

BANGLADESH EXPERIENCE
OF
TAX REFORM
TO
IMPROVE TAX
COMPLIANCE

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&

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Presentation Outline

- ❖ Objective of Tax Reform
- ❖ Necessity of Tax Reform
- ❖ Challenges and Difficulties of Reform
- ❖ Tax Reform: Where to Start from?
- ❖ Introduction to Bangladesh Tax System: NBR Structure, Composition of Taxes(collection wise)
- ❖ Background /History of Bangladesh Tax Reform

Presentation Outline

(Cont...2)

Reform Mechanism in Bangladesh Taxation System :

- Modification of Laws, Rules and Statutes
- Infrastructure & Human Resources Development and Capacity Building
- Introduction of Modern Management System
- Strengthening Legal Wings
- Automation of Business Process
- Taxpayers Service and Enforcement for Better Compliance

Tax Reform

❖ What is Tax Reform?

- ❖ Endeavour of and program for simplifying the tax system including tax code
- ❖ Modernization and modification of tax laws with ample consideration of recent global business and taxation trends
- ❖ Formulation of rules to counter compliance risks(Incorporation of anti abuse rules , investigation power and reporting requirements)
- ❖ Introduction of Tax and non-Tax measures for better compliance
- ❖ Ensure taxpayer friendly environment
- ❖ All these are done for better compliance to reduce tax gap.

Why is Tax Reform necessary?

- ❖ To increase revenue
- ❖ To curb tax evasion and tax avoidance through introduction of legal obligations
- ❖ To reduce tax- gap
- ❖ To increase taxpayers' service
- ❖ To facilitate trade and industrialization
- ❖ To ensure better tax compliance
- ❖ To Simplify tax code because current code is too complex

Why is Tax Reform Necessary? (Continued....)

- ❖ To accommodate changed Investment and Business regime in taxation system
- ❖ To Incorporate International Taxation Rules
(To end the era of aggressive tax avoidance)
- ❖ To Strengthen the Capacity of Poorly Resourced Tax Regime/Officials

Why is Tax Reform difficult?

- Tax reform creates uncertainty among taxpayers.
- Every reform creates both winners and losers
- There are people for and against
- It is difficult to calculate the tax impact
- There are cross border issues
- Different countries have different treatments for the same action

Challenges of tax reforms

- ❖ An age-old system and law exists there- the question of how to change it and how to implement it . It is very difficult to find a transitional mechanism.
- ❖ Taxpayers are tuned to the existing system –be it relatively easy or difficult
- ❖ May affect tax collection
- ❖ May result in strong public opposition
- ❖ Cross border issues etc.

Tax Reform : Where to start from?

- ❖ Most tax regime starts tax reforms with change of tax code/legislation
- ❖ Introduction of new taxes like Value Added Tax , new Sales Tax , Special Cess ,Surcharge etc.
- ❖ Resource constraint jurisdictions need to develop manpower , infrastructure etc.

Tax reforms :where to start from?(Continued...)

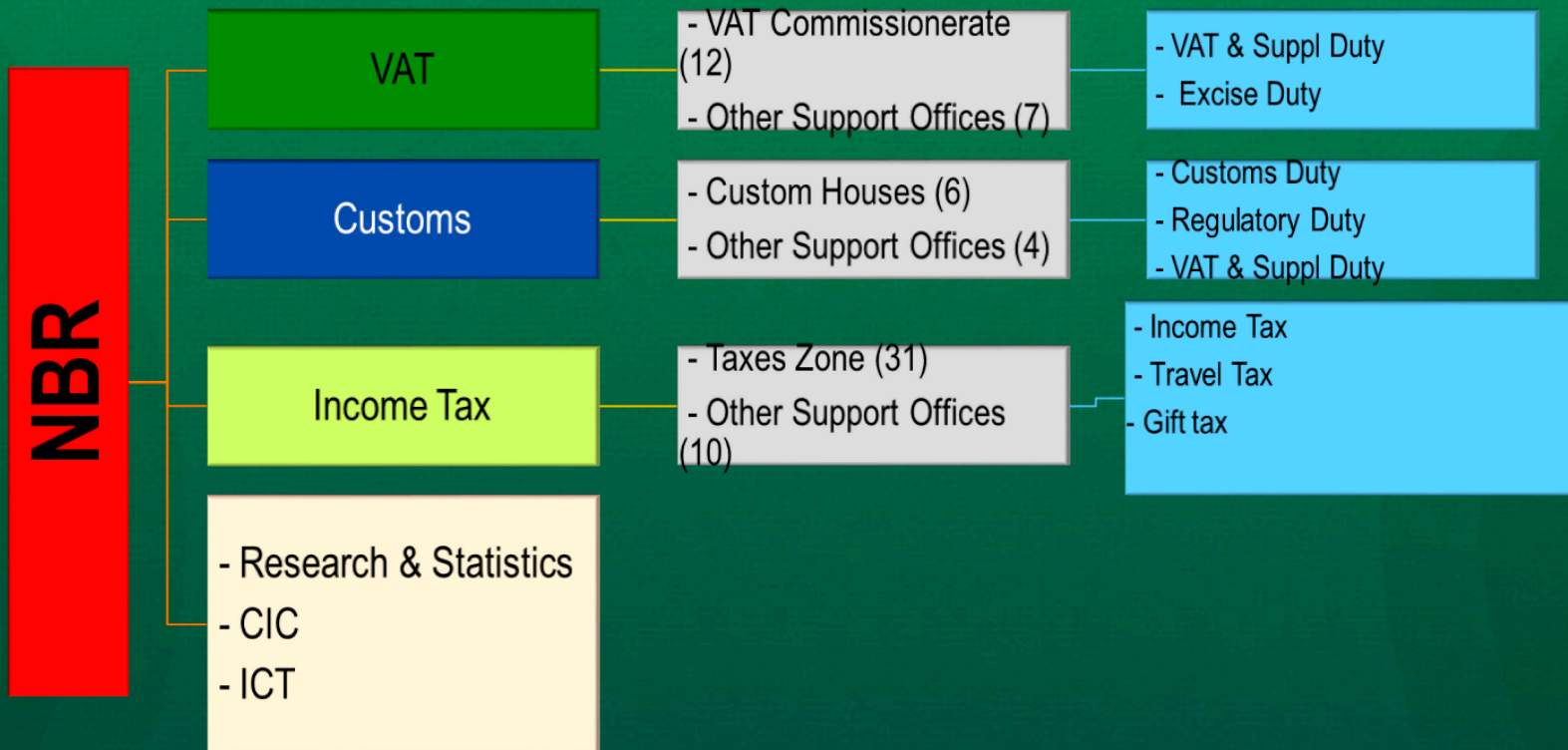
- ❖ Automation of business process : an integral part of reform
- ❖ Introduction of modern management techniques
- ❖ Taxpayers' Service and Enforcement

Introduction to Bangladesh Tax System

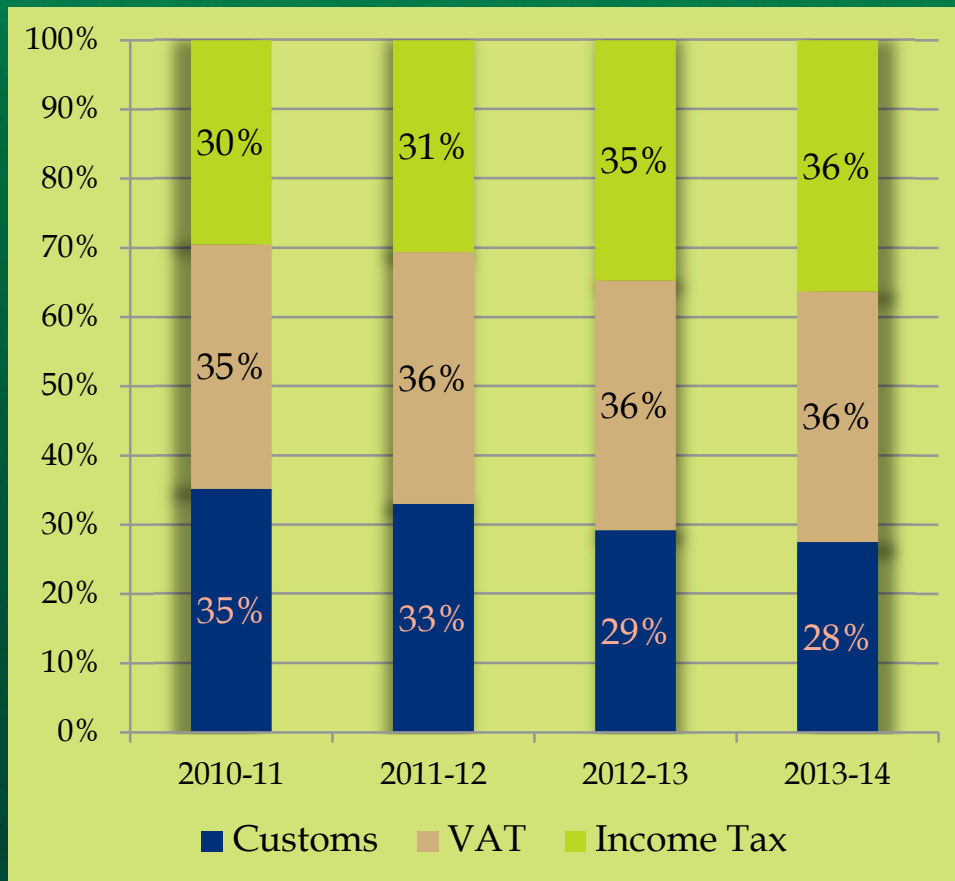
The Ministry of Finance mobilizes resources from domestic and international sources. It has four Divisions:

- Finance Division
- Internal Resources Division (IRD):
NBR, Appellate Tribunals and Savings Dept.
- Economic Relations Division (ERD)
- Banking and Financial Institutions Divisions

NBR: Structure



Stake of Different Taxes in Collection



Contribution of revenue at import stage progressively sliding whereas contribution from Income Tax growing.

Indication of emerging economy relying more on domestic sources, and Liberalized trade regime

Tax Reforms in Bangladesh : Background & History

History of Reforms in Bangladesh

- Around two decades back Bangladesh undertook reform initiative
- In an effort to augment revenue Value Added Tax (VAT) was enacted in the year 1991
- In the year 2002 Government initiated a project , namely “REFORMS IN REVENUE ADMINISTRATION.” Under the initiative and recommendation of this move the first functional unit LTU- Large Taxpayers Unit was established for Income and Corporate Tax in 2003.
- Later in 2004 the LTU(Value Added Tax) was set up.

Tax Reform in Bangladesh: Background and History(Continued....)

- ASYCUDA ++ and ASYCUDA World was introduced
- For Training the tax officials a project namely TACTS-Tax Administration Capacity and Taxpayers Service was introduced . The aim of the project was to enhance capacity of the tax officials providing them training at home and abroad

Reform Strategy in Bangladesh Tax Administration

- ✧ Modification of Existing Laws, Rules and Statutes
- ✧ Infrastructure, Manpower and Capacity Development
- ✧ Strengthening Legal Wings and Setting up of Alternative Dispute Resolution(ADR) to deal with huge number of cases lying pending at higher courts

Reform Strategy in Bangladesh Tax Administration (Continued...2)

- ❖ Automation of Business Process
- ❖ Taxpayers Service for better compliance

Modification of Laws , Rules and Statutes

- ❖ New Value Added Tax and Supplementary Duty Act,2012 has been enacted with effect from July 1, 2016
- ❖ A Direct Tax Code (Income and Corporate Tax) was drafted. Considering some global and domestic aspect and also its applicability, it has been decided to redraft a new law. A new Tax Code will be in place by 2017.
- ❖ Customs Act 2015 is in the process of finalization as per the instruction and guideline of the cabinet . It is expected to be enacted within this year.
- ❖ Significant changes have been brought in Stamp Duty Act

Modification of Laws , Rules and Statutes

- Over the last couple of years Bangladesh Taxation Laws have incorporated some of the international aspects in the legislation.
- Transfer Pricing Systems have already been introduced
- In the new Law the international taxation rules are expected to be incorporated
- Reporting standards will be set up
- Auditing and compliance rules will be modified

Infrastructure Development and Capacity Building

- ❖ Set up Revenue Infrastructure in Divisional and District Headquarters
- ❖ Huge Expansion of Customs, Value Added Tax and Income Tax Wings to Meet the need of Growing Number of Taxpayers
- ❖ Expansion of Tax Offices up to Upazilla Level(The smallest administrative unit)
- ❖ Plan to set up a TDS(Tax Deducted at Source) Zone for Monitoring and Collecting TDS

Strengthening Legal Wings

- ❖ Establishment of a Legal Solution Team comprising Tax Officials and Retainer Advocates to deal with huge number of revenue cases lying pending in Higher Courts.

Strengthening Legal Wings(Continued....)

- ❖ Alternative Dispute Resolution (ADR) system was introduced in the Finance Act 2011.

This was a reform initiative to facilitate taxpayers to settle some disputes outside the court)

Legal Solution Team and Alternative Dispute Resolution

Background:

More than 20 thousand cases are lying with different courts involving about 20 thousand crore taka (2.56 billion USD).

Objective:

Dispute resolution of revenue related litigations lying with higher courts through ADR.

Automation of Business Process

Integrated Revenue Management Program: Digitization Program

- ❑ **Online** Taxpayer Identification Number (e-TIN)- (completed)
- ❑ **Online** Business Identification Number (BIN) for VAT- (work-in-progress)
- ❑ **e-filing** of Income Tax and VAT Returns- (To be effected from July 1,2016)
- ❑ **Electronic submission** of Customs declarations and cargo manifest - (Automated System for Customs Data - ASYCUDA World software installation is completed)

Automation of Business Process

(Continued.....)

- Integrated Revenue Management Program: Digitization Program
- NBR Data Centre with Disaster Recovery site at Chittagong (completed)
- Nationwide connectivity through fibre optic lines NBRNET- (completed)
- National Single Window (NSW) for customs clearance (Bangladesh Bank is already connected with NBR for electronic exchange of Letter of Credit and Export Permit data to track money laundering)

Taxpayers Service : Taxpayers Education & Motivation Programme

Programmes

- Organize Tax Fair, Seminar, Symposium, and Workshop.
- Visit to Schools, Colleges, Universities and Madrashas.
- Visit to Corporate Offices and different Associations or Bodies and organize classes.
- SMS programmes .
- Website design.
- Publish booklets and advertisement.
- Circulate the citizen charter widely.

Taxpayers Service : Taxpayers Education & Motivation Programme (Continued)

❖ Tax Fair:

Year	Number of Spots	New Taxpayer	No of Returns Submitted	Tax collection (Million Tk)	No. of Service Recipient
2010	2	5,638	52,544	1,130	60,512
2011	8	10,041	62,272	4,140	75,120
2012	18	18,287	97,867	8,310	346,867
2013	64	86,693	132,017	11,170	510,145
2014	64	26,745	149,309	16,750	649,185

Taxpayers Service : Taxpayers Education & Motivation Programme

- Tax Information Service Centre(TSIC)

Established on 1 July,2013

Types of Services:

- a. Primary advice
- b. Registration and reregistration of Taxpayers
- c. Jurisdiction Information
- d. Return form filling support
- e. All other preliminary information

Number of TISC-9 at major cities

Number of service recipients up to June 15: 80,000

Help Desk at every circle office: 649

Model of Revenue Building (Construction work in progress)



Observance of National Income Tax Day (Street Rally)

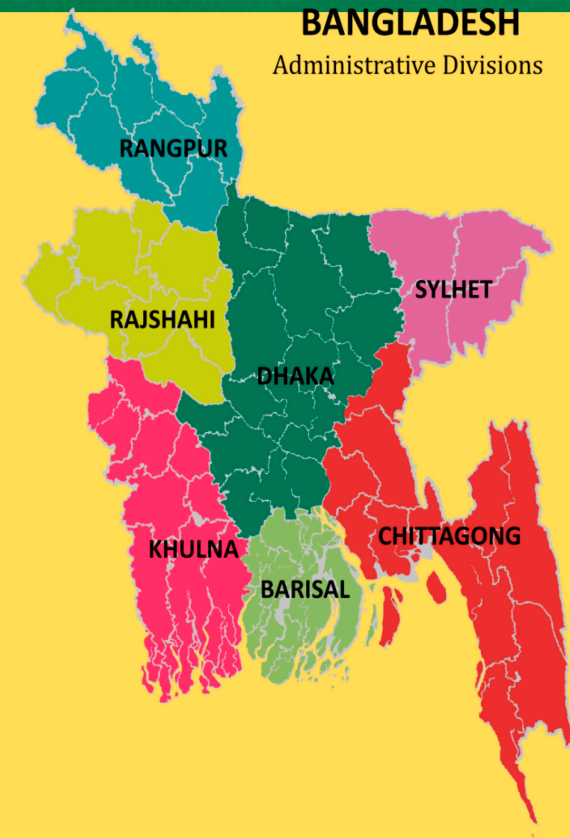


Rally for Public Awareness



SGMP @ a glance- components(Digitization Network)

- Online return submission
- Digitization of offline tax returns
- Networking & connectivity
- Automation of office procedures
- Data base management
- Report generation



THANK YOU

