow. Most of the executives (80 percent; 30 percent 'very pro' and 50 percent 'pro') thought that

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"VAT is simple method of collecting tax". However, 30 percent of the executives bore 'pro' attitude that "As it stands, VAT is unreasonably complicated".

Important Qualitative Remarks of the Respondent Service Providers

Extra Time and Effort: One hotel (S001.10) manager has mentioned that previously it had to give a lot of extra effort to pay VAT, but the present system (which follows "certain amount of monthly VAT, irrespective of turnover") is convenient. In some organizations, the VAT activities are dealt in by lawyer along with other legal matters. One pathological laboratory (S029.30) executive has stated, "VAT creates some costs, but it seems to us a duty and responsibility to give effort for VAT."

A grave situation has been found regarding decorators (S002.00). They do not think that VAT requires any extra effort. The situation can be described as follows:

> Out of 6 decorators visited, 4 are found subject to VAT registration, but only two are registered. They are not concerned about VAT. Firms registered for VAT are also not concerned about VAT. They do not know about the VAT Act or Rules. They only do the tasks which are asked by the VAT official. They are not concerned about SRO or other things. They do not maintain the books of accounts properly. So they are required to be made conscious about VAT. Proper promotion and control program should be taken to make them concerned about VAT.

Entity-specific VAT-related Problems: One sweetmeat store (S022.00) has mentioned the following unique problems:

> *"Frequent visits of VAT persons on the day of publishing public exam result cause business disturbance and also create an adverse image on reputation."*
> *"All types of people come to buy sweetmeat and sometimes they create problem in pressurizing not to add VAT with the bill."*
> *"No other country has VAT on the food items except ours."*

Another sweetmeat store (S022.00) has claimed that against VAT, they expect "security from local hooligan (*mastans*)".

Cinema halls (S023.10) have their own unique problem. One respondent [General Manager of a cinema hall] have mentioned the following issues:

> *At a huge cost, Government has forced us through regulation to install metallic detector and separate male and female checkers to check the film-viewers before their entry for security reasons. Whereas the Government has no initiative to encourage the viewers to come to the cinema hall, who are not interested to come to the hall for several reasons including the high price of the ticket due to supplementary duty and value added tax. Against the VAT collection, we are not obtaining any sort of benefit even the regular things such as supply of electricity and police security. On the other hand, sometimes the VAT officials harass us without proper reason and often beyond their area of action such as in the name of legality of exhibition of a film whether with or without proper permission from the Censor Board. We try to maintain a good understanding with the VAT officials by any means to avoid unnecessary harassment.*

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A number of respondents have complained about the procedure of payment of VAT in the following language:

- *Manner of payment of VAT is not easy;*
- *Long queue for depositing VAT;*
- *Inconvenient system of VAT payment and difficult procedure of depositing the VAT to the concerned bank; and*
- *Place of VAT deposit and submission of VAT return are different causing inconvenience.*

Specialist doctors (S044.00; taxable in 2007-08 and 2008-09) keep only the records of money received. They think "There should not be any such type tax to be collected from patients."

One partner of a Coaching Center (S068.00) has commented:

> *"Coaching centers think that there should not any VAT on them in a world where the competition is very tough in the education system and the rate of illiteracy is an acute problem in Bangladesh. Since the coaching centers are inevitable part for the students, they should be considered as social welfare service."*

One garage of motor vehicle and workshop (S003.10) has mentioned a good comment: "VAT creates a mutual cooperation between Government and the taxpayers."

A note on difficulty in perceiving the legal issues on VAT: The Indenting firm (S014.00) has been brought under the VAT-net since the beginning of the VAT system (if the threshold limit of exempting VAT registration exceeds; otherwise under turnover taxation). It was brought under the mandatory VAT registration irrespective of annual turnover on or from 06.06.2002, but the mandatory registration was withdrawn on 10.06.2004, when it was exempted under SRO 163-Ain/2004/409-Musak, dated 10.06.2004. "Indenting Firm" was exempted by SRO No. 163-Ain/2004/409-Musak, dated 10.06.2004. The Indenting Firm (S014.00) was also included in the list of services subject to withholding VAT from FY 1993-94 to FY 2007-08. The exemption from VAT on the indenting firms was continued up to FY 2008-09, under SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008. For FY 2009-10, the exemption has been proposed to be withdrawn by repealing SRO No. 188-Ain/2008/490-Musak, dated 29.06.2008 by SRO No. 104-Ain/2009/512-Musak, dated 11.06.2009. A truncated value base prescribed under SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009 on different services including the Indenting firm (S014.00). But on 18.06.2009, the Bangladesh Indenting Agents Association was claiming to withdraw VAT on indenting commission by repealing SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009 as follows:

> *We attract your[44] kind observation for the re-consideration of the aforesaid subject with a view to creating business friendly environment and humbly submit to remove the name of the "Indenting firm" from the SRO[45] concerned for creating opportunity in drawback of hard-earned foreign currency* (*The Prothom Alo*, 08.06.2009, p. 20).

[44] Of the Prime Minister and the Finance Minister.

[45] SRO No. 114-Ain/2009/522-Musak, dated 11.6.2009 (which was repealed by SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009).

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But their claimant should be to include the Indenting firm (S014.00) in the list of exempted services under SRO No. 104-Ain/2009/512-Musak, dated 11.06.2009 (thereafter under SRO No. 175-Ain/2009/528-Musak, dated 30.06.2009); otherwise they shall be taxable at standard rate of 15 percent, even if it is deleted from SRO No. 114-Ain/2009/522-Musak, dated 11.06.2009. Thus, the Bangladesh Indenting Agents Association is not clear about the legal provision under which their very specific individual service is taxable and what to be claimed to get the service outside the VAT-net.

10.12 An Endnote on Hypotheses Testing

All the hypotheses have been tested in this chapter (first hypothesis in section 10.04; second hypothesis in section 10.07; and other hypotheses in section 10.11). A summary of the results of the hypotheses testing is given below:

Sl.	Hypotheses	Test Result
1.	$H1_O$: There is no inflationary implication of VAT. $H1_A$: There does exist inflationary implications of VAT.	The null hypothesis cannot be rejected and the *research hypothesis* is not substantiated.
2.	$H2_O$: The VAT has no incremental contribution to the internal revenue generation in compared to other types of taxes. $H2_A$: The VAT has significant contribution to the internal revenue generation in compared to other types of taxes.	The research hypothesis holds good and the null hypothesis is rejected.
3.	$H3_O$: The problems experienced by the taxpayers in relation to VAT are not common and hence they are specific to individual taxpayer. $H3_A$: The problems experienced by the taxpayers in relation to VAT are mostly common.	The null hypothesis is rejected and the research hypothesis has been substantiated.
4.	$H4_O$: There is no difference between the various groups of respondents about the difficulties faced by them related to VAT. $H4_A$: There exists difference between the various groups of respondents about the difficulties faced by them related to VAT.	The null hypothesis is rejected and accordingly the research hypothesis has been substantiated.
5.	$H5_O$: There is no difference between the various groups of respondents about the solutions desired by them to remove the problems and difficulties related to VAT. $H5_A$: There exists difference between the various groups of respondents about the solutions desired by them to remove the problems and difficulties related to VAT.	The null hypothesis cannot be rejected and the research hypothesis has not been substantiated.
6.	$H6_O$: The VAT-payers have no harmful effect on their cash flows due to the VAT collection and payment of VAT. $H6_A$: The VAT-payers have significant harmful effects on their cash flows due to the VAT collection and payment of VAT.	The null hypothesis cannot be rejected and the research hypothesis does not hold good.

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Thus, the first, fifth and sixth research hypotheses cannot be accepted and other hypotheses (second, third and fourth hypotheses) have been substantiated. As a result, VAT had no inflationary impact and it has significant contribution to the internal revenue generation as a money machine. The problems in relation to VAT experienced by the small taxpayers and large taxpayers are mostly common. But the small taxpayers and large taxpayers have experienced different degree of difficulties relating to VAT, although they expect common type of solutions to remove the problems and difficulties related to VAT. And the VAT-payers have no harmful effect on their cash flows due to the VAT collection and payment of VAT.

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Annexed Data Tables:

Table A.10.1: Annual Tax-GDP and Revenue-GDP Ratios (in percentage)

Financial Year (FY)	Tax-GDP Ratio	Revenue-GDP Ratio	Financial Year (FY)	Tax-GDP Ratio	Revenue-GDP Ratio
1972-73	3.41	3.43	1991-92	6.61	8.21
1973-74	3.81	3.86	1992-93	7.38	9.03
1974-75	3.46	4.06	1993-94	7.18	9.15
1975-76	6.47	7.69	1994-95	7.45	9.24
1976-77	6.64	7.96	1995-96	7.32	9.26
1977-78	6.88	7.94	1996-97	7.44	9.22
1978-79	6.99	8.15	1997-98	7.39	8.79
1979-80	5.20	6.04	1998-99	7.17	8.56
1980-81	5.69	7.13	1999-2000	6.78	8.87
1981-82	5.47	6.48	2000-01	7.80	9.14
1982-83	5.23	6.05	2001-02	7.80	9.48
1983-84	4.84	5.70	2002-03	8.22	10.27
1984-85	5.28	6.36	2003-04	8.24	10.19
1985-86	5.22	6.45	2004-05	8.45	10.41
1986-87	5.31	6.44	2005-06	8.55	10.62
1987-88	5.53	6.50	2006-07	8.27	10.45
1988-89	5.44	6.48	2007-08	9.18	11.04
1989-90	5.70	6.69	2008-09 (RB)	9.03	11.25
1990-91	5.96	7.23	2009-10 (B)	9.31	11.57

Note: 'RB' means 'Revised Budget' and 'B' means 'Budget' originally given.

Source: Computation based on *Annual Report 2007-2008* of the NBR (NBR, 2009) and GOB (2009a; 2009b).

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introduce VAT (as a manufacturing-cum-import stage VAT at a single standard rate) came through "An Agenda for Tax Reform" (October 1989) proposed by a World Bank Mission within three years. But due to IMF Mission's accelerated pressure in the next year under the Extended Structural Adjustment Facility (ESAF) arrangement to make an announcement of the introduction of VAT from January 1991, the then Finance Minister made this announcement through his budget speech in June 1990. The responsibility of introduction of VAT then fall on the newly elected Government (started from 20 March 1991) and the then Cabinet approved the Value Added Tax Bill on 20 May 1991 with a decision to implement the tax from July 1, 1991. However, even under a democratic government regime, the statutory provision was made at a time when the Parliament was not in a session through promulgation of the Value Added Tax Ordinance 1991 on 31 May 1991 (published in the Official Gazette on 01 June 1991). The VAT administration and registration of taxpayers were made effective from 2 June 1991, but real implementation for compliance started from 1 July 1991. On the same day of placing the budget of 1991-92 (12 June 1991), the *Value Added Tax Rules 1991* was prescribed through Gazette notification. On the beginning day of the VAT implementation (01 July 1991), the *Value Added Tax Bill 1991* was placed in the Parliament and passed hastily on 09 July 1991. Although the Fund-Bank (IMF-World Bank) policy pressure might force Bangladesh to introduce VAT in Bangladesh, but the economic reasons behind this key fiscal reform were also noteworthy, which were: expanded tax base, simplified tax collection, fiscal transparency, removal of production-stage cascading taxation, consolidation of the tax administration, activating the overall economy through enhanced revenue mobilization, and consistency in the tax-GDP ratio. The initial furious reactions about a new tax from the business community were appeased gradually through the NBR's active publicity in favour of VAT and its series of continuing discussions made with leaders of all the industrial associations to tackle the situation.

At its commencement, VAT in Bangladesh was an import-cum-manufacturing VAT on taxable goods and its selective imposition on services. Allowing capital goods as input, it was made a VAT of consumption-type. From 1996-97, through bringing the trading stage under the ambit of VAT, it became the broad-base comprehensive tax covering the total production and distribution chain. Through zero-rating of export, the VAT in Bangladesh follows the destination principles and hence a domestic consumption tax. The VAT is usually computed using the *invoice-credit method*, which is also a *subtraction-indirect method*. But there are some special ad hoc methods allowed also: (i) *application of the VAT factor* on VAT-inclusive price where the VAT is not separately mentioned in the invoice; and (ii) *fixed-direct method*, for selective services, where the truncated base-value or tariff value or minimum annual value addition has been prescribed as a pre-fixed rate of value addition (without any allowance of input tax credit).

The legal taxpayers under the VAT system are the importers of taxable goods, manufacturer of taxable goods, and traders of taxable goods at trade stage and the providers of taxable services. However, the real taxpayers are the final consumers of vatable goods or services as it is a domestic consumption tax. But few consumers of vatable services are both legal and real taxpayers where withholding VAT is applicable, and the consumer entities are liable to deduct/collect VAT at sources.

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CHAPTER ELEVEN
SUMMARY, POLICY IMPLICATIONS AND CONCLUSION

11.1 Introduction

The value added tax (VAT) is such a modern tax, which was conceptualized in the USA only in the second decade of the twentieth century, first enacted in Japan after about four decades without any implementation, first experimented in 1953 for a period of about a decade and half in a rudimentary form at state-level in the USA in a different name in the likeness of a similarly pronounced acronym (BAT–business activities tax), and first introduced at national level following year (1954) by France. Now about three-fourth of the UN countries (141 member states out of total 192) have been following VAT as one of the most important fiscal instruments throughout the world. Bangladesh has adopted VAT at the time of its most violent global branding wave during the last decade of the twentieth century (1990-1999), when 75 countries (around 53 percent of the total VAT-adopting countries) have implemented this world wining tax. This chapter provides a summary of the overall findings of the study with a reflection on policy implications, followed by the scope for further researches in this area of financial and revenue importance for a nation.

11.2 A Summary of the Overall Findings of the Study

A brief summary of the overall findings of the study is given below.

Imposition of VAT in Bangladesh

The VAT is essentially a variant of sales tax (Due, 1970, pp. 186-189) and this tax has a long history in the Indian sub-continent. As stated in chapter 5, in the *Kautiliyam Arthasastram* (circa 321-300 B.C.), a tax similar to sales tax (*Klrpta* or fixed tax) was mentioned. After three years of the first introduction of sales tax in British India, it was introduced in Bengal in 1941 as a single point tax and continued in Pakistan regime as a provincial tax up to its replacement by a multi-point retail price-based central tax under the General Sales Tax Act of 1948. A new Sales Tax Act 1951 replaced this 1948 Act which was adopted in independent Bangladesh.

The Taxation Enquiry Commission (the *Final Report* given in April 1979) considered the VAT as an alternative possible fiscal instrument but it did not recommend the tax because time was not "ripe for the introduction of the VAT" due to "administrative difficulty" and unsatisfactory "standard of maintenance of accounts by the business community". The Sales Tax Act 1951, applicable at both import and local stages, was replaced by an import-stage sales tax under the Sales Tax Ordinance 1982. In the budget speech of 1982-83, the then Finance Minister mentioned the VAT as a "very much logical and progressive" tax but due to "extremely complex" administration, he proposed to introduce the *business turnover tax* under the *Business Turnover Tax Ordinance 1982* (with delayed introduction from October 1, 1983). The policy pressure to

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introduce VAT (as a manufacturing-cum-import stage VAT at a single standard rate) came through "An Agenda for Tax Reform" (October 1989) proposed by a World Bank Mission within three years. But due to IMF Mission's accelerated pressure in the next year under the Extended Structural Adjustment Facility (ESAF) arrangement to make an announcement of the introduction of VAT from January 1991, the then Finance Minister made this announcement through his budget speech in June 1990. The responsibility of introduction of VAT then fall on the newly elected Government (started from 20 March 1991) and the then Cabinet approved the Value Added Tax Bill on 20 May 1991 with a decision to implement the tax from July 1, 1991. However, even under a democratic government regime, the statutory provision was made at a time when the Parliament was not in a session through promulgation of the Value Added Tax Ordinance 1991 on 31 May 1991 (published in the Official Gazette on 01 June 1991). The VAT administration and registration of taxpayers were made effective from 2 June 1991, but real implementation for compliance started from 1 July 1991. On the same day of placing the budget of 1991-92 (12 June 1991), the *Value Added Tax Rules 1991* was prescribed through Gazette notification. On the beginning day of the VAT implementation (01 July 1991), the *Value Added Tax Bill 1991* was placed in the Parliament and passed hastily on 09 July 1991. Although the Fund-Bank (IMF-World Bank) policy pressure might force Bangladesh to introduce VAT in Bangladesh, but the economic reasons behind this key fiscal reform were also noteworthy, which were: expanded tax base, simplified tax collection, fiscal transparency, removal of production-stage cascading taxation, consolidation of the tax administration, activating the overall economy through enhanced revenue mobilization, and consistency in the tax-GDP ratio. The initial furious reactions about a new tax from the business community were appeased gradually through the NBR's active publicity in favour of VAT and its series of continuing discussions made with leaders of all the industrial associations to tackle the situation.

At its commencement, VAT in Bangladesh was an import-cum-manufacturing VAT on taxable goods and its selective imposition on services. Allowing capital goods as input, it was made a VAT of consumption-type. From 1996-97, through bringing the trading stage under the ambit of VAT, it became the broad-base comprehensive tax covering the total production and distribution chain. Through zero-rating of export, the VAT in Bangladesh follows the destination principles and hence a domestic consumption tax. The VAT is usually computed using the *invoice-credit method*, which is also a *subtraction-indirect method*. But there are some special ad hoc methods allowed also: (i) *application of the VAT factor* on VAT-inclusive price where the VAT is not separately mentioned in the invoice; and (ii) *fixed-direct method*, for selective services, where the truncated base-value or tariff value or minimum annual value addition has been prescribed as a pre-fixed rate of value addition (without any allowance of input tax credit).

The legal taxpayers under the VAT system are the importers of taxable goods, manufacturer of taxable goods, and traders of taxable goods at trade stage and the providers of taxable services. However, the real taxpayers are the final consumers of vatable goods or services as it is a domestic consumption tax. But few consumers of vatable services are both legal and real taxpayers where withholding VAT is applicable, and the consumer entities are liable to deduct/collect VAT at sources.

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The revenue recognition principle (revenue recognized when goods sold and delivered or services provided) in accounting does not work at all under the VAT system of Bangladesh. At import-stage, VAT and/or Advance Trade VAT are simultaneously collected with import duty. In case of taxable goods, the VAT is payable at the time of any of the four activities, whichever occurs first, viz., 'delivery of the goods', 'issuance of an invoice', 'use of the goods', and 'partial or full payment'. Similarly, in case of taxable services, VAT is payable at the time of any of the three activities, whichever occurs first, viz., 'rendering of the service', 'issuance of an invoice', and 'partial or full payment'. There is another system of collecting VAT, which is called the "stamp or banderole" procedure, under which VAT is equivalent to the value of the stamp or banderole used in the prescribed goods.

Under the Account Current system, VAT is collected by the Government through sufficient treasury deposit by the taxpayers prior to its formal incidence at any tax point. The renderer of a taxable service is supposed to pay VAT within ten working days of the month following the tax period (in the case of an insurance company within 20 working days). The VAT, as a source tax, is to be deposited by the concerned deducting entity within two months from the date of deduction.

Taxable events under the VAT Act are of three types – 'import of taxable goods in Bangladesh', 'supply of taxable goods' (*no place of supply mentioned*) and 'rendering of taxable services in Bangladesh'. The usual annual turnover threshold for VAT registration is now Taka 40 lakh in FY 2009-10 (Taka 5 lakh in 1991-92 and 1992-93, Taka 7.5 lakh in 1993-94, Taka 15 lakh in 1994-95 to 1998-99, Taka 20 lakh in 1999-2000 to 2007-08, and Taka 24 lakh in 2008-09). There is also mandatory VAT registration irrespective of annual turnover in selective cases. Otherwise, turnover tax enlistment is applicable. The exporters of taxable goods or services are also liable to get registered for VAT.

Under usual situations the tax rates for VAT are standard 15 percent and zero-rate for exporters, and the tax payable is the difference between the output tax and the input tax based on VAT invoices. This difference between output and input taxes [output value × tax rate – input value × tax rate] is equivalent to tax on 'value added' [(output value – input value) × tax rate]. As an alternative to this calculation, the truncated value additions (TVA) for selective services have been prescribed from the first year, where the standard VAT rate is applied on this TVA. To ease the calculation, from FY 2003-04, with the TVA and the net VAT rates (NVR) are also being given to apply directly on the turnover, which are now six in number (1.5, 2.25, 4.5, 5.0025, 9 and 15 percent). There are also NVR for local traders (1.5 percent) and Advance Trade VAT (ATV) for commercial importers (at NVR of 1.5 percent from October 1, 2004 to 2008-09; 2.25 percent from 2009-10). Thus from the practical context, VAT is affected by multiple tax rates, with seemingly a single uniform rate of 15 percent. Higher or lower tax rates can be identified with respect to other taxes imposed under the VAT Act—the *supplementary duty* (at 4-tier rates of 20, 30, 45 and 60, with special high tax rates of 100, 250 and 350 percent for goods, and 3-tier rates of 10, 25 and 35 percent for services in 2009-10) and the *turnover tax* (at 2 percent up to 1996-97; thereafter at 4 percent).

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Tax base for VAT varies with reference to stages in the distribution chain. For import-stage VAT, duty-paid assessable value (the *transaction value* or the PSI-*certified price*) is used as the tax-base. The usual production-stage tax base is the *consideration* of transaction (based on declared price), but it would be *sub-contract price* in case of contract-based production, or *retail price* or *tariff value* in prescribed products. For tender-based goods supplied, the tax base is the *tender value*, irrespective of the value at normal transactions or declared price. Trading-stage tax base for VAT is usually the *total price*, but it may be the *truncated value addition* or *lump sum value addition* in prescribed cases. Service-stage tax base is usually the *total receipts*, but it may be the *truncated value addition* or *tariff value* in case of prescribed services. The *trade discount* is also allowed maximum at *fifteen percent* of the actual price and only for maximum *thirty days* during any twelve-month period. The Base-Value Review Committee established by the NBR may review the tax base time to time.

Goods are statutorily exempted through enumeration in the First Schedule of the VAT Act and services are also similarly exempted through the Second Schedule. Besides the goods and services may be exempted by the Government and the NBR through Gazette notification (SRO) by the Government or through special order of the NBR.

Input tax credit can be taken by a supplier of taxable goods/services against output tax payable at supply stage of goods/services through recording in the 'credit' column of the account current subject to the substantiation by documentary evidence. In case of use of inputs in producing/supplying tax-exempted goods/services, the proportional input tax paid thereon is to be adjusted. In case of exports, tax credit is allowed with respect to VAT as well as other taxes including supplementary duty, import duty, excise duty and other taxes, but excluding advance income tax paid on the inputs used. However, there is a negative list for taking input tax credit in the law [section 9(1) and rule 19(6)], which is usually against the norm of the VAT system. Input tax paid on unused/unusable materials and that on goods manufactured damaged/destroyed in accident are not allowed as credit. However, under rule 16(2), the input tax on self-consumption is allowed as a credit subject to some conditions. Capital goods are usually treated as inputs and input tax credit is also allowed. However, a registered person can import or locally purchase capital machinery without payment of VAT by giving a bond in prescribed form for compliance of certain conditions (proper installation within six months or further extended three months from the date of import/purchase; and use for subsequent four years).

Management of VAT in Bangladesh

The enforcement of VAT is done through VAT registration for which the persons requiring mandatory registration or having annual turnover exceeding the threshold limit have to apply for VAT registration in prescribed form to a VAT office or to an official, not being below the rank of Assistant Commissioner. Normally the unit registration is given, but central registration is also allowed under special situation. Multiple registrations can be given for two or more places of business. Showing the VAT registration in a visible place is an obligation of the registered person

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In case of failure to get registration, a penalty of minimum five thousand taka to maximum twenty-five thousand taka might be imposed. In case of failure to get mandatory registration within one month after the receipt of an order from the VAT authority, his business premises may be closed. Alternative to VAT registration is the enlistment of cottage industry (applicable for limited cases under certain conditions) or enlistment of turnover tax.

Under the VAT laws, a VAT registered person usually has to maintain some statutory books of accounts including Purchase Account Book, Sales Account Book, Invoice Book, Account Current Book, Credit/Debit Note, and other commercial documents and to preserve these for at least four years following completion of the tax period to which these relate. In addition to manual accounting, there are options to maintain those through electronic cash register (ECR), or computer or any other electronic equipment. Furthermore, a VAT registered person has a good number of declarative obligations including declarations on input-output coefficient and value-base or value, price of goods/services, business premises, plant assets, outputs and inputs, change of place/condition of business, the information relating to export by post, price of waste and byproduct goods, etc. A turnover taxpayer has to give annual declaration relating to turnover and a deemed exporter has to give utilization declaration also. There is legal binding on issuance of invoice for each taxable transaction and this invoice may be of any of eleven prescribed types including a standard invoice, where VAT is to be mentioned separately or the price is to be written as VAT-inclusive price.

Every VAT registered person has to submit a VAT return in a prescribed form for each tax period within ten working days (twenty working days in case of insurance companies) of the month following the tax period. The tax period is usually one month, but in some specific situations it may be a 3-month or a 6-month period. The VAT return is to be submitted in the concerned VAT circle office, where the assessment of VAT is completed after a due process. Starting from 1993-94, the VAT is collected as withholding tax at a rate ranging from 1.5 percent to 15 percent applicable for prescribed services (20 in number in 2009-10) taken by Government, semi-government, autonomous bodies, NGOs, bank, insurance or limited companies.

As a self-assessing system, under the VAT system, the returns are prepared by the VAT registered persons themselves. Officially the Inspector in-charge of the concerned revenue area and the Superintendent of the local VAT office are jointly in charge of assessment, who are indemnified regarding any mistake/error in the assessment. At import-stage, there may be provisional assessment and subsequent final assessment.

Small firms are usually separately treated under VAT system for administrative ease and other practical reasons relating to compliance and incidence. There are various schemes of "small firm"–turnover tax enlistment (paying turnover tax at a reduced rate), cottage industry enlistment (without paying VAT or turnover tax) and various special schemes (non-registration, reduced tax liability, or exemption) for wholesale and retail traders.

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The exports of both goods and services (whether actual or deemed) are zero-rated under the VAT system to follow the destination principle and consequently, there will be zero output tax and all earlier stage input taxes (except advance income tax and in case of use of natural gas, supplementary duty paid thereon) are refunded as drawback, which is to be claimed within six months, from the date of export. There are special incentives for hundred percent exporters or exports by established exporters.

Taxation of Services under the Value Added Tax

Starting with 29 taxable services under 24 heading numbers, now the number of taxable services increases to 95 taxable services under 73 heading numbers in FY 2009-10 prescribed in a separate SRO. These services are expected to be mentioned as exception in the Second Schedule showing the exempted services, which is not the real situation. There a number of SROs for general and special exemptions for various taxable services. The service providers of small size based on the annual turnover below the threshold limit (Taka 40 lakh in FY 2009-10 and Taka 24 lakh in FY 2008-09) can be enlisted for turnover tax to pay turnover tax. But since 1999-2000, there is a provision for mandatory registration irrespective of annual turnover for selective services (in 2009-10, 61 services under 49 heading numbers). It is the case of services only, regarding which, the withholding VAT is applicable (27 services in 2009-10). But here, several overriding complications often arise, when there are simultaneous provisions in the VAT Act 1991 and in the Income Tax Ordinance 1984 for deduction or collection of tax at sources. At present, 11 services on which VDS (VAT deducted at source) is applicable, simultaneously TDS (tax deducted at source) is also applicable.

Statutory definition of 'input' includes "services" but due to exclusion, 'labour' is not considered a service and hence not an input. The providers of taxable services are not allowed to claim any credit of input VAT, if the service providers pay VAT based on truncated value addition and tariff value and also if the invoice taken on purchase of services contains other person's registration number in place of the buyer's number. Besides when any service is used as input, in some situations, the users of the service (including a service provider) are subject to full or partial disallowance of input tax credit relating to VAT paid on selective services. To claim input tax credit on any service, the cost of service is to be included in the declared price and proper invoice must be taken and maintained.

'Taxable service' is to be considered as "any service not included in the Second Schedule" of the VAT Act. But the usual distinction between goods and services are not maintained under the VAT system, because the NBR has an authority to declare any taxable goods or class of goods as taxable service and any taxable service as taxable goods; and it can provide clarification for the purpose of determining the extent of any taxable service. Under this authority, the vatable services are defined for practical purpose of imposition of VAT in a separate list. Due to inclusion of some production-related services in the statutory definition of 'producer or manufacturer' there are additional confusions regarding the identification of some service-activities. In many cases, the

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statutory definitions of specific services are directly related to dealing with the goods, but they have to be treated as services. In some cases, definitions are overlapping also and one provider may render multiple services. When the NBR gives further extended clarifications, there might be further complexities.

The common problems relating to service taxation (e.g., the intangibility of services causing absence of policing or possibility of either double taxation or no taxation, and inability to enjoy the input VAT deduction, and the special difficulty in defining the 'value added' in many cases) are equally applicable in Bangladesh, but they have been taken care mainly with ad hoc measures, particularly with the truncated base of value addition and also with the restrictive legal definition of an individual service.

Administrative Aspects of VAT in Bangladesh

The VAT administration centrally lies with the VAT Wing of the National Board of Revenue (NBR), which is under the overall indirect tax administration of the Government. The Customs and Excise Department of the NBR is for the overall VAT administration. Under section 20 of the VAT Act, the NBR appoints the 12 types of VAT officials with 13 specific designations. An *Assistant Commissioner of Customs & Excise* in the BCS (Customs & Excise) cadre joins as the VAT executive. Some posts at the rank of Assistant Commissioner may be filled in through promotion of those employees appointed as non-gazetted ones through the Bangladesh Public Service Commission (BPSC) or the NBR. The tax administration is highly affected by a significant number of vacant posts (around 28 percent of the overall sanctioned posts). The VAT related Customs, Excise and VAT Department has 7,585 sanctioned posts, against which 4,909 employees are working in the field level offices and thus about 35 percent of the sanctioned posts are vacant (as on June 30, 2008).

The NBR consists of the Chairman (the *ex-officio* Secretary of the Internal Resources Division) and eight Members. Under the leadership of the Chairman, members are in charge of five Wings (Administration, Customs, VAT, Income Tax, and Research and Statistics). Except the Chairman of the NBR and two members [Member (VAT), and Member (Customs and VAT Administration)], there are five First Secretaries and twelve Second Secretaries who are directly related to VAT administration and management. Besides under the supervision of the Member (VAT), there are 9 VAT related Branches headed by 4 First Secretaries, who are assisted by 9 Second Secretaries. Since 2008-09, the customs, excise and VAT administration consists of the following 23 administrative units (22 under the NBR and 1 under the IRD; 22 local and 1 foreign, of the local units 14 are related to revenue collection). There is a three-tire VAT administration in the field level: Commissionerate at top (headed by the Commissioner, VAT), then Divisional Office (headed by Deputy/Assistant Commissioner, VAT), and then Circle Office at root level (headed by Superintendent, VAT).

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Audit of VAT may be conducted a *regular audit* or *targeted audit* through *examinations*, *verifications*, and *in-depth audits*. The audit of VAT is conducted mainly by the Audit Teams formed in the Commissionerate Office. The Audit Unit in the Commissionerate Office is responsible for both *taxpayer audit* and *internal audit*. The *VAT Audit, Intelligence and Inspection Directorate* also performs special VAT audit but usually not on same unit in same year. In addition to VAT audit, there are provisions for several other enforcement actions including inspection, inquiry/investigation and search; supervised supply; seizure and forfeiture; imposition of restriction on removal of goods; summon and arrest; filing cases; imposition of penalty and prosecution; and steps for recovery of delinquent revenue. The penal provisions include both financial and nonfinancial penalties including prosecution.

For the taxpayers, there are provisions on appeal, revision and rectification for grievance-mitigation, but there is no specific provision regarding appeal to the High Court Division (HCD) or the Appellate Division (AD) of the Supreme Court. Rather there is categorical provision creating a bar on the jurisdiction of civil court. However, a writ petition can be filed in the High Court Division under sub-article (2) of Article 102 of the Constitution of Bangladesh when no other equally efficacious remedy is provided by the VAT law or when the question of law and interpretation of statute are involved. There are also a number of measures provided for the purpose of recovery of under-paid or under-imposed tax, including the deduction from money under the control of tax authority, recovery from the defaulter's money kept with other person, deduction from the defaulter's bank account and freezing the same, stopping the removal of goods/rendering of service, seizure of transport (with/without goods), keeping business premises under lock and key, attachment and sale or sale without attachment of movable/immovable property, etc. The taxpayers can claim the excessive VAT as a refund in prescribed treasury form within 6 months of the payment of the tax (except for due to cancellation of registration), which is to be disposed of within 90 days of the receipt of the application.

Helping the taxpayers by the tax authority is a recent phenomenon in Bangladesh. Opening a Service Desk at VAT Offices from 2004-05 and a Help Desk in the NBR Head Office from November 2007, and the publication of the *Citizens Charter* of the NBR – all are done to help the taxpayers and to create tax awareness. Establishment of the Large Taxpayers Unit (LTU), VAT in 2004 is a central initiative to take care of the big taxpayers. In the LTU-VAT, presently 166 large business entities are paying over 39 percent of total local stage taxes collected by the NBR.

Automation in tax offices was a neglected agenda during the pre-VAT regime. The major computerization was done through purchasing 16 computers and incidental materials in October 1991 under the ***Excise, Taxes & Customs (ETAC) Data Computerization Project*** (project duration from December 1989 to June 1999). All the important aspects of computerization (hardware, software, humanware, training, networking, and other logistics) were implemented under the project, but its continuing effect in terms of scale of upgrading and skill of users is not noteworthy. The VAT related important outputs of the project include the establishment of VIS (VAT Information System) Cell and VAT Registration Cell, and development of VIS software and the implementation of ASYCUDA at customs point since August 1994. In September 2009,

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the NBR has sought financing the technical assistance to simplify, streamline and automate a number of government-to-business (G2B) services. In the recent budget (2009-10), several proposals have been made for improvement of VAT administration (e.g., the creation of VAT Divisional Office in each district and necessary circle offices, creation of three new VAT Commissionerates at greater Dhaka and Chittagong, one Appeal Commissionerate, new VAT Survey Directorate, two Appellate benches, increase in manpower including the positions of Member under Customs and VAT Administration, logistics and transports for various field offices of Customs and VAT including the Airport). Another proposal has also been made to create separate ICT Wing of NBR along with an ICT Commissionerate towards building *Digital Bangladesh*.

Implications of Regulatory Changes on Value Added Taxation System

The regulatory framework of VAT statutes encompasses not only the Value Added Tax Act 1991 and the Value Added Tax Rules 1991, but also a number of things such as notification or SRO, order, circular, clarifications with file reference, letter of explanation; and verdicts of the VAT appellate authority and the High Court and Appellate Divisions. Changes in the VAT Act or VAT Rules and consequent budget-related circulars are usually made at annual interval, but SROs or Orders or letter of explanation might be issued at any time. The VAT law is extensively inter-linked with other related statutes particularly with the Customs Act along with reference of other 8 effective statutes (the Excise and Salt Act, the Income Tax Ordinance, the Gift Tax Act, the Narcotics Control Act, the Penal Code, the Code of Criminal Procedure, the Code of Civil Procedure, and the National Board of Revenue Order) and 4 repealed statutes. Starting with 73 sections, the VAT Act has now 82 sections after amendment by 18 annual finance Acts/Ordinances up to 2009. Initially the Value Added Tax Rules 1991 had 42 rules and now it has 51 rules after amendment by 37 SROs up to 30 June 2009. The Government/NBR has so far issued a total number of 525 SROs up to 30 June 2009 by using a systematic consecutive serial number from 1 to 535 with 10 missing unused numbers, with a total of effective 176 SROs on 30 June 2009. Under the nature of SROs, so far 11 special rules were prescribed, and of them, 8 are now effective.

Out of the frequent changes in the VAT Act, the significant amendments over the years include the provisions of tariff value (1992-93), withholding VAT (1993-94), outsourcing of external auditing professionals (1993-94), VAT refund system (1997-98), compulsory registration irrespective of annual turnover (1999-2000), and advance trade VAT (ATV) on commercial importers (since October 1, 2004).

Findings on the Assessment of the VAT System in Bangladesh

1. **Assessment on the Achievement of Objectives of Introducing Value Added Tax:** Eight reasons of introducing the VAT in Bangladesh have been assessed to determine the extent of their achievement. The basic objective of introducing VAT to avoid cascading taxation (removal/prohibition of the cascading effects of input taxation at different stages of production) has been tried to achieve through allowing input tax credit. But due to poor documentation and accounting system and consequent use of 'truncated value-bases' with

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the option of forgiving 'input tax credit' and also the proliferated negative list of situations for bar on input tax credit have created a limit on achieving this objective. The *second* and *third* objectives, i.e., the revenue objectives of VAT ('generation of more internal resources than that excise duties and sales tax used to provide', and 'introducing VAT as the main vehicle for resource mobilization') have been achieved overwhelmingly. The joint tax revenue from sales tax and excise duty was average 38.9 percent during the last five years before introducing VAT, whereas during the first five years, the individual tax collection from VAT was average 28.5 percent, the combined tax collection under the VAT laws (VAT, SD and TT) was average 39.8 percent and the combined tax from VAT, SD, TT and ED was average 44.2 percent. During 2006-07 to 2009-10, these ratios were respectively average 35.7 percent (for VAT only), average 51.7 percent (for VAT, SD and TT), and average 52.2 percent (for VAT, SD, TT and ED). Of the total indirect taxes, the average share of VAT revenue was around 38 percent during first five years; thereafter this share has been increasing consistently with recent average 51 percent share during 2006-07 to 2009-10. The very high increasing ratio of total VAT law taxes to total domestic stage trade taxes shows the negligible presence of other taxes outside the VAT statute (around 81.4 percent during first five year to around 98.6 percent during 2006-07 to 2009-10). This indicates the high potentiality of VAT to be the most important fiscal instrument in mobilizing internal resources. The *fourth* objective related to tax rate and degree of comprehensiveness (adopting a flat rate of taxation on a broader base, covering a wide range of goods excepting the primary agricultural products) has been maintained theoretically for single rate, but the comprehensiveness has been achieved through widened service sector taxation covering all stages of production and distribution chain, along with the myriad exemption lists. As an accounts-based taxation system, it was expected that the documentation would enhance the fiscal transparency and thereby the *fifth* objective of introducing VAT (bringing transparency in the taxation system) would be achieved. Failure to maintain the statutory books of accounts and other files and records is a punishable offence in the VAT laws subject to fines, or imprisonment or both. But weak enforcement, poor accounting culture, and multiple invoice options have caused the failure to achieve this objective. The *sixth* objective of introducing VAT (consolidating the tax administration) could not be achieved from the context of practical viewpoint. Due to objections from BCS (Customs and Excise) cadre public servants this could not be achieved. Although from 2007-08, there was an enactment of UTIN (Unified Taxpayer's Identification Number) in tax forms, but the NBR failed to implement its plan to introduce UTIN in that year on experimental basis in country's two existing large taxpayers units (LTUs). Even after taking a decision to merge its two main LTUs in February 2008, the NBR failed to implement it. Absence of coordination between income tax and indirect taxes and poor level of automation have also caused barrier in consolidation of the tax administration. The *seventh* objective of VAT (activating the overall economy by mobilizing more internal resources) has been achieved a lot. Starting with import and production stages, since 1996-97 the VAT-net has been expanded to wholesale and retail stages. The

Dhaka University Institutional Repository

inclusion of services under the VAT-net has become all-pervasive since FY 2000-01 with a list of services exempted from VAT (Second Schedule). Goods other than primary unprocessed agricultural products and food items listed in the First Schedule and few other goods and services exempted for special economic and social considerations are subject to VAT. Thus almost the whole economy has been fallen under the VAT-net and as a consumption tax, VAT is supposed to streamline the economic activities with corrective measures by applying supplementary duty (SD) on demerit or luxurious goods. By allowing the investment in machinery as an input cost, the VAT system is prone to increased investment. The high revenue performance of VAT has also contributed to achieve the *final* objective of its introduction (bringing the consistency in the tax-GDP ratio). In South Asia, Bangladesh has the lowest tax-GDP ratio. During 1972-73 to 1974-75 the tax-GDP ratio and the revenue-GDP ratio were very insignificant (only 3.56 and 3.88 percent respectively). Over the years these ratios have a fluctuating trend and only from the last half of the eighties, they have a consistent increasing trend with recent average at 8.93 and 11.05 percent respectively during 2005-06 to 2009-10. During the pre-VAT regime (1972-73 to 1990-91) the tax-GDP ratio and the revenue-GDP ratio were 5.50 and 6.56 percent respectively, but in the VAT regime (1991-92 to 2009-10), they have reached to 8.26 and 10.20 percent respectively. Thus the annual tax-GDP ratio of Bangladesh over the years has become much more consistent now and the credit is largely due to introduction of VAT. Thus, except the sixth objective, all other objectives have been achieved a lot through introduction and implementation of VAT.

2. **A Critical Appraisal of the Functioning of the VAT System:** The findings of the critical assessment of the structural array of basic issues of VAT system in Bangladesh show significant deviations from the idealistic version of VAT (applicable in the European Community), as follows: (a) ***Taxes:*** The VAT law is not only for a single tax VAT. If the whole gamut of the over-abundant legal materials is scanned, it is found that ***five*** types of taxes so far realized under the regulatory framework of VAT (the routine ***three*** taxes: VAT, SD and TT; and ***two*** other taxes: airline ticket tax over 1999-2000 to 2003-04 and excise duty since 2008-09). (b) ***Tax rate:*** The appropriateness of the claim that VAT is imposed at a uniform rate is also questionable. The standard rate of VAT is all along at 15 percent, with an added zero-rate for exports. But in the name of 'value addition', the net VAT rates are 6 in number (1.5, 2.25, 4.5, 5.0025, 9, and 15 percent) including the standard rate. For producers, who are liable to pay VAT on the basis of retail price, the effective tax rate is 17.25 percent in place of 15 percent, because it is applicable on 'tax-inclusive price'. (c) ***Taxpayers:*** Under VAT laws, the legal taxpayers include the importer of taxable goods at import-stage, supplier of taxable goods at production-stage, service-renderer of taxable services and supplier of taxable goods at trading stage. However, as a domestic consumption tax, the consumers or final buyers of the taxable goods and services are the "real taxpayers." Since 1993-94, when a provision of withholding VAT has been incorporated in the VAT Act, the recipients or consumers of those selective taxable services are both the legal and real taxpayers. In some cases, institutions purchasing taxable goods or services from an unregistered persons directly

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deposit the due VAT to the treasury to make themselves relieved from legal obligation of VAT payment. (d) ***Tax Period:*** The tax period is usually a month. But according to an SRO, the tax period may be a quarter or a half year for selective cases. For the small retail traders of taxable goods, paying *specific VAT*, the tax period may be one year or a month. Thus, regarding the tax period the couple of options include one month, one quarter, a half-year and a full year. (e) ***Tax Credit:*** The tax credit is the fundamental characteristic of the VAT system. Under standard procedure, a VAT registered person is allowed to take input tax credit. But over the years, there are so many restrictions created on allowance of input tax credit in terms of extensive areas of disallowance, extent of allowance (partial credit) or time limitation of taking the credit, that the beauty of the VAT system seems to be disappeared significantly. (f) ***Price Declaration:*** In Bangladesh, the VAT system is rarely based on actual transaction-based documents and hence it is usually against normal functioning of the market. There are as many as ten types of prices or values considered for imposition of VAT at different stages: **two** values/prices at import stage; **four** values/prices at production stage; **two** values/prices at trading stage; and **two** values/prices at service stage for the provision of taxable services. These include duty-paid *transaction value* or the PSI *certified price* at import-stage, the declared price, or *retail price* or *tariff value*, the *tender value*, the *total price*, the *truncated value addition* or *lump sum value addition*. Usually the declared price accepted by the VAT office is taken for imposition of VAT. The Review Committee under the Customs Act and the Base-Value Review Committee constituted under the VAT Rules can reevaluate the declared price and may recommend a different price. (g) ***Account Current System:*** Under the tax payment system followed in Bangladesh (*Account Current System*), before removal of any consignment of goods from the place of manufacture or production or business, the registered person is required to pay the tax through necessary adjustment in account current and for this purpose, there shall have to be sufficient balance in his account current. Thus, the tax payment system is an advance deposit system (and at the time of bank holiday, if the deposit decreases, even the ex-factory delivery might be halted). There is limited scope of adjustments in case of return or other contingencies, but the degree of compliance might force the registered person disinterested to take the scope. (h) ***Statutory Books of Account:*** The taxpaying entities are required to maintain and preserve several books of accounts (i.e., purchase account book, sales account book, account current book, and invoice book) in prescribed format, and the sole purpose is the VAT compliance. The frequent changes in the format, styles and contents also create a lot of problems in proper compliance. Only from FY 2003-04, a provision has been incorporated in the VAT laws to allow the maintenance of computer print copy of the statutory books. (i) ***Tax Invoice:*** Along with about a dozen types of prescribed invoices, the provision for issuing an invoice in triplicate by using double faced carbon seems to be irrational. Because the use of such folded carbon makes a physical barrier in using any mechanical device and depositing the second copy of the invoice to the local VAT office within five working days has made the system practically unfeasible. Recent provisions of the computer generated invoice subject to approval of the VAT authority (from 2002-03)

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and the use of invoice in own format by a registered person containing information of invoice in Form "Musak-11" along with any other additional information as desired by the registered person (from 2007-08) are expected to be implemented generously. The minimum four-year preservation of third copy of the invoices may create a physical barrier. There is another problem when the invoice does not contain the tax figure or does contain the figures but not at standard rate, the input tax credit system might be subject to instant disallowance. (j) ***Tax Refund:*** Initially there was no provision of refund system in Bangladesh. Only from 1997-98, the provision was enacted to allow refund of tax in case of payment or over-payment due to inadvertence, error or misinterpretation or any other acceptable reason. The observance of Treasury Rules (TR), through difficult process of obtaining the physical authentication of the receiving officer in the treasury, and application for refund in prescribed form "TR-31," which is not normally available are instances of some procedural rigidities. The time bar of six months from the date of the tax payment is also a constraint. (k) ***Withholding VAT:*** This is possibly the most distortionary application of the VAT system since 1993-94. The rates of deducting VAT at sources are on truncated value-base. Although the rates of deduction are prescribed and to be applied on VAT-exclusive amount, but the practice varies from organization to organization. Since the VAT deducted at source (VDS) is collected by the buyer or consumer entity, which may not be a registered person, the procedure is usually an unusual application also. In case simultaneous applicability of TDS (income tax deducted at source) and VDS, while applying the TDS, the deducting entities are collecting VDS also, for not to be penalized under the income tax laws and this also creates lot of complicacies.

3. **Price Effects of VAT:** The rates of inflation over the years during the VAT-regime have a fluctuating trend. But if the rate of inflation in 1991-92 (the first year of introduction of VAT) and that in 1996-97 (the year of extending the VAT-net to retail stage) are checked, the finding is to some extent astonishing. In 1991-92, the rate of inflation declined from preceding year's 8.3 percent to 4.6 percent only (around 45 percent decline) and in 1996-97, the rate of inflation declined from preceding year's 6.7 percent to 2.5 percent only. However, in 1994-95, 1997-98 and in 2007-08, the rate of inflation was much more alarming (8.9 percent, 8.7 percent and 9.9 percent respectively), whereas except for 1996-97, in 2000-01 and 2001-02, the rate of inflation was less than 3 percent (1.9 percent and 2.8 percent respectively). Thus, it is least likely impact of VAT on the general rate of inflation.

4. **Equity Aspect of VAT:** The regressive tax structure, for which the VAT is highly liable, tends to violate the principle of equity in taxation. The findings indicate that pervasiveness of the VAT beyond its imposition on the non-agricultural base and the consequent regressivity thereof. However, the exemption of VAT is also significantly expansive. The First Schedule and the Second Schedule have enumerated the general extensive lists of goods and services respectively outside the tax-net of VAT. Along with the numerous ad hoc lists of exemptions, the substantial shrinkage of the VAT network

Dhaka University Institutional Repository

can be stated as an attempt to make the VAT system to some extent equitable. Out of total 487 SROs so far prescribed up to 30 June 2009 for the purposes other than for issuing/amending the VAT Rules, 240 SROs (above 49 percent) are related to exemptions. There is also another aspect of introducing equity under the VAT system, which is related to effective reduced rate for selective taxable services.

5. **Efficiency Aspect of VAT:** From the administrative point of view, the tax collection in Bangladesh can be said to be efficient. The NBR is very careful about their targeted expenditures, which they spend only at an average around 87.5 percent of the budget. The collection efficiency was also noticeable. The average tax collection cost per Taka 100 of tax collected was only Taka 0.84 over 1993-94 to 1997-98; then it increased to a great extent to Tk. 1.50 during 1998-99 to 2002-03; and then again declined to some extent to Taka 1.31 during 2003-04 to 2007-08. The collection efficiency of VAT in terms of cost per Taka 100 of VAT revenue is very low. As a periodic average, the VAT collection cost per Taka 100 of revenue was Taka 0.60 over 1993-94 to 1997-98; then it increased to some extent to Tk. 0.77 during 1998-99 to 2002-03; and then again declined to some extent to Taka 0.54 during 2003-04 to 2007-08. However, from its initial standardized shape, the VAT in Bangladesh is now affected by the adoption of *ad hoc* measures (such as use of pre-declared price as tax-base, truncated value-bases and net rates for service sectors, over-reliance on SROs for exemption and other special rules, use of tariff value and retail price, etc.) and this has created some indiscriminate incongruity in the system.

6. **Contribution of VAT in the Tax Structure:** The elasticity and buoyancy of the VAT in Bangladesh indicate that the VAT is highly elastic and buoyant. The unadjusted results of these two measures show that during the initial periods, the VAT was nothing but a 'money machine'. Only during 1996-97 to 2000-01, it was least elastic even in comparison to the NBR taxes or total taxes and least buoyant in its position in comparison to other periods, but more strongly buoyant than the NBR taxes or total taxes. The elasticity indicator above 2 and the buoyancy statistic above 1 of the VAT over the seventeen years show unimaginable ability of the tax in raising revenue.

   There is always an annual increase of VAT over the preceding year and the rate of this escalation ranges from 5.7 percent (in 1997-98) to the maximum of 47.7 percent (in 1992-93, the second year after the introduction of VAT), which might be a jumping rate for newly expanded tax coverage. Another observation is that the rate of increase in case VAT is *usually higher* until the recent decline in border stage taxation (2008-09 and 2009-10). The compound growth rates of total VAT at local stage (20.09 percent for the whole VAT regime up to the budget period of 2009-10) or total VAT at both stages (15.38 percent for the VAT regime) or total taxes under the VAT laws (17.64 percent for the VAT regime) are also always higher than the same rate for the total taxes (12.32 percent for the VAT regime). The revenue raising behaviour of VAT as a "money machine" is also evidenced by the actual collection of VAT as a percent of (revised) budget. Over the 18 years (from 1991-92 to 2008-09), in 11 years (i.e., above 61 percent time) VAT has been collected above the target (from 100.1 percent in 2008-09 to

Dhaka University Institutional Repository

maximum 105.8 percent in 1994-95), with an overall average collection at 100.5 percent from 1991-92 to 2008-09.

The effectiveness of VAT in raising revenue has also been measured by calculating C-efficiency ratio and VAT revenue productivity (VRP). Although all the preceding indicators have shown that in the context of Bangladesh, the fiscal performance of VAT is tremendous. But these ratios show that Bangladesh has been successful to tap only a fraction of the potential. Starting with a 0.11 C-efficiency ratio and 0.10 VRP in 1991-92, the ratios have been improved gradually over the years (with slight exceptions) and in 2008-09 the ratios become 0.27 and 0.22 respectively. Thus Bangladesh is able to collect VAT from only 27 percent of the aggregate consumption expenditure. In comparison to other Asia-Pacific Countries, the performance of Bangladesh is the worst over 2001-2003 (the best performing country is New Zealand, which is collecting 98 percent, i.e., nearing the maximum, of its consumption expenditure). In terms of periodic weighted average of these ratios, over 1991-1995, the C-efficiency and revenue productivity ratios were 0.15 and 0.13 respectively, which were 0.18 and 0.15 respectively over 1995-2000; 0.22 and 0.18 respectively over 2000-2005; and 0.26 and 0.21 respectively over 2005-2009; with an overall weighted average of 0.22 and 0.18 respectively over 1991-92 to 2008-09. However, the pace of the C-efficiency ratio is more than that of the revenue productivity ratios. Numerous exemptions, pervasive ad hoc measures, weak or corrupt enforcement, poor tax culture and a host of similar measures have contributed towards this poor efficiency of VAT.

If the VAT collection according to stages is considered, up to 2004-05, it was dominated by the import-stage VAT (average around 52 percent from 2001-02 to 2004-05; and average around 47 percent from 2005-06 to 2007-08). Within local-stage VAT, the share of service-stage VAT has been increasing over the years (average around 19.8 percent of total VAT from 2001-02 to 2004-05; and average around 26.5 percent from 2005-06 to 2007-08). Trading-stage VAT has also been increasing over the years (average around 1.7 percent of total VAT from 2001-02 to 2004-05; and average around 4.5 percent from 2005-06 to 2007-08) and the provision of ATV (advance trade VAT) since October 2004 for commercial importer is the contributing factor (average 84.4 percent of trading VAT comes from ATV and it consists of around 3.8 percent of total VAT). Thus in 2007-08, around 73.1 percent of total VAT is collected on goods and the rest 26.9 percent from services; 48.1 percent of total VAT comes from import-stage collection; the merchandisers (wholesaler and retail traders) contribute only 4.8 percent of total VAT, whereas the manufacturers of goods contribute around 38.9 percent of local VAT.

If the number of legal VAT-payers or the VAT registered persons is considered, in 2007-08, about 20.2 percent of manufacturing-stage VAT collection has been achieved from 36,976 registered manufacturer (i.e., 6.2 percent of total VAT registered persons); 48.1 percent of import-stage VAT collection has been achieved from 101,587 (i.e., 16.9 percent of total VAT registered persons); 26.9 percent of service-stage VAT collection has been done from 317,829 service providers (i.e., 53.0 percent of total VAT registered

Dhaka University Institutional Repository

persons); 4.8 percent of trading stage VAT is collected from 214,695 wholesaler and retail traders (i.e., 35.8 percent of total VAT-payers). The current number of VAT registered persons (as on 30 June 2009) is 634,929 including 30,105 exporters (4.7 percent of total VAT registered persons), who are completely exempted from VAT through zero-rating. If the second year-end number of VAT registered persons (48,987 in total) is considered, up to 2008-09, the annualized average compound growth of these numbers is at about 17.4 percent, which is a significant average.

But within the list of goods yielding VAT at local stage, out of 115 items in the recent list, only 12 items contribute around three-fourth of local stage VAT from goods, and 34 items yield the most of the revenue (90 percent). The top-ranked goods yielding highest VAT include demerit goods like cigarette (rank 1) and *biri* (rank 5), also essential goods like medicines (rank 2), petroleum gas (rank 3), and some semi-luxury goods like cement (rank 4), soap (rank 6) and tea (rank 7).

But within the list of services yielding VAT at local stage, out of 69 items in the recent list, only 4 major types of services [(i) Telephone, Teleprinter, Telex, Fax or Internet Firm & SIM Card Supplier; (ii) Construction Firm; (iii) Electricity distribution; and (iv) Banking and Non-banking Services;] yield around 76.6 percent of VAT from service sector; and along with another two services [(1) Procurement Provider; and (2) Insurance Service], the extent of contribution is around 81.7 percent of service VAT.

7. **Outstanding, Recovery and Drawback of VAT:** If the outstanding VAT is checked, then a grave picture is found and the cumulative backlog has been increasing over the years creating the very poor efficacy of the enforcement ability of the VAT administration. For 2007-2008, total outstanding indirect taxes on 30 June 2008 were Tk. 31,213.8 million, of which the import-related outstanding taxes were at an amount of Tk. 2,278.4 million. Of the amount the combined outstanding taxes, VAT at both import and local stages was about Tk. 30 billion (or Tk. 29,910.6 million). The local stage VAT remains outstanding mainly due to different types of unsettled cases. Around 70 percent of local stage VAT has become pending for cases in the Supreme Court. The rate of recovery from the outstanding local VAT is very poor (average 7.4 percent of the last year-end outstanding over 1994-95 to 2005-06).

8. **Grievances of the Business Community and Inherent Distortions in the Present VAT System:** At its inception, most of the political parties, except the ruling party and their allies, publicly protested the introduction of VAT vehemently. Some factions of the business community and the tax lawyers also protested the introduction of VAT and they claimed its immediate withdrawal. Even most of the ruling party lawmakers opposed the introduction of the VAT system in a Parliamentary Party meeting. Amidst serious criticism and protests, VAT was termed as a *Very Anxious Taxation.* Absence of sufficient preparatory time and lack of awareness program might be the reasons of objections. The hasty and easy implementation of VAT in Bangladesh became

Dhaka University Institutional Repository

possible since the private sector was somewhat managed to show the best possible cooperation.

The business community have usually identified a number of common difficulties in relation to the VAT-payment, which have been also the source of their grievances on VAT, which include: (a) huge number of arithmetic calculations are needed just for the VAT system, (b) the complication for multiple stages of VAT due to numerous changes of hands in the wholesale stages before sales to final consumer, (c) the volume of invoices processed increased manifold for requirement by VAT law, (d) understanding VAT circulars/instructions is often difficult, (e) exemptions/adjustments allowed partially, (f) disallowance of obsolete/rejected goods, (g) disallowance of lower sales value of obsolete/rejected goods, (h) additional recording in VAT-related books, (i) existing accounting system/recording not allowed, (j) second hand schemes (e.g., doing VAT-work by using external people) taken often to handle VAT, (k) extra import paperwork/documentation regarding import or export, and (l) disagreement on tax liabilities. These difficulties are to some extent different at retail stage, where regional exemption was allowed in some earlier years and the allowance of input tax credit was almost absent due to pervasive use of truncated value addition for both goods and services. The recent mandatory introduction of 'electronic cash register' (ECR) of 'point of sales' (POS) software at stores in the supermarkets from 2008-09 has created additional problems for them, particularly burdensome investment and compliance costs for small retailers, possibly due to the cultural shock on the usual practice of sales without any documentation and the possible evasion-threats from both VAT-men and income tax authorities.

There are a number of inherent distortions within the present VAT system including: (a) *Cascading effect for tax on tax:* Although VAT is claimed to be a tax avoiding the cascading effect of sales tax, but in Bangladesh VAT is apparently not a 'tax on tax' only with respect to the VAT itself. Due to its expanded legal base including taxes other than VAT and advance income tax, it is essentially a tax on some other taxes, if applicable, such as customs duty, regulatory duty under the Customs Act and the supplementary duty under the VAT Act. Besides use of the truncated value-bases and other ad hoc measures to pay net VAT and a host of input tax credit disallowances might have some cascading effect for restricted shifting of the full tax burden on the final consumers. (b) *Complexities in the existing VAT system:* The 'sheer length' of tax code on VAT with its successively increasing volume over the years, use of non-uniform multiple net VAT rates for service providers and traders, allowing ad hoc drawback for exporters in place of input tax credit, and limited universality feature of VAT due to multiple statutory exemption schedules and numerous SROs on exemptions, are some the factors contributing towards the complexity of the tax system. The VAT in Bangladesh is not "simple enough for taxpayers to understand" due to genuine problems in perceiving the VAT laws for its intricate language with numerous alternatives and frequent changes and also for absence of any 'authentic English text' of the laws. The complexities are also a product of special

Dhaka University Institutional Repository

rules, which are often prescribed for a particular class of product or services with a frequent change therein along with overlapping problem. On the part of any entity providing differently coded services some of which is exempted or partially taxable might create complication for ascertaining the tax liability. (c) *Regulatory distortion and malpractice with respect to VAT deduction at source:* Withholding VAT is an unusual distortion in the VAT system of Bangladesh due to VAT deducted at source by unregistered person from the bill of registered person. The list of services subject to source-VAT often contains the tax-exempted services (e.g., inclusion of 'travel agency' from 1994-95 to 2002-03, when it was exempted), which is nothing but a regulatory distortion. There is also another complaint of malpractice regarding withholding VAT with respect to direct supply being treated as supply through procurement provider, where the direct supplier fails to get the credit of VAT deducted at sources (pharmaceutical industries are mostly affected by the provision). There is another slow response to amendments in other statutes (e.g., the Foreign Donations (Voluntary Activities) Regulation Rules 1978 and the Securities and Exchange Rules, 1987), where the term 'sales tax' has not yet amended and hence there is possibility of in-action regarding VAT in place of repealed 'sales tax'. (d) *Absence of definition of "deemed to be exported" in the VAT laws:* Up to 2008-09, there was no statutory definition of 'deemed to be exported,' which are subject to 'zero-rate' of VAT. In absence of the definition, the relevant rules [rules 31A, 32 and 32A up to 2008-09 and rule 31B from 2009-10] are subject to discretion of the VAT authority. In 2009-10, this problem has been solved to some extent by giving the statutory definitions of *"export"* and *"deemed to be exported"* in section 2 by the Finance Act 2009. (e) *Discrimination between locally produced and imported goods:* Since the foreign finished goods enter into local market by crossing single-stage border tax with different export incentives from the country of origin/export along with a lower incidence of ATV (advance trade VAT), they are more favoured than locally produced goods, which cross several tax-points such as import (for raw materials), one or more production stages, wholesale and retail stages, and hence subject more tax hassle and irritation. Besides, VAT shall be paid in advance at each stage of production and distribution, although there is genuine risk of 'no sale' or 'bad debt'. The situation becomes the worst due to almost obvious presence of smuggling without any taxation. (f) *Equal treatment for unequal traders [wholesalers and retail traders]:* Except for two years (1998-99 and 1999-2000), both the wholesalers and retailers of all taxable goods are treated equally under VAT system, which has facilitated the VAT administration from the identification problem. But in a highly competitive business condition at the wholesale stage, this might be an unfair treatment in comparison to retail trades. The general use of truncated value-base for payment of VAT without input tax credit also causes more incidence of VAT on wholesalers.

9. **Findings of the Case Studies:** Case study method was followed for understanding the practical aspect of VAT system in the corporate sector. Six companies' accounting and tax documents were minutely verified to perceive the fiscal practices in real world situation over some past years (usually a seven-year period). Except for one company,

Dhaka University Institutional Repository

which took erroneously the VAT registration being an exempted entity, other five companies have maintained VAT documents properly. The companies submitted VAT return monthly, but the interesting finding is that in many cases there is a significant difference between the sales reported in audited accounts and that in VAT returns, but the companies have defended themselves as a regular VAT-payer, without any irregularities. The excess sales as reported in the audited accounts were normally not taxable under different ad hoc VAT measures through SROs. There was once an unusual claim of export-related credit without any export and tax authority did not care. There was also some unusual under-reporting of purchases also causing lower claim of rebate, due to purchases from unregistered persons.

10. **Findings of the Empirical Survey:** The findings summarized here are based on an empirical survey on 38 taxable services provided by 67 VAT registered persons. The revenue raised from these 38 taxable services was around 56 percent of total service sector VAT in 2007-08, although they have been selected randomly from the list of all 86 taxable services. The sample respondent vatable entities have been taken from 18 Circles under 8 Divisions, which are further under 3 Commissionerates showing its wide coverage. The sample also represents 3 entities rendering one service, 10 entities rendering 10 services taking one from each service, and 54 entities rendering 27 services taking two from each service. These 67 entities represent 8 types of forms of entities including sole proprietorship, partnership firms, both private and public limited companies. Other attributes of the sample entities are: around 70.1 percent are subject to truncated value addition, about 23.9 percent are providing services, which are subject to VAT deducted at source (VDS); and around 79.1 percent are subject to mandatory VAT registration. Given some missing information in some cases, 227 employees are working on average in each of these sample entities, with a modal number of 35. The average capital, total assets and annual turnover of these entities are Tk. 33,797 lakh, Tk. 35,660 lakh and Tk. 508 lakh respectively. About 25.4 percent of the entities have experience of paying VAT over 10 years and similar number of entities are new also. Using the modal number of employees, 53.7 percent of total number of entities are identified as small (having employees up to 35 employees) and the remaining 46.3 percent are large (having employees above 35 employees).

Compliance of VAT: Out of 63 organizational respondents (excluding 4 individuals), 34.9 percent report that they do not show VAT registration in the office in a conspicuous place. Regarding the maintenance of statutory books of accounts, the compliance rate is not noteworthy (only 41.8 percent have reported that they maintain Purchase Account Book; 47.8 percent maintain Sales Account Book; 71.6 percent maintain Invoice Book; and only 26.9 percent maintain Account Current Book). Most of the respondents (78 percent) follow manual accounting and submits the VAT return monthly. Yet some follow POS software (10.4 percent), some (7.5 percent) follow the ECR and few (3.0 percent) also follow both manual system and the ECR. However, the frequency of submission of VAT return also includes quarterly submission (4.8 percent), half-yearly

Dhaka University Institutional Repository

submission (1.6 percent), annual submission (12.7 percent) and infrequent submission at the time of pressure by VAT officials (3.2 percent). Only 19.4 percent have reported that they submit some documents along with the return [Invoice only (11.9 percent), Account Current only (1.5 percent) and both Invoice and Account Current (6.0 percent)]. Only 18 respondents (26.9 percent of total respondents) have reported that they are liable to deduct VAT at source. In terms of VAT compliance time and costs, annual average time spent is 194 hours; whereas the annual average extra cost is around Tk. 394 thousand. However, 13.4 percent of respondents have reported that they have no extra effort or costs for VAT related activities.

Fiscal Performance: With respect to annual turnover, 28.4 percent of the respondent entities have reported that their annual turnover was less than Tk. 24 lakh (threshold for turnover tax) last year and they were registered due to the provision of mandatory registration (79.1 percent of the respondents fall in this category). About 25.4 percent of entities had very high turnover (above Tk. 104 lakh). Based on actual figure, last year's taxable turnover ranges from insignificant and unbelievable Tk. 4000 to maximum Tk. 6100 lakh, with an average of Tk. 513.5 lakh. Last year's VAT payment ranges from insignificant Tk. 600 to maximum Tk. 850 lakh, with an average of Tk. 43.9 lakh. Most of the entities (31.3 percent) are paying VAT per annum at an amount less than Tk. 1 lakh. About half of them are paying VAT within Tk. 5 lakh. However, a good number of entities (about 15 percent) are paying VAT at a handsome amount (at least Tk. 40 lakh). All the entities have reported that they have properly deposited the VAT to the treasury, although there is wide variation in doing so (53.7 percent monthly; 3.0 percent half-yearly; 9.0 percent annually; and 4.5 percent solely through withholding VAT). About 10.4 percent are paying taxes infrequently depending on the frequency and scale of enforcement. One entity gives the money for VAT to the VAT official, who deposits it. Around 26.9 percent of respondents have the obligations to deduct VAT at sources but 12 have deducted zero amount last year with an average of Tk. 25.3 lakh of VDS per entity (which is average Tk. 120.1 lakh per entity for the four entities doing VDS).

Problems Relating to VAT: The respondent entities face a number of problems with respect to VAT, although 28.4 percent of entities have reported to have no problems on VAT. Except the (no problems) responses, jointly the respondents have identified following 9 problems faced by them according to priority: (i) Delay in response from the VAT office to queries raised; (ii) Tax computed was excessive; (iii) Input tax credit totally disallowed; (iv) Interviews with VAT Officials were not satisfactory; (v) Frequent asking for submission of various documents; (vi) Frequent visits of VAT persons cause business disturbance; (vii) Frequent asking for upward revision of price; (viii) Input tax credit partially disallowed; and (ix) VAT officials' tendency of blackmailing. About 6.5 percent of large entities face a problem of "Pressure on gradual increase in VAT"; and around 2.8 percent of small entities face problem concerning "Behaviour of concerned VAT officials not satisfactory enough".

Dhaka University Institutional Repository

Difficulties Experienced vs. Expected Solutions: Both the small and large entities have experienced the following common difficulties with respect to VAT management: (i) Difficulty in understanding the legal provision; (ii) Non-availability of updated version of law; (iii) Extra unnecessary documents; (iv) Non-availability of updated SRO (Statutory Rules and Order); (v) Delay in getting refund; (vi) Discouraging computerized accounting; and (vii) Financial hardship. However, two problems uniquely related to small entities only: (1) Giving bribe to the VAT officials; and (2) Refuse to make refund. Statistical measurements show that hence the small and large firms experience different difficulties from their own perspectives.

Regarding the solutions to solve those difficulties, both groups of entities have desired the following common solutions for mitigating their difficulties with respect to VAT management: (i) Responsive help desk in VAT office; (ii) Updated version of law in website; (iii) Updated SRO in website; (iv) Annual flat amount of tax; (v) three-month tax period in place of one month; (vi) Allowing existing accounting system; and (vii) Monthly flat amount of tax. However, three other solutions are uniquely desired by small entities only: (1) Amount of tax should be reduced; (2) VAT rate should be around 5 to 10 percent; and (3) Procedure of VAT payment should be made easier. The expected solutions indicate the bearing of the tax burden as being higher in case of small firms, might be with respect to compliance costs and least ability to pass the tax burden onto their clients. Statistically the small and large entities are on same footing with respect to the desired solutions with few exceptions.

Perception about the Effect of VAT on Cash Flow: Since the respondents are service providing entities, they should have beneficial cash flow effect (payment of VAT legally delayed without any penalty) or no effect (payment as early as possible or through VAT deducted at source). But those which follow Account Current method (VAT deposited first before any movement of goods and sales might be after a substantial gap after ex-factory delivery to sales center) would have negative impact on cash flow. Findings show that most of the respondents (67.7 percent) have no effect of VAT on their cash flow; 14.5 percent have beneficial effect and 17.7 percent have harmful effect of VAT, which might be for poor cash management. A substantial number of the respondents (46.3 percent) think that "VAT is a simple method of collecting tax". But this view is expressed largely by small firms. However, most of the large firms think that "As it stands, VAT is unreasonably complicated" in comparison to small firms.

Findings of the survey on executives in unregistered entities dealing with VAT: Most of the executives in unregistered entities dealing with VAT thought that it should be 'monthly' or 'annually'. With respect to frequency of VAT payment, most of them think it should be monthly and the second preferred option is 'annually'. The problems faced by an entity in relation to VAT have been identified as follows (as per priority): (i) Interviews with VAT Officials were not satisfactory; (ii) Delay in response from the VAT office to queries raised; (iii) Frequent asking for submission of various documents; (iv) Input tax credit partially disallowed; (v) Frequent asking for upward revision of price; (vi)

Dhaka University Institutional Repository

Frequent visits of VAT persons cause business disturbance; and (vii) Tax computed was excessive.

According to opinion of the executives, an entity experiences the following difficulties in relation to VAT (as per ranking): (a) Difficulty in understanding the legal provision; (b) Non-availability of updated version of law; (c) Non-availability of updated SRO; (d) Delay in getting refund; (e) Extra unnecessary documents; and (f) Discouraging computerized accounting. The executives think that following solutions might help an entity to redress their difficulties in relation to VAT: (a) Responsive help desk in VAT office; (b) Updated version of law in website; (c) Updated SRO in website; (d) Annual flat amount of tax; (e) Monthly flat amount of tax; (f) Allowing existing accounting system; and (g) Three-month tax period in place of one month. Regarding the effect of VAT on business cash flows, most of the executives (80 percent) think that "VAT is simple method of collecting tax". However, 30 percent of them bear 'pro' attitude that "As it stands, VAT is unreasonably complicated".

A Reflection on Some Qualitative Remarks of the Respondent Service Providers: Sweetmeat stores (S022.00) have mentioned some unique problems: (i) frequent visits of VAT persons on the day of selling spree (e.g., sales of sweetmeat on the day publishing public exam result) cause business disturbance and also create an adverse image on reputation; (ii) some customers' creation of pressure not to add VAT with the bill. Some of them expect "security from local hooligan (mastans)" against the payment of VAT. Cinema halls (S023.10) have their own unique problem with respect to decreasing presence of viewers: on the one hand, forced security measures versus no initiative on Government part to encourage the viewers to come to the cinema hall, on the other hand, the high price of the ticket due to supplementary duty and value added tax. A number of respondents have complained about the procedure of payment of VAT (uneasy manner of payment of VAT; long queue for and difficult procedure of depositing VAT; place of VAT deposit and submission of VAT return are different causing inconvenience). Coaching centers (S068.00) think that their services should be considered as social welfare service since they are contributing towards education and hence there should not be any VAT on them. One garage of motor vehicle and workshop (S003.10) has mentioned a good comment: "VAT creates a mutual cooperation between Government and the taxpayers."

11. **Results of Hypotheses Testing:** All the six hypotheses tested are not fully accepted or rejected. Since the *first* research hypothesis *[$H1_A$: There does exist inflationary implications of VAT]* cannot be substantiated, VAT had no inflationary impact. *Second* research hypothesis *[$H2_A$: The VAT has significant contribution to the internal revenue generation in compared to other types of taxes]* and *third* research hypothesis *[$H3_A$: The problems experienced by the taxpayers in relation to VAT are mostly common]* have not been rejected. Thus the VAT has significant contribution to the internal revenue generation as a money machine. The *fourth* research hypothesis *[$H4_A$:* There exists difference between the various groups of respondents about the difficulties faced by them

Dhaka University Institutional Repository

related to VAT] has been substantiated. The *fifth* research hypothesis *[$H5_A$: There exists difference between the various groups of respondents about the solutions desired by them to remove the problems and difficulties related to VAT] has not been substantiated. Thus, the small taxpayers and large taxpayers have experienced different degree of difficulties in relation to VAT, but they expect common type of solutions. The *sixth* research hypothesis *[$H6_A$: The VAT-payers have significant harmful effects on their cash flows due to the VAT collection and payment of VAT]* cannot be sufficiently substantiated.

11.3 Policy Implications of the Study

The findings of the study indicate that VAT has been identified as the most important fiscal instrument in the hand of the Government of Bangladesh and it has been working as a money machine yet with huge untapped potential (covering only 27 percent of consumption). The policy implications arising from the findings of the study are enumerated in the form of following recommendations.

(1) To improve the voluntary compliance of the taxpayers, the updated version of the VAT-related legal materials can be made readily available in the websites and if the web-based answering to queries of the taxpayers can be made effective, that might be a good initiative to enhance the understandability of the intricate legal issues. However, the help desk staffed by competent and experienced executives can solve most of the routine and frequent queries of the taxpayers and if specific problem arises, the VAT Policy and Budget Branch may come forward to give authoritative explanation to any legal query documented in such a way that can be used as evidence.

(2) The complexities of a tax law might be for other reasons. In this regard the experienced comment by the expatriate Managing Director of a multinational company can be noted: "I regularly travel around 170 countries of the world, but I have found Bangladesh as the country having the most complicated income tax and value added tax laws due to the scope of contingent tax liability of significant amount. After preparation of the income tax return by in-house professionals, the return is checked by at least two independent external groups of tax professionals, still after three years we find huge contingent income tax liability arising on completion of the assessment by the concerned Assessment Officers. This creates a vicious spiral: contingent tax liability–less investment–less employment–less income tax."[1] This type of complexity can only be solved with satisfactory quick assessment in a transparent and interactive way. Online submission of return with auto-checking system might be another way of reducing hassle.

[1] Mr. J. D. Hearns, the Managing Director of Bata Shoe Company (Bangladesh) Limited, made this comment in the inaugural speech of a day-long "Training on Corporate and Individual Tax" organised by Bata Shoe Company (Bangladesh) Limited, Tongi, for the company's Finance & Administration team held on March 05, 2009. The statement is noted by the researcher who was present as a resource person in the program. According to Mr. Hearns, the barriers in foreign direct investment (FDI) in Bangladesh can be ranked as follows: (1) lack of good governance, (2) problem with power supply, (3) contingent income tax and VAT liability, (4) infrastructural problem, (5) difficulty in repatriating profit, and (6) corruption.

Dhaka University Institutional Repository

(3) There must have some coordination between the two Departments (Taxes Department for direct taxes and Customs and Excise Department for indirect taxes) of the NBR at least for the sake of reducing the compliance burden of the taxpayers or sometimes to restrict them not to obtain any benefit of differential treatments devoid of minimum counter-checking (except in special situations investigated by the Central Intelligence Cell of the NBR). Usually the Taxes Department's annual sales are much higher than that accepted by the Customs and Excise Department due to the difference in revenue recognition in accounting and the same under the VAT laws. Thus the unsuccessful initiatives taken in 2007-2008 for implementing UTIN (Unified Taxpayer's Identification Number) and also another unimplemented policy decision to merge the two LTUs from 2008-09 should be quickly materialized. Dispersed tax offices in rented buildings usually located in a cul-de-sac due to bar on maximum monthly rent are often not known to nearby other tax offices and hence needs unification. There needs another unification of venues for submission of tax returns (in tax offices) and payment of taxes (in Bangladesh Bank or treasury branches of Sonali Bank). The taxpayers should have the opportunity to use one place for settling all tax related obligations. Once an unsuccessful effort was taken to establish a Tax Building for this purpose and now it is more urging to have the Government tax offices in its owned house with a one-stop system, because of making everything digital, the infrastructure should not in a rented building.

(4) To avoid erroneous or hasty irrational amendments in the VAT statutes, the VAT Policy and Budget Branch of the NBR should be strengthened with dedicated qualified and experienced personnel having strong knack and perseverance in learning the intricate structure and legal linguistics and these officials should not be transferred other than for training purpose. They should be trained to understand the philosophical and revenue implications of any change in the law. The IMF's recommendation of hiring tax officers having background in the fields of law, economics, finance, bookkeeping, and accounting through giving the NBR an opportunity to preselect candidates for positions within its ranks and in the tax offices (van der Heeden, Brondolo and Firestone, 1994, p. 23) should also be implemented to recruit competent VAT executives.

(5) Because of the status of a recommending body, the appointment of Tax Ombudsman since 09 July 2006 has not been working as an alternative to appeals and litigations to redress the tax-related grievances. Empowering the tax ombudsman with the powers of High Court Division to adjudicate revenue disputes between the revenue office and the taxpayers might be a better option to make the office of the Tax Ombudsman effective. Otherwise, the proposals of the Tax Ombudsman to change three tax statutes (the Customs Act 1969, the Income Tax Ordinance 1984 and the VAT Act 1991) to incorporate provision "Implementation of the recommendation of the Tax Ombudsman" should be made immediately. In the Value Added Tax Act 1991, new section 60A has been proposed to be incorporated as such: "**60A. Implementation of the recommendation of Tax Ombudsman:-** Notwithstanding anything contained in this

Dhaka University Institutional Repository

Act any recommendation received from the Tax Ombudsman under the Tax Ombudsman Act 2005 (Act No. 19 of 2005) shall be deemed to be a decision taken under this Act and steps shall be taken to implement the recommendation." (Source: *The Annual Report 2007* of the Office of the Tax Ombudsman, pp. 89-91; *vide* www.taxombudsman.org.bd; accessed 30.10.2009). The proposed amendment in the VAT Act should be done as soon as possible.

(6) Sometimes the proposed new tax provision is so pervasive and disturbing (e.g., imposition of VAT on banking services, specialist doctors, educational institutions) or impossible to implement (such as withholding VAT from banks), that this might be seemed to be a hasty policy change without any well-thought or researched background working. To counterbalance this type of ad hoc policy process, the measures of some other countries (such as the requirement in the UK for its officials to produce compliance cost assessments for all regulations affecting business, including tax regulations; the requirement in the Netherlands for qualitative compliance cost assessments for changes in tax legislation; similar provisions followed in both New Zealand and Australia; requirement for the Joint Committee on Taxation in the USA to provide an analysis of complexity or administrability concerns raised by proposed new tax provisions including an estimate of the compliance cost to taxpayers; *vide* Slemrod and Bakija, 2000, p. 146) can be followed. This will make the proposed changes in the fiscal statutes meaningful and less burdensome.

(7) Numerous options with barriers on using electronic equipment for accounting purpose should be withdrawn and standard practice of accounting in organized sector (often supplemented with software in an information-technology environment). Where accounting practice is absent or unacceptable, only in those cases, the books of accounts might be prescribed and enforced. The VAT-men should have accounting background along with extensive continuing training on accounting and auditing so that real objective of a transparent neutral tax can be implemented through VAT with little distortion across the chain of production and distribution. Submission of return should be freed from attachment of extra unnecessary documents except the proof of tax deposit. Substantiation should be done through VAT audit. The monthly tax period should be made quarterly at least for service providers. Annual *flat tax*[2] is also a serious demand to ease the payment system, but that may undermine the economic objectives of VAT.

[2] On December 10, 1981, Robert Hall and Alvin Rabushka first published on the editorial page of the *Wall Street Journal* their proposal to replace the federal income tax with a low, simple, flat tax. The article, titled "A Proposal to Simplify Our Tax System," displayed the iconic postcard that became the symbol of the flat tax. Their system was so simple that an individual or business could file a federal income tax return on a postcard-sized form. Under the flat tax, all income would be taxed once and only once, at a uniform low rate of 19 percent (Hall and Rabushka, 2007, pp. vii-xiv). As stated by McCaffery (2002), a flat tax sounds attractive because of its rate structure. "Simpler, flatter, fairer" is the mantra of the flat-tax crowd. However, McCaffery (2002) has raised the question whether *flat* really means "simple" or "fair". There is, however, little doubt that Americans don't like high tax rates, and *flat* sounds low (McCaffery, 2002, p. 51). McCaffery (2002) has proposed a *Fair Not Flat Tax*, which is a consistent, progressive, postpaid consumption, or spending, tax. Such a general type of tax can take several different practical forms, but his preferred version combines a national sales tax or VAT with a supplemental personal consumption tax for high-end spenders (McCaffery, 2002, p. 162).

Dhaka University Institutional Repository

(8) Under Account Current method, now the VAT is collected in advance before sale. This method should be changed to install a system of immediate collection of VAT and deposit thereof in a convenient way.

(9) All ad hoc measures working against the market mechanism (price declaration, use of tariff value, truncated value addition, etc.) should be withdrawn to enforce only the standard VAT system of input tax credit mechanism. The beginning burden of starting accounting practice can be eased through special monitoring and encouraging use of electronic equipment (the POS software should be encouraged instead of the ECR) with some initial special incentive on procurement of the equipment. An 'authentic English text' of the laws with regular updating should be initiated immediately. The provision of special rules should be reduced to a minimum and the prescription of these special rules, if any required, should be done at the time of budget and not thereafter.

(10) The hitching of a tax with mass people cannot be desirable if it is on sensitive good or service. In the name of protecting constitutional right of the citizens, sometimes a 'public interest litigation' (PIL) through a writ petition might be filed to the High Court Division. On July 14, 2009, the High Court declared illegal the imposition of VAT on citizens for providing health services to patients. It also declared illegal and unconstitutional[3] the provisions of VAT Act 1991 for realising VAT from patients for making any prescriptions or doing pathological tests for treatments. The NBR has planned to file an appeal with the Supreme Court against the High Court verdict (*The Daily Star*, 28.10.2900). The Standing Committee relating to Ministry of Post and Telecommunications has recently (on 29 April 2009) proposed to withdraw tax on mobile SIM in the interest of people of all stages, because of its large-scale use by ordinary people (*The Prothom Alo*, 30.04.2009, p. 19). This type of public sensitivity or public interest should be considered judiciously. Although the supplementary duty is imposed on such goods and services other than "luxury goods, non-essential and socially undesirable goods" on which imposition of SD is justified in the public interest.

(11) When India introduced a central 'service tax' with effect from July 1, 1994, it was imposed initially on three taxable services: telephone, stockbroking, and non-life insurance (Parthasarathy and Agarwal, 1999, p. 11). Out of these services, two services (except stockbroking) have bee covered in Bangladesh. Stockbroking is excluded "Provider of Banking & Non-Banking Services (S056.00)" keeping the taxable limit for services provided in exchange of "commission, fee or charge". The financial services (excluding insurance) have a contribution to GDP of 1.29 percent and having the growth

[3] Part II of the Constitution is on "Fundamental Principles of State Policy" [Article 8 to Article 25]. Under Article 16 (Rural development and agricultural revolution), the State shall adopt effective measures to bring about a radical transformation in the rural areas through the promotion of an agricultural revolution, the provision of rural electrification, the development of cottage and other industries, and the improvement of education, communications and **public health**, in those areas, so as progressively to remove the disparity in the standards of living between the urban and the rural areas. Under sub-article (1) of Article 18 (**Public health** and morality), the State shall regard the raising of the level of nutrition and the improvement of **public health** as among its primary duties, and in particular shall adopt effective measures to prevent the consumption, except for medical purposes or for such other purposes as may be prescribed by law, of alcoholic and other intoxicating drinks and of drugs which are injurious to health (GOB, 2008a).

Dhaka University Institutional Repository

rate of 12.89 percent (in FY 2008-09; *vide* data *Bangladesh Economic Review 2009*),[4] but this sector is largely kept outside the scope of VAT. Although taxation in this sector is very critical for several reasons (difficulty in calculation of value added, very large number of financial transactions causing instant imposition of VAT on consumers of services at the time of taking the services almost difficult, etc.), yet this is a potential area to widen the scope of VAT. However, the VAT might be introduced on 'stockbroking' where income tax has already been in force as a source-tax.[5]

(12) According to the findings of the study, the small entities have desired that VAT rate should be around 5 to 10 percent. The highest standard rate of VAT (25 percent) is levied in Côte d'Ivoire and Niger and the lower rates of 5 percent in Panama, 6 percent in Dominican Republic and Ecuador, 7 percent in Canada (in the name of GST – goods and services tax) and Guatemala, 10 percent in Korea, 12.5 percent in New Zealand (in the name of GST) and Pakistan (as on 01 January 1991). There are also multiple rates of VAT in addition to zero-rate (Tait, 1988, pp. 40-41). Thus, the standard rate of VAT in Bangladesh is no doubt a higher rate in compared to international practice. But in most of the countries adopting VAT, the initial VAT rate has subsequently been enhanced (e.g., from 10 percent to 15 percent in the UK, from 10 percent to 12.5 percent in New Zealand, from 7 percent to 10 percent in Haiti). In very few cases, there is instance of reducing the VAT rate (e.g., from 20 percent to 18 percent in Peru and Chile). Thus if the adjustment of VAT rate is considered, it may be reduced to 5 to 10 percent for small firms based on a threshold limit to introduce some progressivity in the taxation system.

11.4 Scope of Further Study

As an academic research based on empirical data has its own limitation of database, which is not readily accessible in general. The extensive and intensive coverage of the present study is still affected by its inability to incorporate all the divergent groups of taxpayers (both legal and real) and the tax collectors including the policymakers. There are a number of areas where further study can help in extending and refining the findings of the present study with more insightful and comprehensive coverage.

(a) It is a general concern on the part of the final consumers that they are paying VAT properly to the sellers of goods and services, but they are doubtful whether the sellers are depositing the VAT collected to the Treasury. This needs a further research to identify the defaulter taxpayer acting against the legal provisions and making money out of tax collected by them but paying a part of it.

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[4] According to provisional estimation, the financial services (including insurance) have a contribution to GDP of 1.65 percent and having the GDP growth rate of 13.71 percent (in 2008-09; *vide* data *Bangladesh Economic Review 2009*).

[5] From financial year 2005-06, the Chief Executive Officer of a stock exchange shall collect income tax at the rate of 0.025% (up to FY 2008-09 at 0.015%) on the value of shares, debentures, mutual funds, bonds or securities transacted by a member of a stock exchange at the time of payment for such transaction under section 53BBB of the Income Tax Ordinance 1984 (Adhikary, 2009a, p. 144).

Dhaka University Institutional Repository

(b) The compliance cost of VAT is an important issue which causes extra burden on the taxpayers as well as on the public revenue. A rigorous study can only ascertain its scale and intensity with monetary measurement.

(c) The level of understandability of the VAT system and its intricate legal framework, if measured from the perspectives of the taxpayers and the tax authorities, can help in identifying the area of fine-tuning the system. Since the BCS (Customs & Excise) is a general cadre, which requires no prescribed pre-entry academic background, a further study on this area is needed to identify the sources of complexities and the ways and means for simplification.

(d) A study on the impact of automation on the tax authorities and taxpayers for virtual VAT management is of urgent need to facilitate the government agenda of digital Bangladesh.

(e) A further in-depth study based on a comprehensive input-output analysis can facilitate the barriers in full implementation of the ideal VAT system to make it full domestic consumption tax with no loss of VAT at any stage of the production and distribution chain, ensuring the Government objectives of implementation of a neutral progressive tax with appropriate revenue expectation. For this purpose, identification of goods and services consumed by citizens at different strata of income is essential for allowing exemption for goods and services consumed by the poor or applying enhanced tax incidence on those goods and services consumed by the rich.

11.5 Conclusion

A very good conclusive opinion on VAT is given by Keen (2007a), "If it functions as it should, any VAT is indeed simply a uniform tax on final consumption ... But a less than perfectly functioning VAT is an analytical mess, with particularities of production relationships and compliance behavior immediately becoming key" (Keen, 2007a, p. 18). Bangladesh has followed enormous recurring ad hoc policy measures under the VAT system and consequently the 'compliance bahaviour' is unavoidably unpredictable and the business community finds it as a business-unfriendly tax responding through persistent tweaking to the changes. The VAT has been the most important fiscal instrument in the country and with the desired implementation of the policy recommendations, it is expected that the tax is to be simpler to comprehend with uniform single rates, fairer with least regressivity, more neutral with possible alternatives temporal or spatial use or transformation of resources, more taxpayer-friendly in terms of least compliance burden and economically least distortionary.

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[1] This is not a book on Income Tax Circulars, Important Explanations and Summary of Income Tax Deducted at Sources. The author has compiled those up to August 2007.

[2] This is not a book on Income Tax Ordinance. The author has compiled the Ordinance as it should be after incorporating the amendments made by the Finance Acts or Ordinances and the Income Tax (Amendment) Ordinances up to July 2009.

[3] This is not a book on Income Tax Rules. The author has compiled the Rules as it should be after incorporating the amendments made by the relevant income tax SROs issued by the NBR up to July 2009.

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[5] On 29.12.2007, the former NBR Chairman stated while exchanging views with the members of the Chittagong Chamber of Commerce and Industry (CCCI) and other trade bodies at Chittagong that with a view to bringing dynamism in the revenue earnings of the National Board of Revenue (NBR) and other related organisations, citizen charters would be published soon (*The Financial Express*, Jan. 2, 2008). On 07.01.2008, he was reported to mention at Dhaka that the NBR has published a citizen charter (www.bangladeshjournal.com/article/Business/186/, accessed 16.9.2009). Thus, the NBR's *Citizens Charter* has been published in first week of January 2008 and available at www.nbr-bd.org/citizen_charter.html.

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* Prof. Carl S. Shoup did extensive research works on public finance. The editors of the *Public Finance* (published from Germany) offered a special number of the journal [No. 2, Vol. XXXVII, 1982] in honour of Prof. Shoup who was a member of the faculty of Columbia University from 1928 to 1971 and who is best known as an adviser to governments for heading up the Shoup Tax Mission to Japan in 1949. In the "Laudatio" published in that number of the journal, Prof. Shoup has been mentioned as "a man who through the high standards he has set himself an example to others and who has thereby contributed so significantly to the improvement in the quality of analysis of public sector problems" (Editors of the *Public Finance*, 1982, p. v). Emilio Albi bas mentioned five research books of Prof. Shoup published from 1949 to 1970 to mention as an example of Prof. Shoup's dominating contribution in the field of tax reforms during the second half of the twentieth century (for Prof. Shoup's works, see Albi, 1982, p. 161).

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Website of the Internal Resources Division:	http://www.ird.gov.bd
Website of the Ministry of Finance (or the Finance Division):	http://www.mof.gov.bd
Website of the Economic Relations Division:	http://www.erd.gov.bd
Website of the Reforms in Revenue Administration:	http://www.riraproject.org.bd
Website for Bangladesh Codes:	http://www.bdlaws.gov.bd

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University of Dhaka

A doctoral research questionnaire on

Value Added Tax in Bangladesh: A Critical Appraisal

Statement of Confidentiality

Your participation is very important to the success of this study. All information provided by you will be regarded as strictly confidential. It will be used only for the purposes of this study and will not be disclosed or released for any other purposes unless you agree beforehand in writing. The information you provided will be combined with that of other participants and reported only as statistics, totals and averages. Your critical comment might be used in an appropriate context without any personal reference.

Instructions

1. The questionnaire should be completed by the Providers of Taxable Services under the VAT Act.
2. Please read each question carefully before you give an answer.
3. Answer the questions by circling the appropriate number (or numbers) or by writing answer in the space provided.
4. Please answer every question unless the question is not applicable to you. In that case, please write "not applicable" or "N/A".
5. If you are unsure about how to answer a question, give the best answer you can and make a comment in the left margin.
6. If you have any additional critical comment on any aspect of VAT from your personal experience regarding VAT, please give it in writing.

Questions

The information requested below is to help find out various compliance and other problems relating to value added taxation on the part of the Providers of Taxable Services.

A. Overview of the Sample Firm

A-1: Service Code : [ ] Service name: [ ]

A-2: Date of establishment: [ ] [ ] [ ]
Day Month Year

A-3: Form of organization:

1 Sole proprietorship 2 Partnership
3 Private Limited Company 4 Public Limited Company
5. Any other ..... *(Please specify)*

A-4: Date of VAT registration: [ ] [ ] [ ]
Day Month Year
VAT Circle [ ]
Divisional Office [ ]

A-5: Total number of employees: [ ] [ ] [ ]
Managerial Position Support Staff Total

A-6: Capital invested: Tk. [ ]

A-7: Total assets: Tk. [ ]

A-8: Average annual sales or turnover: Tk. [ ]

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B. Compliance of VAT

		Yes	No
B-1:	Showing VAT registration in the office in a conspicuous place	1	0
B-2.1:	Maintenance of statutory books of accounts and other documents:		
	1. Purchase Account Book	1	0
	2. Sales Account Book	1	0
	3. Invoice Book	1	0
	4. Account Current Book	1	0
	5. Any other ..... *(Please specify)*	1	0

B-2.2: Procedure of maintenance of books of accounts:

1 Manually 2 ECR (Electronic Cash Register)*
3 POS (Point-of-Sales) Software* 4 Other .....*(Please specify)*
* Made mandatory since July 1, 2008.

B-3: Frequency of submission of VAT return:

1 Monthly 2 Quarterly
3 Half-yearly 4 Annually
5 Infrequently 6 Other .....*(Please specify)*

B-4: Documents submitted with VAT return:

1 Invoice only 2 Invoice & Account Current
2 Account Current only 4 Nothing
5 Other .....*(Please specify)*

		Yes	No	N/A
B-5:	VAT deducted at sources (VDS)	1	0	9

B-6: Extra time, effort and cost for VAT and VAT-related activities:

B-6-1: Extra time (in annual man-hours): _____ man-hours

B-6-2: Extra cost (annually) Tk. _____

C. Fiscal Performance

C-1: Last year's annual turnover*: Tk. _____
* On which the rate of VAT is applicable.

C-2: Last year's VAT: Tk. _____

C-3: Last year's Treasury deposit: Tk. _____

C-4: Last year's VDS: Tk. _____

C-5: Frequency of VAT payment:

1 Monthly 2 Quarterly
3 Half-yearly 4 Annually
5 Infrequently 6 Other .....*(Please specify)*

D. Problems Relating to VAT

Please identify the problem(s) your organization has faced in relation to VAT.

1 Delay in response from the VAT office to queries raised
2 Tax computed was excessive
3 Input tax credit totally disallowed
4 Input tax credit partially disallowed
5 Interviews with VAT Officials were not satisfactory
6 Frequent asking for upward revision of price
7 Frequent asking for submission of various documents
8 Frequent visits of VAT persons cause business disturbance
9 No problems
10 Others .....
(Please specify)

E. Difficulties Experienced vs. Expected Solutions

Please identify the difficulties your organization has experienced in relation to VAT and what might be the expected solutions of those difficulties suggested by you.

Rank	E-1: Difficulties experienced:
	1. Difficulty in understanding the legal provision
	2. Non-availability of updated version of law
	3. Non-availability of updated SRO
	4. Extra unnecessary documents
	5. Discouraging computerized accounting
	6. Delay in getting refund
	7.
	8.

Rank	E-2: Expected solutions:
	1. Responsive help desk in VAT office
	2. Updated version of law in website
	3. Updated SRO in website
	4. Annual flat amount of tax
	5. Monthly flat amount of tax
	6. Allowing existing accounting system
	7. 3-month tax period in place of 1 month
	8.

F. Opinion on VAT

F-1: In your opinion, does VAT have a beneficial or harmful effect upon the cash flow of your business enterprise?

Beneficial	Harmful	No Effect
1	2	3

F-2: Which of the following two statements most closely describes the service provider's attitude to VAT?

	Very Pro	Pro	Indiff-erent	Anti	Vary Anti
F-2_1: VAT is a simple method of collecting tax	1	2	3	4	5
F-2_2: As it stands, VAT is unreasonably complicated	1	2	3	4	5

If you would like to receive a copy of the results obtained from this study, complete the information below.

Name of the respondent :.....
Address: .....
.....

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University of Dhaka

A doctoral research questionnaire on

Value Added Tax in Bangladesh: A Critical Appraisal

Statement of Confidentiality

Your participation is very important to the success of this study. All opinions provided by you will be regarded as strictly confidential. It will be used only for the purposes of this study and will not be disclosed or released for any other purposes unless you agree beforehand in writing. The information you provided will be combined with that of other participants and reported only as statistics, totals and averages. Your critical comment might be used in an appropriate context without any personal reference.

Instructions

1. The questionnaire should be completed by the Executives dealing the VAT matters in their offices.
2. Please read each question carefully before you give your opinion.
3. Answer the questions by circling the appropriate number (or numbers) or by writing answer in the space provided.
4. Please answer every question.
5. If you are unsure about how to answer a question, give the best answer you can and make a comment in the left margin.
6. If you have any additional critical comment on any aspect of VAT from your personal experience regarding VAT, please give it in writing.

Questions

The opinion requested below is to help find out the simplicity in implementation of VAT and its compliance and other problems on the part of the affected taxpayers or other persons.

A. Frequency of Submission of VAT Return and Payment of VAT

A-1: In your opinion, what should be the ideal frequency of submission of VAT return:

1	Monthly	2	Quarterly
3	Half-yearly	4	Annually
5	Infrequently	6	Other .....*(Please specify)*

A-2: In your opinion, what should be the ideal frequency of payment of VAT:

1	Monthly	2	Quarterly
3	Half-yearly	4	Annually
5	Infrequently	6	Other .....*(Please specify)*

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B. Problems Relating to VAT

In your opinion, what are the problem(s) faced by an entity in relation to VAT?

1 Delay in response from the VAT office to queries raised
2 Tax computed was excessive
3 Input tax credit totally disallowed
4 Input tax credit partially disallowed
5 Interviews with VAT Officials were not satisfactory
6 Frequent asking for upward revision of price
7 Frequent asking for submission of various documents
8 Frequent visits of VAT persons cause business disturbance
9 No problems
10 Others .....
(Please specify)

C. Difficulties Experienced vs. Expected Solutions

In your opinion, what are the difficulties experienced by an entity in relation to VAT and what might be the expected solutions of those difficulties?

Rank	C-1: Difficulties experienced:
	1. Difficulty in understanding the legal provision
	2. Non-availability of updated version of law
	3. Non-availability of updated SRO
	4. Extra unnecessary documents
	5. Discouraging computerized accounting
	6. Delay in getting refund
	7.
	8.

Rank	C-2: Expected solutions:
	1. Responsive help desk in VAT office
	2. Updated version of law in website
	3. Updated SRO in website
	4. Annual flat amount of tax
	5. Monthly flat amount of tax
	6. Allowing existing accounting system
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	Very Pro	Pro	Indiff-erent	Anti	Vary Anti
D-2_1: VAT is simple method of collecting tax	1	2	3	4	5
D-2_2: As it stands, VAT is unreasonably complicated	1	2	3	4	5

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