Fiscal Accountability and Sustainable Trade (FAST) Project

Bangladesh Tax Benchmarking Study

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December 2020

This publication was produced for review by the United States Agency for International Development. It was prepared by DevTech Systems, Inc. under the Fiscal Accountability and Sustainable Trade Task Order, 7200AA18D00010/7200AA19F00015.

FISCAL ACCOUNTABILITY AND SUSTAINABLE TRADE (FAST)

BANGLADESH TAX BENCHMARKING STUDY

Program title:	Fiscal Accountability and Sustainable Trade (FAST)
Sponsoring USAID Office:	The Bureau for Economic Growth, Education, and Environment's Offices of Economic Policy (E3/EP) and Trade and Regulatory Reform (E3/TRR)
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Date of submission:	December 2020
Date of approval:	January 11, 2020

ACKNOWLEDGMENTS

The assessment team would like to extend special gratitude to the many members of the Ministry of Finance and National Board of Revenue (NBR) for its generous cooperation in helping us collect and analyze information for this report. In particular, we would like to thank the following Ministry of Finance officials: Mr. Habibur Rahman, Additional Secretary, Budget, Mr. Tarek Khan, Program Execution and Coordination Team head, Ms. Fatima Begum, Mr. Md. Azizul Alam, Additional Secretary, Finance, Mr. Anarul Kabir, Deputy Secretary, Finance, and Mr. Abu Daiyan, Deputy Secretary, Finance. We would also like to thank the following NBR officials: Mr. Anwar Selim, Director General, Research and Statistics, Dr. Moinul Khan, Commissioner, VAT Audit and Intelligence, Dr. Abdul Mannan Shikder, Member, VAT Enforcement, Mr. Md. Masud Sadiq, Member, VAT Policy, Ms. Arifa Shahana, Member, Audit and Human Resource Management, Mr. Md. Alamgir Hossain, Member, Tax Policy, Mr. Syed Golam Kibria, Member, Customs Policy, Enforcement, and ICT, Mr. Khondaker Muhammad Aminur Rahman, Member Customs Audit, Modernization, and International Trade, Dr. Md. Abdur Rouf, Commissioner, VAT, Mr. Amimul Ehsan Khan, 1st Secretary, Customs Modernization and Project Management, Mr. Mahraj-ul-Alam Samrat, 2nd Secretary, Customs Policy and Budget, and Mr. Md. Fazlur Rahman, Senior Systems Analyst.

We would also like to express our gratitude to members of the private sector and technical assistance providers who graciously provided their insights, data, and reports to the technical team. In particular, we would like to thank Dr. Zaidi Sattar, Chairman, Policy Research Institute of Bangladesh, Dr. Ahsan Mansur, Executive Director, Policy Research Institute of Bangladesh, and Dr. Masrur Reaz, Chairman, Policy Exchange of Bangladesh. Thanks also to Mr. Saiful Islam, Mr. Gobinda Bar, Asian Development Bank (ADB), Ms. Aileen Pangilinan, ADB, Mr. Firoz Ahmed, ADB, Mr. Win Fernandez, ADB, Mr. Satish Reddy, ADB, Ms. Kishower Amin, European Union, Mr. Francesco Elicio, European Union, Ms. Nusrat Babi, International Finance Corporation, Ms. Susan Betts, International Monetary Fund (IMF), Ms. Elizabeth Goli, IMF, Mr. Peter Bennett, USAID- Bangladesh Improving Trade and Business Enabling Environment (BITBEE) Project Chief of Party, Mr. Mashuk Hossain, Mr. Dermot Jennings, Mr. Raich Uddin Khan, Mr. Prakash Dewan, and Mr. Ghyles Kamal, all USAID-BITBEE, Ms. Nadee Imran, World Bank, Mr. Syed Khaled, World Bank, and Mr. Winston Percy Cole, World Bank.

We would also like to thank Ms. Poonam Smith-Sreen, Senior Program Manager, Dr. David Kauper, Program Economist, and Mr. Muhammad Moinuddin, all USAID, and Dr. Mark Gallagher, Ms. Gabriela Larkin, Mr. Welmar Rosado, and Mr. Niaz Shinwari, all of DevTech Systems, Inc., for their guidance and support to our work.

ACRONYMS

ACR	Annual Confidential Report
ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
AEO	Authorized Economic Operator
APA	Annual Performance Agreement
ASYCUDA	Automated System for Customs Data
BDT	Bangladesh taka
BIN	Business Identification Number (VAT)
BiTAX	Bangladesh Integrated Tax Administration System
BITBEE	Bangladesh Improving Trade and Business Enabling Environment (USAID)
CAG	Office of the Comptroller and Auditor General
CIF	Cost, insurance, and freight
CIT	Corporate income tax
COIN	Customs overseas intelligence network
CVIAC	Customs Valuation and Internal Audit Commissionerate
EFD	Electronic fiscal device
ERP	Effective rate of protection
ESCAP	Economic and Social Commission for Asia and the Pacific (United Nations)
ETR	Effective tax rate
FAST	Fiscal Accountability and Sustainable Trade
FOB	Free on Board
FY	Fiscal Year
GDP	Gross domestic product
HR	Human resources
HSBC	Hongkong and Shanghai Banking Corporation
ICD	Inland container depot
IFC	International Finance Corporation (World Bank)
IMF	International Monetary Fund
IRD	Internal Resources Division
ISR	Implementation Status and Results Report
IVAS	Integrated VAT Administration System
KPI	Key Performance Indicator
LCS	Land Customs Station
LPI	Logistics Performance Index
LTU	Large Taxpayer Unit
MDTF	Multi-Donor Trust Fund
MTRS	Medium-Term Revenue Strategy
NBR	National Board of Revenue
NIN	National identification number
OECD	Organization for Economic Cooperation and Development
PCA	Post-clearance audit
PECT	Program Execution and Coordination Team
PFM	Public financial management

PIT	Personal income tax
RD	Regulatory Duty
SAP	Strategic Action Plan
SARTTAC	South Asia Regional Training and Technical Assistance Center
SASEC	South Asia Subregional Economic Cooperation (ADB)
SD	Supplementary Duty
SPEMP	Strengthening Public Expenditure Management Programme
SRO	Statutory Regulatory Order
TADAT	Tax Administration Diagnostic Assessment Tool
TDS	Tax Deduction at Source
TFM	Trade Facilitation Measure
TIN	Taxpayer Identification Number
TRIST	Tariff Reform Impact Simulation Tool
TTI	Total Tariff Incidence
USAID	United States Agency for International Development
VAT	Value added tax
VIP	VAT Improvement Program (World Bank)
VOI	Value Added Tax Online Initiative (World Bank)
WCO	World Customs Organization
WTO	World Trade Organization

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EXECUTIVE SUMMARY

This report provides a benchmarking and analysis of the Bangladesh tax system and the performance of the National Board of Revenue (NBR), Bangladesh's tax administration. It emphasizes tax administration while touching on some key tax policy issues as well. It includes benchmark comparisons as well as recommendations for reform priorities.

Reform Priorities

Bangladesh has been one of the world's fastest growing countries in recent years and has sustained solid growth for decades. In comparison, its tax revenue performance and improvements in the quality of tax administration have lagged. Revenue as a share of GDP is stagnant at a low level, despite the government's explicit priority attached to raising this revenue performance. Reform of the tax administration lacks a comprehensive modernization plan and critical outstanding areas remain where reforms are needed to allow the tax administration to function as a modern, high-quality institution of government.

Tax Structure

Recent tax legislative reforms have left Bangladesh with a complex tax system and some significant flaws in some major taxes. The Value Added Tax (VAT) and Supplementary Duty Act, 2012 was finally implemented in 2019, but in a modified way that represents a step backward. It returns the tax to something that more closely resembles a cascading excise tax, so that almost all the desirable administrative properties that give a VAT a potentially high rate of compliance have been lost. The revenue base remains overly dependent on customs collections. Although import tariff rates have been reduced in recent years, Supplementary Duties and Regulatory Duties, which are levied on imports at different rates, have filled in the gap to leave combined duties on imports at roughly the same average rate. Effective rates of taxation vary widely across imported goods and services. The Income Tax Law is being redrafted to address administrative shortcomings. The existing law, based on an ordinance from 1984, has fairly standard provisions for corporate and personal income tax, but is rife with broad exemptions that create arbitrary distinctions between taxpayers, depending on whether they are in Special Economic Zones or Export Processing Zones. Along with weak administration, this structure has inhibited growth in corporate income tax revenue. Tax Deduction at Source (TDS), especially from wage earners, remains minimal, despite the steady growth of income in the formal sector. Other forms of TDS are too often used as final tax liability rather than estimated payments.

Institutional Reforms

The NBR has an obsolete organization structure. The three tax wings for Income Tax, VAT, and Customs operate almost separately from each other and staff come from two professional cadres of the Bangladesh civil service. Many administrative functions are duplicated; the lack of close cooperation leads to many administrative shortcomings, including the absence of an effective automation strategy and sharing of information that is essential for designing a robust audit and intelligence strategy. There are two separate large taxpayer units, one in Income Tax and one in VAT, and almost no sharing of information across these two units—even though the revenue collected from their taxpayers is a significant fraction of both of these taxes. The headquarters and regional offices also operate with an excessive degree of independence. There is an urgent need to move toward a modern functional structure and to more clearly defined roles at the top of the institution.

Core NBR Functions

Domestic tax administration remains a critical weak spot. The introduction of a new taxpayer registration number for VAT and improvements in Income Tax registration are two recent achievements. However, it is unfortunate that two separate and uncoordinated taxpayer identification numbers now exist. Other areas such as management of registration databases, filing compliance, payments processing, audit, and arrears and debt management remain problematic. Little data and no time series were available on the number of taxpayers filing, filing on time, and e-filing for VAT and Income Tax. Arrears are considerable, and there appears to be no specific strategy for eliminating these arrears. The NBR needs to introduce a comprehensive reform of compliance risk management by improving information exchange, data collection and analysis, and developing a cross-cutting strategy for identifying risks and undertaking audits of those taxpayers. Electronic filing and payment for large taxpayers should become the norm as quickly as this can be accomplished.

In contrast to domestic tax, the NBR has a strategic action plan for the Customs wing that includes actions structured under 11 strategic objectives covering the full range of functions. Customs has made progress in improving some business processes, with recent notable improvements in trade facilitation. Some critical areas such as post-clearance audit and control over imports intended for inland container depots require continued efforts to improve them to a modern standard. Reducing time required to clear goods and reducing compliance costs, overall, remain crucial areas for future improvement. A number of initiatives are underway, supported by TA USAID BITBEE and ADB SASEC on this front, and the situation may improve in the medium-term.

The current automation strategy requires significant change. Customs so far has had the most success with the implementation of Automated System for Customs Data (ASYCUDA) World, even though manual document submission and interactions with staff continue as a matter of course. The building of stand-alone VAT and Income Tax automated systems was a strategic misstep, especially when both were using the same external contractor and basic operating system. Although the VAT implementation appears to be moving forward, its accomplishments, after several years of work and high costs, remain limited. The Income Tax automation strategy appears to be returning nearly to the beginning. There is almost no sharing of ASYCUDA information to VAT and Income Tax and little sharing between VAT and Income Tax. Although there is some use of third-party reporting, it is unclear how extensively it is used; it appears that this information is used on an *ad hoc* basis. TDS is a key weak point and deserves special scrutiny. Some recent changes in the Income Tax Law should strengthen the NBR's ability to enforce meaningful compliance with this component of Income Tax and the new draft law should reinforce this progress. Although the framework for dispute resolution is in place, including through alternative dispute resolution, there is a need to speed up this process and ensure that taxpayers don't use disputes as a means to delay or avoid tax payments.

I. INTRODUCTION

The U.S. Agency for International Development (USAID) Fiscal Accountability and Sustainable Trade (FAST) Task Order engaged a team of international and Bangladeshi experts between September and December 2020 to conduct a benchmarking study for the Bangladesh tax system. These experts, the "Team," reviewed documents, forms, collected fiscal data, and interviewed staff of the Ministry of Finance, National Board of Revenue (NBR), representatives from the private sector, and technical assistance providers.

The benchmarking approach identifies inputs, such as human, capital, and other resources, and then applies a process of transformation from which it produces outputs and outcomes. The outcome of the tax system is the amount of revenue collected in accordance with the law. An efficient tax system collects this revenue at the lowest feasible cost, both in terms of the costs of tax administration and taxpayer compliance and distorts behavior as little as possible.[1]

The Team applied information from the Bangladeshi tax system in a comparative framework to measure against international benchmarks. International benchmarks have been developed using information, research, and advances in tax administration diagnostic tools. Tax system benchmarking exercises, similar to this study, have been carried out in a number of countries and by a number of actors. While these studies have been funded by USAID in several countries, in some countries the studies were carried out by national tax agencies using their own resources. Some of the countries that have conducted tax benchmarking studies applying the methodology in this report include Bosnia and Herzegovina, Egypt, El Salvador, Guatemala, Jamaica, Jordan, Liberia, Moldova, the Philippines, and Tanzania.

The purpose of this benchmarking exercise is to assess the performance of the Bangladesh tax system by comparing specific indicators that capture the essence of any tax system with either international best or most-relevant practices. New research conducted in the development of the International Monetary Fund (IMF)'s Tax Administration Diagnostic Assessment Tool (TADAT) has been useful in refining and bringing the tax benchmarks up to date. It should be noted that USAID's tax benchmarking methodology and that of TADAT can overlap, particularly as they are both diagnostic tools, but there are important differences. Table 1 presents the differences in aspect and focus of TADAT and the tax benchmarking methodology.

1 The original USAID methodology for tax benchmarking is laid out in Gallagher, Mark (2004), Assessing Tax Systems Using a Benchmarking Methodology, Research Paper, USAID Fiscal Reform in Support of Trade Liberalization, April. Available at: http://pdf.usaid.gov/pdf_docs/Pnadc940.pdf.

Table 1. Comparing TADAT and Tax Benchmarking

Aspects and Focus	TADAT	Tax Benchmarking
Holistic/Systematic	√	√
Performance Outcome Areas	√	
Revenue Productivity		√
Functions	√	√
Organizational Issues	√	√
Best/Good Practice Basis	√	√
International Comparative Scoring	√	
Secretarial Approval	√	
Recommendations for Modernization		√
Performance Targets/Indicators for Modernization		√

Perhaps the most important way that tax benchmarking methodology differs from TADAT is that the former has an explicit focus on revenue and revenue productivity. By comparing revenue productivity along with the application of best practices, tax benchmarking methodology allows us to develop a set of prioritized reforms that can both address the organizational issues of strengthening the tax administration and also ensure that targeted reforms can help to increase revenue in a fair and efficient manner to promote economic growth and fiscal sustainability.

The tax benchmarking approach can be used to develop a strategy, along the lines of the government's current approach, for tax reform. It can provide a checklist of actions, timelines for actions, and future-date target values for indicators. A summary matrix of recommendations of this report is presented in Appendix 1, which the Team hopes is useful in helping the government's own deliberations.

II. REVENUE PERFORMANCE AND ADMINISTRATIVE BENCHMARKS

Revenue Performance Benchmarks

Bangladesh is one of the fastest growing economies in the world. Gross domestic product (GDP) growth averaged more than 7 percent a year in the five years through 2019—higher than any other Asian nation, including India and China. In 2015, Bangladesh reached lower middle-income country status according to the World Bank definition and in 2018, it fulfilled all criteria to graduate from the United Nation's Least Developed Countries list. Average annual inflation has remained at a manageable 5.7 percent for the last five years and the fiscal deficit has more or less stayed around 5 percent of GDP—most recently at 5.4 percent in fiscal year (FY) 2018–19.[2] Strong macroeconomic fundamentals have helped keep Bangladesh's public debt-to-GDP ratio relatively stable, estimated at 34.9 percent in FY 2018–19.

Bangladesh's improvement in revenue collections lags behind the country's impressive socio-economic gains, as well as its own targets. Despite growth far outpacing the South Asian average, Bangladesh's tax-to-GDP ratio of about 9.5 percent in FY 2018–19[3] is much below the South Asian average (Figure 1)[4] and indeed, one of the lowest in the world.[5] Through much of the last decade, Bangladesh's tax-to-GDP ratio has stagnated at around 9.6 percent of GDP. In its "Vision 2041," Bangladesh set out an ambitious target of raising the tax-to-GDP ratio to 20 percent by FY 2030–31, while the Medium-Term Revenue Strategy (MTRS)—a plan the government is currently developing to mobilize revenue—sets the target at 16 percent.[6] However, revenue collections have consistently missed targets. Since FY 2013–14, tax collections have averaged only about 80 percent of the original budget and about 89 percent of revised targets, with the gaps widening further in the last two years (Table 2).

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2 The FY runs July 1 to June 30, so FY 2018–19 spans July 1, 2018 to June 30, 2019. Two calendar years are averaged to get FY figures for GDP for the ratio calculations.

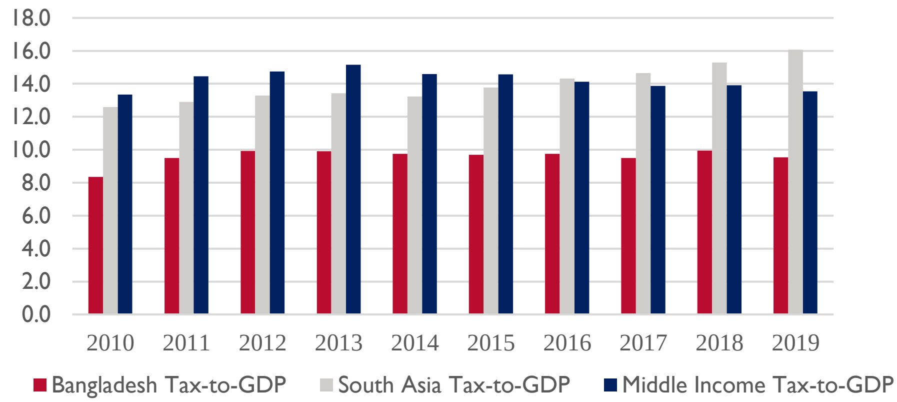
3 There are inconsistencies in revenue data between the Bangladesh Bank, the Bangladesh Bureau of Statistics, Ministry of Finance, and the International Monetary Fund (IMF). The Bangladesh Bank data series was used because it provided the most comprehensive time-series with disaggregation for income, value added tax (VAT), supplementary duties, excises, and international trade taxes. The tax-to-GDP ratio therefore varies depending on the source.

4 In the figure and throughout the report, South Asia excludes Afghanistan, Bhutan, and Pakistan, while Middle-Income Asia includes Indonesia, Philippines, Thailand, and Vietnam. Bangladesh refers to fiscal years and others may refer to calendar years.

5 The median tax-to-GDP ratio for developing economies is 16.7 percent. The IMF estimates Bangladesh's tax-to-GDP ratio for fiscal year 2019–20 to have been 8.2 percent.

6 Government of the People's Republic of Bangladesh, Ministry of Planning, Bangladesh Planning Commission, General Economics Division. (2020). Making Vision 2041 a Reality: Perspective Plan of Bangladesh 2021–2041. Accessed at: https://oldweb.lged.gov.bd/UploadedDocument/UnitPublication/1/1049/vision%202021-2041.pdf

Figure 1. Tax Revenue Over Time (percent of GDP)



Sources: World Development Indicators; Bangladesh Bank; IMF WoRLD Database

Table 2. Tax Collections: Actual Relative to Targets

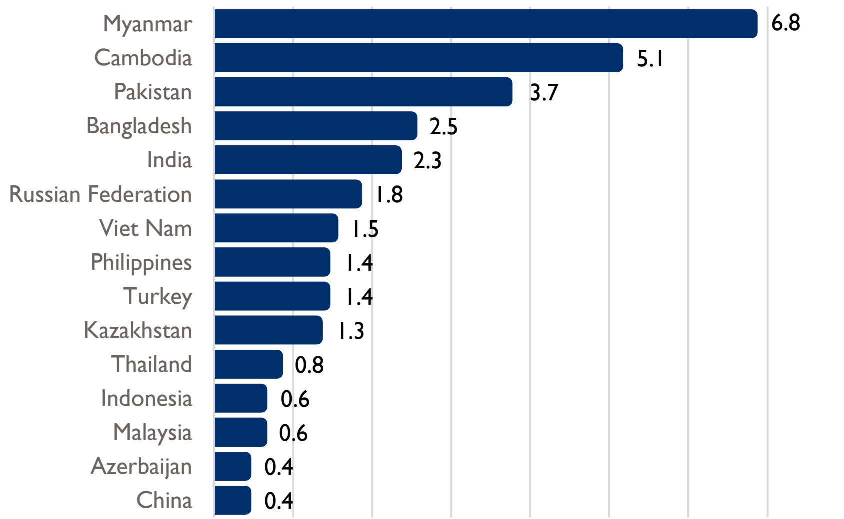
FY	Actual (BDT Bil.)	Budget (BDT Bil.)	Revised Budget (BDT Bil.)	Actual Relative to Budget (percent)	Actual Relative to Revised Budget (percent)
2013–14	1,160.3	1,412.2	1,301.8	82.2	89.1
2014–15	1,287.4	1,552.9	1,406.8	82.9	91.5
2015–16	1,518.8	1,822.4	1,554.0	83.3	97.8
2016–17	1,779.4	2,104.0	1,922.6	84.6	92.6
2017–18	1,943.4	2,564.5	2,322.0	75.8	83.7
2018–19	2,259.6	3,059.3	2,896.0	73.9	78.0

Source: Ministry of Finance

Lackluster revenue collection is squeezing fiscal space available for infrastructure and other development priorities. Bangladesh's overall budget deficit (excluding grants) stood at about 5.5 percent of GDP in FY 2018–19. While this is comparable to others in the region, development needs of a rapidly expanding economy like Bangladesh are immense. Revenue shortfalls for meeting Bangladesh's infrastructure investments alone are quite high compared to others in the Asia-Pacific region, at about 2.5 percent (Figure 2). Moreover, the potential for increased tax revenue collection relative to actual collection—a measure of a critical tax gap—is the highest in Bangladesh, at about 7.5 percent of GDP compared to the rest of the Asia-Pacific region, according to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (Figure 3).[7] This suggests that appropriate tax policy and administration reforms can have meaningful impact on raising additional revenue in Bangladesh.

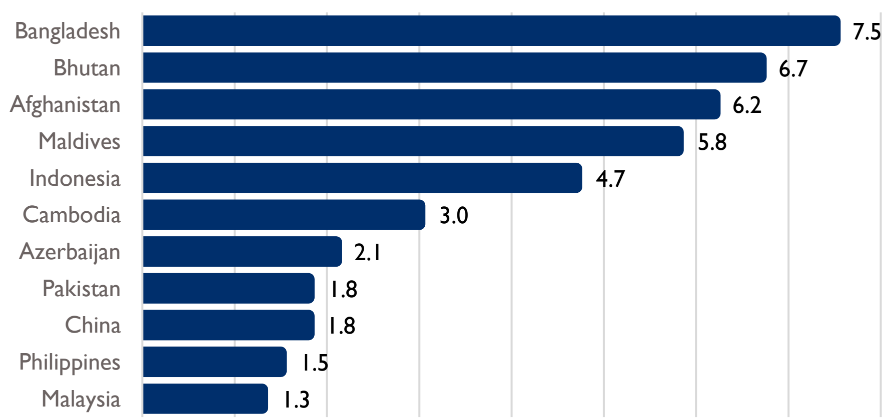
7 United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). (2018). Economic and Social Survey of Asia and the Pacific. Accessed at: https://www.unescap.org/publications/economic-and-social-survey-asia-and-pacific-2018

Figure 2. Infrastructure Spending Gap (percent of GDP)



Source: Global Infrastructure Hub, Global Infrastructure Outlook. Available from https://outlook.gihub.org

Figure 3. Tax Gap (percent of GDP)



Source: ESCAP, 2014. Regional Connectivity for Shared Prosperity

Table 3 below presents a number of revenue performance indicators and compares them to the average performance of other countries in South Asia and Middle-Income Asia, as well as selected comparator countries. Bangladesh revenue data are obtained from Bangladesh Bank [8]

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8 Central Bank of Bangladesh. Bangladesh Bank Monthly Economic Trends. (Sep 2020). Website. Accessed at: https://www.bb.org.bd/pub/monthly/econtrds/sep20/econtrds.php (tables IXC, and XXIII). Bangladesh Bank does not provide a breakdown of income taxes into Personal Income Tax and Corporate Income Tax. Therefore, the NBR Annual Report 2018–19 was used for the income tax breakdown for FY 2014–15 and 2016–17, the years where the NBR data were consistent with that of Bangladesh Bank.

and all comparator countries' revenue data are from the IMF WoRLD database.[9] Other data for Bangladesh are obtained from national government sources,[10] while data for comparators come from various sources, including the USAID Collecting Taxes Database, the IMF Government Financial Statistics Database, and national government sources.

Table 3. Revenue Performance Benchmarks

Benchmark Indicator	FY	Bang.	South Asia	Middle-Income Asia	Selected Comparators/Notes
Tax Collection, percent of GDP	2018–19	9.5	16.4	16.5	India (17.7, 2018); Nepal (20.5, 2018); Sri Lanka (11, 2018); Philippines (15.7, 2018); Thailand (16.5, 2018); Indonesia (11.5, 2018); Vietnam (14.6, 2017)
International Trade Revenue, percent of GDP	2018–19	1.0	4.7	3.0	India (3.8; 2017); Nepal (7.0, 2017); Sri Lanka (5.8, 2018); Philippines (5.1, 2018); Thailand (4.6, 2018); Indonesia (1.4, 2018)
Selective Sales Tax Revenue, percent of GDP[11]	2018–19	1.6	2.7	2.0	India (1.4, 2018); Nepal (3.2, 2017); Malaysia (0.7, 2018); Philippines (1.7, 2018); Sri Lanka (3.4, 2018); Thailand (3.5, 2018)
VAT Revenue, percent of GDP	2018–19	3.7	4.1	2.7	Nepal (6.0, 2017); Sri Lanka (3.2, 2018); Thailand (3.9, 2018); Philippines (2, 2018); Indonesia (3.6, 2018)
VAT Rate (standard rate in percent)	2019–20	15	12	10	Nepal (13); Sri Lanka (8); Indonesia (10); Thailand (7); Philippines (12); Vietnam (10)
VAT Productivity, percent	2018–19	24	34	28	Nepal (46); Sri Lanka (40); Indonesia (36); Thailand (55); Philippines (17)
VAT Revenue, percent of tax revenue	2018–19	38.4	24.7	16.5	Nepal (29.3, 2017); Sri Lanka (26, 2018); Indonesia (31.6, 2018); Thailand (23.5, 2018); Philippines (12.8, 2018)
CIT (standard rate in percent and range)	2020–21	25 with range from 10-45	26	23	India (25); Nepal (25); Sri Lanka (24); Indonesia (22); Philippines (3); Thailand (20); Vietnam (20). Averages sourced from PWC.
CIT Revenue, percent of GDP	2016–17	1.7	3.3	4.4	India (3.2, 2017); Nepal (4.0, 2017); Sri Lanka (1.5; 2018); Philippines (3.4, 2018); Thailand (4.2, 2018); Indonesia (4.1, 2018)
CIT Productivity, percent	2016–17	7	9	16	India (11); Sri Lanka (5) Indonesia (16); Philippines (11); Thailand (21)

9 IMF World Revenue Longitudinal Database (WoRLD). Website. https://data.imf.org/?sk=77413F1D-1525-450A-A23A-47AEED40FE78.

10 Government of the People's Republic of Bangladesh, National Board of Revenue. Annual Report 2018–2019.

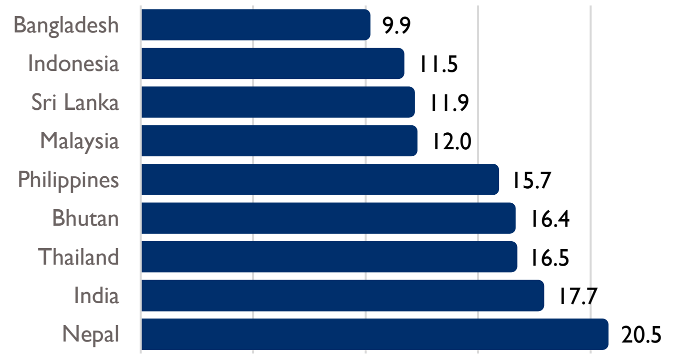
11 Selective sales tax revenue for Bangladesh includes excise revenue and supplementary duty and for others just excises.

Benchmark Indicator	FY	Bang.	South Asia	Middle-Income Asia	Selected Comparators/Notes
Personal Income Tax (PIT) Minimum Rate, percent	2020–21	5	5	7	India (5); Sri Lanka (6); Bhutan (10); Indonesia (5); Thailand (5); Malaysia (1); Philippines (20); Vietnam (5). Averages sourced from USAID.
PIT Maximum Rate, percent	2020–21	25	27	33	India (30); Sri Lanka (18); Nepal (36); Bhutan (25); Thailand (35); Malaysia (30); Philippines (35); Indonesia (30); Vietnam (35). Averages sourced from USAID.
PIT Weighted Average Rate, percent[12]	2015–16	4.4	5.6	14.5	India (5); Sri Lanka (12); Nepal (2); Indonesia (15); Malaysia (17); Philippines (16); Thailand (13)
PIT Revenue, percent of GDP	2015–16	1.1	1.0	1.8	India (2.5, 2017); Nepal (0.5, 2017); Sri Lanka (0.4, 2018); Indonesia (1.0, 2018); Philippines (2.2, 2018); Thailand (1.7, 2018)
PIT Productivity, percent	2015–16	26	29	12	India (56); Sri Lanka (4); Nepal (31); Indonesia (7); Malaysia (13); Philippines (14); Thailand (13)
NBR Cost of Tax Administration per 100 USD Collected in USD	2018–19	0.5	1.2	0.6	India (3.7); Sri Lanka (0.6); Thailand (0.6); Indonesia (0.7); Philippines (0.4)
Number of Tax Staff per 1,000 National Population	2018–19	0.12	0.20	0.19	India (0.04); Sri Lanka (0.13); Nepal (0.03); Bhutan (0.77); Indonesia (0.12); Philippines (0.10); Thailand (0.34)
Number of Active Taxpayers per Tax Official	2018–19	102	535	1196	India (500); Indonesia (837); Nepal (1443); Philippines (2654); Sri Lanka (498)

Tax revenue as a share of GDP in Bangladesh is the lowest among all comparators (Figure 4). The NBR's tax collection of 9.5 percent of GDP in FY 2018–19 pales in comparison to the average tax collection in South Asia of 16.4 percent of GDP. Corporate Income Tax (CIT) revenue is particularly low compared to peers at 1.7 percent of GDP in FY 2016–17. In contrast, the average CIT revenue for South Asia is 3.3 percent and that for Middle-Income Asia is 4.4 percent. The productivity of CIT—a measure of how much CIT revenue is generated per each point of the CIT rate—is the lowest in Bangladesh compared to peers. The productivity of the CIT is only 7 percent in Bangladesh, compared to the South Asian average of 9 percent and the Middle-Income Asia's average of 16 percent. India's headline CIT rate is 25 percent, as is Bangladesh's, but it generates nearly double the CIT revenue in proportion to GDP of 3.2 percent. Similarly, Nepal also has a headline CIT rate of 25 percent, but its CIT yield is more than double that of Bangladesh's at 4.0 percent of GDP.

12 The PIT weighted average rate is calculated using mean income per capita ($ in purchasing power parity (PPP)) of each decile from the latest household expenditure survey. This is converted into local currency unit using the World Bank conversion factor. We then make adjustments for differences between the mean per capita income from the household survey and from national accounting income per capita. We use the average household size to determine household income. The applicable tax rates for different tax brackets are applied to estimate taxable income for each decile. The sum of these represent total taxable income. The average weighted PIT rate is calculated as a ratio of the taxes payable to the total income.

Figure 4. Tax Revenue Compared to Selected Countries (percent of GDP, latest year)

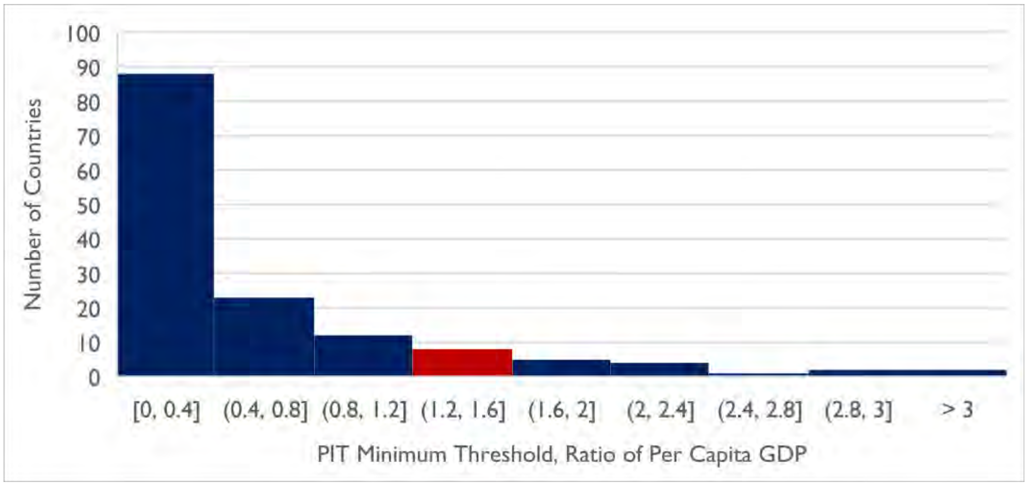


Source: Bangladesh Bank.

The Personal Income Tax (PIT) structure in Bangladesh is comparable to the rest of South Asia, but lags behind other comparators. With similar minimum and maximum tax rates as the rest of South Asia, Bangladesh had a comparable PIT yield of 1.1 percent of GDP in FY 2016–17 (latest year of available data), compared to South Asia's 1.0 percent. However, South Asia offers a poor comparator for Bangladesh for PIT, since the region's PIT yield is particularly low compared to others. For instance, the global average PIT yield of lower-middle-income countries is 2.4 percent and that of sub-Saharan Africa is 2.9 percent, with the median PIT rates starting from 10 percent and ranging to 30 percent in both cases. Viewed from this perspective, even Middle-Income Asia's average PIT yield of 1.8 percent is not overly aspirational. Bangladesh's minimum personal income threshold for taxation is relatively high, at about 1.6 times per capita GDP (Figure 5). This compares with South Asia's average of 1.8 and Middle-Income Asia of 0.5. Bangladesh's relatively high PIT minimum threshold suggests that the tax code allows for a larger share of potential taxpayers to be outside of the tax net, thereby forgoing revenue that could be collected.

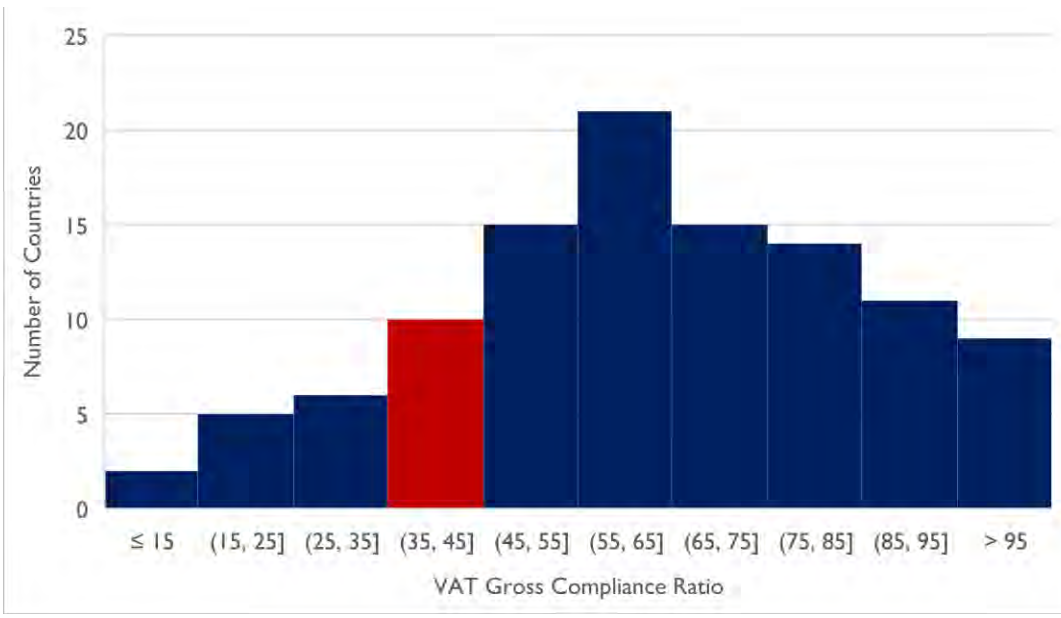
Bangladesh's Value Added Tax (VAT) revenue is relatively better, though still below average. However, the cascading built into the VAT structure and the prevalence of low rates means that results could be biased either upward or downward, depending on the importance of these factors. VAT revenue of 3.7 percent of GDP is better than Middle-Income Asia at 2.7 percent, but still lower than the South Asian average of 4.1 percent. However, Bangladesh's standard VAT rate is relatively high compared to its peers at 15 percent; VAT rates of 7 percent in Thailand, 8 percent in Sri Lanka, 10 percent in Indonesia and Vietnam, 12 percent in the Philippines, and 13 percent in Nepal. The lower average VAT rate of 10 percent in Middle-Income Asia with an average yield of 2.7 percent of GDP means that the average VAT productivity of 0.28 is higher than Bangladesh's 0.24—i.e., Middle-Income Asia, on average, is able to yield more VAT revenue per 1 percent of VAT rate. Similarly, VAT productivity of 0.34 in South Asia is higher than in Bangladesh. This suggests that there is much room for improvement in VAT efficiency and compliance. In fact, Bangladesh's VAT gross compliance ratio—the ratio of actual VAT collections in a country to the potential revenues derived from applying the standard VAT rate to private consumption expenditure—falls toward the lower end of the spectrum (Figure 6).

Figure 5. PIT Minimum Threshold (as a ratio of GDP per capita, latest year)



Sources: USAID Collecting Taxes Database and World Bank World Development Indicators Database

Figure 6. VAT Gross Compliance Ratio (FY 2018–19)



Source: Authors' calculations

In principle, with no tax exemptions, a single rate, and full compliance, the gross compliance ratio ought to be close to 100. In Bangladesh, the VAT gross compliance ratio is only 35.4 percent—compared to the South Asian average of 42.8 percent and Middle-Income Asia average of 66.5 percent—and points to inefficiencies, most notably due to the multitude of VAT rates and exemptions.

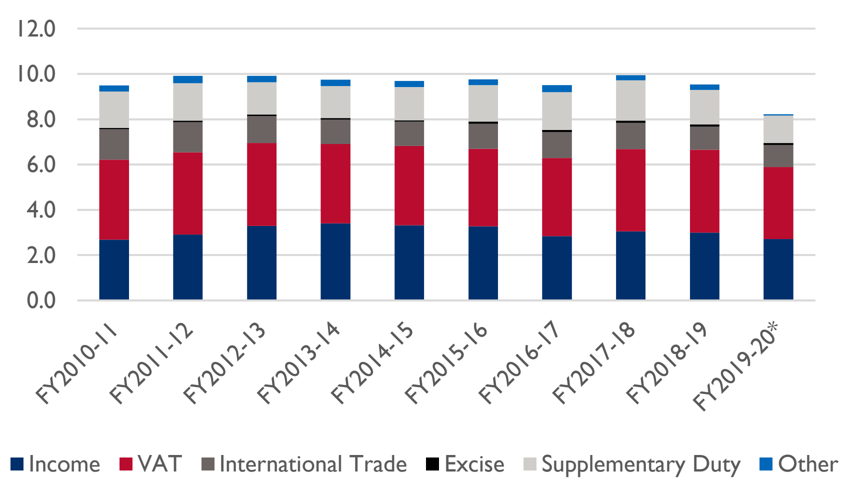
From an international perspective, the NBR has quite a lean staffing structure. There are only 0.12 tax staff for every 1,000 Bangladeshis. While not as lean as the other densely populated South Asian country, India (with a tax staff-to-population ratio of 0.04 per 1,000 Indians), the staffing ratio is similar to Sri Lanka (0.13) and much lower than the average ratio of 0.23 for Middle-Income Asia. Nonetheless, Bangladesh has very few *active taxpayers per tax staff*.

There are only 102 active taxpayers per tax official in Bangladesh. In South Asia, there are about 535 active taxpayers per tax official on average and nearly 1,200 in Middle-Income Asia. This suggests that, at least in principle, NBR has the manpower to absorb a larger number of taxpayers. Nonetheless, the largely manual approach means that Bangladesh staff are likely much less efficient than peers.

Tax Structure

Tax collections are heavily skewed toward indirect taxes and international trade taxes. Income taxes, domestic indirect taxes, including VAT, Supplementary Duty (SD), and excise taxes, and taxes on international trade are the three primary sources of tax revenues collected by the NBR. VAT, SD, and excises constitute more than half of NBR's revenue collections and, together with international trade taxes, account for about two-thirds of tax collections in Bangladesh (Figure 7). VAT revenues have been rising more or less steadily since FY 2014–15 and are projected to increase to nearly 45 percent of total tax revenues in FY 2020–21. Income Tax revenue, on the other hand, has either been declining or stagnant at around 31 percent of NBR tax revenues. In FY 2016–17, PIT revenue accounted for more than half of Income Tax with CIT accounting for the rest.[13] The trend in overall Income Tax in the last decade has been inconsistent with a country with rising per capita incomes and as industrial output has replaced agriculture as a share of total GDP. This revenue grew by a mere 0.7 percentage points of GDP in the decade between FY 2009–10 and FY 2018–19, even while, remarkably, Bangladesh's per capita GDP in the same period more than doubled from US$781 to US$1,856.

Figure 7. Revenue Composition (percent of GDP)



Source: Bangladesh Bank * Projection

Bangladesh's tax laws vary in age. Appendix 2 provides more detail on all taxes. The Income Tax Ordinance, 1984 (with amendments) governs Income Tax. A new Income Tax Law is currently being drafted that intends to modernize it. The Customs Act, 1969 (also amended) is the main legislation governing imports, with a new Customs Law awaiting parliamentary approval.

13 The latest year of consistent data for a breakdown of Income Tax into PIT and CIT provided by NBR was FY 2016–17. Observations on PIT or CIT trends were not possible because of a lack of time-series data.

The Excise and Salt Act, 1944 is the primary legislation governing Excises. The VAT and Supplementary Duty Act, 2012, came into effect in July 2019 after a delay of seven years. The law intended to modernize VAT administration and improve efficiency in VAT collection. In addition, Bangladesh also regularly issues Statutory Regulatory Orders (SROs), general orders, special orders, or directives that amend tax laws every year.

The PIT rates range from 5 to 25 percent. The minimum tax threshold is Bangladesh taka (BDT) 300,000, although there are special concessions for women, senior citizens, veterans, and other groups, who have a higher minimum threshold. A broad set of exemptions and deductions applies. TDS applies to many economic activities and this tax is generally considered final. Under the CIT, publicly traded corporations pay a standard tax rate of 25 percent while non-publicly traded corporations pay 32.5 percent, although rates can be as high as 45 percent depending on the type of industry group and corporation. Extensive use is made of Special Enterprise Zones and Export Processing Zones for tax exemptions.

Although the standard VAT rate is 15 percent under the VAT Act, there are currently a multitude of applicable VAT rates. These include lower rates of 2, 2.4, 4.5, 5, 7.5, and 10 percent, depending on the supply. Input tax credit is limited for VAT payers not paying the 15 percent rate. A system is in place of "withholding" VAT at the border (Advance VAT) and domestically (Withholding VAT) and "reverse charges" for imported services.

Bangladesh's taxes levied on imported goods and services at the border are numerous and complex. The taxes levied on international trade at the border include Customs Duty, Regulatory Duty (RD), SD, VAT, Advance VAT, and Advance Income Tax. The latter three are not intended as final payments, even though in practice they often are. Customs Duty rates vary from 0 to 25 percent and are applied to most goods, although some goods face specific duties instead. In addition, SD and RD are also charged on imported goods. RD of 3 percent is imposable on goods attracting the highest rate of Customs Duty of 25 percent; in practice, however, RD is also applicable on goods that have a Customs Duty less than 25 percent and the rates can vary from 0 to 35 percent.

Under the VAT Act, a variety of goods also attract SD. A "one-level" turnover-basis SD is applied on imports at rates ranging from 0 to 500 percent. Even though this is a one-time charge, the method of calculation builds on the assessable value base which includes Customs Duty and RD. This tax is not available as input credit under VAT and becomes a final liability. While domestic SD is collected on a much shorter list of goods, in terms of value it is more than four times the import SD.

Revenue Administrative Benchmarks

The NBR is the premier institution for tax administration in Bangladesh. The NBR reports to the Internal Resources Division (IRD) of the Ministry of Finance. The IRD is responsible for raising necessary domestic revenue for the government and dealing with matters relating to all taxes, duties, fees, etc. The Secretary in charge of the IRD also serves as the ex-officio Chairman of the NBR. Members of the Board include tax-cadre officers from two professional cadres of the Bangladesh Civil Service, namely the Taxation Cadre and Customs and VAT Cadre. The NBR has a Chairman and sixteen Members.

Unlike modern tax administration structures, the NBR is organized by tax type, rather than along functional lines. The NBR has five wings, namely Board Administration, Income Tax, VAT, Customs, and Research and Statistics. The NBR has 70 offices—40 for Income

Tax and the rest for Customs and VAT. Out of 40 Income Tax offices, 31 Income Tax zones are engaged in tax collection. Of the 30 Customs and VAT offices, 12 VAT Commissionerates, two Customs Bond Commissionerates, and six Customs Houses are involved in tax collection. With an approved manpower of 20,867, the NBR currently has 614 staff deployed at headquarters; 9,036 work for Income Tax and 11,217 for Customs and VAT. There are two Large Taxpayer Units (LTUs)—one for Income Tax and the other for VAT. With the exception of the two LTUs, tax offices are designed around the type of tax and territorial jurisdiction. The three tax wings—Income Tax, VAT, and Customs—largely operate independently of each other. An organogram for the NBR is presented in Appendix 3.

Table 4 presents how tax administrative features in the Income Tax and VAT wings compare with international benchmarks. Areas that are in line with international benchmarks are highlighted in green; those that are progressing toward benchmarks are highlighted in gold; and finally, those that fall short of benchmarks are highlighted in red. The status of several indicators in Bangladesh could not be determined. These are marked as "unknown." Table 4 highlights many areas in Bangladesh's tax administration system that warrant attention. The issues highlighted in this table are discussed later in the general tax administration, Income Tax, and VAT sections.

Table 4. Revenue Administrative Benchmarks

Benchmark Indicator	Income Tax	VAT	International Practice
Organizational Structure			
Functional structure of wing excluding LTU	No	No	Yes
Taxpayer Services			
Taxpayer Registration			
Clean taxpayer registry (especially for large and medium taxpayers)	Yes	Yes	Yes
Percent inactive taxpayers in registry	> 10	Unknown	< 5
Multiple Taxpayer Identification Numbers (TINs) issued to the same taxpayer	No	Yes	No
Online taxpayer registry available to taxpayers	Yes	Yes	Yes
TINs harmonization between Customs and Income Tax	No	No	Yes
Use of tax return data to update taxpayer registry	Yes	No	Yes
Are taxpayers being deregistered	No	Yes	Yes
Returns Filing			
Percent of total tax returns that are e-filed, most recent	0	<60	80–90
Payment Processing			
E-payments (mobile, credit, debit, prepaid cards)	Yes	Yes	Yes
Tax payments through commercial banks and their branches	Yes	Yes	Yes
Cash payments made through tax officers	No	No	No
Filing reference number as a precondition for payments	No	Yes	No
Reliable system performance around payment deadlines	Yes	Yes	Yes
Returns Processing and Accounting			
Taxpayer ledger by branch	Yes	Yes	No
Centralized data processing function	No	Partly	Yes
Automated data verification	No	No	Yes

Benchmark Indicator	Income Tax	VAT	International Practice
Percent of primary data captured in tax databases	<20	>60	100
Existence of disaster recovery and database site/servers	Yes	Yes	Yes
Online taxpayer ledger available to taxpayers	No	Partial	Yes
Adequate automated compliance monitoring	No	Partial	Yes
Taxpayer Audit			
Percent of auditors as share of total personnel (domestic tax only)	>30	<30	> 30
Use of risk-based audit selection, percent of cases	Partly	Partly	95–99
Audits conducted outside of audit units	Yes	No	No
Audit/inspection results recorded in the database	Yes	No	Yes
Use of third-party databases, including	Limited	Limited	Yes
- Customs database	Partly	Yes	Yes
- Public procurement database	Yes	Unknown	Yes
- Investment agency registration database	Yes	Yes	Yes
- Bank account information	Yes	Yes	Yes
- Ministry of Commerce licensing Database	Yes	Yes	Yes
- Land cadastral database	Yes	Yes	Yes
Debt/Arrears Management			
Risk-based arrears management	No	No	Yes
Debt write off procedure	No	No	Yes
Debt collection strategy	Some	Yes	Yes
Enforcement (case management) database	No	Yes	Yes
Ageing of arrears	Yes	Yes	Yes
Use of automated debtors' lists	No	No	Yes
Use of automated stop-filers' lists	No	Yes	Yes
Tax payments in installments	Yes	Yes	Yes
Tax Appeals			
Relatively good procedures in Dhaka	Yes	Yes	Yes
Relatively good procedures outside Dhaka	Yes	Yes	Yes
Existence of the Independent Tax Appeals Tribunal	Yes	Yes	Yes
Other Cross-Sectional Indicators			
Are performance audits being conducted	No	Yes	Yes
Micro-simulation models	No	No	Yes
Taxpayer advocate function	No	Yes	Yes
Regular taxpayer perception surveys	No	No	Yes
Cost of compliance surveys conducted	No	No	Yes
Call center	No	Yes	Yes
FAQ database	Yes	Yes	Yes
Clearly defined taxpayer service functions in the regions	Partly	Yes	Yes

Bangladesh's tax administration is making progress in taxpayer registration and fares relatively well in tax appeal. Once the ongoing implementation of the Integrated Value Add Tax Administration System (IVAS) in the VAT wing is completed, the majority of VAT taxpayers should be able to register online. The Income Tax's Bangladesh Integrated Tax Administration System (BiTAX), although not functional otherwise, is currently capable of registering taxpayers online. While registration *per se* has improved, the issuance of the VAT Business Identification Number (BIN) in addition to the Income Tax Taxpayer Identification Number (TIN) means that the those paying both taxes have multiple identification numbers for tax purposes. Currently, the BINs and TINs are not harmonized across the Income Tax and VAT wings. In addition, registration information is not kept fully up to date. In terms of tax appeals, Bangladesh has an established three-tiered system where taxpayer appeals go through an initial administrative review. Taxpayers can then request appeals to escalate to the Appellate Tribunal, and finally through the judicial courts. Improvements are warranted in all areas of tax administrative services, a matter discussed in the following sections.

Table 5 presents Bangladesh's performance against international customs administration benchmarks. Bangladesh's adoption of ASYCUDA World has enabled the Customs wing to accept and process customs declarations electronically (although hard-copy submissions of supporting documents are still required) and efficiently. Customs has also made taxpayer information easily accessible with tools such as the National Enquiry Point, a Frequently Asked Questions database, and other taxpayer services. However, audit remains a particular weakness of Customs, discussed in Section VII.

Table 5. Customs Administrative Benchmarks

Benchmark Indicator	Bangladesh	International Practice
Taxpayer Registration		
Percent of importers/exporters by BIN or other registration number in ASYCUDA in last 3 years	Unknown	< 5
Multiple BINs issued to the same importer/exporter detected?	No	No
Use of import/export data to update BIN taxpayer registry by VAT authorities?	Yes	Yes
Return Filing		
Percent of total customs declarations that are e-filed	99	80–90
Percent of cases of also requiring a hard copy in addition	99	0
Percent of cases of supporting documents submitted in hard copy	99	0
Payments Processing		
E-payments (mobile, credit/debit, prepaid cards)	Yes	Yes
Tax payments through commercial banks and their branches	Yes	Yes
Cash payments made through tax officers	Unknown	No
Filing reference number as a precondition for payments	Unknown	No
Return Processing and Accounting		
Centralized data processing function ASYCUDA	Yes	Yes
Automated data verification and completion of assessment in ASYCUDA?	Yes	Yes
Percent of primary data captured in tax databases	100	100
Existence of disaster recovery and database site/servers	Yes	Yes

Benchmark Indicator	Bangladesh	International Practice
Online importer/exporter portal available to taxpayers with up to date information on current imports/exports and history?	Yes	Yes
Adequate automated compliance monitoring	Partly	Yes
Taxpayer Audit		
Percent of auditors as share of total personnel (domestic tax only)	Unknown	> 30
Use of risk-based audit selection, percent of cases	Close to 10	95–99
Audits conducted outside of audit units	Unknown	No
Post Clearance Audit Conducted	Partly	Yes
Authorized Economic Operators	Yes	Yes
Audit/Inspection results recorded ASYCUDA or other database	Unknown	Yes
Use of third-party databases, including	Limited	Yes
- VAT database	No	Yes
- Public Procurement database	No	Yes
- Investment Agency Registration database	No	Yes
- Bank account information	No	Yes
- Online commodity prices data	No	Yes
- Export declarations data from exporting countries	No	Yes
- Valuation database	Yes	Yes
- Ministry of Commerce Licensing Database	Limited	Yes
Debt/Arrears Management		
Risk-based arrears management	Unknown	Yes
Debt write off procedure	Unknown	Yes
Debt Collection Strategy	Yes	Yes
Enforcement (case management) Database	Unknown	Yes
Ageing of arrears	Unknown	Yes
Use of automated debtors' lists	Unknown	Yes
Tax Appeals		
Relatively good procedures in Dhaka	Yes	Yes
Relatively good procedures outside Dhaka	Yes	Yes
Existence of an Independent Customs Appeals Tribunal	Yes	Yes
Other Cross-Sectional		
Are performance audits being conducted	Yes	Yes
Micro-simulation models	Yes	Yes
Server utilization percent	Limited	50–60
Performance of the ASYCUDA World	Limited	Good
Importer/exporter and customs agent perception surveys conducted regularly	No	Yes
Cost of compliance surveys conducted	No	Yes
Online information/enquiry portal?	Yes	Yes
Call center or National Enquiry Point information	Yes	Yes
FAQ Database	Yes	Yes

Benchmark Indicator	Bangladesh	International Practice
Clearly defined taxpayer service functions in the ports/customs houses/land stations etc.	Yes	Yes

Reforms Underway

The Medium-Term Revenue Strategy (MTRS), Bangladesh's Public Financial Management (PFM) Reform Strategy, and associated PFM Action Plan provide a strategic framework upon which reform efforts are being currently anchored. NBR is leading the Bangladesh MTRS process with support from the World Bank and the Multi-Donor Trust Fund (MDTF) with a goal to increase tax revenues to 16 percent of GDP. The MTRS process began in 2018 and is being coordinated with the PFM reform strategy. There is an MTRS Steering Committee led by the NBR Chairman. The MTRS is currently undertaking stakeholder consultations and reform mapping exercises. Implementation of the MTRS is expected to begin in 2021.

Major tax legislation is currently being changed. Legislative reform efforts began with the VAT Act, 2012[14] and implemented in 2019, though this is widely regarded as a missed opportunity to reform the tax in a positive direction. A new Income Tax code is currently being drafted to update and modernize the 1984 Income Tax Ordinance. A new Customs Act has been proposed to replace the existing act and has been placed before Parliament. The new law intends to accommodate the trade facilitation provisions of the World Customs Organization (WCO) Revised Kyoto Convention and the World Trade Organization (WTO) Trade Facilitation Agreement.

There are a wide variety of initiatives underway, including a push toward digitization within the NBR. As part of an effort to improve trade facilitation and tighten security, a National Single Window is currently being planned that will enable importers, exporters, carriers, and authorized agents to lodge all their documents for more efficient export, import, and clearance processing. With support from the World Bank and USAID, work on an information technology-based risk-management protocol and post-clearance audit (PCA) is currently ongoing. The VAT online project is helping the VAT wing with automation, although progress has been slower than expected. E-registration and e-filing are expected to be functional by year-end, while taxpayer audit implementation is behind schedule. As for the Income Tax wing, there are currently discussions about scrapping the BiTAX altogether and developing a new automated platform. Any new system has to take into account the implementation challenges of BiTAX, which relate to procurement, a lack of appropriate in-house knowledge, and a number of other factors. Table 6 presents a brief overview of ongoing technical assistance programming related to the NBR, Ministry of Finance, and the Office of the Comptroller and Auditor General (CAG).

Table 6. Ongoing Technical Assistance Programs

Donor/Project	Primary Agency	Brief Description
World Bank/MDTF	Ministry of Finance	MTRS Action Plan
World Bank/VAT Online Project	VAT wing	VAT automation (e-registration, filing, payment)

14 Government of the People's Republic of Bangladesh. (2012). The Value Added Tax and Supplementary Duty Act, 2012. Accessed at: http://nbr.gov.bd/uploads/acts/18.pdf

Donor/Project	Primary Agency	Brief Description
World Bank/International Finance Corporation (IFC)	Customs wing	National Single Window; Tariff modernization; WTO Trade Facilitation Agreement implementation; Customs Act; Risk management
IMF South Asia Regional Training and Technical Assistance Center (SARTTAC)	NBR	Short-term technical assistance; capacity development support
EU Supporting the Implementation of PFM Reform Strategic Plan	Income Tax wing, CAG, Parliament	Domestic resource mobilization; Accountability (Internal Audit); Revenue risk management; Parliamentary Oversight Committee
USAID-Bangladesh Improving Trade and Business Enabling Environment (BITBEE)	Customs wing	Trade Facilitation through WTO Trade Facilitation Agreement implementation; PCA; Authorized Economic Operators; Business process reform; Integrity, capacity building and implementation of TFA.
MDTF/EU Strengthening Public Expenditure Management Programme (SPEMP)	CAG, Parliament,	IBAS++ rollout; Budget and Accounts Classification System implementation; PFM Action Plan
Asian Development Bank (ADB) South Asia Subregional Economic Cooperation (SASEC)	Customs	Cross-border trade, Transit trade, Electronic Seals, System PCA, Modernize land customs stations (LCSs)

III. GENERAL TAX ADMINISTRATION

Redefining the Role, Status and Regulatory Power of the NBR

The role, status, and regulatory powers of the NBR are not well-defined. The NBR was set up in 1972 under the Presidential Order No. 76 of 1972 (The National Board of Revenue Order, 1972).[15] Since inception, the NBR has been performing the dual task of formulating tax policies and collecting revenue for the government to finance basic state functions. At present, the responsibilities of the Chairman and 16 members of the NBR are not well-defined. As the NBR performs the dual functions of tax policy and tax administration, conflicts of interest may arise, giving rise to tax officers making compromised decisions in their official capacity to derive personal benefit and leading to corruption.

To eliminate conflicts of interest, there is a need to redefine the role, status, and the regulatory power of the NBR. This can be achieved by the necessary modifications of the Presidential Order 76 or through the enactment of a new Act of Parliament based on international best practices. In order to strengthen the tax administration of the NBR, there is a need to reorient it away from a traditional department of the government toward one that is run as a corporate entity with a clear separation of the Chairman of the NBR and the IRD. Following the Indian Model, the position of all Members may be elevated to that of the Secretary to the Government like the Chairman.

Turnover at the top is too frequent. Since independence, the NBR has had 30 Chairmen, with an average tenure of about one and a half years. In order to reduce leadership turnover and ensure continuity, the average tenure of the Chairman should be at least four years. Moreover, there should be separation of tax policy from tax administration in order to avoid conflicts of interest. Per the government's Allocation of Business, 1996, the tax policy-making function should be entrusted to the IRD, while the NBR should concentrate fully on tax administration, including taxpayer services. This will require building the capacity of the IRD, with the officials having work experience in revenue management, and also a dedicated and professional Chairman for the NBR. As tax officials may resist such a proposed reform measure, the Prime Minister's Office is necessary to make a decision on this matter.

Restructuring of the NBR and its Field Formations by Function and Size

The administrative structure of the NBR needs modernization. The wing design has severe limitations, particularly of scalability and reducing specialization. Increases in workload generally do not correspond with increases in manpower and other administrative resources, such as financial outlay and physical infrastructure. The structure also crowds out serious compliance effort, as offices tend to get swamped with routine low-knowledge jobs. The consequence is a growing inefficiency in administration—and even neglect and collapse of several prescribed tax tasks such as tax accounting, record keeping, and others.

The current design encourages a one-to-one relationship between taxpayer and tax officials and generates a discretionary rent-seeking environment, especially as taxes outside of customs largely remain manual. At present, there is no properly functioning audit system (discussed later in this document). Audit selection is entirely manual and is not

15 Government of the People's Republic of Bangladesh, Legislative and Parliamentary Affairs Division. (N.D.). Website. Accessed at: http://bdlaws.minlaw.gov.bd/volume-15.html

based on structured risk assessment. Audit programs for Income Tax and VAT are separate and not coordinated. Moreover, the NBR does not maintain a database to leverage for analyses on taxpayer compliance and other tax-related issues.

Improving revenue collection depends strongly on the restructuring of the NBR and its field formations by function and size. For this, NBR needs to formulate a Modernization Plan, which will take a systems approach to tax reforms. Under this Plan, a review of the organizational structure should be undertaken along with a needs assessment of planning and staff training. It is expected that a restructuring of the organization based on tax-administration functions (such as registration, return processing, payment, refund, audit, collections enforcement, arrears management, dispute resolution, and taxpayer services) would allow for achieving economies of scale and a more efficient and specialized approach to tax management. This will in turn enhance taxpayer services to promote voluntary compliance. For example, the implementation of the VAT and SD Act, 2012 requires the restructuring of VAT offices and automation of VAT processes. A draft Income Tax should also contain provisions to ensure that Income Tax administration is reformed similarly. A starting point would be centralizing all headquarters functions in one department.

Complex tax policies and provisions make taxes difficult to administer. A case in point is the new VAT law. Deviation from the standard VAT rate, not just by product but also by stages of production and sale, creates complexities for administration and provides loopholes for tax evasion. Elimination of the VAT input tax credit up to the retail stage for those not applying the standard VAT rate makes it difficult or even impossible to maintain the input credit chain—a key feature of a VAT system. The system of collecting Advance VAT at the import stage has created a cascade of taxes, whereby importers as well as manufacturers pass on the tax burden to final consumers. Another deviation in VAT implementation from the envisaged VAT Law relates to SDs. The intent of the law was to apply SD equally to both domestic and imported products and reduce protectionary dependency on the SD. However, the new VAT Law disproportionately applies the duty on imports. Limited capacity within NBR to monitor this complex VAT regime is aggravated further by the fact that installation of electronic fiscal devices in receipting entities is behind schedule. In the absence of an electronic receipting system, the efficiency of VAT administration is severely undermined. Further, a number of SROs, general orders, special orders, or directives are issued each year that amend laws related to Income Tax, VAT, or Customs Duty. Such frequent tax policy changes create an environment of uncertainty, both for tax administration and compliance.

The Research and Statistics wing should be strengthened to develop and manage a comprehensive database. This information can be used to carry out empirical studies on both tax policy and tax administration in conjunction with the Ministry of Finance and to design a meaningful risk-based audit program. Advanced countries regularly construct a database of properly anonymized taxpayer-returns information. These databases are used to develop revenue forecasting approaches that are based on the specific structure of the tax system and can be used to assess the impact of proposed policy changes on revenues. In addition, this database supports a whole host of additional areas of research, both within and outside of the tax administration. The areas of research include, *inter alia*: analyzing the gap between taxes legally owed to the state and tax actually paid and collected, the so-called tax gap; tax expenditures resulting from provisions of the tax code; the impact of globalization of the economy and dismantling of trade and tariff barriers on revenues; the transfer of national tax resources to other countries; and the impact of tax havens. These activities may also include international tax jurisprudence and market surveys.

Integrated Revenue Management Program

The business processes of the NBR need modernization. Although the Income Tax, VAT, and Customs wings function under the NBR, there is little data exchange among these three tax areas and possible synergy among the three is entirely absent. This may be attributed to several factors, including: (1) a lack of a unique taxpayer identification number across all tax types; (2) separate registration databases for Income Tax and VAT, which are linked neither electronically nor functionally; (3) the absence of joint audit of CIT and VAT returns; (4) a lack of cross-checking on PIT or CIT with VAT returns; and (5) the limited use of information from the ASYCUDA World system for Income Tax and VAT. Although a web-based e-registration system has been introduced in both Income Tax and VAT, it is not interfaced with return filing, payment processing system, refund, and audit to date, although some progress has been made in VAT. The outdated business processes and lack of automation result in the exercise of discretionary powers by the officials. As a result, taxpayer compliance remains very low.

Integrated revenue management for reengineering the business processes and automation of three taxes is essential. Business processes have to be reviewed and reengineered to make them user-friendly and compatible with a digital system. An integrated revenue management program should connect the three tax wings of the NBR at the transactional level by linking the TIN and BIN in the database. For such an integrated system, the NBR would need to first centralize the database and transaction processing of the three wings at one location, and then to build an information system that can mine data in the three databases and process the same for exception reports. The integrated revenue management would enable the desired flow of information and consequent synergy among the three tax wings of the NBR. This would enhance moving to a functionally organized modern tax administration structure with automation of income tax and VAT in core functional areas. Under the Modernization Plan, the information technology system of the NBR needs to be revamped to make a digital NBR. Designing and managing the information technology system may be outsourced until the tax officials develop their capacity to manage the system. This program will enhance transparency of the tax system and also pave the way for strong legal enforcement and monitoring.

The NBR also needs to collaborate better with the Ministry of Finance on revenue goals so that they are realistic and grounded in policy and administration. Currently, the Coordination Council under the chairmanship of the Minister of Finance sets an overall revenue target and the NBR establishes targets for each of its Income Tax zones and VAT Commissionerates and Customs Houses. However, the growing gap between these suggests that the Council's target is increasingly unrealistic and the NBR may have stopped even trying to achieve this level of collections. Moreover, setting unrealistic goals may—instead of motivating the NBR to raise its performance—cause it to harass vulnerable taxpayers to pay more than they legally owe, even while it lets others evade tax liabilities. In light of the significant technical assistance it has received in recent years, the Council should be setting a reasonable goal based on the actual structure of taxes put in place, but also have reasonable expectations built into those revenue goals for the NBR to raise its performance. Based on the overall revenue target set by the Coordination Council, the IRD should establish targets for each of the Income Tax zones and VAT Commissionerates and Custom Houses of the NBR. Poor decisions, such as those resulting in the purchase of substandard automation in the income tax wing, could be avoided if both the Ministry of Finance and NBR believed that the revenue goals were realistic and achievable.

NBR lacks a strategic plan to coordinate activities of its different wings. Due to the lack of a strategic mandate, there is little incentive for the different wings to coordinate activities. Lack of adequate information exchange between the three NBR wings translates into limited ability of tax officials to verify information across different tax declarations. Data exchange is also hampered by limited automation and lack of compatibility within the information technology systems in the different wings. For example, staff from the VAT and Income Tax wings can access limited information from the ASYCUDA World through a separate management information system report upon request. The new IVAS and ASYCUDA systems are not currently linked for automatic exchange of information. In addition, sensitivities around the different cadres of NBR staff in the Income Tax wing and the VAT and Customs wings translates into unwillingness to be fully cooperative and forthcoming with relevant information.

Moreover, efforts need to be made to improve the efficiency and effectiveness of LTUs, with sustainable processes leading to increased tax collection. For instance, many of the large taxpayers in the VAT LTU and the Income Tax LTU are the same entities. In spite of this, the VAT LTU and Income Tax LTU operate without much coordination. Two uncoordinated LTUs, with a different set of corporations in each, results in a low level of performance by both of them. Moreover, merging the two LTUs to function as one unit covering large taxpayers or at the least having regular and systematic online sharing of information would create synergy. This apart, LTU business processes should be replicated through a phased roll-out to selected income tax zones and VAT Commissionerates.

Automation across the three main wings of the NBR varies widely. Automation in the Income Tax wing is limited to issuing e-TINs through the BiTAX system. While e-filing was previously functional through BiTAX, the system is currently dysfunctional and all income tax filing for this year will be done manually. Income tax processing is largely manual, making it difficult to implement risk-based selection for audit, verification of information, or data exchange with the other wings. Due to the limited efficacy of the BiTAX system, the NBR has recently planned to design and develop a new—as yet undefined—approach to Income Tax automation.[16] As part of the implementation of the new VAT law, the World Bank is supporting the VAT wing with the new IVAS system. However, progress on IVAS implementation has been slow. Currently, the e-registration module is functional, with progress being made on e-filing for LTUs and e-payment. However, other modules, such as that related to audit, is unlikely to be completed before the end of the World Bank project at the end of the year. The Customs wing is by far the most advanced in terms of automation. The implementation of the ASYCUDA World system within Customs has enabled e-registration, e-filing, and e-payment, although in addition to the online declaration, hard copies of supporting documents are still required to be submitted in person. The ASYCUDA system is able to generate automated reports and is capable of conducting cross-verification, although limitations remain. For instance, not all modules under ASYCUDA are currently being utilized; also, the system does not link automatically to IVAS.

Human Resource (HR) Management

The NBR does not have well-defined career planning for its officers and staff. Except the recruitment of cadre officers, which is made by the Bangladesh Public Service Commission through holding competitive examinations, deployment, promotion, and training are done on an

16 Parvez, Sohel. (2020). NBR to develop e-tax return filing system with own resources. *The Daily Star,* November 20, 2020. Accessed at: https://www.thedailystar.net/business/news/nbr-develop-e-tax-return-filing-system-own-resources-1988461

ad hoc basis. As such, many bright officers opt to leave the NBR to join administrative positions elsewhere in the government.

The proposed administrative restructuring of the NBR by function and size will call for a major overhaul in the HR management approach. Since the functional distribution will encourage specialization among tax officials, the transfer and deployment policies will have to address supporting specialization and skill development in specific functions based on aptitude, flair, skill sets, and ability. The policy of frequent rotation of officers, even within a wing, should be largely eliminated. HR policies will also need to address the issues of intensive HR development and motivation, as well as training. Since it is intended that, at the senior supervisory levels, NBR officials will have cross-functional as well as functional responsibilities, the Team proposes that the NBR expose officers to different functions in the first few years of service; then, they can be placed into function-specific specialization before they are promoted to senior supervisory level. A comprehensive HR policy should be designed to create congruence between aspirations and skill sets of individual officers and NBR organization goals.

The expanding training needs of NBR require strong tax academies that would be able to provide year-round training of international quality to the officials of all tax systems. The current training infrastructure is sorely in need of improvement. The curriculum of the Income Tax and the Customs and VAT Academies and their staffing and technology requirements have to be assessed, upgraded, and ideally merged. Specialized training programs in transfer pricing, audit techniques, information technology, and other areas are critical. To keep the knowledge and skill of tax officers on tax matters up to date, conducting training of international quality underpins the building of partnerships with international tax training institutions.

Performance Appraisal

At present, performance appraisal is done at the organizational and individual level. At the organizational level, Annual Performance Agreements (APAs) were introduced for all Ministries/Divisions in FY 2014–2015 and then adopted for all other government offices in subsequent years.[17] This approach requires that all departments adopt an APA covering both mandatory elements and department-specific functions and activities. For the NBR, the process entails a Chairman's APA setting out the commitments of the NBR and field offices. The Chairman then has three APAs with the Administration, Customs and VAT, and Income Tax wings. All Commissioners also have APAs with their members. The process commences at the beginning of a fiscal year and APAs must be signed off on by June 30, the end of the fiscal year. The highest-priority function appearing in the high level APAs is the achievement of revenue goals and, in particular, an increase in the tax-to-GDP ratio. All functions, such as revenue goals, are broken down into activities with key performance indicators (KPIs). The NBR is required to report on a quarterly basis to the IRD, Ministry of Finance. Performance appraisal at the individual level is largely dependent on the traditional annual confidential report (ACR), which is a subjective evaluation. The government is in the process of replacing the ACR system with the Annual Performance Appraisal Report at the individual level, which is expected to be linked with the APA at the organizational level.

APA objectives and KPIs are primarily based on activities and not on targeted outcomes. It is essential that APAs be based not only on specific activities but what outcomes

17 Appendix 4 provides examples of these APAs.

are expected from these activities, consistent with a good performance-based management system. For instance, in the area of registration, performance goals could include number of registrations screened, followed up to ensure that taxpayers are being registered, deactivation of inactive taxpayers, and data analysis to identify missing taxpayers. Outcomes could include the percentage of active registrations, the percentage of expected/screened registrations that are registered, and so on. In the area of filing and audit, goals could be similarly developed. The NBR needs to develop career planning linked to the achievement of goals in the APAs.

A Robust Vigilance Unit to Ensure the Integrity of Officers

Integrity needs to be reinforced and improved. Since the NBR delivers an important publicly managed service that leaves a large imprint on the public, it is important to hold NBR services and efficiency to a high standard that reinforces and strengthens the confidence of citizens in public services offered by the government. There is no Vigilance Unit in the NBR which oversees the integrity of officials. The manual systems afford too many opportunities for a lack of integrity of some officials. Moreover, there is no tax ombudsman to investigate unresolved complaints from taxpayers about the service and treatment that they have received from the NBR.

An ethics management policy is needed. An ethics management policy is an essential part of an organization like the NBR. It encourages adherence to expected standards and values across the organization and relates the performance appraisal system to it. A strong Vigilance Unit should be established to ensure management integrity. Because it minimizes interactions between tax officials and taxpayers, the automation of tax processes is also key to integrity management. The government should consider establishing an independent tax ombudsman to dispose of taxpayer complaints against the NBR. However, for better integrity management, the compensation package for NBR officials should be made commensurate with that of multinational companies—and strong penalties, including firing, should be instituted for NBR staff stepping outside the parameters of high integrity. Customs is currently working with BITBEE on an integrity and management training plan, and similar initiatives should be set up for other taxes.

NBR does not undertake any regular surveys of its performance. The last perception survey was conducted several years ago. The NBR should institute the regular practice of surveys and ensure that the findings of these surveys are taken into account in administrative reform. One critical benefit would be to raise the integrity of interactions between the NBR and taxpayers, an area that previous surveys have shown is especially problematic. Finally, the Ministry of Finance should present the findings of the surveys to the Parliament so that it has a regular means to evaluate progress in improving perceptions and performance of the NBR, unrelated to revenue collections.

Managing Compliance Risk

The NBR lacks a well-structured approach to managing compliance risk. The division of the administration into three tax wings means that each wing develops its own approach, largely independent of what other wings are doing. The Income Tax and VAT wings currently have somewhat *ad hoc* approaches to identify and set priorities for risks to revenues. Each wing undertakes a certain number of audits, generally broken down between those conducted by headquarters and those conducted by field offices. The NBR's data on audits indicated that in FY 2019–20, 29,141 PIT audits were planned and 20,715 completed. That year, 4,256 CIT audits were planned and 2,587 completed. Further details were, however, unavailable on the extent of the audit program, including the type of audit or amounts levied or collected.

Audit selection is mainly based on manual inspection of taxpayers' returns. The wings do not appear to make extensive use of data on findings and trends in risks and noncompliance to develop a well-targeted audit plan. The criteria for audit appear to be derived from officers' experience and perception of risks and the review of available documentation from taxpayers. The criteria appear to be general and cover appropriate risks. However, they do not necessarily focus on specific areas. Data available from automated systems are not yet incorporated into audit planning. IVAS does not yet have a written manual, though one has been drafted, limiting use of this system for audit purposes at present.

The reporting of audit from field office to headquarters lacks strategic focus. The field offices report back to headquarters on the number of audits, taxpayers audited, assessments issued to those taxpayers, and the amounts collected. However, it was unclear to what extent there is specific reporting of cases based on selection criteria, making it difficult for headquarters to refine the audit plan based on this information.

Neither automated system in Income Tax nor VAT has risk or audit modules developed yet. Although automation has been underway for many years in both wings, neither automated system has yet incorporated these critical modules. It is unclear if the VAT project, supported by the World Bank, will complete this task before it wraps up though its extension is currently under consideration.

There appears to be little use of third-party information to inform compliance risk management. A cornerstone of effective compliance risk management is the use of third-party data to inform the tax administration of inconsistencies, which leads to the development of effective identification of noncompliance. Third-party data emerge from a variety of sources, including employers, other government agencies, banks, stock exchanges, and land registration.

In other areas of managing compliance risk, the NBR has undertaken some efforts to reduce unregistered taxpayers and non-filing. With the successful implementation of the new registration identification number for VAT, the BIN, and e-registration modules in Income Tax and VAT, the NBR is making progress in raising the number of registered taxpayers and filing rates. Taxpayers are allocated to local offices alphabetically in Dhaka, rather than on a more strategic basis. This arbitrary allocation of taxpayers enhances the challenges of developing the appropriate expertise to conduct effective management of compliance risk.

Effective management of compliance risk is critical to a high-performing tax administration. To achieve its revenue goals and ensure the tax system captures the taxpaying base fairly and efficiently, it is essential that the NBR improve the structure of its management of compliance risk and make far greater use of data, either derived from its manual systems or, more ideally, a properly functioning and completely automated system. It is a critical part of how the NBR would organize its efforts to increase taxpayer registration, improve on-time filing rates and on-time payment, and enhance the accuracy of taxpayer returns.

Improved management of compliance risk would be centralized and would ensure that field offices are addressing the most important audit cases. Headquarters needs to take a strong hand in developing the selection criteria for headquarters and field offices to enhance the effectiveness of individual audits and ensure that results are well-monitored and used to improve case selection and approach.

The role of the NBR's Central Intelligence Cell should be upgraded and charged with developing a full program for managing compliance risk. This cell would set the strategy for the NBR, including the Income Tax and VAT wings in cooperation with the Customs wing, and use defined priorities for risks and the approach to evaluating them. A high priority would be to establish an approach to data analysis that informs the audit strategy. In addition, there needs to be a full-scale program of acquiring and using regularly and matching third-party data. It would need to undertake analysis of markets and revenue types and work collaboratively with all parts of the operation. It would need to be appropriately staffed with specialized staff, well versed in audit and compliance strategies. Some examples of these approaches are given in the box below.

Using Information More Effectively
Income Tax and VAT Comparisons
A comparison of Income Tax and VAT information is one of the critical tools for enhancing compliance with both taxes. Total sales, total purchases, and ratios of outputs to inputs or profits all yield useful information. Industry averages provide the benchmark against which taxpayers can be compared. If Income Tax and VAT sales and purchases are significantly different, this lends scope for identifying sources of noncompliance. Further, in identifying whether all VAT taxpayers are registered a comparison of income tax sales information can yield insight into missing VAT taxpayers. TDS appears to be one particularly weak area of enforcement. Income Tax information provides significant information whether employers are properly reporting on TDS or withholding amounts due for employees. Similarly, this yields insights into components of value added, useful for establishing norms for the VAT.
Customs and Income Tax and VAT Comparisons
Customs' ASYCUDA World provides a database of all registered importers and exporters. More extensive sharing of these data with the Income Tax and VAT wings and year-to-year checking of ASYCUDA data significantly enhance the ability to target missing taxpayers in the domestic tax system. The development of some standardized ratios by industry, such as ratio of imports to VAT purchases and exports to VAT sales, and similarly for Income Tax enhances the ability to detect overreporting of purchases and underreporting of sales. Starting with the taxpayers in the two LTUs would likely yield the greatest gains, but all large- and medium-sized Income and VAT taxpayers deserve this scrutiny.

Litigation Management

Dispute resolution is a key issue in taxation. The objective of the reform is to rationalize taxes at both policy and implementation levels and to discourage disputes as far as possible. In the event of disputes, the objective would be to settle disputes within the department through a variety of tools including the alternative dispute resolution (ADR) system. Improving voluntary taxpayer compliance, taxpayer education, and an efficient risk-based compliance regime will itself reduce the volume of disputes.

Appeals take place in several stages and offer both an internal review as well as independent review and an ADR approach. If a taxpayer is aggrieved by the tax assessment resulting from an audit, he/she may have recourse to tax appeal. The tax appeal process involves three stages. In the first stage, an appeal against the decision of a Commissioner goes to the Commissioner (Appeal). In the second stage, if the appellant is not satisfied with the decision of the Commissioner (Appeal), he/she may recourse to the Appellate Tribunal. There are two Tribunals, one for Income Tax and the other for Customs and VAT. In the third stage, against the decision of the Tribunal, only on legal issues a person has the right to appeal to the High Court Division of the Bangladesh Supreme Court. This approach to dispute resolution is consistent with international best practices. However, there are many disputes and sizeable backlogs in resolving disputes, according to the NBR an estimated more than 20,000 cases involving about BDT 200 billion.

Alternative Dispute Resolution

The NBR introduced the ADR mechanism to settle disputes out of the court system in 2012. The ADR provisions for dispute resolution have been incorporated into the laws of Income Tax, VAT, and Customs. Through an ADR mechanism, the NBR and taxpayers are able to iron out their differences with the help and guidance of a facilitator. However, the parties retain their right to due court process where they do not agree. ADR should make the dispute resolution process simple, speedy, and effective. It can save time and costs over a judicial process. Even pre-litigation disputes can be legally solved by means of ADR.

Incentives to dispute tax assessments may stem from the low level of payment and long delays for tax liabilities in dispute. Because taxpayers are required to pay only 10 percent of disputed taxes, they may not feel motivated to resolve disputes. At the very least, the NBR should charge a market-based rate of interest so that taxpayers will be motivated to resolve disputes. However, this would also require the NBR to act promptly on resolving these disputes.

Arrears

Arrears are a continuing problem for the NBR. The NBR has a set of collection powers, under the existing law, consistent with international best practices. The Income Tax wing is able to garnish payments and seize assets. Many arrears relate to taxpayers who have been assessed additional taxes as part of audits. The filing of a dispute by a taxpayer must be accompanied by a payment of 10 percent of the disputed amount, but the dispute then suspends collection of the remainder until the dispute is resolved. Because of often long delays in resolving disputes, most of these arrears are old and never collected. Table 7 presents arrears information.

Table 7. Arrears (BDT millions, FY 2018–19)

Summary of Arrears	Amount Outstanding	Amount Collected
Total	650,430	52,150
—Direct Tax	200,910	16,360
—Indirect Tax	449,520	35,790
—Import and Export	56,720	5,420
—Local	392,800	30,370

Source: NBR Annual Report, FY 2018–2019

The NBR should prioritize collection of new debt. Generally, the likelihood of collecting debt diminishes with age, so the new income tax law should change the provisions that apply to debt to avoid aging arrears. In addition, if there were greater cooperation between the Income Tax and VAT wings, legislative changes to the income tax law could allow refunds to be offset against debts of any type. Thus, a VAT refund could be withheld to settle income tax arrears.

Taxpayer Services

Taxpayer services are a critical component of good tax administration. Currently, several initiatives are underway in Customs to improve taxpayer services, including the development of a National Enquiry Point, which is already available. The Income Tax and VAT wings need to further develop their taxpayer services along the same lines. The development of a simplified one-page return for income tax is a useful initiative. Another important component of good taxpayer service is the ability to respond quickly to taxpayer questions. The establishment of taxpayer information and service centers is a positive initiative and should be strengthened. Simplification of the law and filing and automation should enhance the ability of taxpayers to comply with their responsibilities.

Key Recommendations

Immediate

- Prepare a Modernization Plan for the entire NBR covering the period of the MTRS.
- Redefine the role, status, and regulatory power of the NBR, including the role of members of the NBR and the NBR Chairman.
- Restructure the NBR by function and size.
- Centralize all headquarters corporate services into a single department to move toward restructuring the NBR on a functional basis.
- Take measures to ensure more consistency between the two LTUs, including having a shared base of taxpayers and ensuring effective and regular exchange of information on these taxpayers under all taxes. The eventual goal is full unification in the medium- to long-term.
- Develop a compliance risk management plan, centralize the audit function, and start using risk-based audit. Centralize the audit selection process based on data analysis, sharing of information, automated systems, and modern risk-management methods.

Medium/Long Term

- Redefine the role and strengthen research and analytical capacity of the Research and Statistics wing.
- Review business processes and reengineer them to make them user-friendly and compatible with a digital system.
- Split tax policy from tax administration by assigning tax policy to the IRD, Ministry of Finance.
- Strengthen training programs for staff including well defined career planning and unify the two training academies and cadres.
- Create outcome-based KPIs focusing on tax administration objectives as well as revenue.
- Establish an effective Vigilance Unit in the administrative wing and an ethic management policy.
- Integrate the information technology systems so that NBR officials can get a 360-degree view of a taxpayer's key information when required.
- Develop an effective program for managing arrears.
- Reinvigorate the use of the ADR.
- Strengthen taxpayer services along the lines of the Customs National Enquiry Point.

IV. INCOME TAX

The Income Tax wing is one of three principal tax wings of the NBR. This wing principally consists of income tax, but there are also some smaller wealth or property taxes and a Travel Tax administered here, even though the latter is an excise tax. There is no strategic plan for Income Tax currently. The MTRS, however, will have several important goals for Income Tax, including raising the share of revenue in GDP from both CIT and PIT, improving income tax administration in key respects, in part through replacement of the 1984 ordinance with a new Income Tax Law, and improving the structure of the Income Tax.

The Income Tax wing is organized with a headquarters in Dhaka and 40 offices, of which 31 are income tax zones for tax collection distributed over the entire country. Each zone has 22 tax circles. Each zone is managed by a Commissioner, while Deputy and Assistant Commissioners manage a subset of circles within each jurisdiction. Taxpayers normally interact with the circles. Taxpayers submit returns at the circle, are assessed by officers or have their own submissions checked there, and file appeals at this level.

Draft Income Tax Law

A new Income Tax Law is being drafted within the NBR and is expected to be submitted to Parliament within the year. NBR officials indicate that it will modernize the Income Tax, especially in the areas of international taxation, and in tax administration more generally. The main objectives of the new law are to incorporate international best practices, make the law more understandable to taxpayers, simplify important procedures, and narrow the scope for tax evasion and avoidance using loopholes. The law will incorporate several provisions relevant to international taxation, such as general and special anti-avoidance rules, strengthened provisions for thin capitalization and transfer pricing, and provisions to facilitate more rapid digitalization of the tax system. The basic structure of the law will not change.

The existing law has some provisions to address international taxation issues, but they are not sufficient for the current environment. A special unit has been set up in the Income Tax wing to address complex issues of international taxation, including transfer pricing. The unit is staffed by Income Tax officials. Organization for Economic Cooperation and Development (OECD)-type transfer pricing provisions apply. A taxpayer with cross-border transactions exceeding BDT 30 million is required to maintain documentation and to provide a certificate from a certified accountant that sets out the details of related party transactions, as well as the method used to determine an arm's length price. There are no rules limiting interest deductions. General anti-avoidance rules apply, allowing the NBR to scrutinize any arrangement between a resident and nonresident if for either party the arrangement produces an amount of profit less than the amount that would ordinarily be expected.

New Initiatives to Combat Tax Evasion

The government in FY 2019–20 enacted a number of changes to existing laws to expand the tax net and raise compliance. To expand the tax net, the laws were amended to allow taxation of income of foreign companies engaged in virtual transactions and online business; courier and packing and shift services were brought under TDS; and extension of advance tax and the requirement to have and use a TIN in certain activities. To raise compliance, the laws were amended: to bring under audit any institutional taxpayers whose returns did not include a statement of salary and allowances of employees, a statement of TDS, and information regarding the tax return submission of their employees; to strengthen penalty provisions; and to require corporate income taxpayers to submit a statement of international transactions.

Large Taxpayer Units

The Income Tax wing manages one of the two LTUs. Headquartered in Dhaka and with a second office in the principal port, Chattogram (also known as Chittagong), the LTU is managed by a Commissioner. It includes some 360–400 of the largest CIT taxpayers. A range of industries is included in this unit, including banks and other financial institutions, agro-business, power, and household appliance companies, among others, though no precise breakdown of the industrial composition was available. It includes mostly multinational corporations and also some locally incorporated companies. Officers of the LTU undertake a more intensive look at the finances of companies within the unit. The authorities noted that they review bank statements and export/import documents, as well as raw material inputs, historic sales patterns, and other information to help determine whether reported turnover and costs are accurate. The LTU has a specific target for CIT revenue each year. The latest data from the NBR indicate that in FY 2019–2020, the LTU accounted for 28 percent of total income tax revenues.

Special Economic Zones and Export Processing Zones

Bangladesh's Income Tax structure provides many tax benefits to companies located in Special Economic Zones and Export Processing Zones. Tax holidays are given to companies located in these zones. Typically, the tax holiday is given at a 100-percent level for several years and then scales back over time. However, there is considerable variation in the specific provisions, eligibility, and other features. Less-developed regions get preferential treatment in the length of the holiday and phasing out of tax preferences. Initially, Bangladesh focused these zones on labor-intensive industries, such as ready-made garments, Bangladesh's biggest export. However, in recent years, eligibility has extended to high-value capital-intensive industries, as well as infrastructure development. Bangladesh's schemes are generous in comparison to most other countries.

The extensive range of companies that are eligible has contributed to CIT revenue that remains low as a percentage of GDP. Although one key national goal is to increase revenues, CIT has barely kept pace with nominal economic growth in recent years. However, despite the concern that the extent of tax exemptions may contribute to this low growth pace, the NBR has not undertaken an estimate of tax expenditures owing to these tax preferences. According to NBR officials, World Bank technical assistance is expected to assist with this in the future. In principle, the Ministry of Finance or NBR should have the information to measure these tax expenditures, because even companies with a full holiday are required to file a tax return. In many countries, estimates of tax expenditures are a key part of documentation that must be submitted in the annual budgeting process.

Tax Deduction at Source

TDS is used extensively in Bangladesh. TDS applies to a wide variety of economic activities, including employee wages (where it is not a final payment, but rather a withholding scheme where the taxpayer credits tax payments against final tax liability). TDS also applies to many other areas of economic activity where it is more typically a final payment on that source of income.

TDS payments represent the major portion of PIT collections, at approximately 60 percent, according to NBR officials. However, given the low PIT collections, this is still rather meager. How stagnant PIT collections have been is all the more surprising, given Bangladesh's steady and strong economic growth in recent decades and addition of employees in the formal sector.

TDS for wages of formal sector workers appears to be a particularly weak spot in Income Tax administration. TDS for wage earners should be a part of the tax system that achieves the highest rate of compliance. Matching of information from employers with information of employees should immediately show discrepancies and possible underreporting of income by personal income taxpayers. It was not possible for the Team to obtain a breakdown of Income Tax from the different categories of TDS, although NBR officials estimated that wage withholding constituted only about 5 percent of total TDS collections. This is a surprisingly low figure for a country at Bangladesh's level of development. The NBR officials noted a particular problem with the administration of wage withholding due to a lack of employer compliance with the rules. Employers might withhold the taxes but not remit them to the NBR, or they may not withhold taxes. The Income Tax Law permits the NBR to limit deductions for wages from which taxes have not been withheld, but it was unclear to what extent this provision is currently used. Automation of TDS is essential to enabling an environment where third-party matching can be undertaken on a routine basis for all tax returns.

Registration

The Income Tax wing has made considerable progress on registration in recent years. It uses a recently revised TIN as the registration number. All income taxpayers, both for CIT and PIT, use this number. The Income Tax wing has now migrated to a high-integrity twelve digit TIN, which has allowed it to eliminate registration not linked to the National Identity Number (NIN) and clean the register. It has also now fully automated registration to create an e-registration process. An online website requires taxpayers to either provide an old number from which they have to reregister, or information from the national identification card, which is then cross-checked against a NIN server, which is verified with a cell code and assigns a registration number. Bangladeshi residents must use the TIN for a variety of purposes, including the purchase of property, licenses, and so on, which has motivated more taxpayers to request a TIN in recent years.

Although the TIN is modernized, there is no one-to-one mapping against identification numbers in use in the VAT and Customs wings. The TIN does not exactly correlate to the VAT and Customs identification number, the BIN. Therefore, the Income Tax wing cannot easily cross-check information filed under VAT, SD, or international trade taxes using the TIN.

Taxpayer registries must be kept continually up to date, with current data on taxpayers and duplicates or false registrations dropped. It is unclear whether the NBR has a systematic process in place for this, as no taxpayers were recently deactivated in income tax. In addition, there is no systematic or regular process for comparing TINs against the registers for the VAT BIN and Customs ASYCUDA registries.

The number of registered income taxpayers has grown significantly in recent years, according to the NBR. The number of PIT registrations was about 5.4 million as of March 2020, with active taxpayers at about 1.9 million according to the NBR. The number of CIT registrations was 81,075 as of March 2020, with active taxpayers at 27,680. It is still widely perceived that there are many income taxpayers who are above tax-filing thresholds and small and medium-sized companies missing from the tax registration system. A systematic effort is required, using third-party and other data, to identify these missing taxpayers and bring them into the system. Tax fairs have been helpful in bringing additional PIT payers into the tax net. In 2019, BDT 30 billion was collected through these fairs. While a useful initiative, tax fairs are unlikely to capture the largest non-compliant taxpayers and the NBR must strengthen efforts to register these taxpayers by comparing databases for government, private sector, and other organizations, as well as using bank and other records.

Filing and Payments

The number of income tax returns filed has been increasing in recent years. According to NBR officials, the rapid increase in the number of taxpayers is straining the NBR's administrative capacity. The manual system—including necessary interaction in a field office with most taxpayers coupled with a field officer staff strength that has been somewhat stagnant—contributes to the problem of dealing with a larger number of taxpayers. Over 14,000 staff work on Income Tax issues. Given that the system remains largely manual, Bangladesh may need a higher ratio than international norms to manage the growing number of taxpayers.

Information on on-time filing is limited, but data suggest that it remains low. Some earlier data suggest that on-time filing by PIT payers was about 40 percent in FY 2016–17, and about 70 percent of employers, under wage withholding. On-time filing by corporations in the Income Tax LTU is generally good, about 80 percent in FY 2016–17, according to NBR data. For other corporate taxpayers, it was about 56 percent that year.

Online filing also remains low. No online filing is expected in 2020 because the system is down, according to the NBR, while only about 2 percent of taxpayers used online filing last year. Because of problems with the online system and the difficult economic environment, the NBR has waived penalties for non-filers and late filers this year. Although taxpayers are still expected to pay their full tax liabilities, the suspension of penalties is likely to exacerbate the low filing rates. The Ministry of Finance indicated that a revised approach to online activities is now being adopted and the existing system replaced in favor of one better harmonized with the online approach used in treasury accounting. Further details were not available to the Team at this writing; it would appear that the Ministry of Finance and NBR have not yet settled on an approach to automation that would avoid the missteps of the current approach. Once an approach to online activities is agreed on and developed, e-filing and e-payment should be mandated for larger taxpayers to speed up automation of the tax system and avoid unnecessary interactions of these taxpayers with tax officials.

The e-registration system has been used to increase detection of non-filers and late filers and has allowed the NBR to send notices to these taxpayers. This approach should contribute to improved filing rates. Nonetheless, taxpayers will be discouraged from using e-filing while most still need to visit a tax office to bring the invoice (or *challan*) after making their tax payment at a bank; this is necessary to receive a certificate indicating that tax was paid. An increasing number of banks in Bangladesh are developing the ability to process tax payments directly to the NBR, facilitating payment through electronic means. However, paper checks delivered with the returns to the local tax office are still permitted. The hybrid approach involving manual and electronic components results in significantly higher compliance costs than if one fully electronic system were available.

Revenue Targets

Every zone is given a revenue target for collections each year. The NBR organizes itself around achievement of these targets, set on the basis of previous collections and an evaluation of possible changes. As noted earlier, there is a growing gap between the targets in the national budget for revenues, set by a ministry-level Coordination Council, and the targets the NBR sets internally for its zones. The NBR and Ministry of Finance need to improve their coordination on this important aspect of the tax system. Eventually, the NBR should move away from setting specific targets for components of the tax administration and instead ensure that taxes are collected in full compliance with the law.

Efficient Management of Revenue

There is considerable scope for improving the efficiency of management of revenue. One weakness is that the NBR's accounting system does not automatically interface with the Ministry of Finance's accounting system, iBAS++. Delays in posting information to the NBR's account may lead to inconsistencies and limit the ability to reconcile the accounts. If a new approach to automating income tax is developed to interface with the iBAS++ system, this problem would resolve itself more easily.

Automation

The Income Tax wing has had a program of automation underway for several years, but progress has been slow. The Income Tax automation software, BiTAX, is a systems, applications, and products-based system, and eventually it was rolled out to all 682 tax circles. Under an ADB-sponsored project, certain modules were successfully completed, such as e-registration, digitization of manually submitted returns, electronic assessment of return (an online tax calculator), and automated production of tax compliance certificates. However, two important modules were not developed, namely those for an electronic TDS system and an e-payment system. Also, large taxpayers were by and large not brought into the system.

The use of BiTAX for filing and payments processing, collections enforcement, and management of arrears has suffered major missteps. As noted, the system is now completely down for this year's tax filing. NBR officials indicated that the performance of the external contractor (FTP Corporation) implementing the system was unsatisfactory and a lack of knowledge of information technology by the NBR's own staff hampered the use of the system. Several commentators noted that there appears to have been a serious problem with the procurement, as the external contractor was selected despite having no track record in producing this kind of software. The Ministry of Finance and NBR must quickly settle on a more effective approach to automation, including the use of experienced contractors with a track record of success in income tax automation and an approach that unifies the income tax with Treasury accounting and automated systems in place in VAT and Customs.

Key Recommendations

There are a number of key recommendations below.

Immediate

- Ensure the new Income Tax Law brings tax administration standards in line with international and modern best practices.

- Begin integration of the Income Tax LTU with VAT LTU and complete in the medium to long-term.
- Reduce scope and scale of Special Economic Zones and Export Processing Zones to broaden the tax base and have greater equity across income taxpayers.
- Develop an effective approach to automation.
- Strengthen and enforce penalties for lack of compliance with TDS requirements.
- Ensure mapping of TIN to BIN and ASYCUDA World and use for a regular compliance program.
- Ensure the taxpayer register is kept up to date and inactive taxpayers are de-registered or followed up on.

Medium/Long Term

- Develop a meaningful strategy for bringing informal taxpayers into the tax net.
- Facilitate payment through electronic means to reduce taxpayer interactions.
- Ensure that the income tax accounting interfaces seamlessly with treasury accounting.

V. PROPERTY TAX

Bangladesh does not currently have a broad-based property tax. Cities and towns, on the other hand, have a form of land tax. Land taxation in rural areas is different and agricultural land below 25 acres in size are exempt from land taxes. The land tax may also include structures, as in a modern property tax. In cities, the assessment process is controlled by the Land Ministry and not the city government. Only a handful of cities have any authority in this process. A broader property tax is expected to be part of the government's new 8th Five-Year Plan. The Ministry of Finance and Ministry of Land are responsible for the property tax.

Land management is a contentious issue in Bangladesh, because the country is densely populated with limited amounts of land. In the past, hunger and malnutrition led to extreme caution with regard to trying to raise revenues from land, especially rural land. Disputes over land comprise more than half of all court cases in the country. Ownership documents may not be authentic; many owners often claim ownership to a particular piece of land. The system of administration of land is manual, so the preservation and management of documents related to land is weak.

The ADB has provided assistance to Bangladesh in recent years on digitizing land records. Digitization can help address the issues surrounding the preservation and management of land documents, because computers make it easier to store and preserve these records. In addition, digitization will facilitate easier access to land-related certificates, maps, and ownership documents.

The ADB recorded satisfactory progress on its land project, which was rolled out as a pilot in 45 districts and one sub-district, but not in city corporations. It did not include land registration because this was under the Law Ministry, which was not included in the project. In the end, the ADB assessed that the Land Reform Board should be the executing agency but that it does not currently have the capacity to manage such a project. Currently, there has been no further request from the government to renew or extend this project.

The Land Ministry has prepared its own project, covering the entire country, based on the ADB's pilot approach. The government has also included revenue aspects, with a goal to reveal how revenue can be generated from land. However, the Team did not have time to explore this topic further.

To support a good property tax, the government could benefit from assistance in several areas. Priority areas are registration of property, adjudication of disputes over land, digitization of records, and ultimately the development of a good process for regularly assessing property (both land and structures). One difficulty in applying a property tax in Bangladesh, as may be the case elsewhere in the region, is that when people buy and sell land and property they record a sales price lower than the genuine price and then transfer the remainder in the form of cash. Recorded prices may therefore need to be adjusted to reflect true market value. If transactions routinely took place with the same proportion in the recorded price relative to the market price, it would be easier to adjust the recorded price to market values; if the ratio varies from one transaction to the next, this adjustment is more difficult.

Key Recommendation

- Strengthen the property tax system and devolve revenues to subnational governments.

VI. VAT, SUPPLEMENTARY DUTIES, AND EXCISES

Role and Importance

The VAT wing of the NBR is the largest source of its revenue and thus critically important. The wing consists of officers of the VAT and Customs cadre and is responsible for between 35 and 39 percent of all NBR taxes collected in a typical year. If domestic VAT, domestic SD collections, and excises, plus Advance VAT collected at the border are included, total collections of domestic indirect taxes were 38.5 percent of NBR taxes in FY 2019–20.[18] This performance makes it the most important revenue wing in the NBR. Together with the Customs wing, this cadre of VAT and Customs is jointly responsible for about 70 percent of all NBR revenues at present. This is an improvement from the situation at independence, when almost all revenue was collected at the border.

SD and excise taxes together account for about one-third of the domestic indirect tax revenues. While excise taxes under the Central Excise and Salt Act, 1944 are levied only on two items and raise less than 3 percent of domestic indirect taxes, the domestic SD raises a substantial amount (30 percent) of domestic indirect tax revenue. A sizeable portion of this comes from tobacco. However, the structure of tobacco taxes is a complex, multi-tiered *ad valorem* tax system, which has made tobacco prices and taxes much lower than those of many developing countries. Excises are imposed on two items: bank deposits and airline travel tickets. The tax on bank deposits functions in some sense as a "wealth tax," since it has an exemption for the first BDT million and then applies at a progressive rate on deposits greater than this amount. The excise on air tickets applies to those traveling out of Bangladesh; it is collected as part of the airline ticket price.

According to NBR figures, the LTU for the VAT raises half of all VAT revenues. The LTU has between 140 and 170 registered units[19] and the 143 reported active units are responsible for half of all VAT revenues. Details of these units and whether they are unique firms or include branches with separate BINs are not known.

All three of the taxes, VAT, excises, and SDs, have structural problems.[20] The VAT is highly fragmented and has several parallel systems of taxation incorporated into the law. There is a substantial chunk of revenue raised through a standard invoice-credit VAT system at 15 percent, but there are at least six other rates applied on turnover with no input credit that account for a sizeable chunk of value-added. One commentator has described the law succinctly as "trading away the basic principles of a VAT for something which is basically excise duty…. Bangladesh does not have a VAT system anymore…and what we have is a very complicated mixed system not to be found anywhere in the world."[21] Issues with the VAT are discussed in detail in the next section. The SD levied on an *ad valorem* basis on several domestic supplies at a single point essentially replicates excise taxation seen in many other countries. The long list of covered goods under SD and the range of *ad valorem* rates is quite substantial, although it has nowhere near the wide range seen in import duties. The excise tax on bank deposits, on the

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18 Bangladesh Bank Monthly Economic Trends, Sep 2020

19 Based on varying sources of information and at different points in time

20 Appendix 2 provides a more detailed summary of the structure of the taxes.

21 Mansur, Ahsan H. (2019). The New VAT ACT. *Policy Insights,* July 1, 2019. Accessed at: https://policyinsightsonline.com/2019/07/the-new-vat-act/

other hand, is unusual. This levy has also been criticized by the Chairman of the bankers' association of Bangladesh for discouraging financial deepening and impeding digital transactions and progress towards a cashless economy.[22] The tax on air travel is more common and applies to international departures. This combination of sizeable SD and Excises is an important feature of indirect taxes in Bangladesh. The revenue raised through these taxes may also help to divert attention from the need to substantially increase domestic VAT collections.

The LTU structure is also unusual and not ideally organized for revenue purposes. The LTU is organized as a separate VAT Commissionerate, which is a good practice; it is separate from the Income Tax LTU, which is more unusual. In most countries, the same large corporations pay the CIT and VAT and are managed in one LTU. While this is currently deemed impossible in Bangladesh due to administrative separation of Income Tax and indirect taxes, the isolated parallel-tax administrative practices of, for example, assessment, audit, and information management is neither standard international practice nor desirable. The LTU and other VAT Commissionerates are the focus of the VAT improvement project (VAT Online Initiative or VOI) of the World Bank. Most measurable objectives for completion of online filing, payment, audit, and refunds now focus solely on digitizing operations of the LTU unit by the end of December 2020 (which is justifiable since it is responsible for half of all VAT revenues). Sixty-three (63) audits had been planned for the VAT LTU in FY 2019–20, according to NBR statistics, and 30 completed.

Complexity, Revenue, and Administration

The VAT Law, 2012, implemented in July 2019, appears to be largely a return to the structure of 1991. The 2012 law, prepared with international assistance, was a well-structured VAT with a single rate of 15 percent and a proper input tax credit structure. Many changes were introduced between the 2012 enactment and implementation in 2019, however, to create multiple rates and drastically limit input tax credit for taxpayers below the 15 percent rate (though they can opt for paying 15 percent and keeping full credit). Some commentators have even said it is an even worse version of the 1991 law it sought to replace and apart from the multiple rates and limited input tax credit, it includes too many exemptions and specific rates, too high a threshold, and is combined with a fragmented system of turnover taxes.[23] These commentators have suggested scrapping the new law and returning to the version enacted in 2012.

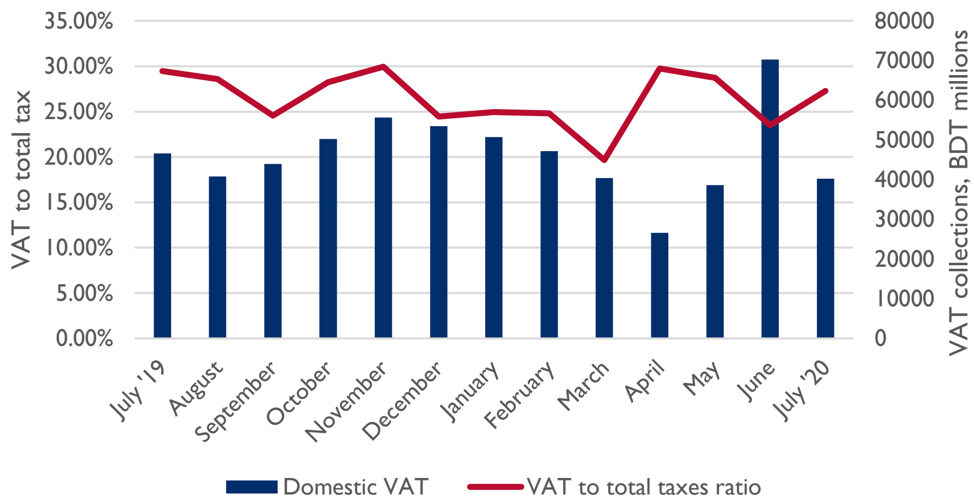
The fragmented and compromised nature of the new VAT regime of 2019 is reflected in VAT collections, which had begun to decline well before COVID-19 struck in March 2020. VAT collections started declining in November 2019 in absolute terms as well as a percentage of total taxes; it reached its lowest point in March. Based on Bangladesh Bank and national statistics revenue data, this decline is shown in Figure 8 below. While VAT collections declined further in April in absolute terms (right scale), they bounced back to around 30 percent of total taxes (its highest level in the year) in the same month (left scale).[24] The conclusion appears inescapable that the VAT performance has not improved relative to other taxes since the new law was implemented in 2019.

22 TBS Report. (2020). No love for banking sector in FY21 budget. *The Business Standard*. June 11, 2020. Accessed at: https://tbsnews.net/economy/budget/no-love-banking-sector-fy21-budget-92119

23 Uddin, Jasim. (2020). New VAT law sees little success due to frequent changes. *New Age Business*. January 5, 2020. Accessed at: https://www.newagebd.net/article/95602/new-vat-law-sees-little-success-due-to-frequent-changes.

24 Bangladesh Bank Monthly Economic Trends, Sep 2020

Figure 8. VAT Performance Since the New VAT Law was Introduced



The most fundamental criticism is that there are too many VAT rates, which can cause revenue leakage and severe economic distortions. Unlike an income tax, which readily accommodates multiple graduated rates, a VAT does not easily do so. The multi-rate structure creates a significant risk to revenue collection, as greater complexity leads to possibilities for misclassification, non-compliance, and outright evasion and creates serious inefficiencies. While countries may try to achieve several economic and social objectives with multiple rates, using different VAT rates is not an efficient method to do so. Using a single rate is the most efficient way to administer a VAT and other objectives can be achieved using appropriate instruments outside of VAT rates, such as differentiated excises (and in Bangladesh's case, SD, although on a more limited scale). The enforcement capacity in NBR is already strained due to many factors and is being severely tested by the VOI and COVID-induced impacts on personnel and the economy. Successfully administering and enforcing such a complicated multi-rate structure to make sure outputs and inputs are properly classified adds to the administrative burden.

The limitations on input tax credit undermine the desirable properties of VAT, making it more like a cascading turnover tax. Large parts of the system function as an effective turnover tax and not a proper VAT. Rates range from 0, 2, 2.4, 4.5, 5, 7.5 and 10 to the standard 15 percent. Several goods are charged to specific rates of VAT. In addition, there is a turnover tax at 4 percent for those who have turnover from BDT 5- up to the BDT 30-million threshold. None of the lower rate VAT payers can avail input tax credit unless they opt for the 15 percent rate and simply pay the lower flat rate on their supplies. While businesses paying VAT at 15 percent can avail of a full-input tax credit, there are no data available to this study to ascertain what proportion of the domestic VAT collected was charged to 15 percent, and to what extent they were able to recover input tax credit paid on their inputs. The Team does not have any information on turnover tax registrations, sales, or taxes collected. Presumably, all of the 143 active LTU units pay at the 15 percent rate, but this detail could not be confirmed.

Even without considering the uneven SD incidence by industry, the "turnover style" VAT leads to cascading of tax on tax, and therefore varies across industries and taxpayers in the same industry, especially at the retail and wholesale stages. This occurs because traders generally would be subject to the reduced rate of 5 percent and do not avail input tax credit. The Team did not have access to the necessary data to carry out analysis on effective tax rates (ETRs) for VAT by sector and type of business. This is a worthwhile exercise and the Team strongly recommends it be attempted by the NBR. During discussions, it was revealed that the World Bank is currently providing training and manuals for tax expenditure analysis; the Team strongly recommends the extension of this capacity to this ETR analysis as a spur to reforming the VAT, once more to have a more uniform rate structure and input tax credit feature.

Even within the same industry, this highly differentiated system creates significant opportunities for unequal effective tax and avoidance. Most imported goods are charged to the 15 percent rate (or 0). Domestic supplies of the same goods can be charged to several different rates depending on the good and status of the supplier. If the downstream user of the inputs themselves do not pay VAT at 15 percent, the same input for the same end-product will lead to different final incidence. This ignores the further differential effect of the Advance VAT paid on some imported inputs, which frequently may not be credited against final tax incidence. It also ignores the differential SD incidence, as the list of goods on which SD is imposed is not the same for domestic supplies and imports. As a result, some manufacturers may end up paying a lot more than 15 percent on total value of sales (implying cascading). The NBR has argued during discussions that a simple solution to this problem is that taxpayers should register for VAT and pay it at 15 percent, and avail input tax credit to keep the final liability on their own value-added at a maximum of 15 percent. However, this will not be effective if input tax credit is lost somewhere before the taxpayer's stage of production. Also, it appears many traders have opted to pay a seemingly higher total rate than 15 percent as their tax on output. They prefer the 4 percent turnover tax (or 5 percent trade tax) because they do not want to enter the VAT chain and maintain the prescribed records.[25] It is a debatable point whether they actually pay an effectively higher rate than 15 percent, or find a way to lower the ETR. According to this hypothesis, they can lower their overall tax liability across all tax types (specifically Income Tax) by not volunteering to pay at 15 percent to avail input tax credit.

No analysis is possible nor are data available on the downstream effects of Advance VAT on imports. The Advance VAT collected on imports is reported in most statistics as part of the domestic VAT. In theory this is correct, because Advance VAT is merely withholding against downstream liability. Since it is charged only on imports and not domestic supplies, however, it can still lead to distortion. It is also collected at the border on imports and has nothing to do with the performance of the domestic VAT wing. This Advance VAT information should be used in several ways by the domestic VAT and Income Tax wing. They can match each such payment against domestic returns filed, or refund claims submitted by the importer or domestic user and cross-verify the information. Of special interest would be those cases where neither action is taken and Advance VAT turns into a final payment. While the customs officials were reportedly certain that this information is available to the domestic VAT wing through the ASYCUDA MIS module, the domestic VAT wing officials (and the Income Tax wing) did not confirm this information's availability nor elaborate on the use of this information for audit.

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25 Mansur, The New VAT ACT

The registration thresholds do not follow international best practices. Registration for regular VAT is required at turnover exceeding BDT 30 million, which is high by international standards. Total active registration estimates under the new BIN range from 140,000–158,000.[26] This is considerably lower than the approximate 455,000 VAT registrations reported through FY 2018–19 by the NBR. Data are not available on scrutiny of registration applications and de-registration of doubtful applicants. It would also be a worthwhile exercise to match the old registrations with the active current ones (1/3 of the previous) and closely examine those who have now disappeared. Turnover tax "enlistment" is required if turnover exceeds BDT 5 million. There is no information on how many businesses are currently "enlisted" and how much revenue is raised from this segment. NBR also requires several classes of businesses to register regardless of turnover (discussed in the annex on VAT law). No separate information is available about these businesses, their return filing and VAT liability either. If many businesses are required to register without having an expected VAT liability in the future, this will lead to many "inactive" registrations. The important issue is to continuously monitor and verify the registration database to prevent fraudulent or multiple registrations.

The extensive use of VAT withholding schemes is also prone to possible misuse. The VAT law includes a system of VAT withholding requirements, which creates the potential for "missing trader" fraud seen in many other countries. This fraud occurs when a trader can obtain VAT-free supplies and retain the VAT payment that would otherwise have been made as a VAT "withholder." This retained VAT on expenses is meant to be deposited with their own output VAT and the supplier does not need to include it in their own return. If they then default on filing their own return, they not only evade the VAT on their output, but they also retain the VAT that would otherwise have been paid by the supplier on the inputs. This system works well if the "withholding" entity is completely trustworthy (like government entities, or very large public corporations), but can lead to serious revenue loss when used indiscriminately. The system in Bangladesh may not have adequate safeguards to identify and prevent such risks from extensive use of withholding, other than by restricting it to large, reputable VAT payers (under regular audit themselves). Registration without proper verification and lack of subsequent de-registration of bogus businesses also increases the potential for this type of fraud. The 2012 law and SROs restrict the scope of VAT withholding to specified classes of firms (to be notified by NBR). However, the Team does not have data on revenues related to withholding, number of firms involved, audit results etc. The NBR provided estimates of total Advance VAT at BDT 118,600 million in FY 2019–20. This is approximately 14 percent of all VAT revenues that year and around 5.4 percent of all NBR tax revenues. It is very unlikely that this represents only advance tax collected by customs at the border, and likely includes VAT withheld domestically as well. Widespread indiscriminate use of withholding by firms other than those that are completely reliable can lead to large losses of revenue.

VAT Administration

English summaries of the law, data, and other details are not readily available. It was difficult to find reliable and comprehensive summaries of the key provisions of the law on public websites as well as usable and consistent data. One element of the "ease of doing business" is the

26 The World Bank. (2020). Website. Disclosable Version of the ISR-Revenue Mobilization Program for Results: VAT Improvement Program (VIP). Accessed at: https://documents.banquemondiale.org/fr/publication/documents-reports/documentdetail/542791593059173279/disclosable-version-of-the-isr-revenue-mobilization-program-for-results-vat-improvement-program-vip-p129770-sequence-no-13

"paying taxes" score. Bangladesh ranks at 151 out of 190 countries on this measure in the World Bank's 2020 Doing Business report.[27] In the South Asia region, India and Sri Lanka are ahead of Bangladesh; Pakistan and Nepal are behind Bangladesh in this dimension. The Customs wing has received technical assistance and established a National Enquiry Point. The VAT wing will benefit from such initiatives. This will lead not only to greater transparency, but also reduce the time to comply and level of uncertainty for foreign investors, making it easier to do business. Greater focus is required on taxpayer services and provision of information including data and analysis in both Bangla and English. The World Bank online public disclosure document (Implementation Status and Results Report (ISR)) refers to a survey report published on the NBR website. According to this Taxpayer Satisfaction Survey Report, 2017, the following satisfaction index was registered: NBR - 90 percent, VAT online - 92 percent, Commissionerate - 59 percent, and Divisional VAT office - 66 percent. The second Satisfaction Survey Report was expected by October 2020."[28] This updated report, however, is not currently available and there is no information on whether it was delivered. It is highly recommended that a taxpayer satisfaction survey is conducted as soon as the VAT online initiatives are completed to measure the efficacy and impact of the digitalization programs.

Progress has been made in the field of online VAT registration, which should be replicated elsewhere. One major area of progress has been the new online BIN registration system. The total number of registrations has reportedly declined considerably, to around 140,000–160,000 active registrations (from the old registrations reported under the previous regime) and several registrants have also migrated to the turnover tax enlistment. The process of registration, including submission of supporting documents, is now available to be done online and the NBR has considerably cleaned up the registry. It has laid the foundation for further digital initiatives. It has been reported[29] that verification of supporting documents is still a manual process and this should be investigated further. Analysis is required to identify both bogus registrations and unregistered businesses and take corrective action. These can include capturing a relevant picture ID, consolidating BIN registrations for each business/person, using other data sources to cross-check and clean the registry, surveys, and physical verification by field offices. These protocols are already used by banks in most countries (e.g. Know Your Customer protocols in India) and can be adapted by NBR.

Low filing rates continue to be an issue and needs to be urgently addressed. The actual number of returns filed (plus cases where VAT is paid without return) in comparison to all BINs (active registrations) cannot be estimated at present without knowing the total registrations figure. The World Bank disclosable report does not have figures for the number of "stop filers," "non-filers," and those not required to file monthly returns (e.g., importers required to register for a BIN but without a VAT liability). Several actions can and should be taken to deal with non-filers, including telephone and email follow-up, deactivation of BINs, default assessments, and automatic penalties. Online filing using new BINs should be gradually made mandatory for regular VAT payers after removing obstacles to e-filing. As of February 2020, the World Bank reported that 44 percent of LTU returns were filed online.[30] Unofficial estimates from meetings with NBR

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27 World Bank Group. (2020). Doing Business 2020: Comparing Business Regulation in 190 Economies. Bangladesh. Accessed at: https://www.doingbusiness.org/content/dam/doingBusiness/country/b/bangladesh/BGD.pdf

28 The World Bank, Disclosable Version of the ISR-Revenue Mobilization Program for Results: VIP

29 Mansur, The New VAT ACT

30 The World Bank, Disclosable Version of the ISR-Revenue Mobilization Program for Results: VIP

and the World Bank put this figure at around 60 percent in September for the LTU and (based on World Bank figures) it is likely to be a little over one-third for other Commissionerates. The World Bank and NBR have set a target of achieving 100-percent online submission of returns by the end of 2020 for the LTU and the continuation of World Bank support to the VIP should take this target into account (although the online ISR takes 90 percent filing by December as the benchmark).

Processing of returns and payment of taxes are primarily manual. While some progress has been made with registration and online filing, the processing of returns and payment of VAT liability are still almost completely manual. The push to automate VAT systems relies on slowly eliminating manual processes to make them smooth and transparent, and to reduce points of contact of the taxpayer with the administration. Keeping parts of the system manual while automating parts of it defeats the purpose of this improvement. At present, initiatives are underway to enable the online payment systems at three major banks which are used by some of the major LTU companies. Furthermore, input tax credit is also available (within a limit) to invoices paid for in cash. Online processing, pre-filling of returns, invoice matching, and other possible modules of the IVAS are not yet being used, especially outside the LTU. Regarding online payments, the position in June was that "The VAT Collection System is only 26 percent complete. The VIP had planned to implement e-payments in April 2020, but delayed due to COVID-19. An e-payment system has been tested successfully with Bangladesh Bank, Hongkong and Shanghai Banking Corporation (HSBC), and Midland Bank. VIP plans to implement the e-payment gradually with 100 taxpayers using HSBC and Midland Bank. Based on the success of the pilot, the system will be opened for other taxpayers. This was to be executed in steps beginning July 2020, according to the revised implementation plan."[31] From interviews with the World Bank and NBR, the Team could not ascertain further progress in this regard.

Audit procedures are still manual and largely decentralized. The online audit module is not functional. According to the World Bank ISR, "The Audit Module is under development stage. Therefore, 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."[32] The draft Audit Manual sent by the World Bank team to the NBR is under its internal review. The audit manual was made available to the NBR and is awaiting translation to Bangla, according to the NBR's VAT audit member. The World Bank is reportedly providing training to officials in the use of the new audit manual, as well as online auditing. The VAT audit member mentioned that the NBR headquarters' VAT audit staff are presently only auditing a list of 300 firms that had been previously selected and are not currently selecting any new units until these audits are finished. He mentioned that the headquarters' VAT audit staff had audited 80 of these 300 firms in the last four months and detected revenue due to the extent of BDT 12 billion.

There is no system of selection based on systematic risk profiling or the use of online information or records matching by headquarters. Further, each Commissionerate is also free to select its own units for audit, excluding those already selected by headquarters in the current year. There is no information available on the nature of these audits, criterion for case selection (beyond heuristics such as based on industry, size, comparison of input-output ratios, past behavior). There is no visible risk-management approach with central guidance and

31 The World Bank, Disclosable Version of the ISR-Revenue Mobilization Program for Results: VIP.

32 The World Bank. Disclosable Version of the ISR-Revenue Mobilization Program for Results: VIP.

intelligence support from the NBR, notably one that is coordinated between the three wings. In specific cases or with prior information, auditors may occasionally request information from other wings, but there is no apparent standing mechanism for automatic information exchange on the same taxpayers. Between the two separate LTUs, there is no systematic/automatic sharing of data, even for LTU firms (who should in most cases be the same across both LTUs.) The most serious requirement to expand the tax base effectively is to target non-filers (and unregistered businesses), which is currently not being done. The current emphasis is almost exclusively on checking documents submitted by existing filers.

There is a need to focus on collecting outstanding taxes owed and arrears enforcement. Prior to the 2012 Act, sales could not be made without maintaining a positive cash balance with the NBR. Therefore, the risk of arrears was lower to the extent that they were limited to cases where the liability was not covered by available cash balances. Arrears can arise from reassessment or revision of self-assessment, audit action, arbitration proceedings, the imposition of fines and penalties for late filing or not filing, and detection of outright evasion (including forcible registration). Attention needs to be paid to each component of arrears, including pending litigation at various levels. For FY 2018–19, the figures for outstanding revenues added up to half of all domestic VAT and SD collections that year. The realization of these outstanding revenues in the same year is less than 10 percent of the outstanding amount. A risk-based approach to collection of arrears requires that arrears be targeted for collection immediately, as older arrears tend to be less-easily collected. ADR mechanisms also help in reducing litigation and generate revenues. The ADR mechanism, although available, has reportedly not been used successfully and should be strengthened. Simultaneously, a targeted enforcement and collections mechanism that aggressively pursues new arrears as they arise should also be put into place; otherwise, it provides the wrong incentives to evaders. If required, the law should be amended to allow for speedy collections of undisputed arrears under proper supervision. This includes potentially requiring prepayment of a larger portion of the dues pending appeal, to discourage attempts to delay payment through frivolous litigation.

The scope of VAT refunds has expanded considerably with the new VAT act. The new act allows carry-forward of unutilized credits for six months, after which amounts greater than BDT 50,000 can be claimed as cash refunds (barring certain suppliers). This expansion of refunds beyond the export sector (where firms are zero-rated on sales) will increase the workload of field offices. However, the refund module under IVAS is not functional. The World Bank ISR disclosed the position in June 2020 as "The Refund Module is at development stage. A Government Order has been issued to Commissionerates on how to handle refunds and to settle undisputed refunds quickly, especially as taxpayers need cash during the COVID-19 situation. A letter has been sent to all Commissionerates to collect information on average time it currently takes to process refunds in the absence of the refund module in the IVAS."[33] No further information was available to the Team on the preparation and adoption of the refund manual, refunds pending and processed or operationalization of the refund online module in November.

33 The World Bank. Disclosable Version of the ISR-Revenue Mobilization Program for Results: VIP

Online Cash Registers and Electronic Fiscal Devices (EFD) have been introduced to enhance automation and improve compliance. The Bangladesh Economic Review 2020[34] (Chap 4, p. 46, Box 4.2) lists under important steps taken for reform of VAT law and rules in FY 2019–20 that using Electronic Cash Register/Point of Sale software has been compulsorily replaced with an EFD in big resorts, hotels, and other institutions. EFD machines have already been installed at 100 business installations (80 in Dhaka and 20 in Chattogram) as a pilot program. Using an EFD is compulsory if the turnover is from BDT 8 million to BDT 50 million. While this scheme is expected to yield results and provide real-time information to NBR, one concern was that the scattered/dispersed nature of the sample of businesses chosen for the pilot may give rise to difficulties in communication with customers and providing them with proper incentives. From discussion with NBR officials, it was revealed that the plan has now been modified to try and enroll all similar businesses within one area rather than select only one or two. However, no details about the progress of this scheme or results achieved were available. The scheme for mandatory use of approved VAT software launched in 2020 for businesses with a turnover of BDT 50 million or above has also not reportedly taken off completely.[35] The NBR Annual Report 2018–19 lists the installation of online tracking, EFD use and approved software use as major initiatives to improve VAT performance in the near future. It notes that 43 organizations have already been enlisted to supply approved VAT software to firms with turnover above BDT 50 million who have to mandatorily use this software.

The extensive use of SD in lieu of excises is highly inefficient and distortionary. The rates of SD vary from 5 to 500 percent when including SD on domestic goods and imports. As discussed in Appendix 2, it is imposed on several categories of imports to discourage "sin" goods and promote import-substitution (protection). On the domestic side, the objective is to discourage certain industries like tobacco as well as to generate substantial revenues. With such a wide range of turnover tax style *ad valorem* rates on so many classes of goods, the effective tax rate is impossible to estimate on most supplies. This creates economic distortions within classes of goods and often within the same sector on different suppliers. This is not an efficient way to achieve economic objectives or to raise revenue. The levying excises facilitates the use of a broad-based uniform rate VAT while still taxing certain "undesirable" goods or services more heavily. Overdependence on SD to raise revenues and meet multiple objectives weakens the effectiveness of the VAT system. Inconsistent application to imports and domestic production turns it effectively into a tariff on the import component and is inconsistent with WTO guidelines (which says domestic taxes should not discriminate against imports). [36]

The World Bank's $60 million VIP has had some success, but its future is uncertain. The online VAT registration module is complete, e-filing is possible already and expected to cover 100 percent of the VAT LTU by year-end, and online payment is expected to be available for at least the main units by year-end. The audit manual is under NBR internal review and training is underway. Online audit is expected to commence once the manual is translated to Bangla and officers are trained, and the online module is fully operational. Plans are underway to do the same for refunds. The release of the last tranche of funds for this project is contingent on

34 Government of the People's Republic of Bangladesh, Finance Division, Ministry of Finance. (2020). Bangladesh Economic Review 2020. Accessed at: https://mof.portal.gov.bd/site/page/28ba57f5-59ff-4426-970a-bf014242179e/Bangladesh-Economic-Review

35 Mansur, The New VAT ACT

36 WTO. (N.D.). *Analytical Index of the GATT,* Article III, Part II, National Treatment on Internal Taxation and Regulation. Accessed at: https://www.wto.org/english/res_e/booksp_e/gatt_ai_e/art3_e.pdf.

meeting certain targets by the end of the year. Issues with the technical competence of the IVAS external contractor, as well as delays in procurement and frequent policy changes, have delayed implementation. According to the NBR, the continuation of the program and the contract is dependent on the review that will take place at the end of the year. The importance of automation and transparency cannot be overemphasized in VAT administration. If this is not taken up on an urgent basis with VAT policy rationalization, it is very unlikely that the situation will improve.

Key Recommendations

Immediate

- Reconfigure the VAT online project and automation initiatives to ensure that they proceed more quickly and more extensively to all VAT payers.
- Ensure that the VAT online project and automation initiatives do not lose steam. In the registration module, verification of documents must be made electronic and attention paid to cleaning the registry of bogus and duplicate registrations.
- Ensure that the e-filing modules are available to all registered taxpayers above BDT 50 million turnover by the end of the year and eventually to all enterprises above the BDT 30 million threshold. All supporting documents should also be filed online and use of physical copies and visits to the tax office should be minimized.
- Make possible online e-payment of taxes by the end of the year for all taxpayers.
- Severely restrict the use of VAT withholding to only those companies that have no possibility of evasion or are unlikely to disappear suddenly. Ideally restrict it to government entities and reliable public sector corporations.
- Institute appropriate sharing of real-time VAT payment information, which will make collection of Advance VAT on imports unnecessary.
- Start exploiting existing data for compliance management, beginning with ASYCUDA data and VAT registration, and filing data. Build expertise in these areas with appropriate capacity building and staff rotation policies.

Medium/Long Term

- Make available the online return processing, audit, and refund modules by the end of FY 2020–21.
- Develop a compliance risk plan and centralized risk directorate and start using risk-based audit. Centralize the audit selection process based on data analysis, sharing of information, and information technology systems and modern risk-management methods.
- Return to the original 2012 VAT Law to the extent possible by consolidating various differentiated rates and turnover based regimes into a unified structure.
- Reduce the heavy reliance on cascading turnover style taxes such as SD while using selected excise taxes (preferably specific) to tax certain goods, while the rest are subject to a single rate uniform VAT. If necessary, the current SD laws can be used for this system.
- Reduce and make more selective the list of goods and services subject to SD.
- Phase out the existing multi-tiered *ad valorem* tax system of tobacco products and replace the *ad valorem* taxes with specific taxes.
- Return to a VAT based on a broad-based invoice credit system with one uniform rate, a relatively short list of exemptions and zero rating for exports. Not only will this structure increase the NBR's potential to efficiently administer and enforce the law, but it

will also make the effective tax rate easier to calculate, uniform, and more transparent across the economy.

- Reconsider the Advance VAT system and balance the application of VAT law across imported supplies and domestic supplies.
- Completely change the emphasis to increasing collections of VAT from the domestic market.

VII. CUSTOMS

Role and Importance

Customs is one of the three tax wings in the NBR and a key component of revenue collections. The NBR's third wing is manned by officers of the Customs and VAT (indirect taxes) cadre. It is a key player in Bangladesh's export-led growth strategy; it has a crucial role in trade facilitation to promote international trade, as well as the unusual role of collecting both import duties and a large part of otherwise "domestic" duties or taxes. This makes it a vital contributor to the NBR. In terms of modernization indicators, it is the most digitally advanced in the NBR and appears the wing most determined at present to improve its business practices. Most import and export declarations are filed online and customs administration is also the most up to date on international practices. The Customs wing was the first to automate its operations and continues to take the lead within NBR on reform, strategic planning, and automation, including online initiatives.

Customs collects approximately one-third of NBR tax revenues. In FY 2018–19 and FY 2019–20, about 28 percent of all NBR revenues were directly booked by customs at the border.[37] However, a large part of Advance Income Tax revenue, as well as a substantial sum of Advance VAT, were reported as domestic collections even though they were collected by Customs at the border.[38] When these Advance Income Tax and Advance VAT revenue are added to the other revenue collected at the border, the total collections of revenue by Customs at the border are estimated to be about 33 percent of NBR taxes. The Customs wing also discharges the important responsibilities of trade facilitation and prevention of smuggling.

Customs plays a key role in managing and facilitating Bangladesh's export-led growth strategy. The Customs modernization Strategic Action Plan (SAP) 2019–2022 (which is the only strategic plan among NBR's three main tax wings) highlights the crucial role of Customs: "Customs is the lead agency in Bangladesh to facilitate seamless international trade by streamlining and simplifying border clearance procedures. The agency has also contributed enormously to meet Bangladesh's development vision of increasing shared prosperity and achieving greater economic efficiency."[39] The Customs administration also helps administer import and export development schemes like duty drawback, Export Processing Zones (manufacturing in bond), and others, in cooperation with other agencies. A recent IFC/World Bank seminar on Bangladesh's tariff polices highlighted how important international trade is to Bangladesh's economic miracle and rapid growth in the last three decades. Figure 9 shows a clear and strong negative association between the growth of trade and poverty level decline in purchasing power parity.[40]

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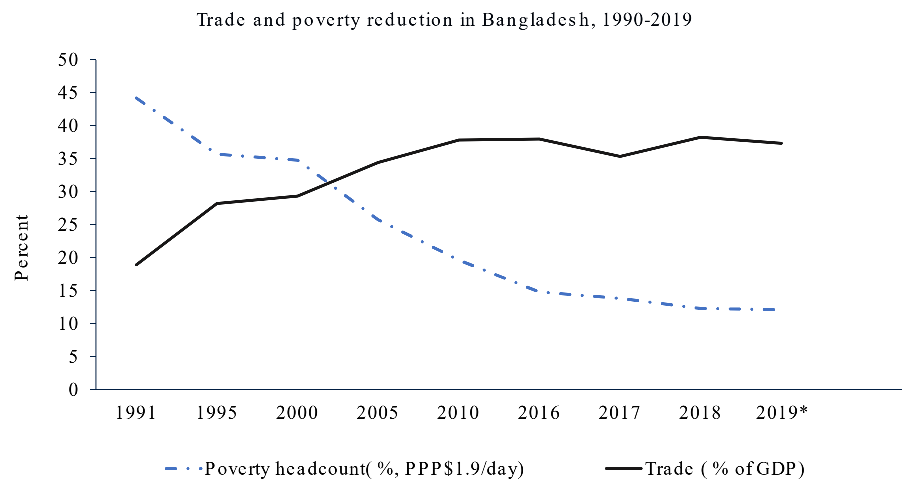
37 The nominal collections were divided by total NBR taxes to get percentages.

38 This was conveyed to the mission during interviews and supported by the Customs revenue collection file provided to the IFC/WB.

39 National Board of Revenue, Bangladesh (N.D.). Customs Modernization Strategic Action Plan 2019–2022. Accessed at: http://nbr.gov.bd/uploads/publications/SAP_Full_Book_-_Final_Pages_compressed.pdf (see foreword, p.11).

40 Dihel, Nora. World Bank Group Virtual National Workshop on Tariff Policy for Bangladesh. PowerPoint Presentation. October 2020. Slide 35

Figure 9. The Importance of Trade in Bangladesh's Economic Progress



Note: * trade is FY19 trade to GDP ratio and poverty headcount rate is an estimate
Source: WDI, Povcal and MPO (Oct 2019)

Tariff Complexity, Revenue, Gaps, and Protection

Chattogram port overwhelmingly dominates customs operations and revenues by any metric. The customs network in Bangladesh includes two major seaports (Chattogram and Mongla), three international airports, more than 20 inland container depots (ICDs), and more than 50 active Land Customs Stations (LCSs).[41] Bangladesh continues to depend almost entirely on the Chattogram and Mongla Ports for customs revenue and international trade. In FY 2018–19, 94 percent of Bangladesh's total imports in terms of value were brought in via seaports and around 90 percent of the sea cargo by volume between Chattogram and Mongla ports flowed through Chattogram port.[42] Data provided by the NBR reveal that in 2019–20, Chattogram Customs handled 88.4 percent of imports by volume (from five major customs houses) while this amounted to 81.5 percent by value. On the other hand, Dhaka Customs in the same year handled only 0.1 percent of imports by volume, but 8.7 percent by value. This distinction between volume and value could indicate either the nature of goods or the nature of the importers. According to the NBR Annual Report 2018-2019, in terms of revenue Chattogram's customs house accounted for around 70 percent of revenues raised by customs and Dhaka accounted for around 6 percent. Further details were not available to analyze the source of this divergence between volume, value, and revenues. Interviews with NBR, USAID-BITBEE, IFC and ADB staff on customs issues have reaffirmed the overwhelming reliance on Chattogram port for revenue from international trade. Some of the cargo flowing through Chattogram port may actually be cleared for home consumption at a Bond Commissionerate and be booked as their

41 World Trade Organization (WTO). (2019). Trade Policy Review Report by the Secretariat. Bangladesh. May 21, 2019, page 40, footnote 3. Accessed at: https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S385R1.pdf&Open=True

42 Government of the People's Republic of Bangladesh. Statistics and Informatics Division, Ministry of Planning. Bangladesh Bureau of Statistics (BBS). (2020). Bangladesh Statistical Yearbook 2019. Accessed at: http://bbs.portal.gov.bd/sites/default/files/files/bbs.portal.gov.bd/page/b2db8758_8497_412c_a9ec_6bb299f8b3ab/2020-09-17-15-30-d0e641b2e659019f2aa44cbaf628caa8.pdf, tables 7.43 and 8.08 (calculated).

revenue. Examining the reasons for the ratios in volume, value, and revenue changing so much across major custom houses (Chattogram, Mongla, Dhaka, and Benapole) could explain the nature of the cargo and business processes and they may yield useful information for risk management.

Tariffs and "para-tariffs" (other trade taxes which include RD and SD) charged on imports together add up to high average rates of duties on imports. The calculated total tax incidence (TTI) picture is very different from the picture presented by customs duties alone.[43] A calculated TTI is available for 7,167 listed tariff lines for which the rate of customs duty is 25 percent and below. The mean TTI for the available lines (unweighted) is 57.6 percent and the standard deviation is quite high at 61.8. The TTI ranges from 0 to 826.6 percent (excluding the cases where specific duties are charged). While items related to tobacco, alcohol, and motor vehicles make up most of the tariff lines charged to TTI (nominal) above 250 percent, gold items, waste and scrap metal, and mineral waters also figure in this list. This does not of course include items listed separately and charged to specific rates of duty (Appendix 5, Table 1). While trade tariffs have declined in line with international trends over the last two years, para-tariffs have increased commensurately. As a result, the nominal net effective tariff has remained virtually unchanged over the last two decades. Table 8 below provides estimates of the trend of unweighted average tariffs and other duties over the period FY 2001–20.[44] While in this estimate customs duties have clearly declined from 21 percent to 13.5 percent in this period, other trade tariffs have increased from 7 percent to 13 percent.

Table 8. Decline of Average Tariffs and Compensating Rise of Para-Tariffs (FY 2000–01 to FY 2019–20)

Tariffs (%)	FY01	FY05	FY10	FY15	FY20
Avg. Customs Duties	21.1	16.3	13.7	13.2	13.5
Avg. Para-tariffs	7.1	10.2	10.2	13.5	13.2
Avg. Nominal Protection	28.2	26.5	23.9	26.7	26.7
Avg. Tariff on Output	37.1	37.4	41.2	47.8	46.4
Avg. Tariff on Inputs	19.5	17.8	12.5	12.8	13.2

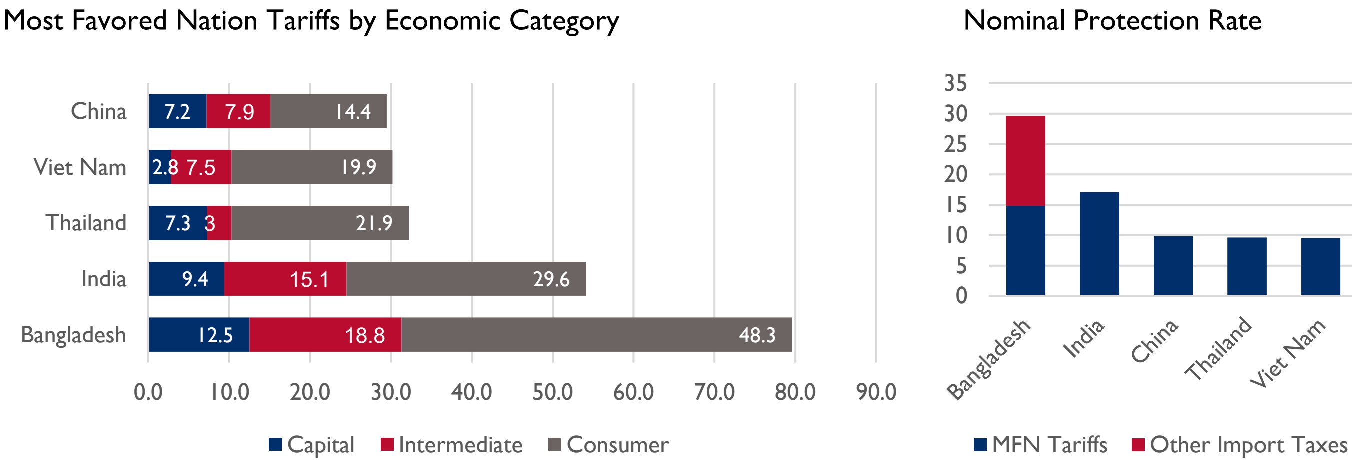
Secondary source: NBR, Policy Research Institute staff estimates

In terms of nominal tariffs, the median unweighted rate of total tariff incidence is 37 percent, higher than most comparator countries. Fifty (50) percent of the tariff lines are greater than 37 percent in terms of TTI (unweighted nominal) and 25 percent are above 58 percent excluding lines with specific rates of customs duty (at least 41). The World Bank has calculated that Bangladesh's average applied most-favored nation applied tariffs are much higher than comparator countries. Figure 10 below compares Bangladesh with countries in the region that Bangladesh itself views as benchmarks. Bangladesh's tariff escalation ratio (the ratio of trade tariffs on inputs versus consumer goods) has been noted by several analysts to be particularly high. This points to a very high level of "effective protection" provided by the tariff regime.

43 Details about the customs tariff and the Excel file provided by NBR are contained in Appendices 4 and 5.

44 Sattar, Zaidi. Policy Research Institute. Virtual National Workshop on Tariff Policy for Bangladesh. PowerPoint Presentation. October 2020. Slide 11

Figure 10. Average Tariff Compared to Selected Countries



Source: World Bank Group. 2020. Virtual National Workshop on Tariff Policy for Bangladesh, October 12, 14, 15, 2020.

Effective rates of TTI are very different from nominal rates. Based on a tariff line by country customs data file provided by NBR to the WB/IFC conference[45] for simulation, the actual weighted effective TTI on imports in FY 2018–19 was 18.6 percent, and the weighted effective tariff rate (Customs Duty and RD only) was 5.2 percent. The reason for the large difference between the weighted (above 18.6 percent) tariff and unweighted (given the earlier 57.6 percent) is that weighted imports by trade tend to reflect the impact of most goods being charged to lower rates within the tariff (as higher rates tend to discourage imports). Secondly, as many analysts have pointed out, there are several Customs Procedure Code limitations and SROs that lower the effective rates of duty applied to many goods. This lowers effective rates compared to nominal averages. Even within the same tariff line, SROs based on end-use led to multiple effective rates of duty.

The complexity of the rate structure points to possibilities of misclassification, procedural delays, and disputes. Even after excluding the 41–43 specific rates of customs duties for which TTI is not calculated, there are 81 nominal TTIs in the system ranging from 0 to 826.6 percent (Appendix 5, Tables 2A and B). This excludes the cases of specific customs duties which themselves lead to new effective rates depending on the value of imports. The 81 rates may also result in many more applied effective rates once the Customs Procedure Code and SROs are considered. Any tariff regime with so many nominal rates within such a wide range and variance presents opportunities to substantially increase or decrease the rate charged through changes in the classification of goods. This leads to disputes, to unnecessary extra steps, and to potential delays in the assessment and clearance of goods. It also encourages rent-seeking among both officials and traders—and opportunities for inefficient businesses to thrive through classification anomalies.

Customs revenue (excluding Advance VAT and Advance Income Tax) in FY 2018–19 increased over FY 2017–18 levels, but fell slightly in FY 2019–20. Imports grew by

45 World Bank Group Virtual National Workshop on Tariff Policy for Bangladesh. October 12, 14, and 15, 2020

approximately 4 percent in FY 2018–19 compared to the previous year (in nominal BDT), while import duties (excluding advance taxes collected at the border) grew at a slower pace, around 2.5 percent during the same period. This may signify a falling effective tax rate or low buoyancy, unless it is the result of tariff reductions. Falling customs revenues are not such a problem if they are compensated by other collections elsewhere in the system. During FY 2019–20, revenues remained steady until April 2020, when the pandemic disrupted trade. However, this situation was remedied very quickly the following month. The Team learned from discussion with NBR officials that this was achieved by allowing cargo to move off the docks at Chattogram. Revenue in FY 2019–20 was around 4.5 percent less than in the previous year, which is explainable partly by the disruptions caused by the pandemic.

Table 9. Trends in Revenue and Imports[46] (BDT millions)

	FY 2017–18	FY 2018–19	FY 2019–20
Import Duty	245,021	242,774	261,136
Export Duty	358	422	11
Import VAT	293,678	313,986	278,179
Import SD	79,122	76,640	66,196
Total	618,179	633,822	605,522
Imports, Commodities	5,511,644	5,722,675	

The gap between collected revenues and "potential" revenues is large. From the Bangladesh Statistical Yearbook 2019 (Yearbook Table 8.04), the total value in BDT millions of commodity imports was over a million more than the total Free on Board (FOB) import value for goods (Yearbook Table 8.01). Customs value is normally calculated on a cost, insurance, and freight (CIF) basis. Under the VAT and SD laws, Bangladesh is taxing some imported services as well (at least in the current year). The FOB goods estimate can thus be considered as a "lower bound" for customs import value and the higher figure as a very conservative "upper bound." Applying the calculated effective TTI of 18.6 percent to the FOB or commodity import value of goods imported declared in the national balance of payments statistics gives a very rough estimate of the "gap" in revenue. This revenue could potentially be raised from balance of payments value of imports compared to values declared to customs (and captured in the customs import data). The FOB goods value leads to a total import duty estimate of BDT 866,141 million and the commodity values estimate is much larger, at BDT 1,064,130 million. This leads to an estimate of the "gap" at 18–45 percent of revenue collected at the border. One could also compare what other countries declare as imports from Bangladesh to its record of exports to these countries

The very high rates of effective protection have several harmful effects on the economy and Bangladesh's development effort. Critics of high tariff rates have pointed to the very high effective rates of protection (ERP) provided by these tariffs. Examples range from the domestic agro-food processing industry with ERP ranging from 57.9 to 176.2 percent, domestic footwear and leather with ERP from 91.9 to 236.1 percent, and the domestic plastic

46 Bangladesh Bank Monthly Economic Trends, Sep 2020; Bangladesh Statistical Yearbook 2019.

industry from 50.6 to 318.6 percent—compared to the ERP for the related export industries in the negative to low double digit range. This form of arbitrary import substituting protection to infant industries has led to "geriatric" (and inefficient) infants, high prices for consumers, a disincentive to produce for exports compared to domestic sales, and all-around inefficiency and rent-seeking behaviors. At two seminars attended by the Team, prominent analysts and representatives from industry pointed to a need to move away from the past policies of indiscriminate import substitution behind high tariff walls to a more export-oriented tariff policy.

A large part of revenues collected at the border may artificially improve the performance of other wings. Based on the difference in estimates from the Bangladesh Bank file, the customs file provided to the WB/IFC conference, and estimates of Advance VAT and Income Tax provided by the NBR to the Team, it is estimated that between 4.5 percent and 11 percent of NBR revenue came from advance taxes collected at the border. These extra taxes on imported input taxes also distort the choices between domestic and imported inputs, which should be based on commercial considerations in an export-oriented economy. Further, RD was explained by the NBR as an instrument to discourage "luxury," "sin," or "unwanted" imports, and was intended to be applied at a rate of 3 percent on those goods that attract 25-percent customs duty only. This seems to duplicate the justification for a wide range of import SDs. Further, as Appendix 5, Tables 3 and 4 show, they are levied at rates up to 35 percent (not just 3 percent) and on many tariff lines with a customs duty less than 25 percent (104 such lines). This adds needless complexity to the system and should be an easy fix.

Several measures to rationalize and reduce tariffs have been simulated and their revenue impact analyzed. Using the Tariff Reform Impact Simulation Tool (TRIST) from the World Bank, some basic tariff reforms were analyzed by World Bank staff using the NBR customs data file to assess the revenue impact of moderate reforms proposed by an independent think tank, the Policy Research Institute. The TRIST tool showed that the net effect on revenues ranged from a reduction of 0.1 percent of total government revenue to a maximum of 1 percent. Deeper cuts to reach the tariff rates employed by India, China, and Vietnam showed revenue impacts on government revenue loss of between -0.6 percent (India) to -2.5 percent (minimum of three countries on each tariff line). However, the loss from rationalizing the total tariff to reasonable and uniform levels are obviously larger. Such deep reforms will require a well-thought-out strategy that involves all NBR operations. Customs reform, however beneficial it may be, cannot be viewed in isolation of its role as NBR's second-most important source of revenue.

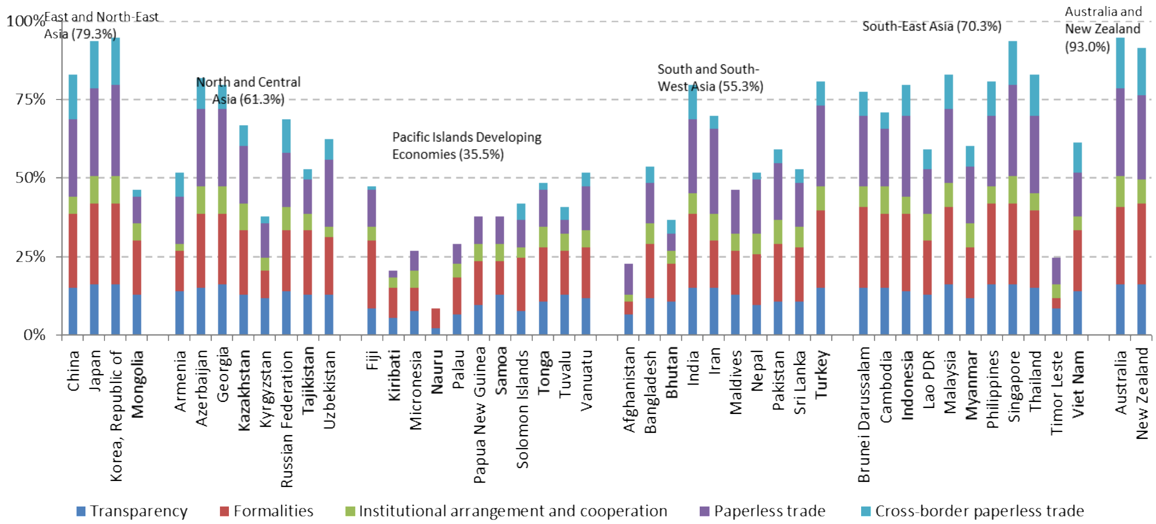
Paperless Trade and Trade Facilitation

Bangladesh is lagging behind the regional average in terms of two out of five groups of trade facilitation measures (TFMs). The Customs wing can rightly claim that they have contributed to Bangladesh's export-led economic miracle by facilitating trade and contributing a large chunk of its revenues. It must now be prepared to switch from its import-substituting role to export-led development facilitation, monitoring of inland transit treaties and implanting trade policy while securing revenues. A recent study by the United Nations' ESCAP, "Readiness Assessment for Cross-Border Paperless Trade: Bangladesh,"[47] noted that out of five major groups of trade facilitation measures in the "paperless trade" and "cross-border paperless trade"

47 United Nations ESCAP. (2019). Assessment for Cross-Border Paperless Trade: Bangladesh. Website. Accessed at: https://www.unescap.org/resources/readiness-assessment-cross-border-paperless-trade-bangladesh.

domains, Bangladesh was behind the regional average performance. Figure 11 below, taken from the report, allows comparison of Bangladesh with all countries in the region. Bangladesh is clearly behind its comparator countries India, Malaysia, Philippines, and Vietnam in the TFM area.

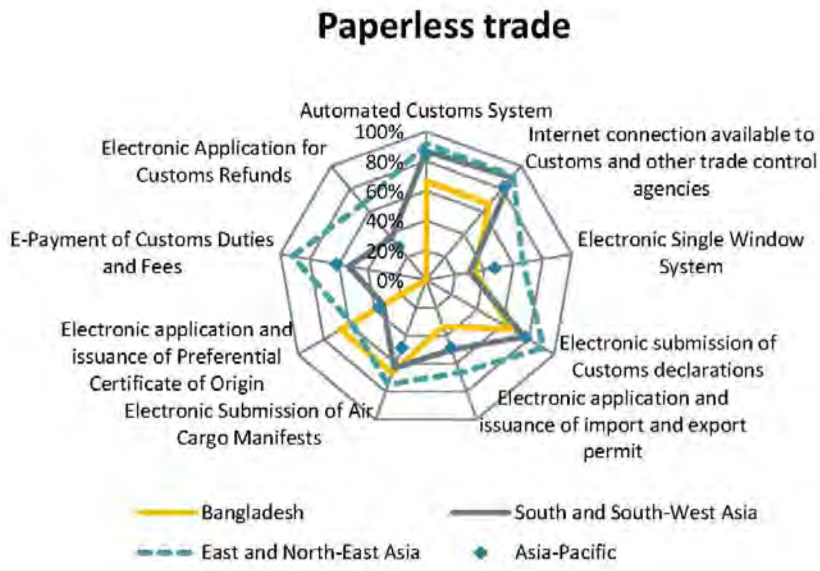
Figure 11. Overall Implementation of TFM in 46 Asia-Pacific Countries (2019)



Source: ESCAP, Assessment for Cross-Border Paperless Trade: Bangladesh

Bangladesh is behind all comparator country groups with respect to measures comprising "paperless trade." According to the same report (p. 5), "In 'paperless trade', Bangladesh has partially implemented measures for automated customs system, internet connection available to customs and other trade control agencies, electronic submission of customs declarations, electronic submission of air cargo manifest, and electronic application and issuance of preferential certificate of origin…. Electronic single window, a measure explicitly stipulated in the WTO Trade Facilitation Agreement, has only been implemented on a pilot basis. E-payment of customs duties and fees and application of customs refunds can only be made with paper documents." Figure 12 below presents a spider chart from this report that ranks Bangladesh's performance on each of these categories against groups of comparator countries. In every dimension except two, Bangladesh is generally the worst performer.

Figure 12. Bangladesh Implementation of "Paperless Trade" Measures (2019)



Source: ESCAP, Assessment for Cross-Border Paperless Trade: Bangladesh

Meeting International Standards

The World Bank's Doing Business 2020 ranks Bangladesh 14th-to-last among all nations for Trading Across Borders. In 2019, Bangladesh ranked 176th among 190 nations. The World Bank/IFC measures the time required to complete border compliance procedures for import and export, the time required for document compliance (import and export), and the costs for both. Table 10 below outlines Bangladesh's performance in these areas relative to South Asia, East Asia and the Pacific, and OECD countries.

Cost to import and export is high relative to South Asia, East Asia and the Pacific, and OECD countries. The table demonstrates that an average medium-sized company based in Bangladesh exporting through Chattogram port must pay $408 for border compliance costs and $225 to complete all necessary documentary requirements, for a total of $633 to export a container. This is compared to a total of $170 in the richest OECD countries. In addition, Bangladeshi companies should expect to invest 168 hours for export border compliance and 147 hours for document compliance, compared to 12.7 hours and 2.3 hours respectively in OECD countries. No cost of compliance surveys for trade are available for use by the Team. The situation is worse on the import side, with the total cost of import at $1,270 versus $121.6.

Table 10. Doing Business, Trading Across Borders in Bangladesh

	Bangladesh	South Asia*	East Asia and Pacific	OECD High Income
Trading Across Borders Rank	*176*	*109*	*103*	*26*
Trading Across Borders Score	*31.8*	*65.3*	*71.6*	*94.3*
Export Border Type	Port			
Time to Export: Border Compliance (hours)	168	53.4	57.5	12.7

	Bangladesh	South Asia*	East Asia and Pacific	OECD High Income
Cost to Export: Border Compliance (USD)	408	310.6	381.1	136.8
Time to Export: Documentary Compliance (hours)	147	73.7	55.6	2.3
Cost to Export: Documentary Compliance (USD)	225	157.9	109.4	33.4
Import Border Type	Port			
Time to Import: Border Compliance (hours)	216	85.7	68.4	8.5
Cost to Import: Border Compliance (USD)	900	472.9	422.8	98.1
Time to Import: Documentary Compliance (hours)	144	93.7	53.7	3.4
Cost to Import: Documentary Compliance (USD)	370	261.7	108.4	23.5

Source: World Bank Doing Business Indicators Database (based on data collected May 2019) https://www.doingbusiness.org/en/data/exploretopics/trading-across-borders.
* Includes Afghanistan and Bhutan

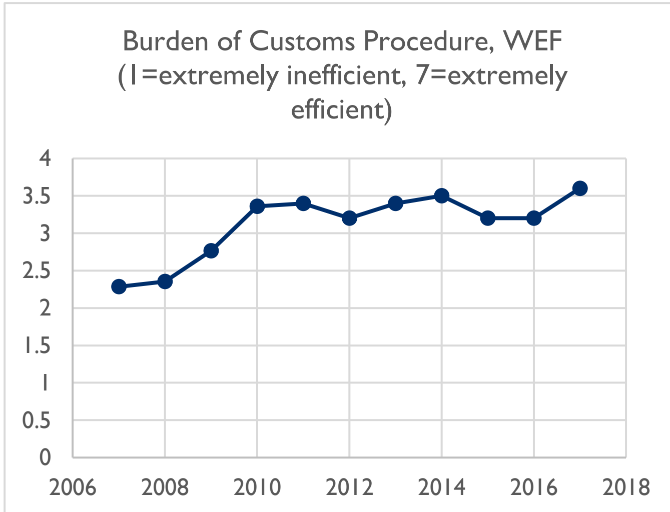
The number of documents required for import and export is high. In addition, the Trading Across Borders score takes into consideration the number of documents required for both import and export. The Doing Business Report presents the documents legally required in Bangladesh in Table 11 below. This list differs from the list available on the NBR website at http://www.bangladeshcustoms.gov.bd/trade_info/customs_clearance. One notable difference is that with the new VAT law, all importers and exporters are required to have a VAT registration and must provide their VAT registration certificate for import and export. The Bangladesh Customs site also lists as mandatory for both import and export the insurance certificate/cover note. Further, the list provided by Bangladesh Customs on its website lists several export and import documents required for special classes of goods (9 items for export and 6 for import).

Table 11. Trading Across Borders in Dhaka—Trade Documents

Export	Import
Bill of Lading	Bill of Lading
Commercial invoice	Cargo release order (Gate Pass)
Customs Export Declaration	Certificate of origin
Packing List	Commercial invoice
Certificate of origin	Customs Import Declaration
Terminal handling receipts	Packing List
Technical standards certificate	Technical standard/Cleanliness certificate
Cargo release order	Terminal handling receipts
Customs Transit Document	Letter of credit
Foreign exchange authorization	SOLAS certificate
Pre shipment inspection clean report of findings	
Utilized declaration for garments	
Letter of credit	
SOLAS certificate	

Bangladesh's rating on the Enabling Trade Report is neutral and improving slightly. The Enabling Trade Report of the World Economic Forum measures the "Burden of Customs Procedures." Burden of Customs Procedure measures business executives' perceptions of their country's efficiency of customs procedures. The rating ranges from 1 to 7, with a higher score indicating greater efficiency. Data are from the World Economic Forum's Executive Opinion Survey, conducted for 30 years in collaboration with 150 partner institutes. In 2017, Bangladesh received a middle-of-the-road score of 3.6. The score has been gradually improving since 2008 as illustrated in Figure 13 below, published by the World Bank.

Figure 13. Burden of Customs Procedure, Bangladesh[48]



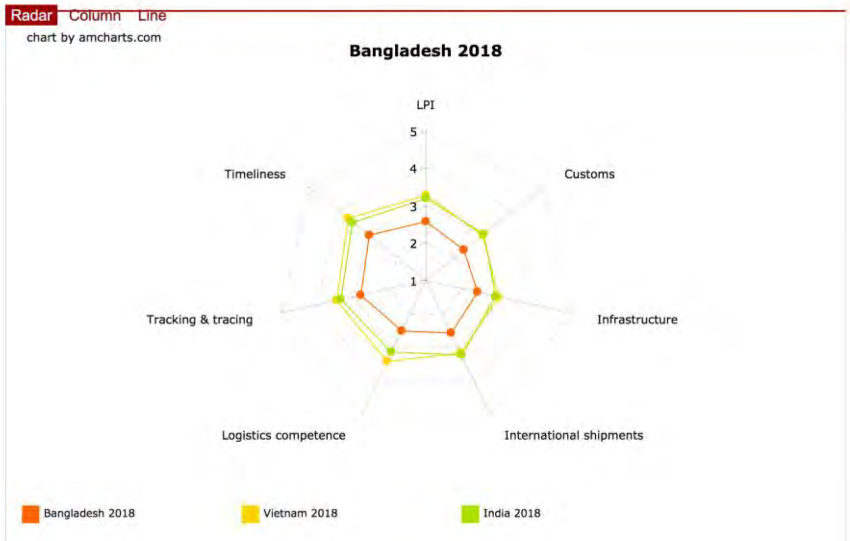
Source: The World Bank

Bangladesh's rating on the Logistics Performance Index (LPI) has been neutral and considerably lower than comparator countries (Figure 14). The LPI "uses six key dimensions to benchmark countries' performance and displays the derived overall LPI index." The scorecard allows comparisons with the world (with the option to display world's best performer) and with the region or income group (with the option to display the region's or income group's best performer) on the six indicators and the overall LPI index. Bangladesh received a middle-of-the-road score of 2.6 in 2018 where 1 is low and 5 is high. The country's score is considerably lower on all dimensions than the top performer in its income group (Vietnam), or in the South Asia region (India).[49]

48 The World Bank. (N.D.). Website. Accessed at: https://data.worldbank.org/indicator/IQ.WEF.CUST.XQ?end=2017&locations=BD&start=2007&view=chart

49 The World Bank. (2018). Website. Accessed at: https://lpi.worldbank.org/international/scorecard/radar/254/C/BGD/2018/C/VNM/2018/C/IND/2018.

Figure 14. LPI Country Score Card, Bangladesh (2018)



Source: The World Bank

Trends in Clearances, Audit, and Business Processes

The NBR is not making full use of automation; in practice, most transactions are conducted in person with hard copies. Despite almost universal e-filing of declarations, supporting documents are still mostly submitted manually. Payments are made through the online system in less than 100 percent of the cases (figures for proportion of online payments are not available). Despite the use of online filing, the prevailing practice is for the importers or their agent to turn up in person with a hard copy of all documents to the Customs officers for clearance. Supporting documents submitted manually (as well as manual declarations) are not being entered into the system even after processing is complete. The USAID-BITBEE team also reported that several other processing modules in the ASYCUDA system are not being used. One possible reason may have been that ASYCUDA is not costless. NBR is also working with the World Bank to implement a "single window" (National Single Window) system with its associated software. Once such a system is available, there will no longer be a need for manual submission of documents or payment. This system is expected to be functional by 2022, as stated in the Customs SAP. Until then, no further investments are expected to be made to make more ASYCUDA modules operational.

Bangladesh's record in expeditiously clearing cargo is below international standards. The recent Trade Policy Review of the WTO has commented on the clearance process at length. It has stated that 60 percent of completed declarations are assessed and cleared by customs on the same day. However, two published and available time-release studies for Chattogram port and for Benapole LCS (the largest land border station) from 2014 show that the average clearance time is 11 days and five days respectively.[50] For cargo subject to simplified procedures at Benapole, the average time was a little over one day. This was reported to have come down

50 National Board of Revenue (NBR). (2014). Bangladesh Time Release Study Benapole. July 2014. Accessed at: http://nbr.gov.bd/uploads/publications/Time%20Release%20Study%20Report-%20Benapole.pdf. Also see NBR (2014). Bangladesh Time Release Study Custom House Chittagong and Chittagong Port. Accessed at: http://www.nbr.gov.bd/uploads/publications/Time%20Release%20Study%20Report%20-Chittagong.pdf

by 2016 to an average of eight days at the port, and to less than a day at some minor land stations. At LCSs, the law stipulates that trucks from India have to be unloaded and the driver has to return within a day, since he is without a visa. Meetings with the ADB revealed that this happened on paper only; as the truck driver often returned on foot the same day while unloading continued for two to three days—after which the truck was returned. A recently published paper by an NBR official (referred to again in the PCA section below) put the average clearance time at nine days for imports and seven days for exports.[51]

The NBR believes that importers are at fault for the slow clearance times and dispute the time-to-release figures. During meetings with the NBR, officials stated that the time-to-release figure is inaccurate, since customs completed processing and assessment very quickly, while the importer delayed in paying the assessed duty and clearing the goods. NBR officials reportedly did not believe that the time to release could be eight days on average if it was measured to completion of assessment. The eight-day time frame, in their opinion, reflected the actual time taken to remove cargo from the port. They said they have no role in delays beyond the assessment order stage. Once assessment is complete, the importers must pay duty before they can release goods. In most cases, the release order is issued after proof of duty payment is available. The average figure of eight days is plausible only if accounting for the time to give the release order. NBR officials stated that if electronic payment is made, the completion of assessment and the delivery of the release order is the same. Since the proportion of cases in which assessment and release is simultaneous (as is claimed under e-payment) was not made available, it is not possible to assess which side of this picture is more accurate. If the issue can be resolved with universal e-payment, it would be a welcome solution. It is also one of NBR's stated priorities to introduce universal e-payment. If, however, the delay is caused by the reluctance of traders to move goods out of relatively cheap storage at ports (as stated by NBR), e-payment will not resolve this problem. This is discussed in more depth below.

Bangladesh uses two of the available four channels in ASYCUDA for most cargo. Customs implements a system of cargo selection for the "red" channel with physical examination. This is done in a decentralized manner using local experience, past importer behavior, and commodity characteristics at each Customs House. Approximately 10–12 percent of cargo is selected for examination based on Harmonized System code, value declared, database value, local experience, country of origin, importer record, etc. The rest of the cargo is cleared with document checking only through the "yellow" channel. The "blue" channel (no examination, with selected PCA) is not being used. To the Team's knowledge, only three authorized economic operators (AEOs) who are authorized to use the "green" channel have been notified to date. Data on the volume of cargo being cleared by the AEOs through the green channel are not available.

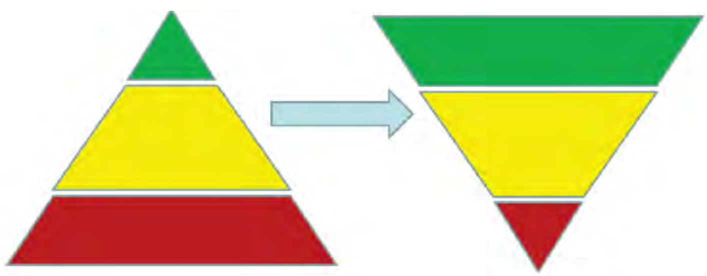
Lack of a centralized risk-management organization, pending technical assistance, and redundancy in the AEO scheme are cited as reasons for not using other channels. NBR officials are now receiving technical assistance from the World Bank on risk management. They do not have a fully functional central risk management directorate to date and they cite this as a reason for not using more modern clearance procedures based on PCA and the "blue" channel. A lot of work has already been done to establish a functional centralized risk directorate. This should be pursued as a priority and the NBR has listed it as one of its three

51 Hossain, Mohammad Akbar. (2020). "The role of selectivity criteria for effective post-clearance audit (PCA): Bangladesh perspectives." *Customs Research and Application Journal* Vol. 2 No. 1 (2020).

immediate targets. The officials also reported that since importers and exporters are already receiving so much trade facilitation in the normal course, they were uninterested in enrolling for the AEO scheme and "green" channel. This is the explanation given for almost exclusively using the "red" and "yellow" channels to date. It is strongly recommended that NBR switch from a decentralized, local experience-based cargo selection system to a centralized risk-based system.

International best practice is to rely on PCA and risk management. International best practice is to rely on risk criteria and intelligence to identify truly high-risk shipments and not to subject a large percentage of transactions to a full physical inspection. In more mature customs administrations, a larger percentage of transactions are processed through the "green" lane, and far fewer transactions are routed to the "yellow" or "red" lane. Figure 15 illustrates the typical transformation in risk management and cargo selectivity (cargo in each channel as a proportion of all cargo) as an institution moves from less institutionally mature (left) to more institutionally mature (right).

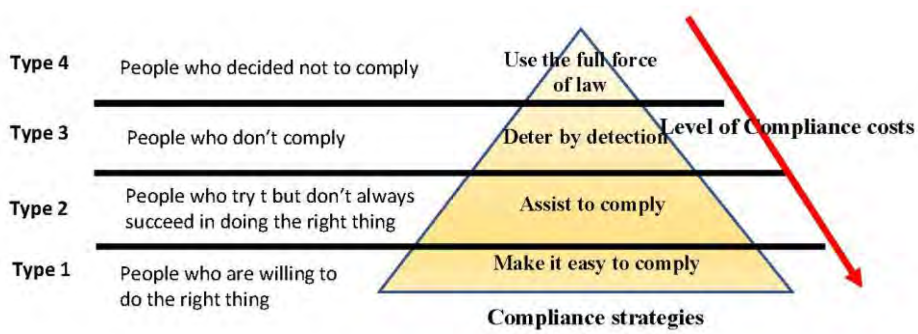
Figure 15. Risk Management and Cargo Selectivity



Source: DevTech Systems, Inc. Liberia Benchmarking report, p.38

The NBR does not have a compliance strategy based on risk. The WCO has suggested a strategy based on segmenting trade into four "types," based on likelihood of compliance. The WCO PCA compliance guidelines (2012) provide the Figure 16 (below) to categorize risk strategies.[52]

Figure 16. Risk Management Strategy Suggested by WCO



Source: Hossain, "The role of selectivity criteria for effective post-clearance audit (PCA): Bangladesh perspectives"

52 Hossain, "The role of selectivity criteria for effective post-clearance audit (PCA): Bangladesh perspectives."

There is one central office that conducts PCA in addition to a Joint Commissioner (PCA) in each Custom House. The main central organization that conducts PCA is the Customs Valuation and Internal Audit Commissionerate (CVIAC). This office was set up in 2002 and is headed by a Commissioner with 100 staff. The main office is in Dhaka and it has a branch in Chattogram; it is mainly entrusted with internal audit and PCA in addition to valuation. A summary of its performance from the study cited above is available and is presented below in Table 12.

Table 12. Status of PCA Results Conducted by the CVIAC for the last five FYs

Fiscal Year	Number of audits	Revenue leakage detected (million Taka)	Comments
2015–16	961	859.510	The irregularities are mainly under-invoicing, wrong HS classification, fake documents, and understatement of quantity, etc.
2016–17	573	296.219	
2017–18	872	292.100	
2018–19	1,210	933.538	
2019–20 (to May 25, 2020)	1,727	275.120	

Source: Hossain, "The role of selectivity criteria for effective post-clearance audit (PCA): Bangladesh perspectives"

Although the number of PCAs conducted by the CVIAC almost doubled in the last five years, there has been no increase in revenue leakage detected. The table above clearly shows that the number of audits apparently bears no correlation with the detection of revenue leakage. Hossain, 2020 also notes that there has been almost no impact on reduction of clearance time. The reason cited by Hossain is "the inadequate skills of PCA auditors, lack of human resources and logistics, lack of proper and adequate documentations, challenges in accessing trails of the physical movement of goods to see a sample of cleared goods, and the lack of application of systematic risk management in conducting PCAs, the overall outcomes of PCAs are not satisfactory yet, which ultimately could not contribute significantly to expediting the clearance at the Customs points." [Hossain, 2020, p.15]

The NBR has already received technical assistance on PCA, but is not using it. The NBR has received extensive technical assistance on PCA from the ADB in 2016, and from the USAID-BITBEE project more recently. The WCO has also reported a PCA mission in 2019 on its website. USAID has provided a PCA manual for customs to use which is under review. Interviews with NBR, however, reveal that the manual was not in use and would not be unless translated to Bangla. They also stated that unless such manuals were adapted to Bangladesh Customs procedures, they were not likely to be of use to officers in the field. However, since USAID is also providing technical assistance on reviewing and improving business processes at Chattogram port, whether this argument is worth further discussion is debatable. The ADB SASEC team also stated that despite multiple agencies independently providing technical assistance on the same topic (PCA), there was very little ownership and take-up in the end. There is a need for stronger donor coordination on these issues and more focused evaluation of the results of the technical assistance provided.

There is an appeals and dispute resolution procedure in place and the procedures are being used. According to the WTO Trade Policy Review,[53] traders have the right of administrative and/or judicial appeal to the Commissioner (Appeal). Any person unhappy with the decision of the Commissioner (Appeal) or the Commissioner of Customs may appeal to the Appellate Tribunal, which consists of a technical member (Commissioner of Customs or above) and a judicial member. Persons not satisfied with the decision of the Appellate Tribunal have the right to appeal to the High Court Division of the Supreme Court. No data on the cases from 2012 onward were available for examination. The Customs Act also provides for ADR. Any case or dispute pending before any Customs authority or Bangladesh court in respect of a levy, an assessment, the collection or refund of duties or taxes, fines or penalties, or customs valuation issues can be dealt with and settled by ADR. Out of 998 applications between July 2012 and October 2018, 597 cases were fully settled, while another 150 were partially settled. NBR officials interviewed also stated that the ADR mechanism was not being fully utilized and blamed this on traders who preferred to rely on litigation.

Administration and Business Processes

Customs must improve sharing of administrative and information technology resources with other wings of NBR. The Customs and VAT cadre of the NBR collects 70 percent of all its revenues. In terms of administration, it has completely separated administrative structures operating in virtual silos. Most support functions are duplicated in all three wings. Even if it is not possible to reorganize the administration, a beginning can be made with shared information technology databases. This may help to make business processes more efficient and allow the development of a centralized compliance risk-management system. Customs is already the most advanced department in the NBR in this regard as it has implemented ASYCUDA for several years and has a lot of data in its system already. These data can be used by other wings in audit, registration, and risk profiling. Customs would also benefit by access to the domestic registration database and domestic tax records. While waiting for implementation of the National Single Window, Customs can work to better integrate the ASYCUDA interface with the IVAS system and eventually with other online data systems in and outside NBR. This can be an important first step toward eventually sharing corporate services within NBR wings. These steps should lead to improved taxpayer services and business processes and eventually lower administrative costs.

A review of business processes would strengthen customs compliance and trade facilitation. The Customs SAP 2019–2022 calls for a review of "Customs Procedure at key Custom Houses and Land Crossing Stations" and an introduction of procedures that are in line with international practice. The stated intention was a "Reduction of clearance time as against the baseline clearance time." The USAID-BITBEE team informed the Team that they had had prepared and agreed on the methodology for the Business Process Review (BPR), which was suspended due to COVID-19, and the BPR is now underway. However, NBR officials informed the Team that the SAP review meetings were suspended after COVID struck and have not yet resumed. The NBR Customs modernization group informed the Team that their three strategic priorities are (1) implementation of the National Single Window; (2) implementation of risk management; and (3) e-payment. Therefore, it is not clear to what extent business process improvements are being pursued and which areas are being prioritized. Information technology

53 WTO (2019), Trade Policy Review Report by the Secretariat, p.43

cooperation/integration with other wings is not a part of NBR immediate priorities; they should view this as a core requirement for the future, not an option.

The Customs wing has already achieved some success and is the most "digital" of the three wings. Unlike the other two wings, the Customs wing has operated ASYCUDA successfully for many years and achieved close to 100 percent e-filing. It collects a wealth of data which can be used for analysis by both the VAT and Income Tax wings. NBR customs officials told us that the VAT and Income Tax wings can already verify information about Advance VAT and Advance Income Tax through the ASYCUDA MIS module which is available to them. However, the other two wings both reported that they could not access the ASYCUDA World and therefore did not have access to this system. The Customs wing has already set up a valuation office and database and are using it for "red"-channel cargo selection. These data could potentially benefit the other two wings as well. The NBR officials stated that establishing a customs overseas intelligence network (COIN) system, on the lines of India's, would help improve customs enforcement. This idea should be explored further, as should the use of the customs valuation database in income tax valuation of cost of inputs and transfer pricing. The NBR needs an internal risk management system and intelligence, PCA and compliance sections to benefit from an overseas network. Further, with the help of technical assistance from USAID, NBR has already completed work on improved processing of courier cargo; the Team was also informed that the system to implement pre-arrival processing was in place and the SRO was ready.

Reducing time to clearance and use of bonded warehouses are related issues. Time-to-clearance issues and demurrage solutions have already been discussed above. It has been observed by more than one technical assistance provider that at the ports, at ICDs, and at Benapole LCS, owners of cargo often leave consignments uncleared for days because it is cheaper to do so than use their own storage. This is quite unusual and easily fixed by making port charges prohibitively high (and progressive, based on time), providing importers a strong incentive to clear goods as soon as assessment is complete. It also puts pressure on Customs via traders to complete formalities quickly. This can be tied to the greater use of private bonded storage facilities pending clearance for home consumption. This would cost the importer a lot less and can be used whenever trade would prefer to delay clearance of goods for home consumption on payment of duty (often for very legitimate business reasons). Improving clearance times is part of the SAP, as is increasing the use of warehousing. One of the objectives of the SAP is also to improve the functioning of private bonded warehouses. These are used extensively by the ready-made garment export industry for "in-bond" manufacturing, but can be used by all other importers to improve clearance times, reduce port congestion, and ensure a smooth flow of cash expenditure and revenues—as well as raw materials supplies and finished goods availability.

Transit to warehouses, examination, electronic seals, and examination procedures all need attention. The more extensive use of ICDs to reduce port congestion and the use of bonded warehouses both require secure procedures to transport and store goods until they are cleared for home consumption on payment of duty. This also requires proper on-site Customs examination for clearance wherever necessary. Interviews with NBR revealed that the use of electronic seals was not prevalent. There was also no information on whether container seals were checked to be intact by Customs on arrival at the destination, leading to the possibility of diversion of goods. NBR needs to tighten controls in this area. One solution can be the use of modern electronic tracking devices, as was planned by NBR and already in use for transit cargo elsewhere in the South Asia region. The plan to improve clearance times and reduce congestion by encouraging the use of bonded warehouses and ICDs can work effectively without creating a risk to revenue, but only if the procedures for securing transit and proper customs examination and control over bonded cargo are maintained. Otherwise, it will lead to revenue leakage.

The NBR is getting ready for inland barge and Nepal and Bhutan transit cargo. Bangladesh has already piloted transit trade through inland waterways and is planning to start the movement of transit cargo to Nepal and Bhutan. India's experience with Nepal transit cargo is very relevant to Bangladesh, as this can be a very important form of diversion (of imported cargo without payment of duty) if not handled properly using modern electronic methods. Bangladesh has reportedly sought international technical assistance on transit cargo. It is important to set the necessary systems in place using electronic seals and tracking devices for all transit cargo before large-scale movements commence.

The objective of trade facilitation, though laudable, should not compromise effective control over revenue. Effective controls are needed to ensure that NBR can collect the required revenue for government. Bangladesh's tax-to-GDP ratio is already the lowest in the region and NBR relies heavily on Customs for revenue collection. The real challenge is to maintain and even increase the effectiveness and efficiency of controls while improving the trading environment. Every BDT of revenue lost to tariff simplification, rationalization, and trade facilitation, must be simultaneously compensated by revenue gained from domestic sources. Trade cannot be facilitated at the expense of controls and revenue collection. Bangladesh does not have the tax revenues to spare.

Recent compliance cost, trade (especially AEOs) and general satisfaction surveys and time-release studies are not available. One way to monitor progress and find areas of weakness is to conduct surveys of importers, exporters, and brokers regularly on compliance costs, clearance and business processes, and taxpayer services—as well as conduct proper time-release studies. No such recent publicly available information was available from which to gauge areas where improvements had been made and where further international technical assistance could help. It is recommended that information from such surveys and studies conducted recently be shared with analysts and if not conducted recently, these should be planned when operations are normalized.

Key Recommendations

Immediate

- Continue to facilitate trade but ensure that revenues are not compromised.
- Ensure demurrage charges are set high enough to ensure quick removal of goods from Customs.
- Conduct regular importer/exporter satisfaction surveys and cost of compliance surveys and use the results to improve the "doing business" indicators.
- Use existing automation capabilities much more extensively and make information exchange and information integration with other NBR wings core priorities.
- Ensure a rigorous set of audit practices and management of arrears systems are put in place, based on technical assistance already received.

Medium/Long Term

- Gradually reduce and rationalize tariffs and para-tariffs to support the export-led strategy. A gradual shift away from import substitution also implies shifting away from reliance on taxes at the border to domestic taxes.
- Improve business processes to bring time required to release goods up to Asian standards.
- Complete the National Single Window and universal e-payment.
- Switch from a decentralized, local experience-based cargo selection system to a centralized risk-based system and use centralized risk management. This includes the wider use of PCA, "blue" and "green" channels, and integrated information-sharing systems.
- Reduce time to clearance by encouraging use of bonded warehouses and improve the capability to monitor transit cargo. Make appropriate use of electronic seals, proper transit monitoring, examination using electronic aids, etc.

Appendix 1. Matrix of Recommendations

RECOMMENDATIONS	Short Term	Medium Term	Long Term
GENERAL TAX ADMINISTRATION			
Prepare a Modernization Plan for the entire NBR covering the period of the MTRS.	X		
Redefine the role, status, and regulatory power of the NBR, including the role of Members of the NBR and the NBR chairman.	X	X	
Restructure the NBR by function and size.	X	X	
Centralize all headquarters corporate services into a single department to move toward restructuring the NBR on a functional basis.	X		
Take measures to ensure more consistency between the two LTUs, including having a shared base of taxpayers and ensuring effective and regular exchange of information on these taxpayers under all taxes. The eventual goal is full unification.	X	X	
Develop a compliance risk management plan, centralize the audit function, and start using risk-based audit. Centralize the audit selection process based on data analysis, sharing of information and automated systems and modern risk management methods.	X	X	
Redefine the role and strengthen research and analytical capacity of the Research and Statistics wing.		X	
Review business processes and reengineer them to make them user-friendly and compatible with a digital system.		X	
Split tax policy from tax administration by assigning tax policy to the IRD, Ministry of Finance.		X	
Strengthen training programs for staff including well-defined career planning and unify the training academies and cadres.		X	
Create outcome-based KPIs focusing on tax administration objectives as well as revenue.		X	
Establish an effective Vigilance Unit in the administrative wing and an ethics management policy.		X	
Integrate the information technology systems so that NBR officials can get a 360-degree view of a taxpayer's key information when required.		X	
Develop an effective program for managing arrears.	X		
Reinvigorate the use of the ADR.		X	
Strengthen taxpayer services along the lines of the Customs National Enquiry Point.		X	
INCOME TAX			
Ensure the new Income Tax law addresses international and tax administration issues up to a modern standard.	X		
Begin integration of the Income Tax LTU with the VAT LTU.	X	X	
Reduce scope and scale of Special Economic Zones and Export Processing Zones to broaden the tax base and have greater equity across income taxpayers.	X	X	

RECOMMENDATIONS	Short Term	Medium Term	Long Term
Develop an effective approach to automation.	X	X	
Strengthen and enforce penalties for lack of compliance with TDS requirements.	X		
Ensure mapping of TIN to BIN and ASYCUDA and use for a regular compliance program.	X		
Ensure the taxpayer register is kept up to date and inactive taxpayers are deregistered or follow up on.	X		
Develop a meaningful strategy for bringing informal taxpayers into the tax net.		X	
Facilitate payment through electronic means to reduce taxpayer interactions.		X	
Ensure that the income tax accounting interfaces seamlessly with treasury accounting.		X	
PROPERTY TAX			
Strengthen the property tax system and devolve revenues to subnational governments.			X
VALUE ADDED TAX, SD, and EXCISES			
Reconfigure the VAT online project and automation initiatives to ensure that they proceed more quickly and more extensively to all VAT payers.	X		
Ensure that the VAT online project and automation initiatives do not lose steam. In the registration module, verification of documents must be made electronic and attention paid to cleaning the registry of bogus and duplicate registrations.	X		
Ensure that the e-filing modules are available to all registered taxpayers above BDT 50 million turnover by the end of the year and eventually all taxpayers above BDT 30 million. All supporting documents should also be filed online and use of physical copies and visits to the tax office should be minimized.	X		
Make possible online e-payment of taxes by the end of the year for all taxpayers.	X		
Severely restrict the use of VAT withholding to companies that have no possibility of evasion or are unlikely to disappear suddenly. Ideally restrict it to government entities and reliable public sector corporations.	X		
Institute appropriate sharing of real-time VAT payment information which will make collection of Advance VAT on imports unnecessary.	X		
Start exploiting existing data for compliance management, beginning with ASYCUDA data and VAT registration, and filing data. Build expertise in these areas with appropriate capacity building and staff rotation policies.	X		
Make available the online return processing, audit, and refund modules by the end of FY 2020-21.		X	
Develop a compliance risk plan and centralized risk directorate and start using risk-based audit. Centralize the audit selection process based on data analysis, sharing of information, and information technology systems and modern risk management methods.		X	

RECOMMENDATIONS	Short Term	Medium Term	Long Term
Return to the original 2012 VAT law to the extent possible by consolidating various differentiated rates and turnover based regimes into a unified structure.		X	X
Reduce the heavy reliance on cascading turnover style taxes such as SD while using selected excise taxes (preferably specific) to tax certain goods while the rest are subject to a single rate uniform VAT. If necessary, the current SD laws can be used for this system.		X	X
Reduce and make more selective the list of goods and services subject to SD.		X	
Phase out the existing multi-tiered ***ad valorem*** tax system of tobacco products and replace the ***ad valorem*** taxes with specific taxes.		X	
Return to a VAT based on a broad based, invoice credit system with one uniform rate, a relatively short list of exemptions and zero rating for exports.		X	X
Reconsider the Advance VAT system and balance the application of VAT law across imported supplies and domestic supplies.		X	X
Completely change the emphasis to increasing collections of VAT from the domestic market.		X	X
CUSTOMS			
Continue to facilitate trade but ensure that revenues are not compromised.	X		
Ensure demurrage charges are set high enough to ensure quick removal of goods from Customs.	X		
Conduct regular importer/exporter satisfaction surveys and cost of compliance surveys and use the results to improve the "doing business" indicators.	X		
Use much more extensively existing automation capabilities and make information exchange and information integration with other NBR wings core priorities.	X		
Ensure a rigorous set of audit practices and management of arrears systems are put in place, based on technical assistance already received.	X		
Gradually reduce and rationalize tariffs and para-tariffs to support the export-led strategy. A gradual shift away from import substitution also implies shifting away from reliance on taxes at the border to domestic taxes.		X	X
Improve business processes to bring time required to release goods up to Asian standards.		X	X
Complete the National Single Window and universal e-payment.		X	X
Switch from a decentralized, local experience-based cargo selection system to a centralized risk-based system and use centralized risk management. This includes wider use of post clearance audit, "blue" and "green" channels, and information sharing systems.		X	X
Reduce time to clearance by encouraging use of bonded warehouses and improve the capability to monitor transit cargo. Make appropriate use of electronic seals, proper transit monitoring, examination using electronic aids, etc.		X	X

Appendix 2. Overview of Tax Laws

Income Tax

The Income Tax in Bangladesh is based on a 1984 law, as amended. It has fairly standard provisions for CIT and PIT, with rates that are internationally comparable and a definition of the base for both taxes that is considerably narrowed by exemptions and deductions.

Corporate Income Tax

CIT applies to worldwide business income for resident corporations and income earned in Bangladesh for non-resident corporations. Business income is taxed under the heads of business income, capital gains, and other income. Net taxable income is computed on the basis of specific rules and principles and expenses generally may be deducted from gross income. Salary expenses for an employee are not deductible when computing employer income if the employer fails to provide information regarding the employee's tax return filing.

The CIT has a standard rate of 25 percent on publicly traded corporations and 32.5 percent on non-publicly traded corporations, with the latter on the high side. Some taxpayers pay higher rates of tax, with financial institutions taxed at 37.5 or 40 percent (if publicly or non-publicly traded respectively), merchant banks at 37.5 percent, mobile phone companies at 40 (or 45) percent, and cigarette manufacturing companies at 45 percent. The purpose of the higher rate on non-publicly traded corporations is to encourage more of them to become public, according to NBR officials. An alternative minimum tax applies to companies having gross receipts of more than BDT 5 million. Capital gains are taxed at 15 percent, except shares of listed companies, which are taxed at a 10 percent rate. Dividends are taxed at a 20 percent rate. Business losses can be carried forward for up to six years. Carryback of losses is not permitted. Double taxation treaties apply with many countries, including major trade partners, such as the U.S.A., China, and India.

Extensive use is made of Special Economic Zones and Export Processing Zones, which are geared to promote certain domestic and export industries. A major beneficiary of Special Economic Zones includes ready-made garments, the major part of Bangladesh's exports and an industry that has grown rapidly in recent decades. Other industries eligible for tax holidays include textiles, automobile manufacturing, pharmaceuticals, biotechnology and computers, some physical infrastructure, and other categories specified by the government. The duration of the exemption varies and generally scales back over time. The duration of the rebate is longer in less-developed parts of the country. Rebates of tax are also available for enterprises not in Special Economic Zones. In addition, Export Processing Zones also offer exemption of taxes, with the duration of the exemption varying and scaling back over time. Fifty percent of export income is exempted from tax. Public private partnerships, the power sector, and other sectors also enjoy tax exemptions.

All corporations must obtain a TIN or e-TIN and must file a tax return, generally on or before "tax day" which is the 15th day of the seventh month following the end of the income year. Advance Income Tax must be paid quarterly and any remaining tax due must be paid before the Income Tax return is filed. The return must be accompanied by an audited statement of accounts, computation of total income along with supporting schedules, such as depreciation, a statement of profit and loss on sale of fixed assets, and other supporting documentation. An assessing officer verifies the filed return and may seek additional information or evidence, and on this basis, reassess the tax.

Personal Income Tax

PIT is levied on worldwide income for Bangladeshi residents and on income earned in Bangladesh for non-residents. Residents are those present for more than 182 days in the income year. Taxable income is divided into heads of income, which include income from employment, income from a profession, property, and agricultural activities, and capital and other income. All residents file individual returns. There is no provision for joint filing.

The PIT has rates ranging from 5–25 percent. There is a standard exemption of BDT 300,000 and brackets that increase in increments of 5 percent of income on the additional BDT 100,000, 300,000, 400,000, 500,000, and then the balance of income. The tax has the unusual feature in that it offers two schedules, one for men and one for women and seniors, with a higher basic exempt threshold of BDT 350,000 (and all higher brackets applying at incomes lifted by the same amount), effectively lowering the tax rate for the same income for women and seniors when compared to men. Moreover, certain incentives also exist for women entrepreneurs. A tax exempt threshold of BDT 250,000 in FY 2019–20 (approximately US$2,900) compares with a per capita income of about US$1,800—or about 1.6 times per capita income. Capital gains are taxed at ordinary rates unless the asset is held longer than five years, in which case it is taxed at 15 percent. A minimum tax applies depending on the residence of the taxpayer. An alternative minimum tax applies on individuals with gross receipts of more than BDT 30 million depending on their area of business. A surcharge applies to those with wealth above a certain threshold.

A broad set of exemptions and deductions applies. Dividend income is exempt up to BDT 50,000 from companies listed on a resident stock exchange. Normally, if the taxpayer has a TIN, a 10 percent rate applies. Agricultural income is exempt up to BDT 200,000. Income of pensioners' savings certificates is exempt up to BDT 500,000. A variety of deductions apply for contributions to savings funds or investments in stock and charitable institutions and philanthropic and educational institutions. Taxpayers who file online for the first time receive a rebate of BDT 2,000.

TDS applies to many economic activities and this tax is generally considered final. These include certain services, royalties, or fees for a technical service, interest received on tax favored savings certificates, import of goods for private purposes, and all exports of ready-made garments. Taxpayers submitting a TDS for employees' wage income must file a separate withholding tax return, following a quarterly schedule. Customs may collect 5 percent in Advance Income Tax on imports.

All PIT payers must file a return before November 30 following the financial year ending on June 30. Advance tax is required to be paid quarterly and any remaining tax due must be paid before the tax return is filed. Penalties apply for not registering, filing, or paying appropriate taxes, and for use of a false TIN. The NBR can impose penalties and attach bank accounts, salaries, or any other payment.

VAT, Supplementary Duties, and Excises

Bangladesh introduced its new VAT law, the VAT and Supplementary Duty Act of 2012 in July 2019 to replace the outdated VAT act of 1991. The act of 2012 was finally introduced after years of resistance incorporating many changes to the law originally passed and has since been amended several times. The new law had been drafted with a view to modernize the law of 1991, which deviated considerably from the modern VAT seen in most countries around the world. The law that was finally introduced retains many of the peculiar features of the old law—such as multiple rates, turnover-style cascading taxes for many sectors, and distortions in VAT treatment of similar goods, to name a few. However, it also eliminated some of the undesirable features of the 1991 law such as "package" VAT (under the system, small traders in Dhaka and Chattogram city corporation areas used to pay BDT 28,000 annually as package VAT),[54] the need to maintain positive cash balances with the VAT authority before making any sale, and replaced price declarations with input-output ratio declarations. The 2012 law also reduced the scope of withholding VAT. The new law was required to lay the basis for automation and modernization of the entire VAT administration.

The VAT requires "enlistment" to pay turnover tax at 4 percent for those with turnover exceeding BDT 5 million and registration to pay VAT for those with turnover exceeding BDT 30 million. In addition, several categories of traders must register compulsorily, regardless of turnover. They include any supplier of goods and services subject to SD, supplier of goods or services through tender, contract or work order, any importer or exporter, and the manufacturers or traders and service providers of 175 goods and services notified by the NBR. There is a provision for voluntary registration to enroll in and pay VAT at 15 percent and avail permissible input tax credit as well. Such units, if they want to avail of input tax credit, have to maintain a purchase-sales book in addition to following other procedures. In the old regime, all units at separate locations had to register separately and transactions between them were treated as sales subject to VAT. In the present regime, all units belonging to the same organization maintaining records centrally and supplying similar items can avail one consolidated registration. Chapter 8 of the VAT Act specifies provisions for turnover tax on small businesses, who use "Mushak 9.2" return instead of the regular VAT form "Mushak 9.1" to discharge their liability.

There is a 15 percent standard VAT rate and several other rates apply to different classes of supplies. The standard rate of 15 percent is also available as an option for all supplies that are otherwise allowed a lower rate. Only those supplies that pay the 15 percent rate on output (other than zero-rated supplies) can avail input tax credit. There are several lower rates of VAT divided into different categories. Traders who do not engage in "manufacture" pay 5 percent or rates of 2 percent, 2.4 percent, or 4.5 percent (for specified items), while there are "truncated" rates of 5, 7.5, and 10 percent for domestic supplies of biscuits, construction, printing presses, cleaning services, etc. Imports are either charged at 0 percent or the standard 15 percent rate. Large parts of the system, therefore, effectively function as a turnover tax at several different rates (in addition to the 4 percent turnover tax). In addition, some goods are charged to "tariff value" VAT which is essentially a specific rate of tax. These goods include SIM cards, milled steel products, newsprint, etc. Therefore, the effective rate of tax on many goods is different from the standard 15 percent—and often the same good may have a different effective rate of final duty depending on the supply process and inputs used.

Input tax credit is not available in certain cases. Some expenses are not allowed to be claimed as input tax credit, such as: (1) inputs that do not have VAT paid on them; (2) expenses not mentioned in the required "Input-Output Coefficient Declaration (in form "Mushak 4.3" to

54 NBR for keeping system like package VAT. *New Age Business.* April 10, 2019. Accessed at: https://www.newagebd.net/article/69607/nbr-for-keeping-system-like-package-vat

be filed before commencing first supply); (3) all expenses over BDT 100,000 not paid for through banking channels; (4) imported services with no output VAT; (5) input tax credit claims more than 5 months old; (6) expenses without proper VAT invoice and required taxpayer information; (7) inputs not entered in the purchase register; (8) passenger vehicles (with some exceptions); (9) transportation services or entertainment; and (10) goods not in custody of the claimant.

Exemptions are available for certain goods and services and all exports and "deemed exports" are zero-rated. Agricultural services, government services, public education, cultural services (broadcasting, radio), financial services, transportation services (excluding some commercial service providers such as couriers and shipping agents), personal services (such as journalists, artists, drivers), and some "other" services (such as religious activities and land purchase and transfer) are exempt from VAT. In addition, all exports of goods and services and certain "deemed exports" are zero rated. Moreover, there is a system of "partial input credit" for those who make supplies both eligible for and not eligible for input tax credit. They can pro-rate input tax paid on imports in the same ratio as taxable to total supplies and claim the input tax credit in the same ratio.

Monthly VAT returns are due on the 15th of every month for the preceding month. The monthly return is submitted in the form "Mushak 9.1" by the 15th of the month following the tax period. The net payment due can be made at the time of submission of the return under the new law; in the past, it effectively had to be paid in advance before the sale was made. The IVAS system currently allows a percentage of large taxpayers in the LTU to submit VAT returns online, but most returns outside the LTU are currently filed manually. Supporting documents can also be submitted online in those cases where the return is being filed online, although difficulty has been expressed with uploading documents that are large in size. Payments are not typically possible online in most cases and can be made for VAT-paid supplies in cash as well as through banks. The law even allows input tax credit if the value of such cash purchases is below a certain threshold.

There is a system of "withholding" VAT at the border (Advance VAT) and domestically (Withholding VAT) and "reverse charges" for imported services in place. All imported goods are charged to VAT at either 0 or 15 percent, based on the specified tariff schedule. In addition to the standard VAT, imported goods also attract Advance VAT based on a specified list at 0 or 5 percent. The FY 2020–21 budget has introduced a 4-percent rate for imported raw materials in addition to the standard 5-percent rate. This is meant to tax downstream value addition on the imports and can be either claimed as input tax credit or refunded depending on the importers' domestic VAT liability. The VAT Law of 2012 also introduces a "reverse charge" of VAT on taxable imported services. All imported services that do not reflect output VAT on their invoice have to pay the VAT for which the importer of the service is responsible. If the importers can claim input tax credit, they can reflect both Advance VAT and the reverse charge in the same return; however, it becomes a final liability for any importer who does not claim input tax credit; they cannot apply for a refund. Certain persons notified by the NBR (government entities, approved NGOs, financial institutions, educational institutions, and limited (liability) companies) are required to withhold VAT on their purchases and deposit the same with the NBR through their own return.

The VAT Act, 2012 also introduced concepts of "fair market price," "residents," and allows carry-forwards of unused input tax credit. The VAT Act introduces the concept of fair-market price, which is the consideration arrived at when there is a normal relationship between a buyer and a seller who are not associated with each other. This is conceptually like a "transaction value" in customs and an "arm's length price" in transfer-pricing law. This concept becomes applicable in certain cases such as valuation of free samples, transfers between related persons, "fringe" benefits to employees, transfer of immovable property by a property developer to the landowner, etc. The law also brings in the concept of "residency" for tax purposes (in line with most international income tax legislation) and makes residents subject to VAT. The law contains provisions to tax "in-kind" benefits to employees and provide input tax credit in those cases. The law also provides for carry-forward of refunds in the case of construction, house building, land development, or property development activities indefinitely without the possibility of cash refund. In other cases, unused input tax credit can be carried forward for six months, and thereafter amounts carried forward exceeding BDT 50,000 are eligible for cash refunds.

In addition to VAT, there is an extensive system of levying a one-time SD on an *ad valorem* basis on imports and domestic supplies. The second schedule to the 2012 VAT Law and Chapter 7 describe goods and services subject to SD at import and domestic supply stages. SD is also leviable on an *ad valorem* basis on specified domestic supplies of goods and services at rates ranging from 5–65 percent. These are targeted as "excises" on "sin" goods (tobacco) in the case of domestic supply as well as on ceramics, cosmetics/toiletries, natural gas, paints, and fast foods. Although the SD list is a lot shorter for domestic supplies than in Customs (where they are used more as an instrument of trade protection) and the rates are far more limited in range, the domestic SD raises substantial revenues (four times more than import SD, according to Bangladesh Bank figures). SD is also imposed on an eclectic list of services such as hotels and restaurants, satellite channel distributors, certain transportation services, SIM cards, and some cases of "entertaining cultural function with foreign artiste," at rates ranging from 10–25 percent. Unlike VAT, SD is not a multi-stage tax. It is imposed at the "first" supply stage in most cases as a turnover-style tax and does not form part of the input tax chain. The VAT is levied on prices inclusive of SD and Customs duties and the SD is levied on prices inclusive of Customs duties. SD is levied under the VAT and SD Act of 2012 and is therefore administered together with the VAT. There is no separate return for SD, which is recorded and collected at the same time as import duty or VAT, and the return for SD is also either the import declaration or regular VAT declaration.

In addition to the VAT and SD Duty Act of 2012, Bangladesh retains the old Central Excise and Salt Act 1944, and taxes bank deposits and airline tickets. While many countries impose airline ticket (travel) taxes or airport taxes, they are often meant to be earmarked for airport infrastructure development. In some countries, this has been extended to all tourists and just air passengers as a "tourist tax." However, the extension of this act to tax bank deposits is a rare feature. Excises on bank deposits is imposed on "slabs," with the first BDT one million of deposits being exempt and higher slabs of deposit being charged to progressively higher specific rates of excise tax (the maximum is BDT 40,000 on deposits above BDT 50 million). The 2020–21 budget also "proposed allowing black money to be invested in all financial schemes and instruments—subject to payment of 10 percent tax.… Black money can be invested in cash, bank deposits, financial schemes and instruments, all kinds of deposits, and savings instruments or certificates, according to the budget."[55]

55 TBS Report, No love for banking sector in FY21 budget. Accessed at: https://tbsnews.net/economy/budget/no-love-banking-sector-fy21-budget-92119

Customs Law and Tariff Structure

The Customs Act, 1969 (amended in 2014) is the main legislation governing imports. In addition to the main Customs Act, there are several other laws that regulate clearance of goods at the border, such as laws relating to VAT and SD, import and export policies, and foreign exchange regulation laws. A new Customs Act has been proposed to replace the existing one and has been placed before Parliament but not yet enacted. According to the Bangladesh Customs website, the new law is required "In order to accommodate the trade facilitation provisions of the WCO Revised Kyoto Convention and the WTO Trade Facilitation Agreement, the NBR has undertaken a task to amend its existing Customs Act. Accordingly, a new Customs Act in Bangladesh will be enacted soon."[56]

Bangladesh's import tariffs are numerous and complex. The taxes on trade include Customs Duty, RD, SD, VAT, Advance VAT, and Advance Income Tax. The NBR provides information on the total tariff incidence (TTI) for each eight-digit "line" from the harmonized system of nomenclature used by the NBR on its website. The total tariff is the result of applying each of the six major taxes on varying bases including declared assessable value of imports. The tariff file provided by the NBR has 7,210 eight-digit tariff lines and shows each of the nominal rates and calculates a TTI on 7,167 lines. While Customs collect revenues at the border, the Bangladesh Tariff Commission (an autonomous statutory organization) submits proposals on tariffs and import policies. The Parliament approves the tariff on an annual basis as part of the budget exercise. This tariff is published online.[57]

Customs duty rates vary from 0 to 25 percent with six *ad valorem* rates (0, 1, 5, 10, 15, and 25 percent) applied to most goods. However, 41 tariff lines are charged to specific amounts of duty, ranging from BDT 300 to BDT 90,000. These tariff lines consist of items as varied as televisions to air rifles to alloy pig iron. A list of all these specific duty tariff lines and rates are available in Appendix 5, Table 1. The World Bank and WTO estimates of the Most Favored Nation rate (average unweighted applied tariff) is around 14.8 percent, and WTO estimates from the most recent trade policy review document state that about 95 percent of tariffs remain *ad valorem* and transparent. However, TTI cannot be calculated for tariff lines with specific customs duties, so the analysis in the report mostly excludes those items. In terms of customs duty alone, Bangladesh's tariff does not seem at all unreasonable when compared to the South Asian comparator countries (such as India) or its other Asian comparators (Thailand, Vietnam).[58]

In addition to basic Customs duty, SD and RD are also charged on imported goods. According to the tariff schedule, RD of 3 percent is imposable on goods attracting the highest rate of customs duty (normally at 3 percent). According to the tariff file provided by NBR, 3,847 tariff lines do not attract RD (53.4 percent, unweighted), and 3,275 lines attract 3 percent RD (45.4 percent, unweighted), while the remaining 88 lines attract rates varying from 5–35 percent. A list of tariff lines attracting RD rates at and above 20 percent is provided in Appendix 5, Table 2. During interviews with Customs officials of NBR, it was stated that RD is meant to discourage

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56 National Board of Revenue (NBR). Customs Act. Accessed at: http://www.bangladeshcustoms.gov.bd/legislation/customs_act/123

57 NBR. (2020). Website. Tariff Schedule 2020–2021. Accessed at: http://nbr.gov.bd/taxtype/tariff-schedule/eng

58 World Trade Organization (WTO). (2019). Trade Policy Review Report by the Secretariat. Bangladesh. May 21, 2019. Accessed at: https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/TPR/S385R1.pdf&Open=True, See also PPT from IFC organized Virtual National Workshop on Tariff Policy for Bangladesh, October 12, 14 and 15, 2020.

the import of "luxuries" and is therefore imposable on goods that attracted the maximum rate of customs duty of 25 percent. However, in the tariff file provided by NBR, there are 104 tariff lines where RD is imposed on goods bearing customs duty less than 25 percent. This break down of customs duty versus RD rates is provided in Appendix 5, Table 3.

SDs are charged on a variety of imported goods under the VAT act. Over 1,700 (1,781) tariff lines are charged to a "one-level" turnover basis SD at 12 rates and a zero rate (10, 20, 30, 45, 60, 100, 150, 200, 250, 300, 350, and 500 percent). 1,105 lines (62 percent, unweighted) are charged at 20 percent and 357 (20 percent) at 45 percent. Even though this is a one-time charge, the method of calculation builds on the assessable value base, which includes customs duty and RD and adds to the cost of imports. This payment is not available as input credit under VAT and becomes a final liability. The basis for SD is assessable value plus Customs Duty plus RD=total value* rate of SD=SD. Based on revenue figures from Bangladesh Bank and the Bangladesh Bureau of Statistics, the SD collected at the import stage was equal to 25 percent of customs revenue collected the same year. While domestic SD is collected on a much shorter list of goods, in terms of value it is more than four times import SD collected (slightly more than customs duty). NBR officials stated that the reason for this is mostly the supplementary taxes on tobacco. The reason for such different lists for SD on imports and domestic production emanating from the VAT law is not clear, as the main purpose of levying VAT on imports is to provide a level playing field between domestic and imported goods.

VAT, Advance VAT and Advance Income Tax are also charged on imports. VAT is charged on imports at the general rate of 15 percent on 6,303 tariff lines while the remaining 907 lines are exempt. One unusual aspect of Bangladesh's border taxation is that Advance VAT on downstream value addition is charged on imported goods and so is Advance Income Tax. These are considered forms of withholding or TDS, to be adjusted against future liabilities or refunded. No statistics were made available on what proportion of these advance payments were adjusted in returns filed, refunded or converted into a final payment. Further, the details of the amounts of revenue collected against these heads is also not available since they are shown as part of domestic VAT and total income taxes in revenue statistics. That they must yield substantial revenue is clear from the mode of calculation.

Value Added Tax (VAT) ➔Assessable Value + Customs Duty + SD + RD = Total Value*Rate of VAT=VAT

Advance Income Tax ➔Assessable Value*Rate of Income Tax=Advance Income Tax

Advance VAT ➔Assessable Value + Customs Duty + SD + RD=Total Value* Advance VAT Rate of 5 percent= Advance VAT

Advance VAT was charged at the rate of 5 percent on 6,609 lines and exempted on the remaining 601 on a base that includes Customs, Regulatory, and SD up to the end of 2019–20 fiscal year.[59] Advance Income Tax is more complicated with 95 percent of the tariff lines charged at 5 percent and 3.5 percent exempt, and the remaining lines charged at rates of 2, 3, and 500 percent (for 15 lines).

59 The tariff file is not updated for the 4 percent advance VAT rate introduced for industrial raw materials in the most recent budget.

Appendix 3. NBR Organogram

		Director (R & S)	Deputy Director
		Law Officer	
	Member (Board Admin)	FS (Board Admin	SS (Board Admin-1)
			SS (Board Admin-2)
			SS (Admin-3)
			SS (Admin-4)
			SS (Admin-5)
			Cash Section
	Director General, CIC	Director, CIC (Customs & Excise)	
		Director CIC (Tax)	
	Member (Customs & VAT Admin)	FS (Customs & VAT Admin)	SS (Customs & VAT Admin-1)
			SS (Customs & VAT Admin-2)
			SS (Customs & VAT Admin-3)
			SS (Customs & VAT Admin-4)
	Member (Customs , Export, Bond & IT)	FS (Customs, Export & Bond)	SS (Customs, Export & Bond)
	Member (Customs Policy)	FS (Customs Policy & Budget)	SS (Customs Policy & Budget)
			SS (Customs Policy & Nulam)
		FS (Customs Int. Trade & Agreement)	SS (Customs Int. Trade & Agreement)
			SS (Customs Mamla & Mamla Coorrdination
			SS (Customs Admin & Training & Coordination)
		FS (Customs Valuation)	SS (Customs Valuation)
			SS (Customs Project Facilities)
		FS(Customs Project Facilities)	SS (Customs Audit investigation complain & Dues management)
		FS(Customs Passenger & Diplomatic Facilities)	FS (Cutoms Passenger & Diplomatic Facilities)
	Member (Customs, Audit & Intelligence)	FS (Customs Intelligence)	SS (Customs Intelligence)
			SS (Customs taskforce,coridor & monitor
	Member (VAT Policy)	FS (VAT Exemption)	SS (VAT Internal Exemption)
			SS (VAT International Relation & Diplomatic Exemption)
		FS (VAT Law & Rules)	SS (VAT Law & Rules)
			SS (Customs & VAT Law Cell)
CHAIRMAN	Member (VAT Enforcement & IT)	FS (VAT Enforcement)	SS (VAT Enforcement goods)
			SS (VAT Enforcement Service & Excise
		FS (VAT IT & Project Management)	SS (VAT IT & Project Planing)
			SS (VAT Training & prize)
		FS (VAT monitoring & taxpayer service)	SS (VAT monitoring statics & coordination)
			SS (VAT taxpayer services)
	Member (VAT Audit & Intelligence)	FS (VAT Audit & Investigation)	SS (VAT Audit)
			SS (VAT Intelligence & Investigation)
		FS (Dues management ADR)	SS (VAT judge & appeal)
			SS (VAT export & dues management)
	Member (TAX Audit & Human Resource Management	FS (Tax Admin)	SS (Tax Admin-1)
			SS (Tax Admin-2)
			SS (Tax Admin-3)
			SS (Tax Admin-4)
		FS (Tax Exam & Training)	SS (Tax-5)
			SS (Tax-6 Computer)
			SS (Tax-7 Traning & ACR)
	Member (Tax Information Management & Sheba)	FS (Tax Information management & valuation)	SS (Tax Information management & Valuation) Tax
			SS(Tax Research & Planning) Tax
			SS (Tax ICT)
	Member (Audit Intelligence & Investigation)	FS (Audit Intelligence & Investigation)	SS (Audit Intelligence & Investigation-1) Tax
			SS(Audit Intelligence & Investigation-2) Tax
	Member (Tax Legal & Enforcement)	FS (Tax Legal & Enforcement)	SS (Tax Enforcement) Tax
			SS (Tax Legal) Tax
	Member (International Taxes)	FS (Tax International Taxes)	SS (Tax International Agreement & opinion) Tax
			SS (Tax Transfer Pricing & Money Laundering) Tax
	Member (Tax Policy)	FS (Tax Policy)	SS (Tax-8 Tax Law1)
			SS (Tax-9 Tax Law-2)
		FS (Tax Rule)	SS (Tax-10 Tax Law-2)
			SS (Tax-11 Tax Education & Advetising)
	Member (Tax Appeal Exemption)	FS (Tax Appeal & Exemption)	SS (Tax Exemption, Tax-12)
			SS (Tax Excuse, Tax-13)
			SS (Tax Appeal, tax-14)
	Member (Tax Survey & Inspection)	FS (Tax Survey & Inspection)	SS (Tax-15, ITP)
			SS (Tax-16, Inspection Forms & print)
	System Manager	Sr. System Analyst	
		System Analyst	
		Senior Programmer	
		Programmer	
		Assistant Programmer	
		Hardware Engineer	

Appendix 4. APA Examples[60]

APA Between Customs (Policy and ICT), NBR
and
Senior Secretary, Internal Resource Division (NBR Chairman)

1st July 2020–30 June 2021

In the 2020–2021 financial year, the goal is to receive revenue BDT 95,652 crore from customs.

Overview of the Performance of the Customs Wing of last 3 years:

- In 2017–2018 FY, Customs Wing received revenue BDT 61,278 crore
- In 2018–2019 FY, Customs Wing received revenue BDT 63,382 crore
- In 2019–2020 FY, Customs Wing received revenue BDT 60,600 crore

APA Between Member (Tax Administration and Human Resource Division), NBR
and
Senior Secretary, Internal Resource Division (NBR Chairman)

1st July 2020–30 June 2021

In the 2020–2021 Financial Year, the goal is to receive BDT 105,475 crore from Income Tax.

Overview of the Performance of the Income Tax Wing of last 3 years

- In 2017–2018 FY Income Tax Wing received tax BDT 64,000 crore, where the goal was BDT 78,000 crore
- In 2018–2019 FY Income Tax Wing received tax BDT 72,000 crore, where the goal was BDT 96,632 crore
- In 2019–2020 FY Income Tax Wing received tax BDT 73,002 crore, where the goal was BDT 106,679 crore

Through the income tax fair in 2019, NBR received BDT 2,613 crore.

60 This is a partial summary of the APAs, focusing mainly on the revenue goal.

APA Between Member (VAT Enforcement and IT), NBR
and
Senior Secretary, Internal Resource Division (NBR Chairman)

1st July 2020–30 June 2021

In the 2020–2021 Financial Year, the goal is to receive BDT 105,475 crore from VAT

Overview of the performance of the VAT Wing of last 3 years:

- In 2017–2018 FY VAT Wing received tax BDT 78,694 crore, where goal was BDT 83,000 crore
- In 2018–2019 FY VAT Wing received tax BDT 87,610 crore, where goal was BDT 104,006 crore
- In 2019–2020 FY VAT Wing received tax BDT 84,850 crore, where goal was BDT 108,600 crore

Vision: We will build a developed country by collection of VAT through a proper way.

APA Between Member (Board Administration), NBR
and
Senior Secretary, Internal Resource Division (NBR Chairman)

1st July 2020–30 June 2021

Vision: Establish a people-friendly, creative, technology-rich sustainable revenue administration.

Appendix 5. Customs Tabulations

Appendix Table 1: Goods Attracting Specific Customs Duty

	HSCODE	DESCRIPTION	CD
7168.	98010059	Plasma,LCD,TFT,LED TV >=53 inch	90000
7169.	98010056	Plasma, LCD, TFT, LED and similar technologis TV 53 inch to 65 inch	70000
7170.	98010055	Plasma, LCD, TFT, LED and similar technologis TV 47 inch to 52 inch	50000
7171.	98010054	Plasma, LCD, TFT, LED and similar technologis TV 43 inch to 46 inch	30000
7172.	98010033	Goods treated as "Baggage" Air cond.machine; Split Type ABOVE 18000 BTU	20000
7173.	98010053	Plasma, LCD, TFT, LED and similar technologis TV 37 inch to 42 inch	20000
7174.	98010032	Goods treated as "Baggage" Air cond.machine; Split Type UPTO 18000 BTU	15000
7175.	98010042	HD Cam, DV Cam, BETA Cam and Professional Camera	15000
7176.	98010049	Dish Antenna	15000
7177.	98010052	Plasma, LCD, TFT, LED and similar technologis TV 30 inch to 36 inch	10000
7178.	98010041	Music(4/8spkr)/Home theater/CD/VCD/DVD/LD/MD/ Blue redisk set	8000
7179.	98010031	Air cond.machine; refrigerators or freezers; dish washer/washing machine/clothd Dryer	7000
7180.	17019100	Cane Or Beet Sugar, Containing Added Flavouring Or Colouring	6000
7181.	17019900	Cane Or Beet Sugar, In Solid Form, Nes Including Chemically Kue Sucoose	6000
7182.	98010034	Goods treated as "Baggage" Regregerator or Freezers	5000
7183.	98010060	Air Gun/Air rifles	5000
7184.	27132010	Petroleum bitumen in Drum	4500
7185.	27132090	Other Petrolium bitumen	3500
7186.	17011200	Other cane sugar	3000
7187.	17011300	Cane sugar specified in Subheading Note 2 to this Chapter	3000
7188.	17011400	Other cane sugar	3000
7189.	98010039	Air cond.machine; refrigerators or freezers; dish washer/washing machine/clothd Dryer	3000
7190.	71081200	Unwrought Gold (Incl. Gold Plated With Platinum), Non-Monetary	2000
7191.	71081300	Semi-Manufactured Gold (Incl. Gold Plated With Platinum), Non-Monetary	2000
7192.	98010029	GOODS TREATED AS "BAGGAGE" IN ACCORDANCE WITH CHAPTER XV OF THE ACT AND/OR UNDER THE...	2000
7193.	72041000	Waste and scrap of cast iron	1500
7194.	72042100	Waste and scrap of stainless steel	1500
7195.	72042900	Waste and scrap of alloy steel (excl. stainless)	1500
7196.	72043000	Waste and scrap of tinned iron or steel	1500
7197.	72044100	Turnings, Shavings, Chips, Milling Waste... Of Iron Or Steel, Nes	1500
7198.	72044900	Ferrous waste and scrap, nes	1500
7199.	72045000	Remelting Scrap Ingots	1500
7200.	89080000	Vessels and other floating structures for breaking up.	1500
7201.	72011000	Non-Alloy Pig Iron Containing, =<0.5% Phosphorus, In Pigs, Blocks	1000
7202.	72012000	Non-Alloy Pig Iron Containing, >0.5% Phosphorus, In Pigs, Blocks	1000
7203.	72015000	Alloy Pig Iron;Spiegeleisen; In Pigs, Blocks Or Other Primary Forms	1000
7204.	72031000	Ferrous Products Obtained By Direct Reduction Of Iron Ore, In Lumps...	800
7205.	72039000	Spongy Ferrous Products, Nes, And 99.94% Pure Iron, In Lumps, Pellets...	800
7206.	25231080	CEMENT CLINKERS, OTHER THAN IMPORTED BY VAT REGISTERED MANUFACTURERS OF CEMENT	750
7207.	25231020	CEMENT CLINKERS,IMPORTED BY VAT REGISTERED MANUFACTURERS OF CEMENT	500
7208.	98010090	Goods treated as "Baggage" - Chandeliers (Jharbatti)	300

Appendix Table 2A: Nominal TTI Excluding Specific Customs Duty

```
              range:  [0,826.6]                     units:  .01
      unique values:  81                        missing .:  2/7169
               mean:  57.5616
           std. dev:  61.7742

percentiles:   10 percent   25 percent  50 percent 75 percent 90 percent
                   26.2         31          37         58.6      89.32
```

Appendix Table 2B: Distribution of Nominal Unweighted TTI

TTI	Freq.	Percent	Cumulative	TTI	Freq.	Percent	Cumulative
0	48	0.67	0.67	15.5	3	0.04	7.03
2	1	0.01	0.68	17.5	1	0.01	7.05
5	123	1.72	2.4	18.4	1	0.01	7.06
7	8	0.11	2.51	20	27	0.38	7.44
8	1	0.01	2.53	20.5	14	0.2	7.63
10	130	1.81	4.34	20.75	1	0.01	7.65
10.25	36	0.5	4.84	22	3	0.04	7.69
11.05	40	0.56	5.4	23.2	4	0.06	7.74
11.3	1	0.01	5.41	25	82	1.14	8.89
15	54	0.75	6.17	25.75	2	0.03	8.92
15.25	59	0.82	6.99	26	17	0.24	9.15
26.2	621	8.66	17.82	89.32	894	12.47	91.39
28	1	0.01	17.83	89.92	13	0.18	91.57
29	3	0.04	17.87	104.68	56	0.78	92.35
29.8	1	0.01	17.89	127.72	341	4.76	97.11
31	892	12.45	30.33	150.76	77	1.07	98.19
32	10	0.14	30.47	157	1	0.01	98.2
33	189	2.64	33.11	173.8	1	0.01	98.21
34	14	0.2	33.31	183.4	2	0.03	98.24
34.4	2	0.03	33.33	212.2	48	0.67	98.91
35	1	0.01	33.35	289	9	0.13	99.04
37	1,463	20.41	53.76	325	1	0.01	99.05
38	2	0.03	53.79	365.8	7	0.1	99.15
39.4	9	0.13	53.91	442.6	7	0.1	99.25
40.6	4	0.06	53.97	519.4	13	0.18	99.43

TTI	Freq.	Percent	Cumulative	TTI	Freq.	Percent	Cumulative
41.6	1	0.01	53.98	526	1	0.01	99.44
43	101	1.41	55.39	544	4	0.06	99.5
43.6	2	0.03	55.42	553	1	0.01	99.51
46.6	13	0.18	55.6	596.2	24	0.33	99.85
49	19	0.27	55.87	742	4	0.06	99.9
53.6	5	0.07	55.94	769	1	0.01	99.92
55	22	0.31	56.24	826.6	6	0.08	100
55.6	1	0.01	56.26	**Total**	**7,167**	**100**	
56.2	42	0.59	56.84				
57.52	12	0.17	57.01				
58.6	1,480	20.65	77.66				
61	2	0.03	77.69				
62.5	3	0.04	77.73				
63.4	1	0.01	77.75				
66.28	1	0.01	77.76				
67	10	0.14	77.9				
68.8	2	0.03	77.93				
73	2	0.03	77.95				
73.48	1	0.01	77.97				
73.96	56	0.78	78.75				
77.8	1	0.01	78.76				
84.7	3	0.04	78.81				
85	4	0.06	78.86				
86.32	4	0.06	78.92				

Appendix Table 3: Goods Attracting RD at Rates Above 3 Percent

	HSCODE	DESCRIPTION	RD
2174.	72069000	Iron And Non-Alloy Steel, In Primary Forms (Excl. Ingots), Nes	20
4000.	72181000	Ingots And Other Primary Forms, Of Stainless Steel	20
4001.	72189100	Semifinishd Prods Of Stainlss Steel,Rectngular(Other Than Square)X-Section	20
4002.	72189900	Semi-Finished Products Of Stainless Steel,Nes	20
4003.	72241000	Ingots And Other Primary Forms, Of Alloy Steel (Excl. Stainless)	20
4004.	72249000	Semi-Finished Products, Of Alloy Steel (Excl. Stainless)	20
4028.	25162000	Sandstone	20
4029.	40103400	ENDLES TRNSMSN.BETLS OF TRPZDL.CROSS-SECTION(V BELTS)OTH.THAN..>180CM,<240	20
4030.	40169990	ARTICLES OF VULCANIZED RUBBER,NES EX.RUBBER COT/APRON	20
4031.	76051900	Wire of aluminium, not alloyed, maximum cross-sectional dimension =<7mm	20
5569.	10062000	Husked (Brown) Rice	25
5570.	10063090	Semi-Milled Or Wholly Milled Rice	25
5571.	10064000	Broken Rice	25
5581.	11081200	Maize (Corn) Starch	20
5582.	11081400	Manioc (Cassava) Starch	20
5583.	76052900	Wire of aluminium alloys, maximum cross-sectional dimension =<7mm	20
5649.	10063010	Semi-Milled Or Wholly Milled Rice	25
7040.	87042114	Double cabin pickup,CBU,min.4 doors of a cylinder capacity 2001cc-3000cc	20
7041.	87043114	Double cabin pickup,CBU,min.4 doors of a cylinder capacity >2000cc but<=3000cc	20
7127.	72061000	Ingots Of Iron And Non-Alloy Steel, Nes	20
7128.	72071100	Semi-Products Of Iron/Steel, <0.25% Carbon, Of Squarish Section	20
7129.	72071200	Semi-Products Of Iron/Steel, <0.25% Carbon, Of Rectangular Section	20
7130.	72071900	Semi-Products Of Iron Or Non-Alloy Steel, <0.25% Carbon, Nes	20
7131.	72072000	Semi-Products Of Iron Or Non-Alloy Steel, >=0.25% Carbon	20
7157.	87032432	Recon. Motor car & oth.vehicle incl.stn.wagon,CKD,capacity >4000CC	30
7158.	87032442	Motor car & oth.vehicle incl. stn. wagon, CKD,capacity >4000CC	30
7159.	87033352	Recon.Motor Car & Oth.Vehi.incl.stn. wagon, CKD, cap.>4000cc	30
7160.	87033362	Motor Car & oth. Vehi.incl.Stn.Wagon, CKD, Capacity >4000cc	30
7161.	87060039	Chassis fitted with engines, ...For vehicle of a cylinder capacity >4000cc	35
7180.	17019100	Cane Or Beet Sugar, Containing Added Flavouring Or Colouring	30
7181.	17019900	Cane Or Beet Sugar, In Solid Form, Nes Including Chemically Kue Sucoose	30
7186.	17011200	Other cane sugar	30
7187.	17011300	Cane sugar specified in Subheading Note 2 to this Chapter	30
7188.	17011400	Other cane sugar	30

Appendix Table 4: Cross Tabulation of Positive RD where Customs Duty is Below 25 Percent

	RD					
CD	3	5	10	15	20	Total
0	0	6	0	3	11	20
1	1	0	0	0	0	1
5	27	3	5	8	4	47
10	4	2	3	1	0	10
15	14	4	5	0	3	26
Total	46	15	13	12	18	104