
THE VALUE-ADDED TAX (VAT) IMPROVEMENT PROGRAM

RAISING THE OPERATIONAL EFFICACY OF THE VAT
ADMINISTRATION IN BANGLADESH

ESTIAQUE BARI East West University, Dhaka

TOWFIQUL ISLAM KHAN Centre for Policy Dialogue (CPD), Dhaka

MOHAMMAD SHAHID ULLAH Sushasoner Jonny Procharavizan (SUPRO)

Value-added tax (VAT) generates over a third of government of Bangladesh (GoB) revenues, with little progress on strengthening direct taxation. Robust social protection systems can mitigate VAT's regressive character, but Bangladesh's social protection programmes inadequately cover urban low income households. During 2015–2021, the World Bank's VAT Improvement Program facilitated Bangladesh's VAT automation, but lacked equity objectives and fell short on improving transparency and taxpayer satisfaction. The GoB must enhance social protection coverage and make VAT administration gender-aware, given negative effects on low income female entrepreneurs and consumers. Bangladesh and its development partners should focus on boosting progressive direct taxation.

This research report was written to share research results, to contribute to public debate and to invite feedback on development and humanitarian policy and practice. It does not necessarily reflect the policy positions of the organizations jointly publishing it. The views expressed are those of the author and not necessarily those of the individual organizations.



CONTENTS

CONTENTS	2
Acronyms	3
Executive Summary	4
1 Introduction	7
2 Methodology and analytical framework	9
3 Literature review on impact, challenges and management of VAT	10
4 VAT in Bangladesh: Background, evolution and current status	15
5 VAT challenges in Bangladesh and effectiveness of project-based initiative to expedite the VAT implementation process	19
6 Review of World Bank project: Planned versus actual outcome	25
7 Conclusion	31
Acknowledgements	37

ACRONYMS

ADB	Asia Development Bank
BDT	Bangladeshi taka (currency)
CNG	compressed natural gas
DRM	domestic revenue mobilization
ECR	electronic cash register
EFD	electronic fiscal device
e-GP	electronic government procurement
ETR	electronic tax register
EU	European Union
FAQ	frequently asked question
FD	Finance Division
FY	fiscal year
GDP	gross domestic product
GoB	Government of Bangladesh
GST	Goods and Services Tax
IMF	International Monetary Fund
ITMS	Income Tax Management System
IVAS	Integrated VAT Administration System
MoF	Ministry of Finance
NCB	national competitive bidding
NBR	National Board of Revenue
OECD	Organisation for Economic Co-operation and Development
PDO	program development objective (World Bank VIP)
RTI	Right to Information
SD	Supplementary Duty (Act)
SGMP	Strengthening Governance Management Project
VAT	value-added tax
VIP	VAT Improvement Program
WB	The World Bank

EXECUTIVE SUMMARY

Bangladesh currently has a weak and inequitable tax system. This undermines not only domestic revenue mobilization (DRM), but also the social contract between citizens and their government. It is a key driver of budget allocations for education and healthcare that are far below targeted levels. Tax revenues are currently 7.7% of gross domestic product, the lowest level in South Asia. The government depended heavily on indirect taxation for more 55% of revenues in 2018, and this contributes to both real and perceived unfairness. There is a lack of political commitment to reduce widespread exemptions and tax incentives, tax avoidance and evasion from both companies and a growing number of high net-worth individuals.

In his 2016-2017 budget speech, the Minister of Finance committed the government to collect “50% of total revenue from direct taxes in the year 2020-2021” (Ministry of Finance, 2016). This could mobilize more than \$5.9 billion, enough to double the entire health budget. Despite this pledge, from 2014 to 2020, Bangladesh received support from the World Bank not to strengthen direct taxation, but to implement a six-year, \$60 million project called the Revenue Mobilization Program for Results: Value Added Tax (VAT) Improvement Program (VIP). There were concerns that the project would reinforce the country’s dependence on indirect taxes. SUPRO, the Campaign for Good Governance, with support from Oxfam, undertook research on VIP and tax policy in Bangladesh more generally.

VAT is an indirect consumption tax charged on goods and services at each stage of production and distribution processes, from labour and raw materials to the sale of final consumable products or services. So it is broader than a sales tax, which is assessed only at the final stage of consumption.

Over the past 15 years, the Government of Bangladesh (GoB) has relied on VAT for more than a third of all tax revenues, with little progress towards strengthening taxation of high net-worth individuals and large corporations. The country’s VAT law, revamped in 2012 and further amended in 2019, offers businesses the choice of a uniform tax rate or multiple rates. It also exempts certain goods and services altogether. This is a common way worldwide to try to reduce the regressive impact on low income people and protect infant industries, but large corporations and other interest groups also use these exemptions to avoid paying taxes.

VAT’s effectiveness for domestic revenue mobilization (DRM) declines if a large share of economic activities occurs in the informal sector, or if exemptions proliferate into larger industries and economic sectors. A sizeable informal sector also tends to make VAT evasion more likely. In Bangladesh, the informal economy accounts for more than 85% of employment and 40% of gross value added.

Many experts believe that the revised law can help improve the efficiency of revenue mobilization, especially if the country undergoes a smooth transition from manual to automated VAT collection. Automation offers an important way to reduce VAT evasion, which is widespread in Bangladesh.

Studies of VAT around the world indicate that it is a regressive form of taxation, but robust social protection systems can mitigate this, especially if combined with VAT exemptions for necessities. A major issue in Bangladesh is that social protection programmes inadequately cover low income households in urban areas. Although 20% of urban dwellers live in poverty, government safety net programmes only reach 11% of urban Bangladeshis. Low income urban dwellers interviewed for this report were unaware of their eligibility to receive social protection benefits. Also, certain essential purchases remain subject to VAT, e.g. medicines and cell phone charging services.

Women in Bangladesh face unequal rights to own property, wage discrimination, and unequal distribution of power within the household and society. Women entrepreneurs interviewed as part of this research indicated that current tax policy fails to take these inequalities into account. As

most women entrepreneurs have micro-, small- and medium-sized enterprises, they see the standard 15% VAT as threatening their competitiveness. On the consumer side of the equation, low income women have to pay VAT on menstrual products, which takes a bite out of their limited household budgets.

During 2015–2021, the World Bank’s (WB) VAT Improvement Program (VIP) assisted the Bangladesh National Board of Revenue (NBR) in improving VAT administration. Notably, the project helped significantly in expediting the automation process. VIP also exceeded its target on increasing the total value of electronic VAT payments by a factor of nearly 25 (BDT 2.6bn vs. the target of BDT 105m). The project sought to reduce the processing time for VAT refunds from 120 to 102 days, and surpassed that goal, achieving 90 days.

However, the VIP project did not include any objectives to improve equity and fairness of VAT or the tax system more broadly. The project did not conduct a distributional impact analysis to understand which income groups are most affected by VAT automation, or how this reduced or increased inequality.

VAT revenue increased to 1.15 trillion Bangladeshi takas (BDT) in fiscal year (FY) 2020–2021, surpassing VIP’s target of BDT 914bn. Revenues increased by 15.1% annually during the life of the programme, although growth slowed to just 4.9% after the onset of the coronavirus pandemic. In contrast, growth in revenues from direct taxation – such as corporate and personal income tax – was slower, even declining from 2014 to 2018. This highlights an important trade-off, and missed opportunity to improve direct taxation as committed to by the Minister of Finance in 2016.

Due in part to the COVID-19 crisis, VIP fell short on its ambitions to improve the transparency of VAT administration. The programme sought to enhance auditing, so that additional revenue might come from more accurate assessments. But the government never issued an audit manual to help achieve this objective. The NBR website does disclose monthly VAT collection and refunds, and has also posted information on e-services, regulations, forms, frequently asked questions, enabling structures, systems, processes and how to contact Right to Information (RTI) officials. It is questionable how much the website contributes to transparency given that the World Bank points out that less than 13% of the population of Bangladesh has access to the internet.

Nor did VIP achieve the target level of increased taxpayer satisfaction with services. Research for this report and other studies have found high levels of dissatisfaction with numerous aspects of VAT among both consumers and entrepreneurs, and notably among low income and female consumers and entrepreneurs, so the outcome is a disappointing one.

Since economic activities through e-commerce and Facebook-based commerce, as well as digital payments, are expanding fast, VAT evasion is also likely to increase. In this context, integrating technology-based solutions will be key to improve VAT compliance management.

The key challenge for NBR is to continue the framework and process developed with the support of VIP and fine-tune it when and where required. In this regard, it is concerning that prior aid-supported tax reform projects ceased to have much effect beyond the life of those projects. Furthermore, resistance to fully automated VAT compliance procedures is likely to come from both within and outside NBR, as such procedures challenge NBR officials’ discretionary power and the scope of VAT evasion for businesses and political elites.

In order to address the regressive nature of VAT and its significant impact on low income households, it is imperative that the government improve the coverage of social protection programmes, particularly in urban areas. Those programmes will require improvements in their design and targeting, as well as better outreach to ensure that eligible people know how to access the benefits to which they are entitled.

Bangladesh and its external partners, such as the World Bank, need to focus future DRM efforts on strengthening effective taxation of corporations, high net-worth individuals, wealth, property and capital, and on other progressive streams of revenue.

At the same time, the government needs to put an end to gender-blind VAT administration and recognize that the tax currently has negative effects on low income female entrepreneurs and consumers. Such measures as reduced VAT and tariff rates for micro-, small- and medium-sized businesses (the bulk of women-owned enterprises) and adding menstrual products to the VAT-exempt list would contribute to both fiscal and gender justice.

1 INTRODUCTION

Domestic revenue mobilization (DRM) in Bangladesh is among the lowest in the world (World Bank 2022), and this undermines efforts to increase public expenditures on education, health and other investments to reduce poverty and inequality. The revenue that is collected depends on indirect taxation, such as the value-added tax (VAT). Recognizing the prevalence of VAT in Bangladesh, and around the world, this report focuses on assessing recent VAT reforms in that country and the World Bank's support for those reforms.

A value-added tax (VAT) is an indirect (ad valorem) consumption tax levied on goods and services at each stage of production or distribution processes – from labour and raw materials to the sale of final consumable products or services (Tait, 1988; Schenk et al., 2015). More than 150 countries have adopted VAT as a modern tax strategy, and it accounts for more than one-fifth of global tax revenue (James, 2015). During the 1960s and 1970s, most Western European and Latin American countries adopted a VAT (James, 2015). Later, in the 1980s, many industrialized countries, including several Organisation for Economic Co-operation and Development (OECD) member states, started to adopt VAT as an alternative to sales tax (James, 2015; Schenk et al., 2015).

Unlike VAT, sales tax is assessed only once, at the final stage of consumption (Mikesell, 1998). Still, in countries such as Australia and Canada, the Goods and Services Tax (GST) is collected by following the broader framework of VAT. However, one of the original proponents of the concept of VAT, US economist T.S. Adams, pointed to it as an alternative to 'business income tax' in 1917 (Adams, 1917), while German businessman Wilhelm Von Siemens suggested it in 1918 as an improvement over the 'turnover tax' (James, 2015).

Arguably, the concept of VAT has been the most significant development in tax policy and tax administration in the recent past. Its wider and faster rate of adoption at the national level is evidence of that fact. As in many middle and low income countries in Asia and sub-Saharan Africa, in Bangladesh the International Monetary Fund (IMF) played an instrumental role in convincing the government to adopt VAT in 1991 (Keen and Lockwood, 2010). The tax replaced excise duties on domestic production and sales tax on imports (Mansur and Khondker, 1991).

Globally, three varieties of VAT models are commonly adopted and practised, viz. European, New Zealand and Japanese. The articulation of the 'New Zealand VAT model' is efficient and relatively simple (James, 2015). The original VAT Law of 1991 in Bangladesh followed the New Zealand model. Implementation of VAT has proved politically challenging in many countries, as it brings changes in the business climate (Bräutigam, 2004; Helgason, 2017). The results are frequently mixed in both low and middle income nations and industrialized ones. After the adoption of VAT, several countries initially experienced a reduction in tax revenues despite the favourable long-run revenue potential (Keen and Lockwood, 2010).

Bangladesh has enjoyed consistent and robust economic growth for decades, but its domestic tax system has long largely been characterized by manual administration, high rates of tax evasion that lead to low revenue collection, and high levels of discretion and administrative weakness in the management of corruption (Hassan and Prichard, 2016). Consequently, the GoB is gradually making significant strides to opt for automated tax collection procedures and reforms in its taxation policies.

The weak and inequitable tax system undermines not only DRM, but also the social contract between citizens and their government. It is a key driver of budget allocations for education and healthcare that are far below targeted levels. Tax revenues in Bangladesh are currently 7.7% of gross domestic product, the lowest level in South Asia (Mavis, 2022). The government depended heavily on indirect taxation for 55% of revenues in 2018 (UNU-WIDER, 2022), and this contributes to both real and perceived unfairness. The tax system features pervasive exemptions, tax incentives,

tax avoidance and evasion from both companies and a growing number of high net-worth individuals (Muhith, 2015).

1.1 RATIONALE OF THE STUDY

In his 2016-2017 budget speech, the Minister of Finance committed the government to collect “50% of total revenue from direct taxes in the year 2020-2021” (Muhith, 2016). This could mobilize more than \$5.9 billion, enough to double the entire health budget.

The new VAT and Supplementary Duty (SD) Act of 2012 finally came into effect on 1 July 2019. Its enactment was a landmark in the tax reform process. However, several studies have provided evidence that the introduction of VAT as per the 1991 ‘original VAT Law’ supported improving domestic revenue mobilization and spurred economic growth, given the country’s relatively better fiscal position (Mahmud, 2014; Chan et al., 2017; Islam, 2019). In contrast, many others have argued that a reform in the 1991 law was needed due to the multiplicity of VAT rates (which leads to distortionary economic decision making that is suboptimal for economic production) and the cascading effects resulting from the informality of the economic structure of Bangladesh. In the view of these analysts, these factors were impeding the government’s ability to improve its share of revenue collection, especially through VAT (Mansur and Khondker, 1991; Khanam et al., 2021).

The process of enactment of the 2012 VAT law was not smooth either; it experienced almost across-the-board resistance from political, economic and administrative elites (Siddiquee and Saleheen, 2021). As a result, concerns such as the multiplicity of VAT rates and the exemption of certain products and services could not be completely eliminated even in the revised version of the VAT and SD Act, 2012. Furthermore, within the VAT system, it must be realized that cascading effects may arise when an intermediate business is tax-exempted in the supply or distribution chain (Bye et al., 2012; Dietl et al., 2011). Since 2012, although the GoB was apprehensive about the consequences of the implementation of a uniform VAT rate for the economy and delayed the process to avoid contention with various interest groups, it continued to make an effort to gradually implement the new VAT and SD Act phase by phase. As part of that planning, to expedite the process of new VAT and SD Act, 2012 implementation, the GoB approved the World Bank-funded project (P129770) titled ‘Revenue Mobilization Program for Results: VAT Improvement Program (VIP)’ in 2014 and agreed to mobilize a contributory fund from domestic sources.

1.2 OBJECTIVE AND STRUCTURE OF THE STUDY

The objective of this study is to review the new VAT and SD Act, 2012 and discuss its promises and perils; and evaluate the convergence between planned and actual outcomes of VIP and frame the discussion accordingly.

In addition to this introductory section, the present paper includes six sections. Section 2 explains the methodology and analytical framework of the study. Section 3 reviews the literature on impact, challenges and management of VAT, including the important issue of how an arguably regressive form of taxation might contribute to poverty alleviation. Section 4 presents the introduction of VAT in Bangladesh, its background, evolution and current state. Section 5 discusses the VAT administration challenges in Bangladesh and the effectiveness of this project-based initiative to expedite the VAT implementation process. Section 6 takes a close look at the convergence between planned versus actual outcomes of VIP by analysing the core project objectives. Section 7 presents a conclusion highlighting the findings of the study.

2 METHODOLOGY AND ANALYTICAL FRAMEWORK

The study utilized the following qualitative approaches to data collection:

1. Desk review/literature review;
2. Key informant interviews; and
3. Focus group discussions (FGDs).

Information and evidence were collected from both primary and secondary sources, the latter via a literature review. The primary sources included semi-structured interviews with key informants and focus group discussions with entrepreneurs, vendors and consumers, including low income consumers and female entrepreneurs, vendors and consumers. The key informants interviewed included GoB officials in the Finance Division under the Ministry of Finance, including the VAT Office and the Tax Office, as well as in the Economic Relations Division of the Ministry; World Bank and other donor representatives; academic experts; civil society organization leaders; entrepreneurs; vendors; and consumers.

The study locations for the primary data collection were the Dhaka, Khulna, Sylhet and Rangpur Divisions. We covered four divisional cities and eight districts: Dhaka, Mymensingh, Sylhet, Moulvibazar, Khulna, Bagerhat, Rangpur and Nilphamary Districts.

The literature review included World Bank project documents and related materials, government policy documents and relevant academic literature. Our review focused on the following issues:

1. VAT implementation globally;
2. VAT implementation in Bangladesh;
3. Aid to pro-poor and gender-equitable domestic revenue mobilization and VAT.

The study assesses the relevance and effectiveness of these activities considering the context and background of DRM in Bangladesh and evaluates the impact of the programme through pro-poor and gender analyses. The study examines the extent to which VAT reform efforts integrate women's empowerment; citizens' views of the links between the VAT and other taxes on the one hand and women's empowerment on the other; and whether there are gender differences in the overall tax burden. Moreover, the analytical lens emphasized a strong citizen-state compact that entails trust building and accountable delivery of quality public services at national and local levels. These are essential to pro-poor DRM and collecting better revenues.

3 LITERATURE REVIEW ON IMPACT, CHALLENGES AND MANAGEMENT OF VAT

Globally, the concept of VAT is one of the most significant innovations in the tax management system. A plethora of scientific studies have examined different aspects of VAT, and the list is growing over time. More recent evidence has contested and even refuted previous findings. This section reviews secondary literature to understand the impact of VAT in low and middle income and high income countries, identify its operational challenges and delve into management techniques to mitigate some of these implementational challenges.

3.1 ROBUST SOCIAL PROTECTION SYSTEMS CAN MITIGATE THE REGRESSIVE NATURE OF VAT

VAT is generally viewed as a regressive form of taxation, as it is levied on consumption and the propensity to consume decreases as income rises (see, for example, Leahy et al., 2010; Ruiz and Trannoy, 2008 and O'Donoghue et al., 2004). Caspersen and Metcalf (1994) find VAT to be regressive even after adjusting for the distributional impact of zero-rating food, housing and medical expenditures, especially in low and middle income countries.

Critics of VAT argue that a standard uniform VAT rate pulls relatively more money out of poor consumers' pockets upon purchase of a product or service. Hence, it reduces the purchasing power of consumers and makes it harder for low income individuals and households to purchase necessary products or services. Critics also suggest that VAT induces additional administrative costs for firms or businesses. In principle, a standard uniform VAT rate neither includes an exemption on certain products or services (as well as zero-rating) nor counts alternative avenues of social transfer for poorer segments of the population. In this context, Jansen and Calitz (2015) argue that VAT zero-rating might not be the optimal way to relieve poverty; rather, targeted social assistance programmes are likely to better serve to improve the welfare of people living with poverty. Relatedly, Benzarti and Carloni (2019) suggest that VAT cuts generate more benefits to producers than consumers.

Countries that maintain a progressive tax system usually take measures to exempt food, social necessities and social transfer programmes (cash or in-kind), taxing necessities at low rates and luxuries at high rates to mitigate the regressivity of VAT (Tamaoka, 1994; see also Kundu and Cabrera 2022). Thomas (2020) finds VAT to be roughly proportional or somewhat progressive in nature in most of 27 OECD member countries. However, OECD member countries operate several social transfer or social security programmes to support poor and vulnerable households, and these offset the regressive nature of VAT.

3.2 REGRESSIVITY OF VAT IS SUPPORTIVE TOWARDS GREATER INCOME DISTRIBUTION

Beyond the merit of revenue generation, VAT has a multi-faceted impact on individual consumers and producers. Chen *et al.* (2021) argue that VAT reforms are usually conducive to residents' income

distribution. It decreases the indirect tax burden of residents and increases their real income. The authors assert that the adoption of VAT allows the government to reduce income and corporate tax to their needs and better adjust to induced demand or supply shocks. VAT reforms are often supportive of income distribution and reducing income inequality. Similarly, Mattos and Politi (2014) suggest that VAT allows the government to provide relatively more tax cuts and exemptions on basic food baskets. They further claim that institutional arrangements as regards VAT law implementation and redistribution policies usually determine whether VAT is complementary to pro-poor policy or fiscal equalization (substitution policy). In general, the findings of Chen *et al.* (2021) and Mattos and Politi (2014) resonate with the claims of people who believe VAT is regressive in nature. The advocates of VAT also claim it provides more incentive for people to work and earn more. In addition, it makes tax evasion harder as taxes are embedded in the purchase of goods and services. However, this argument that VAT is actually progressive applies primarily to OECD member states and other wealthy countries.

3.3 VAT BOLSTERS NATIONAL REVENUE MOBILIZATION AND SPURS ECONOMIC GROWTH

VAT has been applied in a number of both high income and also low and middle income countries for at least twenty years now. Charlet and Buydens (2012) find that 27 out of 33 OECD countries that have adopted VAT observed benefits in terms of higher revenue collection. For instance, VAT contributes nearly 15% of the total revenue collection of OECD countries. Similarly, Tait (1988) finds that VAT (or GST) helped high income countries like Japan, South Korea, Luxemburg, the Netherlands, New Zealand, etc. to mobilize higher domestic revenues despite being adopted in different time periods. He also suggests that VAT is equally effective in revenue mobilization in other European Union (EU) member states. However, relatively higher incidences of tax evasion within and across intra-regional borders are common in the EU. Macek (2015) argues that direct taxation, i.e. corporate and personal income taxes, have a negative impact on the economic growth of OECD members, although Saez (2016) finds that high top personal income tax rates contribute to growth. Macek (2015) also asserts that indirect tax measures such as VAT contribute positively towards the economic growth of OECD members.

On the other hand, Emran and Stigliz (2005) point to a general consensus that an increase in VAT revenue collection enabled low and middle income countries to reduce income and trade-related direct taxes. However, they additionally assert that the effectiveness of revenue collection through VAT significantly depends on how big the informal sector of an economy is. Given that a large part of the pie of economic activities in low and middle income countries takes place in the informal sector, the substance of the argument in favour of VAT, that it generates substantial revenue, gets weaker for these countries. In Bangladesh, the informal economy is quite substantial, accounting for more than 85% of employment and 40% of gross value added (Mujeri, 2020).

Nonetheless, Keen (2008) contends that VAT indirectly includes the informal sector by levying tax on some portion of the inputs and imports used. Azaria and Robinson (2005) show that the adoption of VAT helps all countries across regions collect significantly higher revenue. Low and middle income countries enjoy the highest positive benefit of the adoption of VAT. Simultaneously, trade liberalization policies pursued by low and middle income countries also contribute to higher revenue mobilization through VAT at import stages.

More specifically, Schlotterbeck (2017) states that the introduction of VAT in the Caribbean region had supported countries to significantly improve domestic revenue mobilization, but this neglects the equity aspects of DRM. Evidence from Africa also endorses VAT as supportive of better domestic revenue mobilization (Unegbu and Irefin, 2011; Onwuchekwa and Aruwa, 2014; Jalata, 2014; Njogu, 2015). In the case of Bangladesh, the introduction of VAT significantly helped to mobilize tax revenue, which in turn allowed the GoB to make public investment in priority areas to perpetuate economic growth (Lalarukh and Salahuddin, 2013; Islam, 2019).

However, policymakers from all regions at the country level have experienced or are experiencing difficulties in executing a single VAT rate. Therefore, keeping provisions for VAT zero-rating for major export products is a common practice alongside exemption of certain goods and services.

3.4 REDUCING VAT EVASION AND AVOIDANCE IS CRITICAL FOR THE EFFICACY OF VAT ADMINISTRATION

It is crucial to distinguish between VAT evasion and avoidance before making any discourse regarding the efficiency of VAT measures. In theory, VAT evasion (similar to tax evasion) can be marked as either illegal non-payment or underpayment of actual VAT liabilities due. For example, if a consumer does not seek a sales invoice to avoid VAT and abets a business entity to remain non-compliant, it falls under illegal non-payment. Besides, underpayment of actual VAT liabilities occurs when firms understate their sales and overstate their claims for VAT paid on inputs. On the other hand, VAT avoidance includes using legal frameworks or provisions to reduce VAT obligations (e.g. using VAT exemptions policies, zero-rating, etc.). In principle, tax evasion is a criminal offence by law and one of the major reasons why several governments across the globe are experiencing revenue shortfalls and struggling to achieve fiscal balance (Andreoni et al., 1988). VAT evasion is found to be very common both in high income and low and middle income countries (Matthews, 2003; De Mello, 2009; Ionup-Constantin and Viorela-Ligia, 2014; McClellan, 2019).

Fergusson et al. (2019) find that one-fifth of respondents surveyed were willing to be complicit with traders to make purchases without a proper receipt or documentation to avoid paying VAT. Tax evasion is more prevalent among countries where informal sectors occupy a larger share of economic activities. Fergusson et al. (2019) argue that the likelihood of VAT evasion is higher in low and middle income countries where the prevalence of informality in economic activities is comparatively higher. Low and middle income countries are also lagging behind in terms of initiating technological solutions or installing a software-based system to reduce the likelihood of VAT fraud and evasion (De Mello, 2009). Organizational inefficiencies, data integrity issues and operational ineffectiveness are common tax administration challenges for the collection of VAT revenue across all countries, but more so for low and middle income countries in sub-Saharan Africa and South-East Asia (Schlotterbeck, 2017). The issue of VAT evasion remains critical to other parts of the world too. In Ukraine, the cases of VAT fraud and evasion are extensive in the absence of data-sharing arrangements between local and central VAT collection authorities (Betliy et al., 2013). According to Baer (2013), in the early phases, the challenges experienced by high income countries, e.g. Australia, Canada, New Zealand and the United Kingdom, to improve VAT compliance were similar to what most low and middle income countries are experiencing now.

However, technological readiness to monitor incidences of VAT fraud alone is not a panacea for eliminating VAT evasion. In this regard, Smith (2014) asserts that despite having strict laws and regulations placed and advanced technology installed, there are several weaknesses in administering VAT in the EU. The incidence of VAT fraud and evasion is high both in the domestic circuit and within the intra-regional trade between and among the EU members. In addition, Keen and Smith (2006) suggest that abuse of credit and refund mechanisms has become a serious concern for the EU to reduce tax evasion and avoidance incidences. Their study further claims that administrative measures alone might prove to be insufficient, and a fundamental redesign of the VAT treatment of intra-community trade may be required. Moreover, the business climate is changing fast, as is the modality of payment and rules of businesses. Given the growth projection in e-commerce, VAT evasion and avoidance incidences are likely to attenuate further. As a cautionary note, Abramova et al. (2021) underscore that the inclusion of e-commerce businesses within the provision of VAT administration would significantly help mobilize revenue collection for the EU. The study emphasizes that including e-commerce transactions properly under the VAT system may not generate additional revenue in the short run but will certainly complement the effort to widen the

overall tax net. The argument is more relevant to emerging economies, where e-commerce is still growing. Beyond e-commerce, Yalaman and Yıldırım (2019) caution that virtual payment- and cryptocurrency-based financial solutions are expected to change the VAT administrative regime completely and may create an additional challenge to reducing VAT fraud and evasion.

3.5 VAT ADMINISTRATION: CHALLENGES, THE ROLE OF REFORMS AND PROSPECTIVE SOLUTIONS

Since the early 1950s, the concept of VAT has evolved significantly across all regions of the world. Reforms in VAT policy played an integral part in its acceptability, adoption and spread among countries. However, due to political apprehension, many countries adopted imperfect VAT systems, including provisions like zero-rating and VAT exemption on certain goods and services, the multiplicity of VAT rates, etc. Referring to these deviations from the standard principles of VAT, Bye *et al.* (2012) argue that a general and uniform VAT system covering all goods and services is welfare superior (i.e. such a system makes a greater comparative contribution to the social good) to imperfect VAT systems. Nevertheless, administrative challenges of VAT implementation are similar across high income and low and middle income countries, even if the magnitude of complexities varies significantly (Baer, 2013).

Regardless of the economic status and structure of the country, business entities usually consider the VAT registration process more complex than it seems (Silva, 2014; Kamdar, 2015; Ayebofo, 2016; Zafarullah, 2018; Liu *et al.*, 2021). The unwillingness of businesses to register under the VAT system is one of the major implementation challenges for Ethiopia. In addition, many registered businesses lack interest in installing an electronic cash register (ECR) machine to counter VAT evasion (Markos, 2010). Mohammad and Gela (2014) highlight the problems traders face in using electronic tax registers (ETRs) to make VAT returns in Addis Ababa. Although few faced technical difficulties in handling ETRs, most traders surveyed pointed to a lack of consistency and transparency in imposing penalties by tax-compliance officers and the higher maintenance and compliance cost to maintain ETRs. As many such firms do not comply with ETR requirements and have been facing erosion in competitiveness, they are discouraged from complying with the VAT system. Ayebofo (2016) finds that in the absence of proper bookkeeping, businesses faced added difficulty in completing VAT returns under the self-assessed system in Ghana. He also finds that some businesses collected VAT from consumers but did not transfer the funds to the government. In the context of Bangladesh, Smith *et al.* (2011) suggest that administrative inefficiencies significantly impact the potential revenue collection through VAT. These compound the effects of traders' general lack of willingness to register under the VAT system and consumers' general propensity to look for avenues to avoid paying VAT.

Moreover, the determination of an optimal VAT rate is critical for both high income and low and middle income countries. Bahl and Bird (2008) claim that base-broadening, rate reduction and administrative improvement had been three essential measures for low and middle income countries to expand the tax net under the VAT system and increase tax revenue. Matthews (2003) estimates that an increase in the VAT rate reduces the efficiency of the system due to (a) a drop in the VAT base and (b) an increase in the propensity of VAT avoidance and evasion. Revisiting the list of VAT-exempted items is also critical for offsetting the rate of VAT avoidance. Apart from that, businesses do struggle to get actual VAT refunds from the government in many countries. After reviewing the refund approaches of tax administrations in 36 low and middle income, transitional and high income countries, Harrison and Krelove (2005) conclude that inefficiencies in VAT refund encourage tax evasion. They assert firmly that '*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*' (p. 1).

Overcoming these administrative challenges is not straightforward and requires a longer period than anticipated. Subsequent reforms in the VAT administration process gradually help countries to reduce these administrative challenges before reaching towards a standard procedure of VAT collection by minimizing evasion and avoidance. Mikhaleva *et al.* (2019) argue that there is no alternative to digital solutions to reduce the incidences of VAT fraud. The adoption of technology-based solutions is expected to generate real-time business transaction data and slim business opportunities to evade VAT. Gnanngnon and Brun (2018) find that improvement in internet usage intensity complements national efforts to generate significantly higher tax revenue, and it transfers the highest benefits for expediting revenue mobilization for low income countries. Ayebofo (2016) recommends that electronic VAT registers, simplification of VAT registration and filing procedures, decentralization, and ensuring regular VAT audits raise the efficacy of the VAT collection process. He also suggests that to expedite the process of improvement in VAT administration, necessary reforms should be welcomed by all interest groups. Similarly, Li (2017) proclaims that the use of digital technology and devices (e.g. ECR machines, e-challans (e-receipts)) may reduce the channels for businesses to avoid paying VAT to the government and should improve the revenue base. Pashev (2006) suggests that other countries may learn from Bulgarian anti-fraud devices attached to VAT accounts and various other alternative policies and administrative measures applied to avoid VAT abuse, including the creation of domains of commercial registration.

In addition, Bognetti and Santoni (2016) show that an increase in the intra-brand elasticity of substitution can lower output VAT evasion when under-reporting of final sales and input VAT credits occur jointly. Because of the improvement in VAT compliance, equilibrium prices will fall and VAT revenues will rise both in the short and long run. Also, the establishment of a dedicated large taxpayers unit (LTU) and separating a VAT unit by decoupling it from the income tax unit were common strategic measures taken by a number of low and middle income countries, including Bangladesh, after the introduction of VAT (Kloeden, 2011).

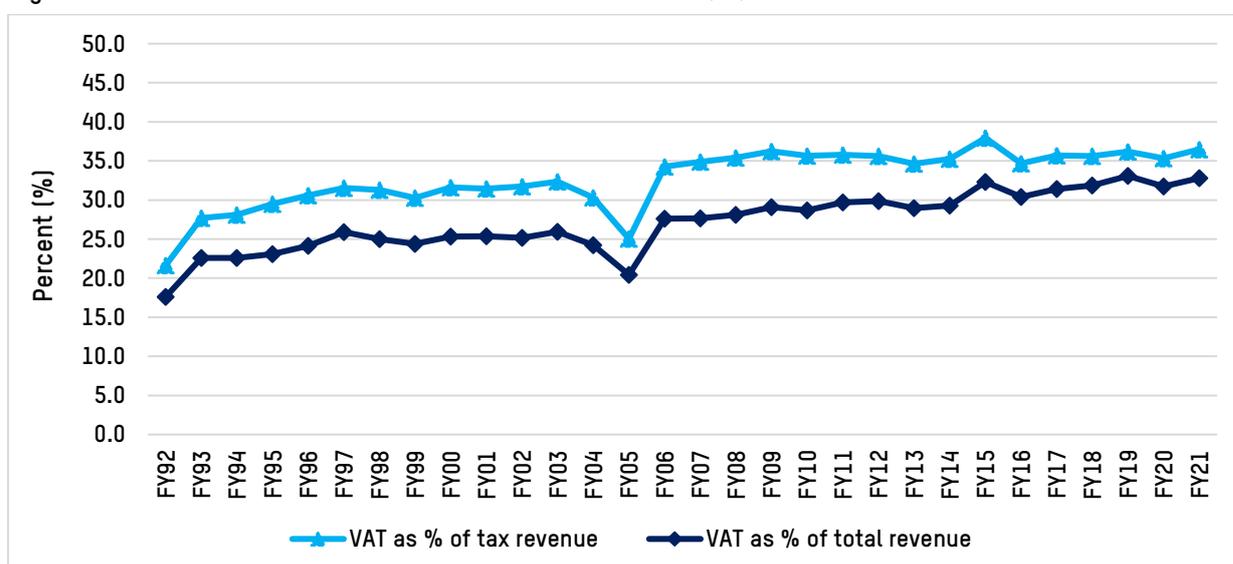
4 VAT IN BANGLADESH: BACKGROUND, EVOLUTION AND CURRENT STATUS

Similar to other high income and low and middle income countries, the adoption of VAT was not smooth in Bangladesh. The government had to negotiate extensively with the IMF given their apprehensive approach towards adopting a VAT law as they faced intense resistance from businesses, local people, political elites, etc. Extensive negotiation and power bargaining continued to escalate, bringing new developments and reforms in the execution of the new VAT law by dismantling the old one.

4.1 BACKGROUND OF THE INTRODUCTION OF VAT LAW

Advocacy on VAT in Bangladesh began in the 1980s with strong persuasion from the IMF. Back then, Bangladesh was mostly dependent on foreign aid and grants, and the role of the IMF was particularly important in fiscal, monetary and trade policy. The first draft of the VAT law was jointly developed by a group of university students, supervised by an IMF economist of Bangladeshi origin in support of NBR officials and the Ministry of Finance (MoF) (Hassan and Prichard, 2013). After the development of the first draft, the process slowed down due to the pre-democracy movement in Bangladesh in the late 1980s and early 1990s. Despite significant business and opposition party resistance, the newly elected government adopted the VAT Act in 1991 by replacing the then-sales tax. However, in principle, the VAT Act of 1991 had several deviations (e.g. provision of package VAT, the multiplicity of VAT rates, the comprehensive list of VAT exempted products and services) from the standard VAT system that the IMF favoured. During FY 1991–1992, the VAT generated a total of BDT 1,675 crore (BDT 167.5m), accounting for nearly 21.6% of total tax revenue and 17.6% of total (tax and non-tax) revenue. Since then, VAT as a share of total tax revenue continued to increase up to FY 2005–06 before stagnating at around 35%–36% (Figure 1).

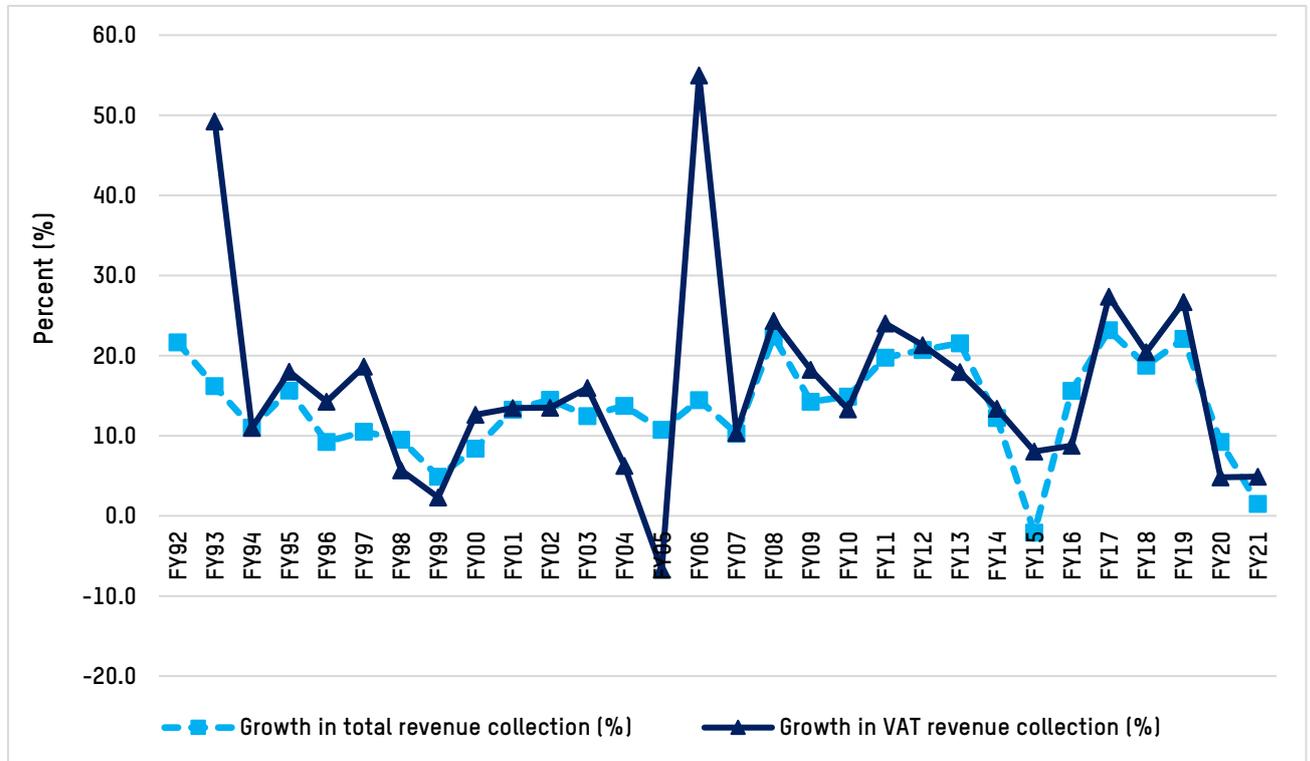
Figure 1: Share of VAT in total tax revenue and total revenue (%)



Source: Authors' calculation from Finance Division (2021).

During the first 15 years (1992–2006) of the VAT regime, Bangladesh experienced 10.9% total revenue growth per year, while the growth in VAT revenue collection was even greater, 14.3% per year. More recently, (2007–2021), total revenue growth was 14% per annum, while VAT revenue growth was again greater at 15.3% per annum. At the same time, direct tax revenue collection was nearly 9.5% and 14.7% per annum, respectively, during the first 15 and second 15 years of the VAT regime (Figure 2). Indeed, since 2006 the pace of VAT revenue collection has slowed down under the manual system of VAT administration.

Figure 2: Growth in VAT and total revenue collection (%)



Source: Authors' calculation from Finance Division (2021).

4.2 EVOLUTION AND REFORM OF VAT LAW IN BANGLADESH

Despite several project-based initiatives, the growth in VAT revenue collection was rather sluggish due to weak tax administration processes. In fact, Bangladesh's tax-to-GDP ratio is still hovering around 10–11%, the lowest among the lower-middle income countries. This statistic alone is sufficient to make a presumption on the prevailing inefficiency in the tax administration system. In view of the trend of the first 15 years of VAT revenue collection, and owing to the number of deviations from the original proposal and exemptions included in the 1991 VAT law, the IMF claimed that the introduction of VAT law did not sufficiently improve domestic revenue mobilization or productivity in revenue generation and urged immediate reform of VAT law (Hassan and Prichard, 2013). The pressure mounted on the government when the IMF made the introduction of a new VAT law a prominent condition for the negotiation of a new USD 1bn loan package (Hasan and Prichard, 2013). The tax reform process was initiated in 2009 by MoF to bring reforms in the VAT system. However, the government faced significant resistance from various business groups even to prepare the draft of the new VAT and SD Act, 2012. Business communities, local people and political elites all voiced substantial opposition. Hence, despite repeated government pledges to introduce new VAT and income tax legislation, it took more than seven years for the GoB to finally implement the law in 2019.

4.3 CURRENT STATUS OF VAT LAW IN BANGLADESH

Originally the new VAT and SD Act, 2012 was supposed to downsize the list of products on which supplementary duties were levied and also apply SD equally on both domestic and imported products. However, based on the 2019 amendment, SD rates are applied predominately on imported products, thereby providing more protection for domestic industries, contrary to the original intent of the law.

In addition, the original VAT and SD Act, 2012 included a uniform 15% VAT rate. However, in the 2019 amendment, the government introduced multiple VAT rates at different business stages: 15% at the import stage, 10% at the domestic manufacturing stage, 7.5% at the wholesale stage and 5% at the retail stage, alongside several other truncated rates for selected commodities and services. Furthermore, the originally scheduled 15% VAT rate with input tax credit was kept, and domestic manufacturers, wholesalers and retailers may opt for that if they see the advantage of utilizing it. However, suppliers will not be allowed to avail themselves of the input credit if they opt for different VAT rates other than a 15% flat rate. Although an input credit facility is an important feature of standard VAT principles, in practice one must realize that a fully operational input credit provision under multiple VAT rates is rather unsustainable and may cause the government to forgo a significant amount of revenue. Under the new VAT and SD Act, all importers are required to pay 5% advance VAT at the import stage. In order to secure higher revenue collection, the tax administration technically assumes all importers will make at least a 33.3% value addition while selling the product in the domestic market. If this does not actually happen, importers will add just the incremental cost to consumers by inflating the commodity price. In turn, it will reduce consumer surplus and induce a welfare loss to secure higher revenue mobilization.

Table 1 presents an analysis to compare the impact of uniform and multiple VAT rates with arbitrary numbers to develop some intuitive arguments. Let us assume there are four stages of the supply chain. At the first stage, which is an import stage, the manufacturer imported raw materials to produce the product Z worth BDT 100. With a 15% VAT rate, with and without input credit, the government will receive BDT 15 from this stage of the value chain. In the second stage, the manufacturer produced Z and sold it to the wholesaler at BDT 140. At this stage, if the manufacturer goes for the 'without input credit option', the government will receive BDT 14 (at 10% VAT rate), whereas if the manufacturer goes for the 'with input credit option', the government will receive BDT 7 (under the uniform 15% VAT rate). At the third stage of the supply chain, the wholesaler sold product Z to the retailer at BDT 160. For this stage, if the wholesaler goes for the 'without input credit option', the government will receive BDT 12 (at 7.5% VAT rate), whereas if the wholesaler opts for the 'with input credit option' following the successive chain, the government will receive BDT 3 (under the uniform 15% VAT rate). In the last stage, the retailer sold the product finally to the consumer at BDT 200. In this final stage, if the retailer goes for the 'without input credit option', the government will receive BDT 10 (at the 5% VAT rate), whereas if the retailer opts for the 'with input credit option' following the successive chain, the government will receive BDT 6 (under the uniform 15% VAT rate).

Table 1: Comparison of the impact of uniform and multiple VAT rates with arbitrary numbers

Stages of value chain	Market value (in BDT)	Without input credit			With input credit		
		Under the current VAT rate	VAT charged (in BDT)	VAT paid (in BDT)	Under uniform VAT rate	VAT charged (in BDT)	VAT paid (in BDT)
Manufacturer imported raw materials to produce product Z	100	15.0%	15.0	15.0	15%	15.0	15.0
Manufacturer produced product Z and sold to wholesaler	140	10.0%	14.0	14.0	15%	21.0	6.0
Wholesaler sold product Z to retailer	160	7.5%	12.0	12.0	15%	24.0	3.0
Retailer sold finally to consumer	200	5.0%	10.0	10.0	15%	30.0	6.0
Total VAT received by the government (in BDT)	-	-	-	51.0	-	-	30.0
Government receives VAT as % of the final product value	-	-	-	25.50%	-	-	15.00%

Source: Authors' calculation using arbitrary numbers.

The result of the analysis by using arbitrary numbers suggests that (i) if businesses do not take input credit, the government may expect to receive 25.5% VAT revenue on the final product value or (ii) if all business entities involved in the supply chain avail themselves of the input credit facility, the government may expect to receive 15% VAT revenue on the final product value.

In summary, following the analysis, we may conclude the following: first, the government may attain higher revenue subject to the elasticity of the product at different stages of production if businesses involved in the supply chain do not agree to avail themselves of the input credit facility by envisaging a short-term return. Second, in general, multiple VAT rates may discourage the horizontal expansion of value chains and encourage vertical integration of businesses. Therefore, multiple VAT rates are not encouraging to generate employment. And third, multiple rates may encourage higher incidences of tax evasion by under-reporting the final value if businesses do not use the input credit facility.

5 VAT CHALLENGES IN BANGLADESH AND EFFECTIVENESS OF PROJECT-BASED INITIATIVE TO EXPEDITE THE VAT IMPLEMENTATION PROCESS

Khanam *et al.* (2021) made a systematic review of the VAT and SD Act, 2012 and suggest that despite a number of deviations from the standard VAT principles, upon its complete execution, it holds the merit to improve the efficacy of VAT implementation by improving the overall tax administration system. However, to successfully execute the new VAT and SD Act, 2012, a number of reform measures must be implemented according to the planned schedule. The stagnated share of VAT in total revenue between 2006 and 2021 suggests that it will not be possible to achieve significantly higher domestic revenue mobilization without bringing necessary changes in tax administration. Identifying tax/VAT administrative challenges is critical to taking informed measures to improve the state of affairs. This section presents some of the observations made during our field visits to NBR offices and in consultation with officials and taxpayers.

5.1 PREVAILING TAX ADMINISTRATION CHALLENGES IN BANGLADESH

In Bangladesh, it is quite common for small retail businesses to resist providing official VAT challans (receipts) to consumers against invoices. In these cases, the majority of traders do not submit the actual VAT collected from consumers and misreport the sales figure. On the other hand, it is also commonly observed that when consumers claim the official VAT challans, traders often offer not to charge VAT rather produce proper documents. When such a situation arises, most consumers drop their claims in favour of short-term benefits: they need to pay less. In addition, many wholesalers and retailers do not properly deposit the VAT that they collect from customers. For instance, the Customs, Excise and VAT Commissionerate has sued 24 reputed companies for not paying VAT on sales on 29 January 2019 at the Dhaka International Trade Fair (*'24 Firms Sued for Evading VAT at Dhaka Trade Fair'*, 2019).

The NBR has required the use of electronic fiscal devices (EFDs) since 2008 to address the non-compliance of businesses and reduce the incidence of VAT evasion. Regrettably, this requirement has not been properly implemented on the ground due to the lack of server connectivity of these ECRs to a central server at NBR. Later, NBR tried to supply EFDs with connectivity to the central server with the help of designated vendors, but the operational modality did not receive much purchase on the ground due to a lack of internal facilities or poor internet connectivity.

In addition, many traders keep an alternative ECR machine that is not registered under the VAT administration system. Therefore, despite the collection of VAT, a number of retail shops do not deposit VAT in the government's account. The propensity to evade VAT is eventually perpetual due to the nature of corruption embedded in the system. For instance, during an inspection, the officer-in-charge, upon identifying anomalies in record-keeping or misuse of the ECR machine, often settles the cases by taking bribes rather than taking lawful actions against business entities. Such incidences of unlawful conduct not only cause the government to lose potential revenue but also further weaken the tax administration system.

Due to the manual process of area-specific targeted VAT collection, so far Bangladesh has largely maintained a control-based compliance system, relying largely on the physical monitoring of VAT payers to enforce compliance. This system has allowed VAT compliance officials to retain substantial discretion, thus nurturing opportunities for collusion with, or extraction from, taxpayers. For example, transactions of wholesale and retail business houses at the upazila (subdistrict), municipality and city corporation levels are not IT-based. Hence, the 'package VAT' collections (which were introduced in 2004 and later abolished under the VAT and SD Act, 2012) were not properly calculated or collected and were subject to local political influences and dominations.

Trust between businessmen and NBR officials is quite low. Business people, in general, have little idea or awareness about the calculation of the VAT. During our conversation with a trader, he expressed:

The attitude of the VAT officers is like the bureaucrats of the colonial country; they seize cash register and truck/car; it should not be the practice. NBR sets area-based VAT collection for field officers, and they act accordingly without rationalizing the present status of our business operation. Our business is not the same throughout the year, but officers set a target based on peak season. It creates difficulties for us. Also, the NBR officers create pressure on traders who are paying VAT regularly and maintaining compliance.

A number of traders told us that they pay VAT regularly but face difficulty in keeping the necessary records to claim a VAT rebate or refund. However, a number of NBR officials argued that 'cases of harassment and seizing the cash register have happened in the past by officer-in-charge, but the statement is grossly false for most cases'.

5.2 CONSUMER CONCERNS

For their part, consumers have expressed apprehension that the imposition of VAT will put necessities out of reach for people with low and modest incomes. The Consumers Association of Bangladesh demanded exemptions for fuel oils like diesel, kerosene and petrol, as well as electricity, gas and drinking water (see 'CAB Demands Withdrawal of VAT on Electricity, Gas, other Utilities Services,' 2022). Consumers with whom we spoke said that while they bear the burden of paying VAT, the government paid more attention to business views than to those of consumers when considering changes to the VAT law.

5.3 VAT AND GENDER

Women in Bangladesh face unequal rights to own property, wage discrimination and unequal distribution of power within the household and society. Women entrepreneurs whom we interviewed said that tax policy needs to take these issues into account. To date, the only effort to address gender inequality through taxation policy is the taxable income threshold for individual taxpayers, with a distinct amount for women (3 lakhs for women and 2.5 lakhs for men, i.e. BDT 0.3m and BDT 0.25m). Otherwise, tax policy is gender-blind in Bangladesh.

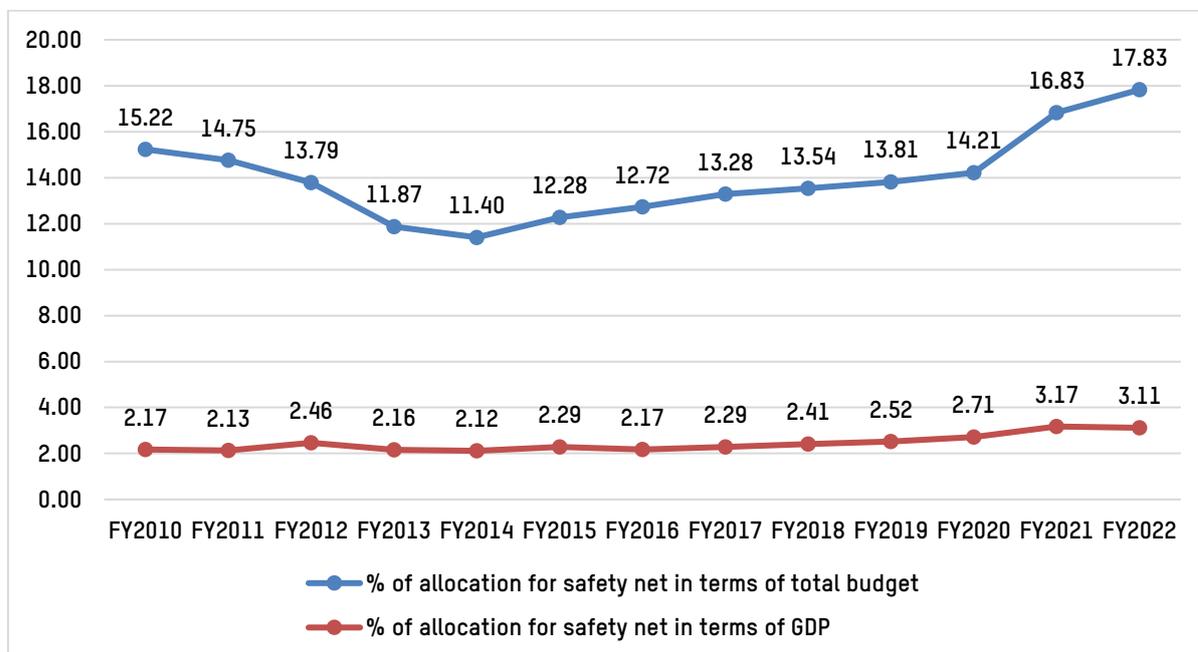
Female entrepreneurs have been demanding VAT exemptions and reduced rates (0–5%). Most women entrepreneurs have micro-, small- and medium-sized enterprises. Although businesses below a specified income threshold are exempt from paying VAT, many small-scale ventures are required to do so. Female entrepreneurs see a 15% VAT as a threat to their competitiveness. Women business owners with whom we spoke said that the threshold of turnover tax for women entrepreneurs should be BDT 50 lakhs (BDT 5 m). Furthermore, they demanded an increase in the tax-free income limit to BDT 5 lakhs (BDT 0.5 m) from BDT 3 lakhs (BDT 0.3m). They also said that they wanted to import raw materials and machinery on a duty-free basis (Hasan, 2019).

Women’s rights organizations have called on the government to subsidize the costs of menstrual products and want to reduce or waive taxes on these products in order to increase accessibility. Menstrual hygiene management directly influences women’s reproductive health, education and labour participation. Thus it is closely associated with gender equality and women’s economic empowerment. Unfortunately, 41% of the schoolgirls in Bangladesh do not attend classes during their periods, while 73% of women miss work for an average of six days a month due to reproductive and urinary tract infections caused by unhygienic menstrual management. Women’s organizations are asking policy makers, ‘How long do we have to pay tax for our femininity?’ Menstrual pads’ prices range from BDT 70 to 145 per pack, while the average family income is below BDT 10,000/month. The tax incidence of a pad is 127.84 BDT/kg (National Board of Revenue, People’s Republic of Bangladesh, 2022). A good-quality pad requires 12 to 15 types of raw materials from outside the country, and local producers usually have to pay a high duty, around 70%. Worldwide, the wholesale supply rate of menstrual pads is approximately BDT 2.5–5/piece. High custom duties, as well as oligopoly control of the market, have transformed a necessity into a luxury good in Bangladesh (Purabi, 2022).

5.4 INADEQUATE SOCIAL PROTECTION SYSTEMS

The national budget allocation for social protection is low in Bangladesh, and much of it is spent on the privileged section of society. Meanwhile, a majority of the population living in poverty remains outside the social safety net programmes. Currently, 21 ministries and directorates implement 99 social safety net programmes. But the share of the budget and of GDP going to social protection remained somewhat stagnant at 15–17% and 2–3%, respectively, from FY 2010 to 2022 (Figure 3). In FY 2017–2018, the government allocated more than 40% of total safety net spending to pension payments for retired government employees and their families. Currently, just 5% of the working age population is employed in government jobs that provide pension benefits (Muhith, 2016).

Figure 3: Social protection as a share of the total budget and of GDP



Source: Ministry of Social Welfare, Government of Bangladesh.

According to a recent World Bank review of the country’s public expenditures for social protection (WB, 2021a), social safety net programmes fail to reach all people living in poverty in urban areas. Nearly 20% of urban Bangladeshis live below the poverty line, and 50% of urban households are vulnerable to becoming poor as a result of economic shocks. But social protection programmes cover only 11% of the urban population. Yet low income urban dwellers pay VAT to the government,

although they frequently have no information or knowledge about these indirect taxes and are unaware of how to access social protection initiatives for which they may be eligible. Thus, for many low income urban Bangladeshis, the potential of social protection to mitigate VAT regressivity goes woefully unrealized.

Below are accounts three low income consumers in Dhaka gave us of the combined impact of VAT and poor social protection coverage on their lives.

Tuni (31 years old) is a single mother living in the Dhalchar slum in Hazaribagh, Dhaka city. Her husband (a private car driver) left her after two and a half years of marriage following the birth of their daughter. She was beaten by her mother and sister-in-law as she became a burden to her family members. She then migrated from Chandpur to Dhaka more than six years ago, taking a job in a garments factory at a monthly salary of BDT 4,000. This didn't allow her to pay rent and other expenses, so she became a full-time attached house maid in residence in Hazaribagh and was held captive there for a year without any payment. At one point, she was rescued by her brother.

Now, Tuni works as a freelance domestic servant in four houses on a contract piece-rate basis and earns around BDT 8,000 per month. She does not receive assistance from any social safety net programme. She pays BDT 4,000 for rent, which she is sometimes able to split with a housemate, but she is responsible for the full amount if she is between housemates. There is no gas line connection in her slum. She has to spend BDT 800 for kerosene oil and BDT 200 for mobile phone recharging monthly. She eats lunch in the houses where she works and generally eats leftover food. She spends BDT 1,000 a month on food for dinner. She spends BDT 500 per month on soap, cosmetics and cleaning products. She cannot afford to buy menstrual products. She deposits BDT 1,000 monthly in a pension scheme and sends her mother and disabled brother BDT 1,000 a month.

Tuni has no information about safety net programmes. She does give money to the government, though, paying VAT on medicine and her mobile phone. When asked her opinion about taxes and social protection, she told us that she does not know whom she should ask for government support: 'We are poor people, who will listen to us? Who cares about poor women like me?'

Ratan Dev Nath (41 years old) is an auto rickshaw driver in Dhaka city. He is from Kudubdia, a coastal island of the Cox's Bazar District and now is living in Narayangonj town (near Adamji Export Processing Zone (EPZ)). His father was a farmer, and he is the eldest son in his family. He couldn't continue his school education after grade five though he was in first position in his class. After dropping out, he migrated to Chattogram and started working as apprentice in an automobile repair shop and became an automobile mechanic. About four years ago, he left Chattogram and came to Narayangonj and started driving a compressed natural gas (CNG) taxi. He paid BDT 8,500 for his taxi driver license. His household consists of four people, including two daughters. The elder daughter attends a government primary school.

Ratan has to pay BDT 950 regularly to the owner of the taxi, whereas BDT 750 is the daily fare fixed by the government. On average, he drives the taxi 20–22 days a month. He can manage to net BDT 15,000–16,000 a month after covering the necessary costs, including the rental fee. He lives in a room that is rented for BDT 3,000 monthly. He spends BDT 300 a month for mosquito coils, BDT 2,000 for tea and cigarettes, BDT 150 for mobile phone recharge and BDT 600 for medicines (as he is asthmatic). He has to pay BDT 600 each month to the police and local protection rackets for the smooth operation of the CNG. He pays BDT 8,000 for other expenses.

He pays about BDT 1,000 a month in formal and informal taxes: BDT 600 to the police and racketeers and BDT 400 as regular VAT. As he is not the owner, sometimes he has to drive a CNG that is not being regularly serviced.

Ratan has no idea that he is paying VAT. He thinks he is bound to pay the required amount as he does not feel that he can challenge those who ask him to pay. He is willing to pay the fees and taxes he is charged. He seeks to stop all kinds of harassment and urges financial support from the government to buy a CNG autorickshaw, which would be reimbursed day by day.

Sufia (45 years old) has been working in a readymade garment factory at Adabar, Dhaka for 15 years. She completed primary education. She migrated to Dhaka along with her parents. Her father operates a small restaurant in a slum area. Her monthly salary is BDT 10,000. Her husband used to work as a chef in her father's restaurant but can no longer do so due to the unhygienic work environment in the restaurant's kitchen. They have an eight-year-old son. They send their son to a madrassa as the yearly tuition fee is only BDT 800, and he is not willing to go to the regular school.

As her husband is unemployed, they have to maintain their family with only her income. She pays BDT 3,000 monthly for house rent, BDT 800 for timber (as there is no gas connection in their house), BDT 900 for mobile phone recharge, about BDT 7,000 for food and BDT 1,000 for medicine for her gastrointestinal problems. However, due to scarcity of money she cannot afford medicine all the time. She asks her father for money when she feels in need.

Sufia has no idea about the indirect taxes that she pays for medicine and mobile phone charging. She claims they are not getting any kind of support from the government. She also suspects the government would not find her family since they are not relatives of a Member of Parliament (MP).

5.5 DISCONTINUITY OF PROJECT-BASED REFORM MEASURES IS A COMMON FEATURE

Although NBR has taken a number of tax reform projects to improve the tax administration efficiency and VAT collection, Bangladesh's domestic tax system is struggling to increase its capacity to collect revenue by broadening the tax net, making a sustained shift into automated tax collection from manual administration, and reducing the rate of incidences of tax evasion and magnitude of corruption (Hassan and Prichard, 2016). Poor implementation of these projects is one of the major reasons why the tax administrative system remains inefficient. For example, with financial support from the World Bank and the UN Conference on Trade and Development, the government undertook customs, trade and tariff policy reforms between 1999 and 2008. This effort failed to attain many of its core objectives due to ineffective implementation and a lack of significant political leadership.

The Income Tax Management System (ITMS), an automated record-keeping system, which was launched in 2004 for analysing large taxpayers' data, has remained largely dysfunctional through 2016. The ITMS was the first automation step for the large taxpayers' returns. However, the system was inoperative after the two UK Department for International Development experts who were operating it left without transferring technology. Since then, NBR has taken no steps to get the technical know-how to activate the system. The system was used to give inputs of pay orders, serve notices, identify tax defaulters and assess the risk of revenue losses from large taxpayers.

The NBR also failed to receive benefits from the Strengthening Governance Management Project (SGMP) supported by Asian Development Bank (ADB). Under SGMP, Bitax was the largest component of the income tax wing, receiving more than BDT 510m from the ADB. The project, which was closed on 30 June 2018, was primarily launched to automate income tax return submission, processing and payment. It supported NBR's introduction of e-payments in May 2012; this continued for three years. Since 2015, the online payment system has remained inactive. NBR did not renew the contract of the software company to continue and upgrade the e-payment system for unknown reasons. Online submission of tax returns was introduced under the project. But taxpayers found the system to be complex and ineffective without the online payment system.

The cumulative project cost of all these abovementioned projects was nearly BDT 3bn, broadly aiming to integrate automation in Bangladesh's tax administrative system. However, these project-based initiatives had a lot of promise and scope to improve the overall tax administrative system but achieved very little. A common feature that has been observed is the discontinuity of the process once a project ends. Over time, NBR did not execute any holistic plan to pursue the

frameworks developed during the life of the projects or use the installed facilities to upgrade the tax administrative system.

6 REVIEW OF WORLD BANK PROJECT: PLANNED VERSUS ACTUAL OUTCOME

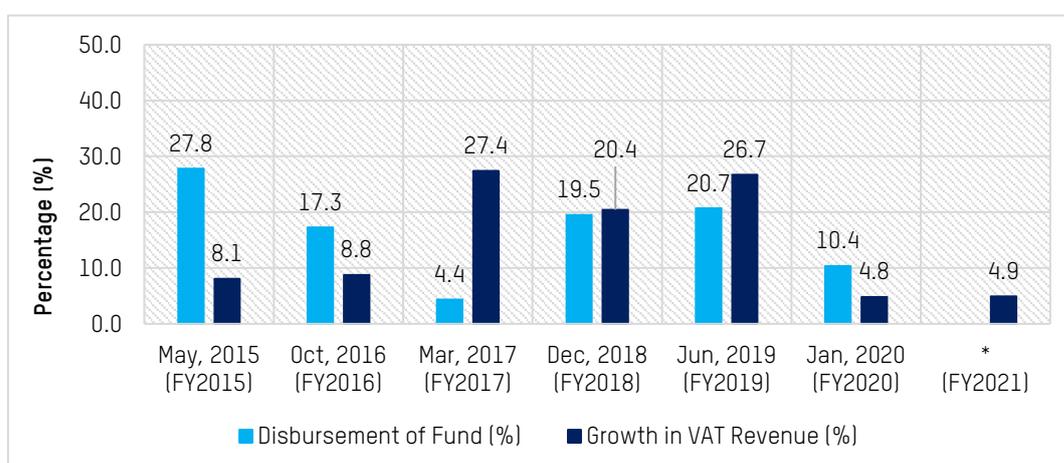
In this section, we will discuss the background, scope and progress of the VIP. We will also attempt to make an assessment of the planned versus actual outcome of the project based on two broad program development objectives (PDOs) of VIP.

6.1 BACKGROUND, SCOPE AND PROGRESS OF THE VIP

With an aim to improve NBR’s operational services to taxpayers, ensure better compliance and reduce administrative costs, GoB adopted Tax Modernization Plan (2011–16) in June 2011. As part of the plan, the new VAT Act was passed by the National Parliament in November 2012 in order to strengthen the efforts of GoB in the area of public financial management reforms. The Act provided a legal basis for new VAT administration to transition from manual to automated VAT collection procedures. Later, the GoB approved the World Bank-funded project (P129770) titled ‘*Revenue Mobilization Program for Results: VAT Improvement Program (VIP)*’ on 9 May 2014, with an aim to support NBR in streamlining and modernizing VAT operations and establishing an integrated VAT management system under the new VAT regime. According to the World Bank, the objectives of VIP were ‘to widen the tax base by enhancing voluntary compliance, and reducing non-compliance. The ultimate goals [were] to increase VAT revenues and enhance the transparency of the VAT administration in Bangladesh’ (WB, 2014).

Originally the project was supposed to end by 30 June 2020, and the estimated cost of operation was \$73m. The World Bank was supposed to contribute \$60m, with the remainder coming from the GoB (WB, 2014). However, effectively the project started operation on 11 January 2015 and was finally declared closed on 30 June 2021 (WB, 2021b). Initially, the project moved slowly due to the government’s indecisive implementation of the new VAT Act. Later, the COVID-19 pandemic hampered project activities (WB, 2020). Indeed, the World Bank released nearly 45% of its share of VIP through October 2016 since its inception (Figure 4). However, during the first two years of the VIP project, VAT revenue collection grew between 8% and 9%.

Figure 4: Fund released and growth in VAT revenue by years of project implementation (%)



Source: Authors’ calculation from WB, 2021b. Note: * means no fund was disbursed in 2021.

In contrast, disbursement of project funds slowed down between 2017 and 2018, but we observed an average growth rate in VAT revenues of 24.3% between FY 2017 and 2019. Later, the growth in VAT revenue dropped significantly in FY 2020 and FY 2021 due to the COVID-19 pandemic. The statistics presented in Figure 4 reveal the following observations: the government's indecisive implementation of the new VAT and SD Act, 2012 cost the VIP early momentum; after completion of background activities, a push expedited the VAT revenue collection process during the middle phases of the project; and the pandemic slowed down project activities and forced the downsizing of programme deliverables.

As a result, the WB revised their contributory finance for the project to \$45.84m and finally made a disbursement of \$40.02m. The cancellation of more than \$14m in contributory funds dims the prospects for achieving some of the project's long-range goals. For example, Bangladesh is unlikely to develop a VAT audit system over the next five years since the government has only just finalized its VAT audit manual and did not issue a statutory regulatory order (SRO) until June 2021. Nor is the GoB likely to set up a VAT refunds system over the next four years, as three-fourths of the financial reporting system (FRS) may remain unmet by June 2021. And the GoB is unlikely to manage to get a sufficient number of banks to agree to be included in a real-time gross settlement system to achieve the target of including 90% of large taxpayers in the system (WB, 2020). This suggests that, due to the unprecedented COVID-19 situation, the project could not reach its potential. However, the World Bank considers VIP implementation 'moderately satisfactory'. In the following section, we attempt to evaluate the convergence of the actual project outcome to its planned objectives.

The VIP had two program development objectives (PDOs): an increase in VAT returns and bringing greater transparency in the tax administration. It had four core components as well: (i) installing operational modernization (e.g. registration; return processing; tax payments; taxpayer accounting and tax refunds; tax audit; collection and enforcement; tax appeal; and taxpayer services); (ii) developing an integrated VAT management system (including the establishment of a data center, centralized processing center and contact center, as well the development of a data network to enable VAT staff to have access to the IT tax administration system through the computer terminal, and provide desktop hardware and software and integrate those with local and data center servers); (iii) improving institutional strengthening and capacity building (by providing training and support to VAT officials and other NBR staff); and (iv) bringing efficiency and transparency in the programme management. The fourth component had two parts: (a) improving coordination in the implementation of the programme among IT, procurement, financial management and disbursement by seeking support from experts; and (b) bringing transparency in the communication modality between taxpayers and NBR by designing a comprehensive communication and education programme to build internal and external support for VAT reform. All these components were framed to achieve the project's two main objectives, i.e. to improve revenue mobilization and to improve transparency in the VAT administration.

6.2 ASSESSMENT ON PDO-1: INCREASE IN VAT RETURNS

To attain the first development objective, the following seven indicators were specified to evaluate the effectiveness of the VIP: (i) VAT implementation plan stays on track; (ii) new registered active VAT taxpayers; (iii) number of taxpayers who file online; (iv) percentage of large taxpayers who pay online; (v) **value of VAT e-payments**; (vi) **number of VAT stop filers (in numbers)**; and (vii) percentage of audits per year resulting in additional tax assessments (in days).

The VAT revenue increased to BDT 1,152bn in FY 2020–2021, from BDT 686bn. The increase in VAT revenue collection in FY 2020–2021 surpassed the target of BDT 914bn anticipated during the inception of the programme. Within the programme tenure (2015–2021), VAT revenue increased by

15.1% per annum despite recording only 4.85% growth since the COVID-19 outbreak. It suggests the first PDO (increase VAT returns) has been achieved. However, the project did not meet the target of increasing the VAT to tax-GDP ratio to 4.7%, although the ratio improved to 4.2% in FY 2019–2020 from 3.7% in FY 2015–16. Table 2 highlights the planned versus actual outcome achieved by indicators within PDO-1. The following conclusions can be made:

- The first indicator within PDO-1 was met with a significant margin. Through 9 June 2021, more than 100,000 VAT returns were processed every month, whereas the end-line target was about 60,000 VAT returns per month. On a welcome note, a total of 230,790 taxpayers have been registered online as of 20 December 2020.
- The second indicator within PDO-1 was also fulfilled. There were 184,710 active VAT payers up until 31 May 2021. Currently, active VAT payers are nearly 2.3 times that of the base period of July 2016. The end-line target was to reach 120,000 active VAT taxpayers in July 2021.
- The third indicator within PDO-1 was met at the margin. According to the World Bank (2021b), nearly 60.9% of large taxpayers are submitting online returns and VAT payments in 2021, which is slightly above the end-line target of 60.0%.
- The fourth indicator within PDO-1 has been attained. According to the World Bank (2021b), through till 31 July 2021, the total value of VAT e-payments received is over BDT 2,558m, nearly 25 times the planned end-line target of BDT 105m.
- The fifth indicator was also met. The number of stop filers has been reduced each month with the increase in online returns submission since the inauguration in October 2019. Currently, there are no stop filers. However, NBR is still finalizing a methodology for an Integrated VAT Administration System (IVAS) to systematically track stop-filers (WB, 2021b).
- In 2018, it took 120 days (nearly four months) to process and issue tax refunds. The end-line target under VIP was to reduce the processing and issuing of tax refunds to 102 days. However, it came down to 90 days as of May 2021.
- The last indicator within PDO-1 was to increase the percentage of audits resulting in additional assessments (per year) to 25% in 2021 from 20% in 2018. However, this indicator has remained unmet. According to the requirement of the new VAT and SD Act, 2012, the audit module that is under development was dropped from the disbursement requirement.

Table 2: Comparison between planned and actual outcome as regards PDO-1 of VIP

Indicators	Base line	End-line target	Actual outcome	Comment
<i>PDO-1: Increase in VAT returns</i>				
Increase in VAT revenues	BDT 686bn (30 June 2017)	BDT 914bn (30 June 2021)	BDT 1,152bn (30 June 2021)	Target met with significant margin
<i>Intermediate results indicators by results areas</i>				
VAT implementation plan on track	VAT implementation plan endorsed by Minister of Finance (1 July 2013)	At least 60,000 VAT returns are processed per month (30 June 2021)	Currently more than 100,000 returns are processed every month (9 June 2021)	Target met with a significant margin

Indicators	Base line	End-line target	Actual outcome	Comment
Number of active VAT taxpayers	80,000 (1 July 2016)	120,000 (31 December 2021)	184,710 (31 May 2021)	Target met with significant margin
Percentage of large taxpayers submitting online returns and VAT payments (%)	0.00% (1 July 2016)	60.00% (30 June 2021)	60.91% (30 April 2021)	Target met at the margin
Value of VAT e-payments (in BDT)	0.00% (29 June 2018)	BDT 105m (30 June 2021)	BDT 2bn (31 May 2021)	Nearly 25 times higher payments were received than the end-line target.
Number of VAT stop filers (in numbers)	99,999 (29 June 2018)	77,777 (30 June 2021)	0.00 (9 June 2021)	Target met. The number of stop filers has been reducing each month with the increase in online returns submission since the inauguration in October 2019. Currently, there are no stop filers. However, NBR is in the process of finalizing a methodology for IVAS to track stop filers systematically.
Average time to process and issue tax refunds (in days)	120 days (29 June 2018)	102 days (30 June 2021)	90 days (9 June 2020)	Target met with significant margin. It takes 90 days on an average, while sometimes, field offices complete some of the refund cases in less than 30 days. Alternatively, this suggests that the variance is significantly high.
Percent of audits per year resulting in additional tax assessments	20.0% (23 December 2018)	25.0% (30 June 2021)	0.00% (30 June 2021)	Target not met. The audit module that is under development was dropped from the disbursement requirement. The percentage of audits resulting in additional tax assessments could not be determined because Section 19, Sub-section 2 of the new VAT Act 2012 requires a VAT manual to carry out any VAT audit.

Source: Authors' compilation from WB, 2021b.

Note: Date of entries are included in parentheses.

6.3 ASSESSMENT ON PDO-2: BRINGING GREATER TRANSPARENCY IN THE TAX ADMINISTRATION

The second PDO was to bring greater transparency in tax administration. Within the scope of VIP, greater transparency includes the availability and accessibility of the following information; actual tax collected annually; annual contact center and processing center performance reports; and the disclosure of the results from the periodic taxpayer satisfaction surveys in the public domain. And improved fiduciary environment suggests, for example, use of electronic government procurement (e-GP) for national procurement, timely submission of quarterly fund utilization reports, resolution of audit objections within six months, etc.

Table 3: Comparison between planned and actual outcome as regards PDO-2 of VIP

Indicators	Base line	End-line target	Actual outcome	Comment
<i>PDO-2: Greater transparency of the tax administration</i>				
Greater transparency of the tax administration	Non-existent/ refunds are not disclosed on a monthly basis	VAT Law 2012 and bylaws published; regulations and interpretations published; system set up to keep account of VAT collection; monthly VAT data published; VAT satisfaction survey published; VAT appeals resolved in six months.	The website provides information on e-services, regulations, forms, frequently asked questions (FAQs) and enabling structures, systems, processes and designated RTI official.	Some progress is being made to bring greater transparency in tax administration, but there is significant scope to improve the modules.
<i>Intermediate results indicators by results areas</i>				
Fiduciary action	At least 50% of the programme's competitive bidding contracts granted during the first fiscal year have been carried out through e-GP; during the first fiscal year, a fund utilization report has been submitted by the NBR to the Finance Division on a quarterly basis; audit observations considered significant have been resolved in a satisfactory manner within six months from the reception of the annual reports.	75% of National Competitive Bidding (NCB) contracts are made through e-GP system. All significant audit objections resolved in six months. Quarterly fund utilization report submitted to Finance Division (FD) and complete fund release processes completed after each quarter.	75% of NCB contracts are done through e-GP (target is met); remaining 11 out of 23 outstanding audit observations need to be settled with the Foreign Aided Projects Audit Directorate (target is not met), and quarterly fund utilization reports are submitted to FD and fund release processes are completed each quarter (target is met).	Targets partially met.
Greater taxpayer satisfaction with services (%)	0.00% (30 June 2014)	75.0% (30 June 2021)	72.0% (20 December 2020)	Partially met

Source: Authors' compilation from WB, 2021b. Note: Date of entries are included in parentheses.

Table 3 highlights the planned versus actual outcome achieved by indicators within PDO-2. According to the World Bank (2021b), disclosure of monthly collection and refunds on the website is an indicator of achieving greater transparency of the tax administration system. In particular, the NBR website currently provides information on e-services, regulations, forms, FAQs, enabling structures, systems, processes and designated RTI officials. One may question whether this is a sufficient indicator of greater transparency, however, especially for low income VAT payers. Indeed, as the World Bank itself points out, according to World Development Indicators less than 13% of the population of Bangladesh has access to the internet. The World Bank also claims that making VAT-related information available within the framework of the Right to Information Act, 2009 is a successful outcome of the VIP in its attempt to bring greater transparency in tax administration.

However, as Table 3 notes, targets have only been partially achieved as regards fiduciary actions.

Significantly, the World Bank reports that VIP only 'partially met' the target of increased taxpayer satisfaction with services by the end of the project. Given the high levels of dissatisfaction with numerous aspects of VAT among both consumers and entrepreneurs, and notably among low income and female consumers and entrepreneurs, that is a disappointing outcome.

The assessments made on VIP in terms of the two PDOs and their indicators suggest that the programme has certainly helped install a VAT administration framework to expedite the process of revenue collection. But, in terms of attaining greater transparency, it fell short, partly due to the COVID-19 crisis. Nor did the project achieve the target level of increased taxpayer satisfaction with services. The key challenge for NBR is to continue the framework and process developed during the project and fine-tune it when and where required.

VIP also had an important blind spot. It failed to include any benchmarks or indicators on improving equity. Given the regressive nature of VAT, the World Bank should have conducted distributional impact analysis of VAT reforms and automation to ensure the project did not contribute to increasing inequalities.

Furthermore, the decision by the World Bank and the government of Bangladesh to invest in the VIP over the past seven years may have had a large opportunity cost: neglect of strengthening more progressive, direct streams of revenue. The share of revenues from direct taxation in total revenues actually declined between 2014 and 2018 (UNU-WIDER 2022). Given the World Bank's new commitments to progressive taxation (as seen in IDA20), future DRM project decisions must be informed by the potential to increase equity as well as revenue.

7 CONCLUSION

The new VAT and SD Act, 2012 offers businesses the choice of a uniform VAT rate or multiple rates, according to their convenience. The law retains a provision for zero-rating and continues to exempt certain goods and services from VAT. However, in principle, these deviations are common practice both in low and middle income and high income countries to provide benefits to low income people and protect infant industries. Despite arguments for and against a uniform VAT rate, many experts believe that the 2012 VAT and SD Act can help Bangladesh's tax administration improve efficiency in the revenue collection process. A smooth transition to an automated VAT collection system from its manual form would be critical in this context. The VIP project has certainly provided a platform to the NBR to expedite the automation process, but that too will require a continuation of existing practices developed during the life of the project. Resistance to fully automated VAT compliance procedures is likely to regroup within or outside the NBR, as it will surely reduce the discretionary power currently enjoyed by the NBR officials and the scope of VAT evasion for businesses and political elites. Nonetheless, the process of VAT administration automation should be continued to expedite domestic revenue mobilization by reducing the incidences of VAT evasion.

Economic activities through e-commerce and Facebook-based commerce are expanding quickly, as are digital payments. Given that, VAT evasion incidences are likely to increase. In this context, integrating technology-based solutions will be key to improve VAT compliance management.

In order to address the regressivity of VAT and its significant impact on low income households, it is imperative that the government improve the coverage of social protection programmes, particularly in urban areas. The social protection programmes will indeed require improvements in programme design and targeting, and better outreach to ensure that eligible people know how to access the benefits they are entitled to. Nevertheless, every effort should be made to improve revenue mobilization from more equitable tax levers.

The Government of Bangladesh and its external partners, such as the World Bank, need to focus future DRM efforts on strengthening effective taxation of corporations, high net-worth individuals, wealth, property and capital, and on other progressive streams of revenue.

At the same time, the government needs to put an end to gender-blind VAT administration and recognize that the tax currently has negative effects on low income female entrepreneurs and consumers. Such measures as reduced VAT and tariff rates for micro-, small- and medium-sized businesses (the bulk of women-owned enterprises) and adding menstrual products to the VAT-exempt list would contribute to both fiscal and gender justice.

BIBLIOGRAPHY

- Abramova, A., K. Shaposhnykov, A. Zhavoronok, P. Liutikov, I. Skvirskyi, and O. Lukashev. (2021). *The Ecosystem of VAT Administration in E-Commerce: Case of the Eastern Europe Countries*. *Studies of Applied Economics*, 39(5).
- Adams, T.S. (1917). *The Taxation of Business. Proceedings of the Annual Conference on Taxation under the Auspices of the National Tax Association*, 11, 185–194. National Tax Association.
- Andreoni, J., B. Erard, and J. Feinstein. (1998). *Tax Compliance*. *Journal of Economic Literature*, 36(2), 818–60.
- Ayebofo, B. (2016). *VAT Compliance Challenges in Ghana and How to Address Them*. *International Journal of Economics and Financial Research*, 2(7), 132–9.
- Azaria, N.T. and Z. Robinson. (2005). *The Revenue Raising Capabilities of a VAT System in Developing Countries: Economics*. *South African Journal of Economic and Management Sciences*, 8(1), 63–76.
- Baer, K.O. (2013). *What International Experience Can Tell Us about the Potential Challenges of Administering a US VAT*. *National Tax Journal*, 66(2), 447–78.
- Bahl, R.W. and R.M. Bird. (2008). *Tax Policy in Developing Countries: Looking Back—and Forward*. *National Tax Journal*, 61(2), 279–301.
- Benzarti, Y. and D. Carloni. (2019). *Who Really Benefits from Consumption Tax Cuts? Evidence from a Large VAT Reform in France*. *American Economic Journal: Economic Policy*, 11(1), 38–63.
- Betliy, O., R. Giucci, and R. Kirchner. (2013). *VAT in Ukraine: Would Other Indirect Taxes Perform Better?* German Advisory Group Institute for Economic Research and Policy Consulting.
- Bognetti, G. and M. Santoni. (2016). *Increasing the Substitution Elasticity Can Improve VAT Compliance and Social Welfare*. *Economic Modelling*, 58, 293–07.
- Bräutigam, D. (2004). *The People's Budget? Politics, Participation and Pro-Poor Policy*. *Development Policy Review*, 22(6), 653–668.
- Bye, B., B. Strøm, and T. Åvitsland. (2012). *Welfare Effects of VAT Reforms: A General Equilibrium Analysis*. *International Tax and Public Finance*, 19(3), 368–92.
- '*CAB Demands Withdrawal of VAT on Electricity, Gas, other Utilities Services*.' (2022, 5 March). *New Age Business*. <http://www.newagebd.net/article/17360/cab-demands-withdrawal-of-vat-on-electricity-gas-other-utilities-services>
- Caspersen, E. and G. Metcalf. (1994). *Is a Value Added Tax Regressive? Annual versus Lifetime Incidence Measures*. *National Tax Journal*, 47(4), 731–46.
- Chan, S.G., Z. Ramly, and M.Z.A. Karim. (2017). *Government Spending Efficiency on Economic Growth: Roles of Value-Added Tax*. *Global Economic Review*, 46(2), 162–88.
- Charlet, A. and S. Buydens. (2012). *The OECD International VAT/GST Guidelines: Past and Future Developments*. *World Journal of VAT/GST Law*, 1(2), 175–84.
- Chen, C., Z. Su, and W. Shuai. (2021). *Residents' Income Distribution Effect of Business Tax Replaced with VAT Reform—Based on CGE Model*. *Economic Research-Ekonomska Istraživanja*, 1–16.
- De Mello, L. (2009). *Avoiding the Value Added Tax: Theory and Cross-Country Evidence*. *Public Finance Review*, 37(1), 27–46.

- Dietl, H.M., C. Jaag, M. Lang, and U.W. Trinkner. (2011). *Competition and Welfare Effects of VAT Exemptions. The BE Journal of Economic Analysis & Policy*, 11(1).
- Emran, M.S. and J.E. Stiglitz. (2005). *On Selective Indirect Tax Reform in Developing Countries. Journal of Public Economics*, 89(4), 599–623.
- Fergusson, L., C. Molina, and J.F. Riaño. (2019). *Consumers as VAT ‘Evaders’. Economía*, 19(2), 21–68.
- Finance Division. (2021). *Bangladesh Economic Review 2021*. Ministry of Finance, People’s Republic of Bangladesh. Retrieved from <https://mof.portal.gov.bd/site/page/28ba57f5-59ff-4426-970a-bf014242179e/Bangladesh-Economic-Review-2021>
- Gnangnon, S.K. and J.F. Brun. (2018). *Impact of Bridging the Internet Gap on Public Revenue Mobilization. Information Economics and Policy*, 43, 23–33.
- Harrison, G. and R. Krelove. (2005). *VAT Refunds: A Review of Country Experience*. International Monetary Fund (IMF) Working Papers, 2005/218.
- Hasan, M. (2019, 2 March). *Women Entrepreneurs Seek Easy Term Bank Loans. Dhaka Tribune*. <https://www.dhakatribune.com/business/2019/03/02/women-entrepreneurs-seek-easy-term-bank-loans>
- Hassan, M. and W. Prichard. (2013). *The Political Economy of Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform*. International Centre for Tax and Development Working Paper 14.
- Hassan, M. and W. Prichard. (2016). *The Political Economy of Domestic Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform. The Journal of Development Studies*, 52(12), 1704–21.
- Helgason, A.F. (2017). *Unleashing the ‘Money Machine’: The Domestic Political Foundations of VAT Adoption. Socio-Economic Review*, 15(4), 797–813.
- Ionup-Constantin, C. and V. Viorela-Ligia. (2014). *Considerations on VAT Efficiency and VAT Evasion. Ovidius University Annals, Series Economic Sciences*, 14(2).
- Islam, N. (2019). *Relationship between Tax Revenues and Economic Growth in Bangladesh. International Journal of Scientific & Engineering Research*, 10(3), 415–25.
- Jalata, D.M. (2014). *The Role of Value Added Tax on Economic Growth of Ethiopia. Science, Technology and Arts Research Journal*, 3(1), 156–61.
- James, K. (2015). *The Rise of the Value-Added Tax*. Cambridge University Press.
- Jansen, A. and E. Calitz. (2015). *How Effective is VAT Zero Rating as a Pro-Poor Policy?* Retrieved from http://www.econ3x3.org/sites/default/files/articles/Jan-sen%20&%20Calits%202015%20VAT%20zero%20rating%20FINAL_0.pdf
- Kamdar, M. (2015). *VAT Registration: A New Era: VAT. Tax Professional*, 2015(23), 6–9.
- Keen, M. (2008). *VAT, Tariffs, and Withholding: Border Taxes and Informality in Developing Countries. Journal of Public Economics*, 92, 1892–1906.
- Keen, M. and B. Lockwood. (2010). *The Value Added Tax: Its Causes and Consequences. Journal of Development Economics*, 92(2), 138–51.
- Keen, M. and S. Smith. (2006). *VAT Fraud and Evasion: What Do We Know and What Can Be Done? National Tax Journal*, 59(4), 861–87.
- Khanam, T., A.M.A. Begum, and S. Khanam. (2021). *An Analysis of New VAT Law in Bangladesh: Changes & Challenges. Beijing Law Review*, 12(3), 875–87.

- Kloeden, M.D. (2011). *Revenue Administration Reforms in Anglophone Africa since the Early 1990s*. International Monetary Fund (IMF).
- Kundu, S. and M. Cabrera. (2022). *Fiscal Policies and their Impact on Income Distribution in India*. CEQ Working Paper No. 120. Retrieved from <https://repec.tulane.edu/RePEc/ceq/ceq120.pdf>
- Lalarukh, F. and C.M. Salahuddin. (2013). *Contribution of VAT to the GDP of Bangladesh: A Trend Study*. *Journal of Business*, 34(2).
- Leahy, E., S. Lyons, and R.S.J. Tol. (2011). *The Distributional Effects of Value Added Tax in Ireland*. *The Economic and Social Review*, 42 (2), 213–235.
- Li, O.Z., H. Liu, and C. Ni. (2017). *Controlling Shareholders' Incentive and Corporate Tax Avoidance: A Natural Experiment in China*. *Journal of Business Finance and Accounting*, 44(5–6), 697–727.
- Liu, L., B. Lockwood, M. Almunia, and E.H. Tam. (2021). *VAT Notches, Voluntary Registration, and Bunching: Theory and UK Evidence*. *Review of Economics and Statistics*, 103(1), 151–64.
- Macek, R. (2015). *The Impact of Taxation on Economic Growth: Case Study of OECD Countries*. *Review of Economic Perspectives*, 14(4), 309–328.
- Mahmud, W. (2014). *Bangladesh: Development Outcomes and Challenges in the Context of Globalization*. In *The Future of Globalization*, 271–87. Routledge.
- Mansur, A.H. and B.H. Khondker. (1991). *Revenue Effects of the VAT system in Bangladesh*. *The Bangladesh Development Studies*, 1–34.
- Markos, A.G.E. (2010). *Value Added Tax (VAT) Administration and Revenue Performance: Challenges and Opportunities in the Mekelle Branch of the Ethiopian Revenue and Custom Authority (ERCA)*. Doctoral dissertation, Mekelle University.
- Matthews, K. (2003). *VAT Evasion and VAT Avoidance: Is There a European Laffer Curve for VAT?* *International Review of Applied Economics*, 17(1), 105–14.
- Mattos, E. and R. Politi. (2014). *Pro-Poor Tax Policy and Yardstick Competition: A Spatial Investigation for VAT Relief on Food in Brazil*. *The Annals of Regional Science*, 52(1), 279–307.
- Mavis, M. (2022, March 20). *Bangladesh Has the Lowest Tax GDP Ratio in South Asia*. *Dhaka Tribune*. Retrieved from <https://www.dhakatribune.com/business/2022/03/20/nbr-bangladesh-has-the-lowest-tax-gdp-ratio#:~:text=Following%20the%20shift%20to%20a,among%20all%20South%20Asian%20nations>.
- McClellan, C. (2019). *Growth Effects of VAT Evasion and Enforcement*. *Public Finance Review*, 47(3), 530–57.
- Mikesell, J.L. (1998). *Changing the Federal Tax Philosophy: A National Value-Added Tax or Retail Sales Tax?* *Public Budgeting & Finance*, 18(2), 53–68.
- Mikhaleva, O.L., K.S. Pavlova, V.S. Charikov, and D.V. Aseev. (2019). *Tax Administration of VAT: Impact of Changes*. In *SHS Web of Conferences*, 62, 14001. EDP Sciences.
- Mohammed, H.K. and Z.D. Gela. (2014). *Challenges of Electronics Tax Register Machine (ETRS) to Businesses and its Impact in Improving Tax Revenue*. *International Journal of Scientific Knowledge* 5(3), 17–22.
- Muhith, A.M.A. (2015, 4 June). *Bangladesh Marches Towards Prosperity Paving the Way for Higher Growth: Budget Speech 2015-16*. Ministry of Finance, Government of the People's Republic of Bangladesh. Retrieved from https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/ca4218f7_7fe3_4e9a_afd4_5eb7dc7c0477/speech_en_15-16.pdf

- Muhith, A.M.A. (2016, 2 June). *Marching towards Growth, Development, and Equitable Society: Budget Speech 2016-17*. Ministry of Finance, Government of the People's Republic of Bangladesh. Retrieved from https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/ca4218f7_7fe3_4e9a_afd4_5eb7dc7c0477/BS_English_Final_1.6.16_all.pdf
- Mujeri, M. (2020, 18 February). *Informal Economy and Economic Inclusion*. *The Daily Star*. Retrieved from <https://www.thedailystar.net/supplements/29th-anniversary-supplements/digitisation-and-inclusivity-taking-everyone-along/news/informal-economy-and-economic-inclusion-1869601>
- National Board of Revenue, People's Republic of Bangladesh. 2022. *Duty Calculator*. Retrieved from http://www.bangladeshcustoms.gov.bd/trade_info/duty_calculator?hscode=9619.00.00
- Njogu, L.K. (2015). *The Effect of Value Added Tax on Economic Growth in Kenya*. *International Academic Journal of Economics and Finance*, 1(5), 10–30.
- O'Donoghue, C., M. Baldini, and D. Mantovani. (2004). *Modelling the Redistributive Impact of Indirect Taxes in Europe: An Application of EUROMOD*. *EUROMOD Working Paper No. EM7/01*. Retrieved from https://www.researchgate.net/publication/5017528_Modelling_The_Redistributive_Impact_Of_Indirect_Taxes_In_Europe_An_Application_Of_Euromod
- Onwuchekwa, J.C. and S.A. Aruwa. (2014). *Value Added Tax and Economic Growth in Nigeria*. *European Journal of Accounting Auditing and Finance Research*, 2(8), 62–9.
- Pashev, K. (2006). *VAT Frauds and the Challenges to Bulgarian Tax Policy and Administration in Enlarged Europe*. *Economic Thought Journal*, 1, 57–80.
- Purabi, N.S. (2022, March 7). *How Long Do We Have to Pay Tax for Our Femininity?* *The Daily Star*. Retrieved from <https://www.thedailystar.net/health/how-long-do-we-have-pay-tax-our-femininity-1559464>
- Ruiz, N. and A. Trannoy. (2008). *Le caractère régressif des taxes indirectes : les enseignements d'un modèle de microsimulation*. *Economie et statistique*, 413, 21–46.
- Saez, E. (2016). *Taxing the Rich More – Evidence from the 2013 Federal Tax Increase*. *National Bureau of Economic Research Working Paper No. 22798*. Retrieved from https://www.nber.org/system/files/working_papers/w22798/w22798.pdf
- Schenk, A., V. Thuronyi, and W. Cui. (2015). *Value Added Tax*. Cambridge University Press.
- Schlotterbeck, S. (2017). *Tax Administration Reforms in the Caribbean: Challenges, Achievements, and Next Steps*. IMF.
- Siddiquee, N. and A. Saleheen. (2021). *Taxation and Governance in Bangladesh: A Study of the Value-Added Tax*. *International Journal of Public Administration*, 44(8), 674–84.
- Silva, A.P. (2014). *VAT Registration in Europe: A Review*. *Publishing Research Quarterly*, 30(1), 152–65.
- Smith, A., A. Islam, and M. Moniruzzaman. (2011). *Consumption Taxes in Developing Countries – The Case of the Bangladesh VAT*. *SSRN Working Paper Series*, Working Paper No. 82. <https://ssrn.com/abstract=2028663>
- Smith, S. (2014). *What Future for VAT in the EU? Key Challenges and Strategies for Reform*. In *11th EUROFRAME Conference on Economic Policy Issues in the European Union, Paris*, 6, 2014.
- Tait, M.A.A. (1988). *Value Added Tax: International Practice and Problems*. IMF.
- Tamaoka, M. (1994). *The Regressivity of a Value Added Tax: Tax Credit Method and Subtraction Method—A Japanese Case*. *Fiscal Studies*, 15(2), 57–73.

- Thomas, A. (2020). *Reassessing the Regressivity of the VAT*. OECD Taxation Working Paper No. 49. Paris: OECD Publishing. Retrieved from <https://doi.org/10.1787/b76ced82-en>
- '24 Firms Sued for Evading VAT at Dhaka Trade Fair. *The Daily Star*. (2019, 29 January). Retrieved 22 November 2021, from <https://www.thedailystar.net/business/tax-and-customs/dhaka-international-trade-fair-2019-24-organisations-sued-evading-vat-1694443>
- Unegbu, A.O. and D. Irefin. (2011). *Impact of VAT on Economic Development of Emerging Nations*. *Journal of Economics and International Finance*, 3(8), 492–503.
- UNU-WIDER (UN University-World Institute for Development Economics Research). Government Revenue Dataset. Retrieved from <https://www5.wider.unu.edu/#/?graph=bar&indicators=3,14,25&activeIndicators=25,14,3&countries=BGD&activeCountries=BGD&years=2014,2015,2016,2017,2018,2019,2020&activeYearList=2019,2014,2015,2016,2017,2018>
- World Bank (WB). (2014). *Bangladesh – Revenue Mobilization Program for Results: VAT Improvement Program*. Technical Assessment. Washington, DC: WB. Retrieved from <https://openknowledge.worldbank.org/handle/10986/20075>
- WB. (2020). *Disclosable Restructuring Paper – Revenue Mobilization Program for Results: VAT Improvement Program (VIP) – P129770 (English)*. Washington, DC: WB Group. Retrieved from <http://documents.worldbank.org/curated/en/772921607441196612/Disclosable-Restructuring-Paper-Revenue-Mobilization-Program-for-Results-VAT-Improvement-Program-VIP-P129770>
- WB. (2021a). *Bangladesh Social Protection: Public Expenditure Review*. Washington, DC: WB Group. Retrieved from <https://documents1.worldbank.org/curated/en/829251631088806963/pdf/Bangladesh-Social-Protection-Public-Expenditure-Review.pdf>
- WB. (2021b). *Disclosable Version of the ISR – Revenue Mobilization Program for Results: VAT Improvement Program (VIP) – P129770 – Sequence No: 15 (English)*. Washington, DC: WB Group. Retrieved from <http://documents.worldbank.org/curated/en/211681626546494786/Disclosable-Version-of-the-ISR-Revenue-Mobilization-Program-for-Results-VAT-Improvement-Program-VIP-P129770-Sequence-No-15>
- WB. (2022). *World Bank Open Data*. Retrieved from <https://data.worldbank.org/>
- Yalaman, G. Ö. and H. Yıldırım. (2019). *Cryptocurrency and Tax Regulation: Global Challenges for Tax Administration*. In *Blockchain Economics and Financial Market Innovation*, 407–422. Springer Nature.
- Zafarullah, M. (2018). *VAT and Accounting Issues and Solutions in UAE*. *International Journal of Social and Administrative Sciences*, 3(1), 35–41.

ACKNOWLEDGEMENTS

Estiaque Bari is senior lecturer in the Department of Economics at East West University in Dhaka, Bangladesh.

Towfiqul Islam Khan is senior research fellow at the Centre for Policy Dialogue in Dhaka, Bangladesh.

Mohammad Shahid Ullah is an independent researcher based in Dhaka, Bangladesh. He has carried out a number of studies for SUPRO.

SUPRO and Oxfam thank the following for their assistance in the production of this report: Nasiruddin Ahmed, Saiful Alam, Bukola Anifowoshe, Abdul Awal, Marc Cohen, Winston Cole, Nathan Coplin, Dipankar Datt, Aroma Dutta, Nick Galasso, Caren Grown, Bernhard Gunter, Zakia Haque, Mohammad Khalid Hossain, Mohammad Soeb Iftekhar, Gaytri Koolwal, Alexandra Kotowski, Tracey Lane, MA Mannan, Muhammad Abdul Mazid, Fariya Mohiuddin, Ceren Ozer, Thomas Pope, AJM Zobaidur Rahman, Atiur Rahman, SM Monjur Rashid, Jonathan Rose, Furqan Ahmad Saleem, Stephanie Smith, Janet Stotsky, Kazi Farid Uddin, Elizabeth Vincent and Mehbuba Yasmin. SUPRO and Oxfam are also very grateful to the 60 participants in a 7 July 2021 webinar who provided valuable feedback on an earlier draft of the report.

Research reports

This research report was written to share research results, to contribute to public debate and to invite feedback on development and humanitarian policy and practice. It does not necessarily reflect the policy positions of the publishing organizations. The views expressed are those of the author and not necessarily those of the publishers.

For more information, or to comment on this report, email Marc Cohen at marc.cohen@oxfam.org

© Oxfam International May 2022

This publication is copyright but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured and a fee may be charged. Email policyandpractice@oxfam.org.uk.

The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78748-911-0 in May 2022.

DOI: 10.21201/2022.9110

Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

OXFAM

Oxfam is an international confederation of 21 organizations, working with its partners and allies, reaching out to millions of people around the world. Together, we tackle inequalities to end poverty and injustice, now and in the long term – for an equal future. Please write to any of the agencies for further information or visit www.oxfam.org.

SUPRO

Sushasoner Jonny Procharavizan (SUPRO/Campaign for Good Governance) is a national network of grassroots nongovernmental organizations in Bangladesh, working to establish economic, social and cultural rights of poor and marginalized people at all spheres of society and state through facilitating right based activism at grassroots, national and global level. SUPRO critically analyses global and national level rules, regulations and policies to facilitate grassroots activism to make these work for the poor and marginalized people.

Mailing Address: Flat # E-8, Level-8, Emporium (BTI building), 14/1 Mirpur Road

Shyamoli, Dhaka, Bangladesh.

Telephone: +88 9122628

E-mail: info@supro.org

