

### CHAPTER 3

## Medium –Term Revenue Performance, Outlook and Strategy

3.1 Mobilization of domestic resources is one of the major tasks of overall fiscal management. Financing the recurrent expenditures and undertaking of development projects largely depends, apart from foreign assistance, on the extent of domestic resources mobilization. It is a tool by which dependence on external assistance can be kept to a minimum level or reduced substantially. As per the Public Money & Budget Management Act, 2009, the government has to keep the budget deficit at a sustainable limit and to do so substantial domestic resource mobilization is a basic condition. This particularly requires the adoption of an explicit fiscal policy and a strengthened tax policy regime. What is needed is a comprehensive tax policy that can be pursued as a consistent guideline over the terms. Bangladesh's tax to GDP ratio is among the lowest (around 9.0 percent) in South Asia due to mainly: low tax base, weak management and low taxpayers compliance. The government has therefore been initiating various steps to enhance revenue generation and attain a standard level in comparison to the South Asian region.

3.2 In this chapter, the revenue and tax issues of the Bangladesh economy will be discussed. The recent revenue trends and performances along with revenue structures will also be highlighted. At the end, the medium-term revenue strategy and scenario will also be looked at, based on various assumptions.

### Review of Recent Revenue Trends and Performance

#### Overall Revenue Performance

3.3 Over the years, mobilization of domestic resources has not been at the desired level except in FY08 and FY09. For all these years, the initial targets were usually revised downward, and the revised targets were not achieved. In spite of persistent efforts by the government in terms of strengthening the tax policy domain and tax administration, expected results are yet to be achieved. The government is cognizant of the fact that in terms of tax policies and tax administration there are some weaknesses. Therefore, the government is making continued efforts to strengthen the tax regime to improve revenue mobilization.

**Table-3.1**

**Revenue performance for the last five years  
(in billion Taka)**

	2004-05	2005-06	2006-07	2007-08	2008-09
Budget	413.00	457.22	525.42	573.01	693.8
Revised Budget	392.00	448.68	494.72	605.39	706.8

	2004-05	2005-06	2006-07	2007-08	2008-09
Actual	380.22	429.04	483.41	591.53	641.0
Growth over Previous Year	12.66	12.84	12.67	22.37	8.2
Actual as % of Budget (revised)	96.99	95.62	97.71	97.71	90.70
Actual as % of GDP	10.26	10.32	10.23	10.84	10.4

Source: FSMU, Finance Division

3.4 Revenue growth and mobilization as a percentage of budget and GDP remained almost constant over FY05-FY07 (Table 3.1). It experienced a sharp increase (22.4 percent) in FY08 and as a percentage of GDP the growth was the highest ever (10.8 percent). The special measures taken by NBR to collect unpaid taxes from previous years, to collect taxes on undisclosed income and the role of the Taskforce contributed to such an increase in growth. This also indicates that the tax collection potential of Bangladesh is high even within the existing tax policy structure. With improved tax administration, it is possible to generate higher tax revenue.

3.5 The concern is however that the overall revenue performance in FY09 has declined to an ever-lowest level in terms of growth (8.4 percent). The fall in import duties caused by huge price erosion of imported goods in the global market in the context of global recession has contributed to such decline. Besides, going beyond the convention the targets in the last two fiscal years were revised upward. Considering the base year's growth this (8.4 percent) may not be considered so dismal.

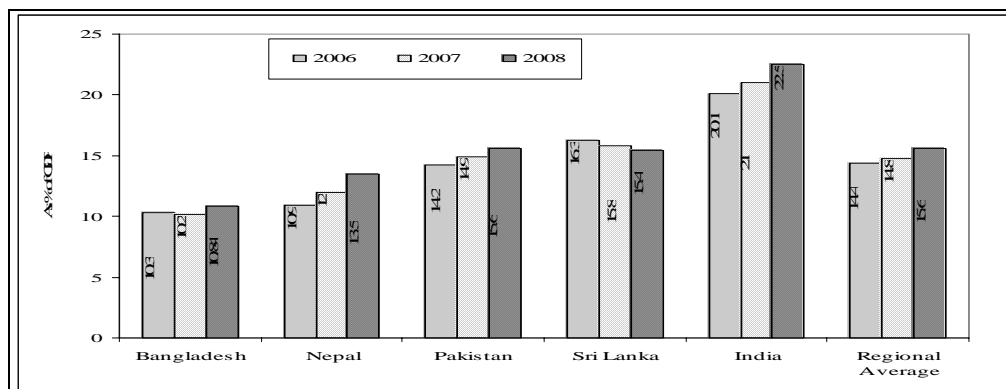
3.6 Over the years, although the government's revenue mobilization efforts got stronger, tax-GDP ratio in Bangladesh remains significantly low even in comparison to some of the South Asian countries. Figure 3.1 below describes the picture. This scenario emphasizes the urgent need for a sustained and renewed reforms agenda to bring the tax-GDP ratio close to South Asian standards (13 to 15 percent of GDP).

3.7 Revenue mobilization has been one of the major fiscal policy objectives under the MTBF<sup>1</sup>. Making provision of required resources to finance essential public services and building infrastructure is necessary for sustained pro-poor economic growth. It also requires increasing public expenditure for human capital development, which is considered essential for sustainable poverty reduction.

<sup>1</sup> MTBF stands for Medium-Term Budget Framework. It's a new form of budgeting approach Bangladesh government has been following since FY06. It includes budget estimates for the current fiscal and projection for the following two fiscal years. This approach necessitates each line ministry to state its mission, main functions, strategies, priority spending areas, key performance indicators and outcome over the period under consideration.

Keeping these in view, the revenue collection is set to rise by an average rate of around 0.5 to 0.7 percent of GDP annually to reach the medium-term target of 14.1 percent of GDP by FY15.

**Figure 3.1**  
**Revenue Performance – South Asian Countries**  
**(as percent of GDP)**



### Revenue Trends and Compositions

3.8 The total revenue grew by 8.2 percent in FY09 (Table 3.1). However, during FY05-09 total revenues increased at an annual average rate of 13.9 percent from Taka 380.2 billion to Taka 641.0 billion. In FY08 tax revenues represented around 81.4 percent of total revenues and non-tax revenues 18.6 percent. But in FY09 the share of tax revenues to total revenues increased to 82.6 percent and non-tax revenues declined to 17.5 percent (Table 3.2).

**Table 3.2**  
**Government Revenue by main sources FY05-FY09 (Taka in billion)**

	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Total Revenue</b>	<b>380.2</b>	<b>429.04</b>	<b>483.4</b>	<b>591.53</b>	<b>641.0</b>
<i>as % of GDP</i>	10.3	10.3	10.2	10.8	10.4
<b>Tax Revenue</b>	<b>304.8</b>	<b>339.6</b>	<b>380.3</b>	<b>481.29</b>	<b>528.66</b>
<i>as % of GDP</i>	8.2	8.2	8.1	8.8	8.6
<b>NBR Tax Revenue</b>	<b>290.6</b>	<b>324.3</b>	<b>361.8</b>	<b>458.16</b>	<b>502.13</b>
<i>as % of GDP</i>	8	8	8	9	8.2
Taxes on Income and Profits	51.12	63.99	86.21	116.69	134.33
Customs Duties	75.85	75.14	75.85	87.68	84.40

	2004-05	2005-06	2006-07	2007-08	2008-09
VAT and Supplementary Duties	158.37	179.44	193.23	246.56	276.50
Other NBR Taxes	5.52	5.75	6.48	7.23	6.8
<b>Non NBR Tax Revenue</b>	<b>14.21</b>	<b>15.25</b>	<b>18.55</b>	<b>23.13</b>	<b>26.53</b>
<b>Non-tax Revenue</b>	<b>75.4</b>	<b>89.5</b>	<b>103.1</b>	<b>110.24</b>	<b>112.3</b>
<i>as % of GDP</i>	2.0	2.2	2.2	2.0	1.8

Source: Finance Division, Ministry of Finance

3.9 Total government revenues as a percentage of GDP remained in the region of 10.2 percent to 10.8 percent over the last five years. It reduced significantly to 10.4 percent in FY09. In FY09, NBR tax revenue mobilization increased significantly due to reasons mentioned in paragraph 3.4. According to the NBR source, actual amount of NBR tax revenue mobilized in FY09 is Taka 525.2 billion. However, the CGA data shows the actual amount as Taka 502.1, which falls short by Taka 23.1 billion. This significantly high discrepancy needs immediate reconciliation.

### Tax Revenues

3.10 The tax revenue as a percentage of GDP was in the region of 8.1 to 8.8 percent through FY05 to FY09 (Table 3.3). Tax revenue/GDP reduced to 8.6 percent in FY09 from 8.8 percent in FY08. NBR Tax increased to 8.2 percent of GDP in FY09 from 8.0 percent in FY05. Amongst the NBR taxes, a major share comes from the VAT and Supplementary duties, which is on average around 41.7 percent of total revenue (4.0 to 5.0 percent of GDP). Total tax revenues increased at an annual average rate of 14.8 percent during FY05-09. The government considers this growth more or less as satisfactory performance. Although taxes from NBR sources remained on average around 8.0 percent of GDP while Non-NBR tax remained constant at 0.4 percent of GDP.

**Table 3.3**  
**Sources of Total Tax Revenue**

Revenue Items	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Actual	Actual	Actual	Actual
	(in billion Taka)				
<b>Tax Revenue</b>	<b>304.8</b>	<b>339.6</b>	<b>380.3</b>	<b>481.3</b>	<b>528.7</b>
<b>NBR Tax Revenue</b>	<b>290.6</b>	<b>324.3</b>	<b>361.8</b>	<b>458.2</b>	<b>502.1</b>
Taxes on Income and Profit	51.12	63.99	86.21	116.7	134.3
Customs Duties	75.85	75.14	75.85	87.7	84.4
VAT and Suppl. Duties	158.37	179.44	193.23	246.56	276.6
Other NBR Taxes	5.52	5.75	6.48	7.2	6.8

Revenue Items	2004-05	2005-06	2006-07	2007-08	2008-09
	Actual	Actual	Actual	Actual	Actual
	(in billion Taka)				
<b>Non-NBR Taxes</b>	<b>14.21</b>	<b>15.25</b>	<b>18.55</b>	<b>23.1</b>	<b>26.5</b>
	As percent of GDP				
<b>Tax Revenue</b>	<b>8.2</b>	<b>8.2</b>	<b>8.1</b>	<b>8.8</b>	<b>8.6</b>
<b>NBR Tax Revenue</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8.4</b>	<b>8.2</b>
Taxes on Income and Profit	1.4	1.5	1.8	2.1	2.2
Customs Duties	2.0	1.8	1.6	1.6	1.4
VAT and Suppl. Duties	4.3	4.3	4.1	4.5	4.5
Other NBR Taxes	0.1	0.1	0.1	0.1	0.1
<b>Non-NBR Taxes</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

Source: Finance Division

3.11 During FY05-09, there was a marked shift in the structure of tax revenues (Table 3.3). On an average, direct tax was 2.5 percent and indirect tax was 6.9 percent of GDP over this period. In FY05, direct tax was 2.1 percent of GDP, which increased to 2.5 percent in FY09. Indirect tax on the other hand declined to 6.9 percent of GDP in FY09 from 7.1 percent in FY05. Indirect taxes accounted for over 71.6 percent of total tax revenues in the FY09, although in recent years revenue from direct taxes has grown significantly increasing from 23.0 percent of total tax revenue in FY05 to 28.4 percent in FY09. Such reliance on indirect taxation is common in low-income countries. However, the move towards a more progressive tax structure will require a sustained shift towards direct taxation as the economy develops.

3.12 As mentioned earlier, the structure presented in Table-3.4 indicates high dependence on indirect tax, which constitutes about 71.6 percent of total tax revenue. However, the trend over the last five years also indicates that the dependency on indirect tax declined over time. Indirect taxes as a percentage of total tax revenues decreased to 71.6 percent in FY09 from 77.0 percent in FY05. The most important component of indirect taxes is VAT (Value Added Tax) which contributed around 38.0 percent of tax revenues in FY09. The table below also shows that over time dependency on customs duties have declined from 24.8 percent of total tax revenue in FY05 to 16.0 percent in FY09. Supplementary duties on import as a share of total tax revenue have also declined from 6.4 percent to 4.4 percent during the same period. This shows that with trade liberalization Bangladesh is moving away from import restrictions and dependency on trade tax is on the decline.

**Table 3.4**  
**Structure of Total Tax Revenue (Taka in billion)**

	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Actual
<b>Taka in billion</b>					
<b>Total Tax Revenue</b>	<b>304.8</b>	<b>339.6</b>	<b>380.3</b>	<b>481.29</b>	<b>528.66</b>
<b>Direct Taxes</b>	<b>69.98</b>	<b>84.87</b>	<b>104.76</b>	<b>139.82</b>	<b>150.33</b>
Income Taxes*	25.69	26.41	30.71	48.02	61.51
Profit Taxes*	30.08	45.21	56.5	69.42	77.06
others	14.21	13.25	17.55	22.38	11.76
<b>Indirect Taxes</b>	<b>234.82</b>	<b>254.73</b>	<b>275.54</b>	<b>341.47</b>	<b>378.33</b>
Customs Duties	75.58	71.25	74.55	86.66	84.4
Excise Duties	1.44	1.00	1.83	2.14	2.83
Vat on Imports	53.7	56.54	61.86	82.99	91.87
Vat (domestic)	42.11	61.12	73.46	89.87	109.43
Supplementary Duties:	57.56	59.07	57.91	73.7	85.12
Import	19.53	14.02	10.71	15.62	23.39
Local	38.03	45.05	47.2	58.08	61.73
Others	4.43	5.75	5.93	6.11	5.2
<b>As Percent of Total Tax Revenue</b>					
<b>Tax Revenue</b>					
<b>Direct Taxes</b>	<b>23.0</b>	<b>25.0</b>	<b>27.5</b>	<b>29.1</b>	<b>28.4</b>
Income Taxes	8.4	7.8	8.1	10.0	11.6
Profit Taxes	9.9	13.3	14.9	14.4	14.6
others	4.7	3.9	4.6	4.7	2.2
<b>Indirect Taxes</b>	<b>77.0</b>	<b>75.0</b>	<b>72.5</b>	<b>70.9</b>	<b>71.6</b>
Customs Duties & Excise	24.8	21.0	19.6	18.0	16.0
VAT (Import)	17.6	16.6	16.3	17.2	17.4
VAT (domestic)	13.8	18.0	19.3	18.7	20.7
Supplementary Duties	18.9	17.4	15.2	15.3	16.1
Import	6.4	4.1	2.8	3.2	4.4
Local	12.5	13.3	12.4	12.1	11.7
Others	1.5	1.7	1.6	1.3	0.9

Source: FSMU, Finance Division; National Board of Revenue; \*Data sources are different, so the numbers may vary slightly

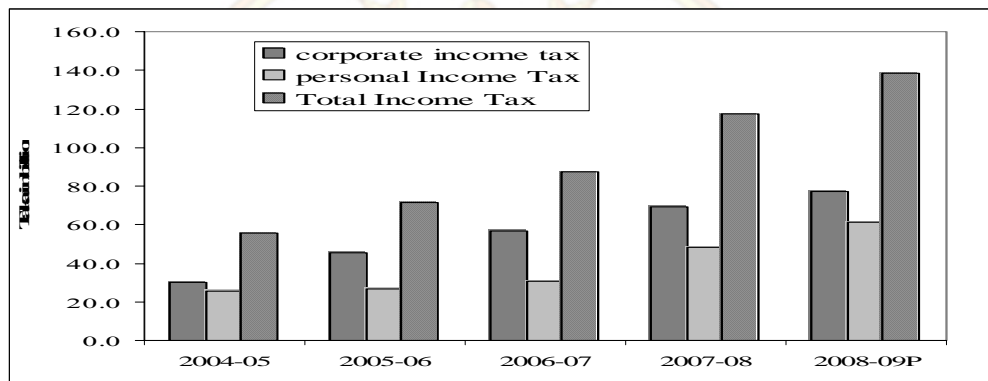
3.13 Direct taxes as a share of tax revenues increased to 28.4 percent in FY09 from 23.0 percent in FY05. The components are mainly personal income tax and corporate income tax. As a ratio to total tax revenues, both the components recorded a moderate increase. However, the rate of increase is higher in case of personal income taxes which increased to 11.6 percent in FY09 from 8.4 percent in FY05. In order to compensate revenue loss from imports and to finance increasing public investment, it is necessary to enhance revenue mobilization from direct sources gradually.

### **Taxes on Income and Profit**

3.14 Revenues from income and profit taxes grew at an annual average rate of 25.6 percent during FY05-09. From FY05-08, growth showed an increasing trend

but in FY09 it decreased to 43 percent compared to the previous year. During FY05-07 revenues from corporate income taxation increased at a significantly faster rate than those from personal income taxation. However, over the next couple of years it takes a reverse route--revenues from personal income taxes increases at a higher rate. Nevertheless, personal income tax as a share of total income tax revenues fell from 46.0 percent in FY05 to 44.0 percent in FY09 (Figure 3.2). Contrary to this, personal income tax as a share of total direct taxes increased from 36.7 percent in FY05 to 40.9 in FY09. Direct taxes grew at an annual average rate of 21.1 percent over FY05 to FY09. During the same period, corporate income tax and personal income tax grew at an annual average rate of 26.5 percent and 24.4 percent respectively.

**Figure 3.2**  
**Composition of Direct Taxes**



Source: FSMU, Finance Division and NBR

3.15 The government made an effort to bring about 4.25 lakh new legitimate taxpayers within the income tax net. To achieve this target, various steps have already been undertaken. The measures include simplification of income tax return, timely implementation of the reforms agenda, full automation, strengthening of tax administration, expansion of tax net up to Upazila level and massive public awareness activities.

### Customs Duties

3.16 The share of customs duty as part of total tax revenue fell from 24.8 percent in FY05 to 16.0 percent in FY09 and as a percentage of GDP it decreased from around 2.0 percent in FY05 to 1.4 percent in FY09. The growth of customs duty in FY08 was 16 percent over the previous year but in FY09, there was 4 percent negative growth. One of the main reasons is the decline in imports due to the impact of global economic recession. The commitment to reduce duties within the framework of the World Trade Organization has also been another prime factor for such reduction. The customs duty for imported raw materials was

reduced to 5.0 percent from 7.0 percent in FY10. The Bangladesh economy has benefited significantly from global trade liberalization, the reduction in import duties and other trade distorting practices. However, the resulting loss of customs revenue emphasizes the importance of developing alternative sources of tax revenue.

### Value Added Tax (VAT)

3.17 VAT as a share of total tax revenues has been in the region of 31.4 percent to 38.1 percent in recent years and as a percentage of GDP it increased from 2.9 percent in FY05 to 3.7 percent in FY09. As against the VAT from local sources, VAT from imports (as percentage of total VAT) has been declining during FY05 to FY09 (Table 3.4). On average 48.7 percent of total VAT has been collected from imports while the rest has been collected domestically (Table 3.5) in the recent years.

3.18 In FY05, overall Value Added Tax as a percentage of total revenue was 25.2 and steadily increased to 31.5 in FY09 (Table 3.5). During the same period, as a percentage of tax revenue, it increased to 38.1 percent in FY09 from 31.4 percent in FY05. Despite the significant fluctuation, it maintained a robust growth of 20.4 percent (annual average rate) over FY05 to FY09. A significant shift however has taken place between the mix of VAT from imports and VAT from local sources as expected due to the implementation of WTO rules.

**Table 3.5**  
**Structure and trend of Value Added Tax (Taka in billion)**

	2004-05	2005-06	2006-07	2007-08	2008-09
<b>Total Revenue</b>	<b>380.20</b>	<b>429.04</b>	<b>483.40</b>	<b>591.53</b>	<b>641.00</b>
<b>Tax revenue</b>	<b>304.80</b>	<b>339.6</b>	<b>380.30</b>	<b>481.29</b>	<b>528.66</b>
VAT:Import	53.70	56.54	61.86	82.99	91.87
VAT:Local	42.11	61.12	73.46	89.87	109.43
<b>Total VAT</b>	<b>95.81</b>	<b>117.66</b>	<b>135.32</b>	<b>172.86</b>	<b>201.3</b>
As % Total Revenue	25.2	27.4	28.0	29.2	31.5
As % of Tax Revenue	31.4	34.6	35.6	35.9	38.1
Growth: VAT import	-	5.3	9.4	34.2	10.7
Growth: VAT local	-	45.1	20.2	22.3	21.8
Growth:Total VAT	-	22.8	15.0	27.7	16.5
VAT:Import: % of Total VAT	56.0	48.1	45.7	48.0	45.6
VAT:Local: % of Total VAT	44.0	51.9	54.3	52.0	54.4

Source: National Board of Revenue

3.19 Due to the global economic downturn commodity prices in the international market fell significantly which adversely affected VAT collection from imports. As

the world economy rebounds from the recession, this scenario is expected to improve gradually. However, Bangladesh still has to make further progress towards the implementation of the ongoing VAT reform process. Once the reform process is completed, overall mobilization is most likely to increase substantially.

### Supplementary Duties

3.20 Supplementary duties, the most important component, constituted around 17.0 percent (average) of total tax revenue in recent years (Table 3.4). Although as a percentage of GDP it decreased from 1.6 percent in FY05 to 1.4 percent in FY09, it remains the most important component revenue after VAT. The main sources of supplementary duties are still fuel and tobacco. A total of 1,110 items are subject to supplementary duties in FY10 of which 880 items are locally produced. The ten most significant earning items are detailed below (Box 3.1).

#### Box 3.1 Supplementary Duties

Supplementary duties have for a long time been one of the main constituents of NBR Tax Revenue (around 17 percent of the total revenue). Past data shows the government's heavy dependence on it despite the introduction of VAT as a uniform taxation tool in 1992. The generally accepted rationale behind supplementary duties are:

- Providing protection to some of the country's industrial products
- Discouraging imports and consumption of some particular products, especially the luxury goods
- Mitigating insufficiency of revenue collected from other sources

There are over 1000 lines of goods and services on which supplementary duty are imposed. Of these the following is the list of top 10 items on the basis of the revenue earnings:

Motor car (>1000 but < 1500cc)	321.18
Motor car (>1500 but < 2350cc)	147.37
Motor car (>2350 but < 3000cc)	145.53
Combined Refrigerator	98.10
Motor cycle (>50<250cc) CBU	87.67
Motor cycle (>50<250cc) CKD	83.51
Apples, Fresh, Nes	51.43
Microbus (=<1800 cc)	50.34
Three wheeler vehicles (4 stroke CNG)	48.07
Betel nuts	33.53
SIM card	33.37

Five tier supplementary duty structures however remained unchanged in FY09 while the numbers of applicable tariff slabs increased to eight in FY10.

## Non-Tax Revenues

3.21 Non-tax revenue (NTR) accounts for about 19.6 percent on average of government revenue over the last five years. From FY05 to FY07, it maintained an increasing trend raising the share to 21.7 percent of total revenue in FY07. It however declined to 17.5 percent in FY09, reflecting the loss of dividends from Bangladesh Bank due to the impact of global economic recession. As a percentage of GDP, with a declining trend Non-tax revenue (NTR) was reduced to 1.8 percent in FY09 from 2.2 percent in FY07. Receipts from defence services declined sharply (by around 50 percent) in FY09, which mainly contributed to the reduction of NTR. The major sources of NTR are dividends and profits from state-owned enterprises (SoEs), administrative fees and charges, defence receipts, and receipts from BTRC (Bangladesh Telecommunications Regulatory Commission) (Table 3.6).

3.22 Growth in NTR during FY05 to FY07 remained satisfactory and as a share of total revenue it was in the range of 19.8-21.7 percent. However, the performance in the last fiscal year was not up to the desired level. In the Medium-term Macro Framework, the target for NTR in FY09 was 19.7 percent of total revenue. As against this, the actual collection was Taka 112.3 billion which is 17.5 percent of total revenue. The growth in NTR was around two percent in FY09 which is significantly less (approximately 5.0 percentage points) than in the previous fiscal year. As mentioned earlier, defence receipts declined by around 50 percent contributing to significantly low growth in NTR in FY09. As compared to the previous fiscal years, in FY09 smaller numbers of troops were deployed in foreign peace-keeping missions and a contingent of 750 personnel returned home with no replacement being made. These are some of the factors that contributed to the decline in NTR collection.

**Table 3.6**

### Compositions of Non-Tax Revenues (Taka in billion)

Items	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Actual
Dividend & Profit	10.21	10.78	16.98	21.12	30.93
Interest	5.14	4.56	3.83	4.22	4.73
Administrative fees	9.14	9.06	11.89	16.64	16.68
Defence Receipts	13.61	16.17	17.42	13.51	6.76
Railway	4.44	3.74	4.58	3.69	4.86
Post Offices	1.48	0.45	1.26	0.73	1.72
Telegraph & Tele. Board	13.94	15.8	16.1	14.8	0
Other NTR & Receipts	17.45	25.34	33.04	35.53	*46.57
<b>Total NTR</b>	<b>75.41</b>	<b>85.9</b>	<b>105.1</b>	<b>110.24</b>	<b>112.3</b>
As % of Total Rev.	19.8	20.0	21.7	18.6	17.5

Source: Finance Division, \* includes receipts from BTRC

## Revenue Performance in the FY10

3.23 The revised target for total revenue is fixed at Taka 794.8 billion (Taka 0.23 billion higher than the budget) for FY10 considering the robust growth over the first six months of the fiscal year. This target is 24.0 percent higher than the actual amount of previous fiscal year (14.9 percent higher than the revised target of FY09). The overall revenue collection up to March'10 stood at Taka 535.34 billion which is 16.9 percent higher than the corresponding period of FY09. This is at the same time 67.4 percent of the revised target of the current fiscal year.

3.24 The target for NBR tax revenue remained unchanged in the revised budget at Taka 610.0 billion which is 15.09 percent higher than the revised target of FY09. NBR tax collection up to March 2010 has increased by 18.3 percent to Taka 416.48 billion which is 68.3 percent of the budget. During the same period of FY09 the revenue mobilization was Taka 352.03 billion, which was 66.4 percent of the revised target of Taka 530.0 billion.

3.25 There is a general apprehension that the impact of negative import growth up to the first nine months of FY10 could result in the final NBR revenue outturn being significantly lower than forecast. However, if the current buoyancies maintained and weaknesses in the revenue administration can be overshadowed, targeted revenue will be achieved. The NBR and Finance Division have strengthened their monitoring of revenue performance in order to ensure an appropriate and timely fiscal policy response to keep revenue trends in line with the target. Besides, the revenue performance is being reviewed quarterly through high-level meetings presided over by the honorable Prime Minister. This certainly adds value towards the overall revenue mobilization effort.

3.26 The revised target for Non-NBR tax for FY10 is Taka 29.56 billion which is 17.2 percent higher than the budget of FY09. Mobilization up to March 2010 increased by 4.2 percent compared to the corresponding period of FY09 to Taka 18.98 billion which is 64.2 percent of the target.

3.27 The revised budget of non-tax revenue for FY10 is Taka 155.3 billion which is 13.8 percent higher than the budget of FY09. Non-tax revenue performed strongly over the first three quarters of FY10. At the end of March'10, NTR collection was Taka 99.88 billion, about 64.3 percent of the revised target, which is 14 percent higher than the corresponding period of the previous fiscal year. Revenues from dividends and profits and other sources (which includes receipts from BTRC) had performed particularly well during the first nine months of the current fiscal year. If the present trend of mobilization of NTR prevails, the target for this year is achievable.

## Medium-Term Revenue Strategy

3.28 As noted above, the level of revenue effort in Bangladesh is significantly low compared to other South Asian countries. Raising revenue collection efforts is a central objective of the government's fiscal management strategy and essential to improve infrastructure and public services. The main elements of the strategy to achieve these objectives are outlined in Box 3.2.

<p><b>Box 3.2</b></p> <p><b>Medium-Term Revenue Strategy – Key Elements</b></p> <p>The key elements of the government's revenue strategy as summarised in the <b>NSAPR-II</b> are as follows:</p> <ul style="list-style-type: none"> <li>• Continue ongoing reforms and revenue enhancing measures.</li> <li>• Shorten VAT exemption list on domestic products and imports</li> <li>• Expand VAT and the income tax net</li> <li>• Introduce a unified Taxpayer Identification Number (TIN) for income tax and VAT</li> <li>• Further modernise and rationalise the taxation system</li> <li>• Separate institutional responsibility for tax policy from tax administration.</li> <li>• Decentralise tax collection operations</li> <li>• Implement a zero tolerance policy for tax evaders</li> <li>• Modernise and rationalise the tax system</li> <li>• Simplify tax calculation procedures and the system of tax payment</li> <li>• Online submission of return and payment of taxes online</li> </ul>
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3.29 Experience in recent years has emphasized the importance of a comprehensive policy approach to the implementation of revenue reforms and administration. In the past, there has been a tendency for measures to be introduced in an ad hoc manner that has often contradicted the objectives of the government's stated revenue policies. This is particularly applicable to the large number of tax exemptions and incentives that continue to undermine the integrity, efficiency and equity of the tax system. There lies perhaps the underlying reasons for considering the proposals for strengthening tax-policy-analysis functions and separating it from the tax administration functions of the NBR. This would reflect practice in most other countries where these two functions are institutionally separate.

## Tax Policy Measures

3.30 Tax policy during the FY11-15 will emphasize an expansion of the tax-base and rationalization of the tax system. Although the fundamental structure of the tax system is sound, the extensive use of exemptions, incentives and other

special provisions have resulted in a tax system that is prone to evasion. The resulting complex structure of trade taxes also gives rise to significant distortion in economic activity and undermines the equity of the tax system. The Internal Resources Division and the National Board of Revenue is reviewing the tax incentives and exemptions with the aim of broadening the tax base and ensuring greater tax equity. Some of the tax policy measures implemented in the FY09 and FY10 Budget are mentioned below:

- (i) Reduction of customs duty on imported basic raw materials to 5.0 percent from 7.0 percent
- (ii) Imposition of 5.0 regulatory duty on finished goods & luxury goods
- (iii) Withdrawal of VAT and customs duty from import of all sorts of parts required to produce energy saving bulbs
- (iv) Exemption of duty on the use of solar panels and Phosphoric Acid
- (v) VAT exemption, Truncate Based value etc. create distortion in VAT system. Therefore, NBR has in principle adopted the policy of discouraging the applications in these connections from current fiscal year;
- (vi) VAT applicable on commercially imported goods raised to 2.25 percent from 1.25 percent;
- (vii) Withdrawing the VAT exemption system from Travel and Indenting agencies, a 15 percent VAT has been introduced in each case;
- (viii) VAT at a rate 4.5 percent has been introduced on the services of Event Management and consultancy/outsourcing services;
- (ix) Raising the personal income tax threshold level to Taka 1.65 lac
- (x) Higher threshold (Taka 1.80) for the elderly, people with disabilities and women taxpayers;
- (xi) Reductions in profit tax rates for private limited companies from 40 percent to 37.5 percent and for public limited companies from 30 percent to 27.5 percent;
- (xii) Increases in the supplementary duties on tobacco and cigarettes, on finished diamonds; and other luxury items
- (xiii) Introduction of four tiers of custom duties with the highest customs duty remaining at 25 percent

3.31 Two factors, (i) the expected downward impact of the global recession on revenue growth and (ii) the continuing decline in customs duty, because of WTO policy implementation, have highlighted the urgency of introducing additional revenue raising measures. In that respect the thrust of the fiscal policy of FY10 was to expand the tax net, to strengthen the tax collection activities, to settle the

pending cases in the court as soon as possible etc. The revenue authority has actively considering the introduction of *Alternative Dispute Resolution (ADR)* and setting up of a *dedicated bench* for quick disposal of pending tax related cases.

3.32 One of the main tax policy measures that are going to be pursued over the medium term includes reviewing and analyzing the existing tax structure in detail. The authorities concerned are looking into the possibility of reducing dependency on customs duties and reducing the ad hoc introduction of supplementary duties. This will lessen the distortion in the domestic market and the uncertainty around the tax structure. All the previously mentioned efforts will be made to streamline the tax structure and remove all anomalies, based on identification of such anomalies. One of the fundamental initiatives that may be considered in this regard is to separate the tax policy formulation from the tax administration authority.

3.33 There are currently 0.65 million registered VAT payers of whom only 0.1 million submit returns. To overcome this, it is considered to bring changes in the existing VAT law by making it mandatory for all registered businesses to submit returns. Under the proposed new law a uniform rate of VAT will be payable on all products and services instead of existing variable rates. Another major change in the plan is the incorporation of the provision that NBR officials may have to audit around 40 percent of the returns submitted.

3.34 The National Board of Revenue has formed a *Taskforce* to make recommendations on the tariff rationalization. This Taskforce will finalize its recommendations through stakeholders' consultations. Therefore, major policy reforms may be formulated and implemented in the near future.

### **Tax Administration Reforms**

3.35 The objectives of the government's ongoing program of tax administration reforms are to: (i) improve tax collection performance and efficiency; (ii) ensure better treatment of and improved information for taxpayers; and (iii) eliminate opportunities for tax evasion. During FY10 further measures were taken to improve the efficiency of tax administration. The government made the use of Electronic Cash Registers compulsory for all large and medium scale traders from July 01, 2009. A *Core Committee* has been formed by NBR to make suggestions on the administration reforms while a separate Taskforce, as mentioned earlier, has also been working to make the VAT system taxpayers' friendly.

3.36 In order to make taxpayers more informed about their rights and lessen their harassment, a Citizen's Charter was formulated and displayed in the tax offices. Besides, all the relevant laws, rules and Statutory Regulatory Orders (SRO) will gradually be made available for taxpayers through NBR website

(www.nbr-bd.org). The Board has also been organizing various programs in different electronic media and showing video documentary as a means to educate taxpayers at large. In order to prevent tax evasion monitoring and auditing activities will be strengthened further. Building up of ICT infrastructure is under process to enable taxpayers to register and submit returns online. The ongoing full automation work of the customs and VAT departments are continuing in full swing.

3.37 Full automation of the system at Chittagong and Dhaka Customs House was completed. In future, this system will be extended to other customs houses and Stations to facilitate tax collection from inter border trade. A container scanner system at Chittagong Customs House has also been introduced to expedite customs clearing activities. Initiative has also been underway to bring changes in the current Pre-Shipment Inspection (PSI) system to reduce the cost burden and to introduce modern physical verification method. In order to monitor the Pre-Shipment Inspection of imported goods, a proposal on the creation of Customs offices in 10 important Bangladesh Missions abroad is now. Efforts to bring different customs houses under ASYCUDA++ system will continue. Some key elements of the tax administration reforms strategy over the medium-term are mentioned in box-3.3 below.

**Box 3.3**

**Tax Administration Reform Strategy – Key Elements**

Reforms aimed at strengthening tax administration and improving taxpayer services during the period FY11-15 will continue to focus on the following measures:

- Improve monitoring of tax collection and the impact of measures to expand the tax net.
- De-link tax collection from tax officials by allowing payment through banks and/or online rather than through tax offices.
- Improve procedures for ensuring the timely deposit of tax revenues at the point of collection.
- Establish a special tribunal to prioritise the resolution of long-standing tax payment cases.
- Improve publicity and information to encourage individuals and firms to register and pay tax.
- Undertake action to fill vacant positions in NBR, improve on-the-job training and other capacity building measures.
- Develop one-stop service centres to provide information and advice to taxpayers and contribute to a more positive tax compliant environment.
- Further simplify the tax forms and improve tax payment procedures such as payment through mobile phones.
- Implement an integrated automation strategy covering taxpayer submissions, assessment, permissions and approvals, and payments.
- Make all rules, regulations, SROs, notices and other orders available on the NBR website immediately after they are issued.
- Introduce e-governance and online tax payment systems.

Source: National Board of Revenue

## Non-Tax Revenues

3.38 Non-tax revenues (NTR) are considered a potentially buoyant source of revenue. The government's medium-term strategy is to maintain non-tax revenue at around 17 percent of total revenue. This will be achieved mainly through increased revenues from State-owned Enterprises (SoEs) and from fees and charges. A substantial amount of revenue is generated by Bangladesh's active participation in UN peacekeeping operations. It is expected that these activities will continue in the future and will remain as important sources of NTR.

3.39 There remains considerable scope to improve the efficiency and viability of commercial SoEs leading to higher profit transfers to the government. The Boards of SoEs will be required to exercise stronger oversight in order to ensure that these objectives are met. Monitoring of the performance of SoEs by the Finance Division is being strengthened so that performance issues can be identified and timely actions taken. A separate *State-owned Enterprises Wing* has also been set up in the Finance Division recently to strengthen the overall performance of SoEs. For the first time the Finance Division has conducted separate budget meetings with the line ministries to reinforce the importance of NTR budget and fulfilling the target thereof.

3.40 The existing reforms program to strengthen the management of non-tax revenue has been continuing. Central to these reforms has been the development of software to track and consolidate data and other information on non-tax revenue. This will ensure that more timely reports are available to the Finance Division to facilitate monitoring and oversight of the collection of non-tax revenue. In the consultation meetings, respective line ministries are requested to review existing fees and charges, to introduce new items and strengthen their mobilization efforts so that the targeted revenue can be realized. Agencies are also requested to ensure the prompt deposit of revenue and to strengthen their associated accounting and monitoring procedures.

### Medium-Term Revenue Forecast (FY11-FY15)

3.41 Over the medium term total revenue is forecast to increase at an annual average rate of 18.0 percent from Taka 794.8 billion in FY10 to Taka 1824.8 billion in FY15. It will reach 14.1 percent of GDP (Table 3.7). Tax revenues are forecast to increase from 9.3 percent in FY10 to 11.8 percent in FY15.

**Table 3.7**  
**Revenue projection in the Medium Term (Taka in billion)**

Items of revenue	2007-08	2008-09	2009-10	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Actual	Actual	Budget	Revised	Budget	Projection			
<b>Total Revenue</b>	591.5	641.0	794.6	794.8	928.5	1104.3	1313.9	1551.3	1824.8
<b>Tax Revenue</b>	481.3	528.7	639.6	639.6	757.9	901.1	1083.2	1289.0	1527.1
<b>NBR Tax Revenue</b>	458.2	502.1	610.0	610.0	725.9	865.1	1043.1	1243.4	1475.3

Items of revenue	2007-08	2008-09	2009-10	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Actual	Actual	Budget	Revised	Budget	Projection			
Taxes on Income & Profit	116.7	134.3	165.6	165.6	195.1	229.7	270.8	319.4	375.3
Customs Duties	87.7	84.4	104.3	104.3	124.8	141.3	170.5	193.9	220.0
VAT and Suppl. Duties	246.6	276.6	332.8	332.8	398.2	485.9	591.7	718.6	867.1
Other NBR Taxes	7.2	6.8	7.3	7.3	7.8	8.8	10.0	11.4	12.9
<b>Non-NBR Taxes</b>	<b>23.1</b>	<b>26.5</b>	<b>29.6</b>	<b>29.6</b>	<b>34.5</b>	<b>35.3</b>	<b>40.1</b>	<b>45.6</b>	<b>51.8</b>
<b>Non-Tax Revenue</b>	<b>110.2</b>	<b>112.3</b>	<b>155.1</b>	<b>155.3</b>	<b>168.1</b>	<b>203.2</b>	<b>230.7</b>	<b>262.4</b>	<b>297.7</b>
			<b>In percent of GDP</b>						
<b>Total Revenue</b>	<b>10.8</b>	<b>10.4</b>	<b>11.6</b>	<b>11.5</b>	<b>11.9</b>	<b>12.5</b>	<b>13.1</b>	<b>13.6</b>	<b>14.1</b>
<b>Tax Revenue</b>	<b>8.8</b>	<b>8.6</b>	<b>9.3</b>	<b>9.3</b>	<b>9.7</b>	<b>10.2</b>	<b>10.8</b>	<b>11.3</b>	<b>11.8</b>
<b>NBR Tax Revenue</b>	<b>8.4</b>	<b>8.2</b>	<b>8.9</b>	<b>8.8</b>	<b>9.3</b>	<b>9.8</b>	<b>10.4</b>	<b>10.9</b>	<b>11.4</b>
Taxes on Income & Profit	2.1	2.2	2.4	2.4	2.5	2.6	2.7	2.8	2.9
Customs Duties	1.6	1.4	1.5	1.5	1.6	1.6	1.7	1.7	1.7
VAT and Suppl. Duties	4.5	4.5	4.8	4.8	5.1	5.5	5.9	6.3	6.7
Other NBR Taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Non-NBR Taxes</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
<b>Non-Tax Revenue</b>	<b>2.0</b>	<b>1.8</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>

Source: Finance Division, Ministry of Finance

3.42 The growth in revenue will mainly be driven by VAT and supplementary duty. These are projected to increase from Taka 332.8 billion in FY10 to Taka 398.2 billion in FY11 and to Taka 867.1 billion in FY15 (annual average growth rate is expected to be 21.0 percent). Taxes on income and profit are projected to increase from Taka 165.6 billion in FY10 to Taka 195.1 billion in FY11 and to Taka 375.3 billion in FY15 (average growth rate is expected to be 18 percent). Thus, the main sources of revenue will remain tax revenue and within tax revenue indirect tax will remain the biggest earner. However, attempts will continue to enhance tax mobilization for direct sources as well. Direct tax will remain in the region of 23 to 25 percent of total revenue. Non-tax revenue is expected to be in the region of 17 to 20 percent of total revenue.

3.43 The government has a medium-term plan to raise ADP to 6.6 percent of GDP by FY15, maintain debt-to-GDP ratio within a tolerable limit, achieving a growth rate of 8 percent by FY15 and sustain it beyond. In order to materialize these, enhancing the domestic resource mobilization substantially (14.1 percent of GDP by FY15) is a fundamental requirement. The efforts in the plan are in the right direction. The important issue is to implement the plan in a sustainable way.