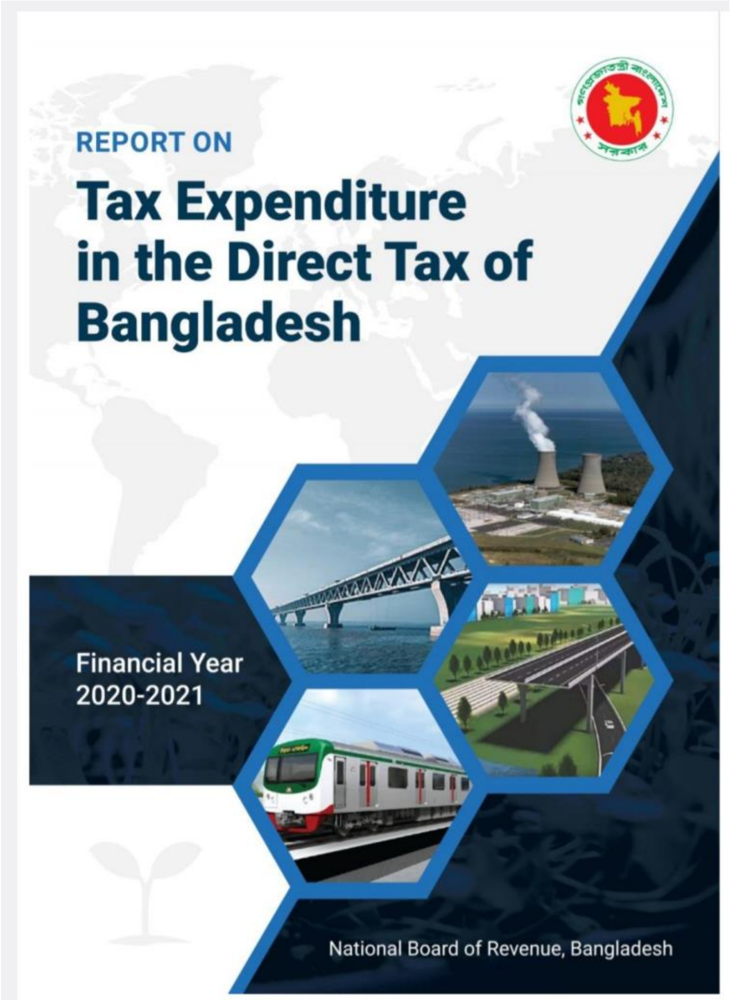
Tax Expenditure Reporting in Bangladesh: Progress till Present

ON BEHALF OF TEAM BANGLADESH
SHAILA AZEEZ
DEPUTY COMMISSIONER OF TAXES
NATIONAL BOARD OF REVENUE
BANGLADESH

Team Members

1. Animesh Chandra Das, Deputy Commissioner of Taxes
2. Tithi Sikder, Deputy Commissioner of Taxes
3. Shaila Azeez, Deputy Commissioner of Taxes

- The National Board of Revenue acts as the central administrative authority for both direct and indirect taxes in Bangladesh..
- First TE report published on 1 November 2023 by Direct Tax wing of NBR.
- Useful reference to apprehend impact of policy changes on tax expenditure which is aligned with international best practices.
- Estimation of fiscal cost of tax expenditure for FY 2020-2021.
- Direct tax contributes to approximately 33% of NBR revenue.
- First time reporting to the Parliament regarding revenue impact of different tax expenditures for National Budget of FY 2023-2024.



Tax Expenditure Estimation: Steps Followed

Defining benchmark tax system

↓

Comprehensive listing of tax expenditures: Preparing inventory

↓

Data collection, sampling and estimating tax expenditures

↓

Reporting

↓

Allowing room for further analysis and review

Methodology

- Benchmark defined according to international standard practice.
- Revenue forgone method used for estimation.
- Combination of microsimulation and distributional modelling for estimating revenue forgone suitable for survey data and administrative database.

Sampling Technique

- Stratified Random Sampling applied for collecting data from sample of taxpayers.
- Stratification based on geographic location, income source, level and others.
- Initial sample size: 27084 individuals, 703 firms and 2431 companies
- Final sample size: 21,664 Individuals, 381 Firms and 1930 Companies.

Defining Benchmark

Two Principles Considered

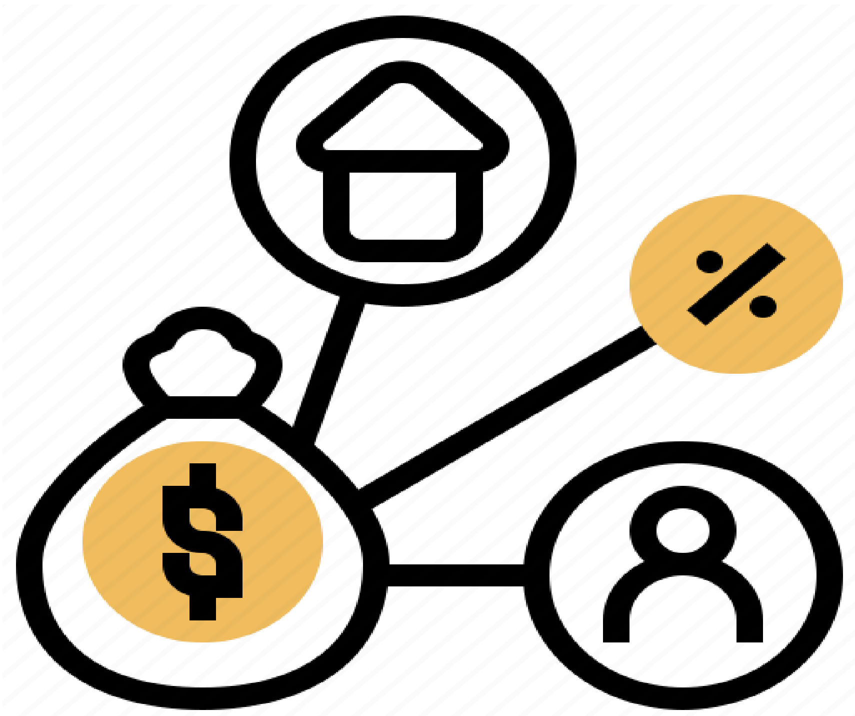
Standard tax treatment for similar taxpayers or similar nature of activities

Long standing features and structural component of tax system e.g. progressive tax rate structure for PIT with zero-rate threshold limit, surcharge etc.

Tax Unit

2 Broad Categories

- PIT (Individuals and Firms)
- CIT (Public and Private Limited)



Tax Base

- Different heads of income defined in Income Tax Ordinance 1984.
- Nominal income considered as income with no adjustment for inflation.
- Both cash-based and accrual-based accounting standard recognized.
- Depreciation deduction included in benchmark.
- Minimum tax of 5,000 BDT considered as benchmark.

Tax Rates

- The progressive tax rate structure with a zero rate threshold limit recognized as benchmark for PIT.
- Benchmark CIT rates:

Bank/FI/Insurance/Merchant Bank	40%
Mobile company/Tobacco company	45%
Other company	30%

Some Facts

- Total direct tax expenditure 1,258,130M BDT.
- CIT accounts for 68% of total direct TE (853,150M BDT) whilst 60% of total income tax collected from CIT.
- Estimated direct tax expenditure amounts to 3.56% of GDP for FY 2020-2021 whilst share of direct taxes in GDP is 2.41%.

Personal Income Tax Expenditure Measures

- Higher tax-free thresholds for specific groups.
- Exemption or reduced rates for certain income categories.
- Incentives for approved investment schemes through rebate.
- According to weighted mean estimation, 404,990M BDT tax expenditures in PIT.
- 403,880M BDT for individuals and 1,100M BDT for firms.

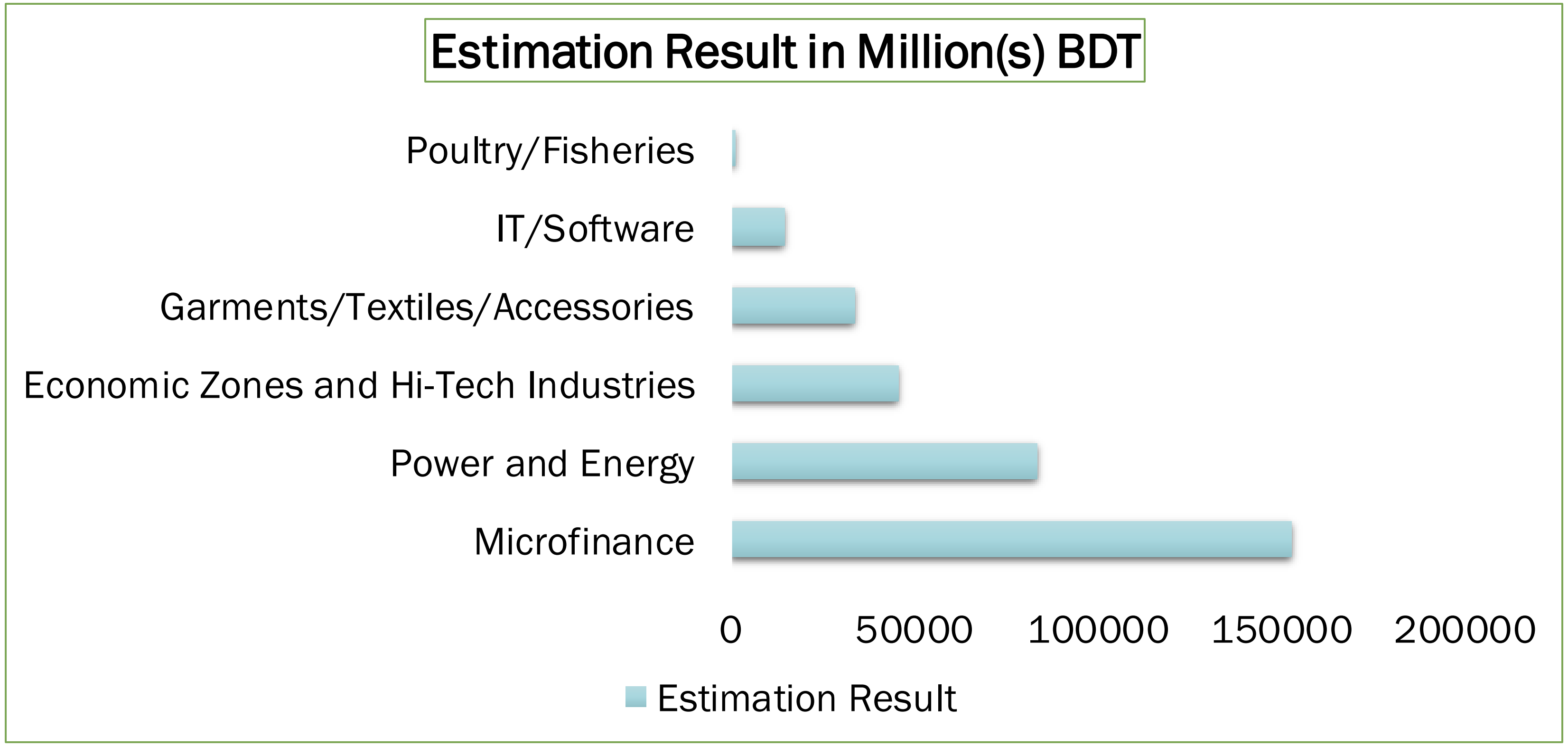
Sectoral Estimate of Personal Tax Expenditure

- Remittance 112,874M BDT
- Poultry/Fisheries 29,854M BDT
- Share Capital Gain 9,659M BDT

Corporate Tax Expenditure Measures

- Tax exemption or reduced rates for certain sectors.
- Tax holiday for defined period.
- Deduction or allowance for rebate for donation, R&D and CSR activities.
- 40% of estimated tax expenditure related to few certain businesses.
- Estimated tax expenditure for CIT 853,148M BDT which amounts to 1.15% of GDP.

Sectoral Share in the Estimated Corporate Tax Expenditure



Limitations

- Changes in taxpayers' behavior on elimination of particular measure not considered.
- Potential impact of particular incentive on overall economic activity not captured.
- Challenges to isolate impact of single provision because of multiple inter-related provisions.

- Absence of comprehensive digitized database.
- Data constraint due to lack of well-organized institutional set-up.
- Based on economic conditions at specific point of time.

Future Propositions

- Eliminate ineffective and irrelevant tax expenditure measures failed to attain policy objectives.
- Limit or cap expenditures.
- Refine eligibility criteria for benefitting target group or activities.
- Periodic reporting, analysis and scrutinization.
- Review and adjust tax credit rates.
- Evaluating distributional impact.
- Seek shareholder’s input.

What's Next?

- Preparation of TE report for FY 2021-2022 is already under progress.
- We are soon to shift to full automation from paper-based administration.


THANK YOU