

Tax Expenditure: *Bangladesh Perspective*

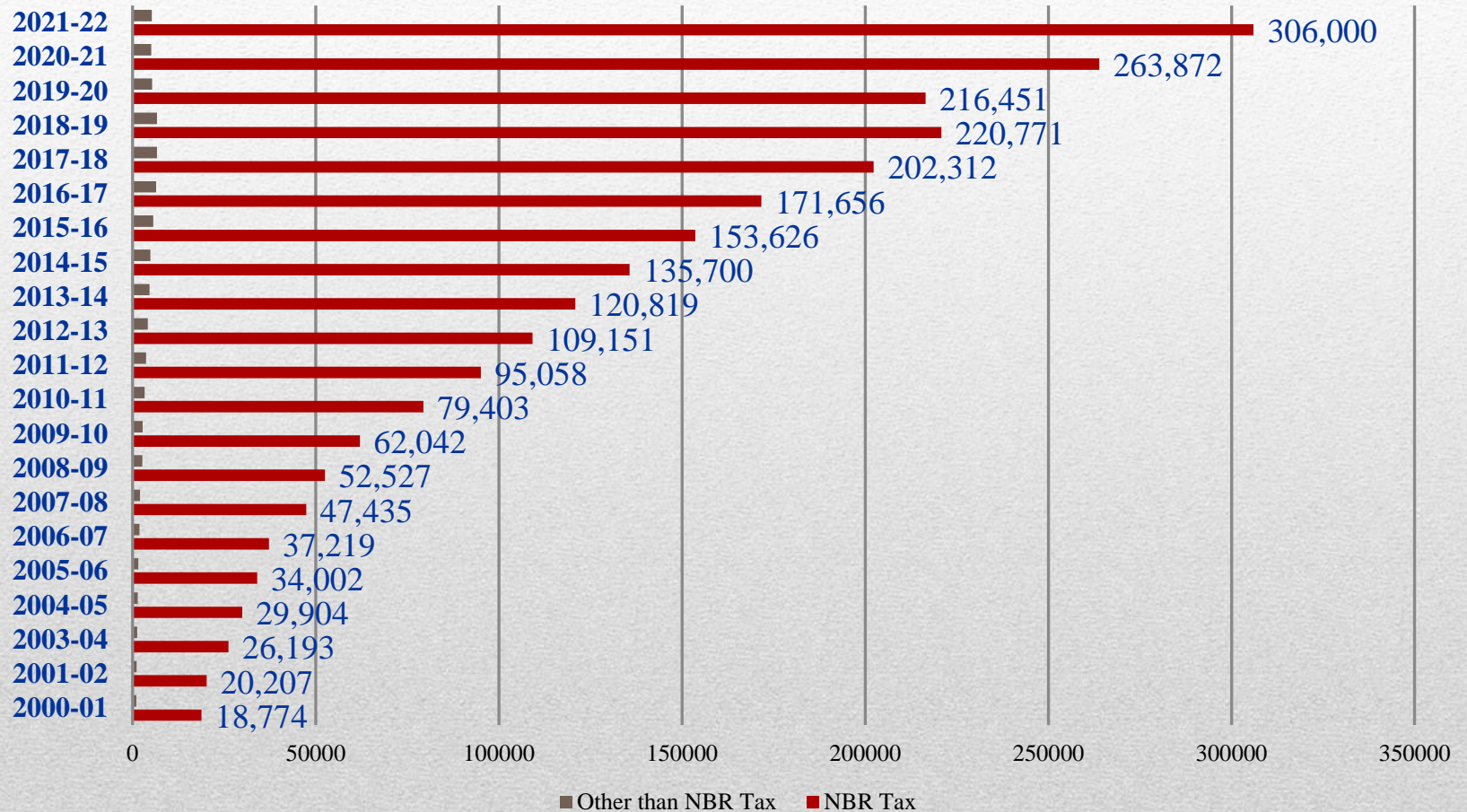
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Macroeconomic Indicators of Bangladesh

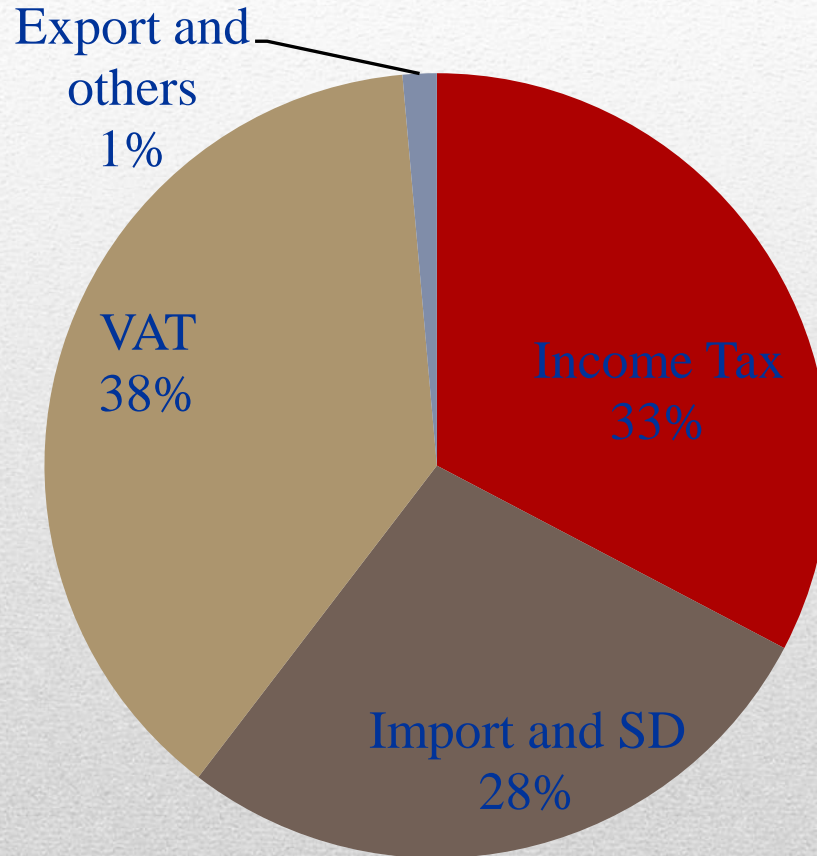
☐ Independence: 1971

- ☐ Area: 147,570 sq km
- ☐ Population: 165 million
- ☐ Population Density: 1119 per sq km
- ☐ GDP: 39765 billion Taka
(465 billion USD)
- ☐ GDP Growth Rate: 7.25%
- ☐ GDP per capita: **2723** (Current USD)
- ☐ Government budget deficit / GDP : 5.14
- ☐ Inflation: 6.15%
- ☐ Export/GDP: 12.25
- ☐ Import/GDP: 23.08
- ☐ Unemployment: 4.2 %
- ☐ Savings/GDP: 29.35
- ☐ Tax-GDP Ratio: 8.70
- ☐ Revenue-GDP Ratio: 9.78

NBR contribution in Domestic revenue



Composition of NBR Tax



Tax Administration in Bangladesh

- ❑ National Board of Revenue (NBR) is the apex authority of the government responsible for collecting tax revenue, administering taxation administration and framing taxation policies and laws for the government relating to collection of direct and indirect taxes.
- ❑ The major policy objectives behind the tax expenditure measures in Bangladesh are to accelerate the process of industrialization, to attract foreign currency through increasing exports and foreign direct investment (FDI) and to ensure social security and welfare of low and modest income groups.
- ❑ Tax expenditure measures are provided by -
 - ✓ the Income Tax Ordinance, 1984 and different Statutory Rules and Orders (SROs)
 - ✓ the Customs Act, 1969, the Value Added Tax and Supplementary Duties Act, 2012 and different SROs.

Tax Expenditure Provisions in Bangladesh

□ Direct Tax

➤ Corporate Income Tax:

- Tax holiday
- Exemptions, allowances and deductions
- Concessionary rate

➤ Individual Income Tax:

- Exemptions and deductions
- Tax rebate on investment

□ Indirect Tax

➤ Customs and Supplementary Duty/Value-Added Tax

- Exemptions
- Concessionary rates/Incentives
- Exemptions and deductions

Tax Expenditure Analysis

- ❑ Tax expenditure analysis in Bangladesh was first addressed by Mortaza and Begum (2006)
- The study used raw data collected by NBR from field offices
- 106 tax expenditure measures have been identified (55 in direct taxes and 51 in indirect taxes)
- The amount of tax expenditures in Bangladesh is 2.52 per cent of GDP and 31.25 per cent of total revenue in FY05
 - ✓ 0.28 per cent of GDP in the direct taxes and 2.24 per cent of GDP in the indirect taxes.
 - ✓ Mostly in indirect taxes (89 per cent of total revenue loss)
 - ✓ 82 per cent of total revenue loss in VAT

Tax Expenditure Analysis, contd.

Mortaza and Begum (2006)

Table 3: Tax Expenditures by Main Categories of Taxes, FY05

<i>Categories of taxes</i>	<i>In billion Tk.</i>	<i>Proportion of total revenue loss</i>	<i>As % of total total revenue</i>	<i>As % of GDP</i>
<i>Direct Taxes</i>	10.28	0.11	3.44	0.28
Corporate Income Tax	8.26	0.09	2.76	0.22
Personal Income Tax	2.02	0.02	0.68	0.05
<i>Indirect Taxes</i>	83.17	0.89	27.81	2.24
Customs Duty	3.65	0.04	1.22	0.10
Value Added Tax (VAT)	76.87	0.82	25.70	2.07
<i>VAT: Import Stage</i>	17.89	0.19	5.98	0.48
<i>VAT: Domestic Stage</i>	58.97	0.63	19.72	1.59
Supplementary Duty	2.65	0.03	0.89	0.07
<i>Total</i>	93.45	1.00	31.25	2.52

Source: Various tax expenditure documents collected from NBR and BB (2006).

Tax Expenditure Analysis, contd.

Mortaza and Begum (2006)

- Used revenue forgone approach
- Compiled available field-level micro data without any microsimulation
- Underestimating the actual tax expenditure

- Emphasized for
 - ✓ a detailed assessment of tax expenditures
 - ✓ An appropriate definition and a methodology for measuring 'tax expenditures'
 - ✓ restructuring the existing tax expenditure measures

Review of Tax Expenditure NBR (2021)

- ❑ A Tax Expenditure Review Committee was formed to measure and analyze the prevailing tax expenditure originating from the income tax policy.
 - Tax expenditure is approximated using sector-wise tax benefit to GDP analysis.
 - The percentage contribution of different sectors is used to estimate the sector-wise revenue foregone due to tax exemptions or tax benefits.
 - The benchmark of personal income tax is the existing statutory tax schedule but without tax relief, other than the basic allowance (or the zero-tax income bracket).
 - The corporate income tax benchmark is 35%, the applicable rate for company taxpayers
 - Uses macrosimulation methodology with Revenue forgone approach
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Review of Tax Expenditure NBR (2021) , contd.

$$\text{TEG (\%)} = \frac{\sum_{i=0}^n C_i * \frac{(r_{Ni} - r_{Ei})}{r_{Ni}}}{\sum_{i=0}^n C_i} \dots \dots \dots \text{Equation (3.1)}$$

Where,

TEG = Tax Expenditure to GDP ratio

C_i = Percentage contribution in GDP from the sector

r_{Ni} = Nominal (Benchmark) Tax rate for the sector

r_{Ei} = Effective Tax rate for the sector

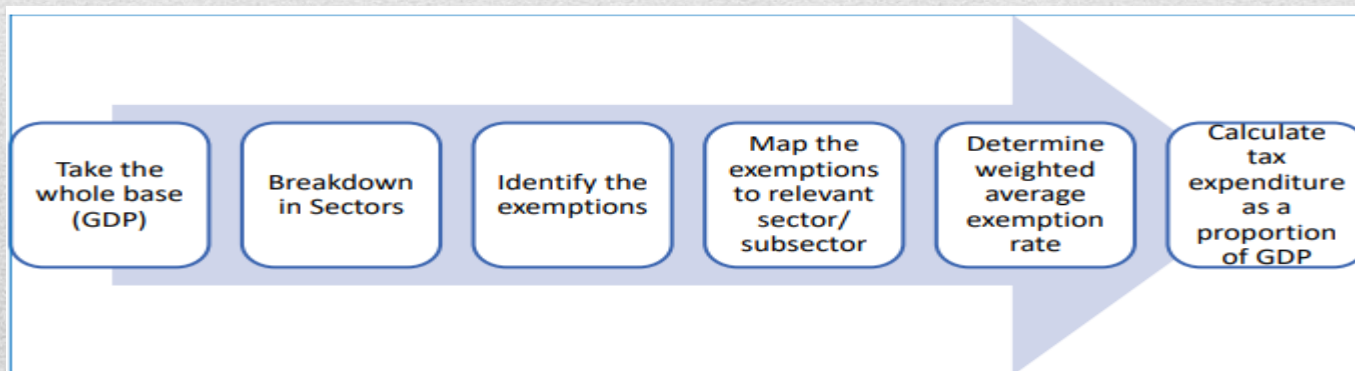
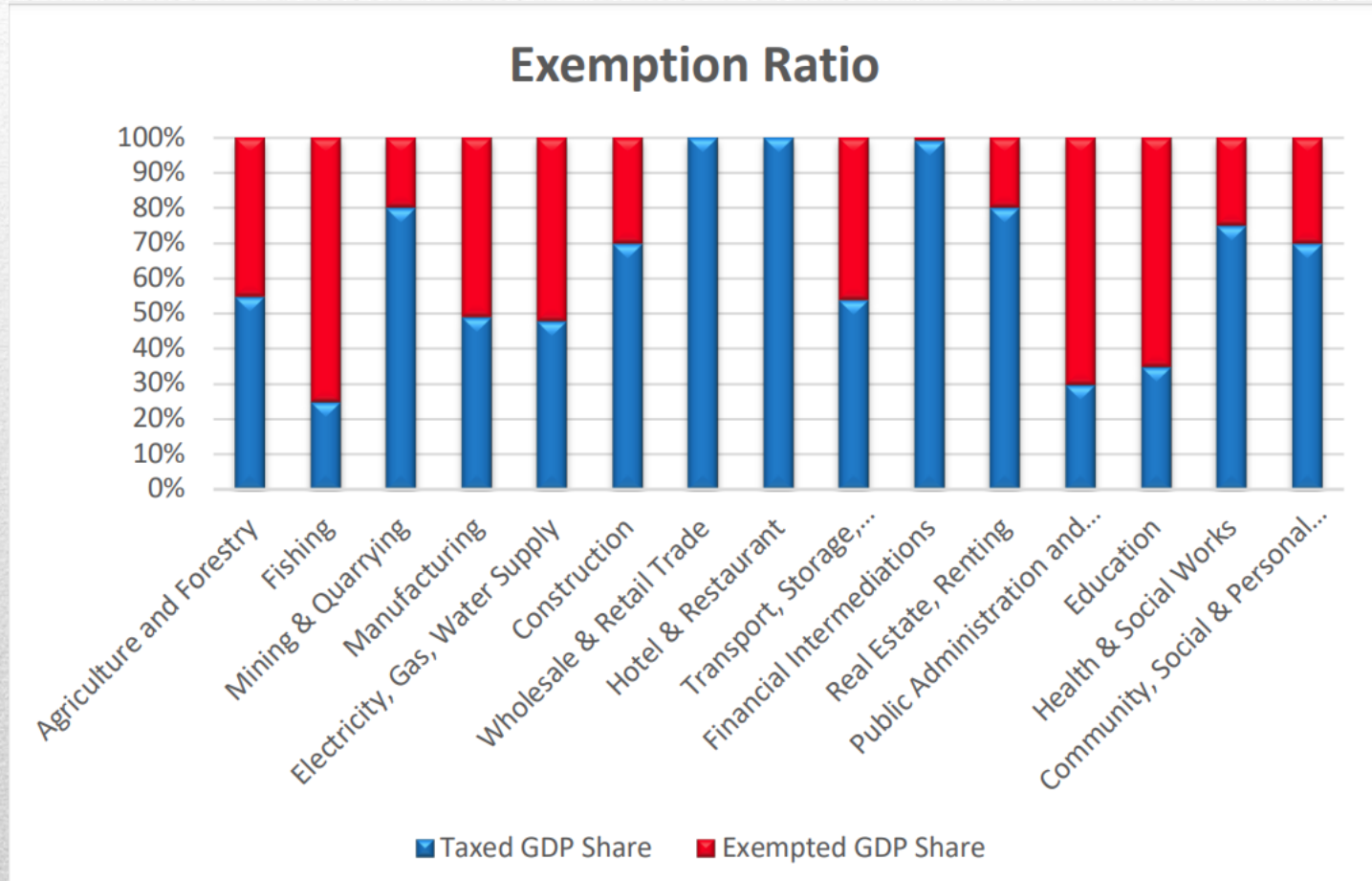


Figure 3.2: Tax Expenditure Computation Process

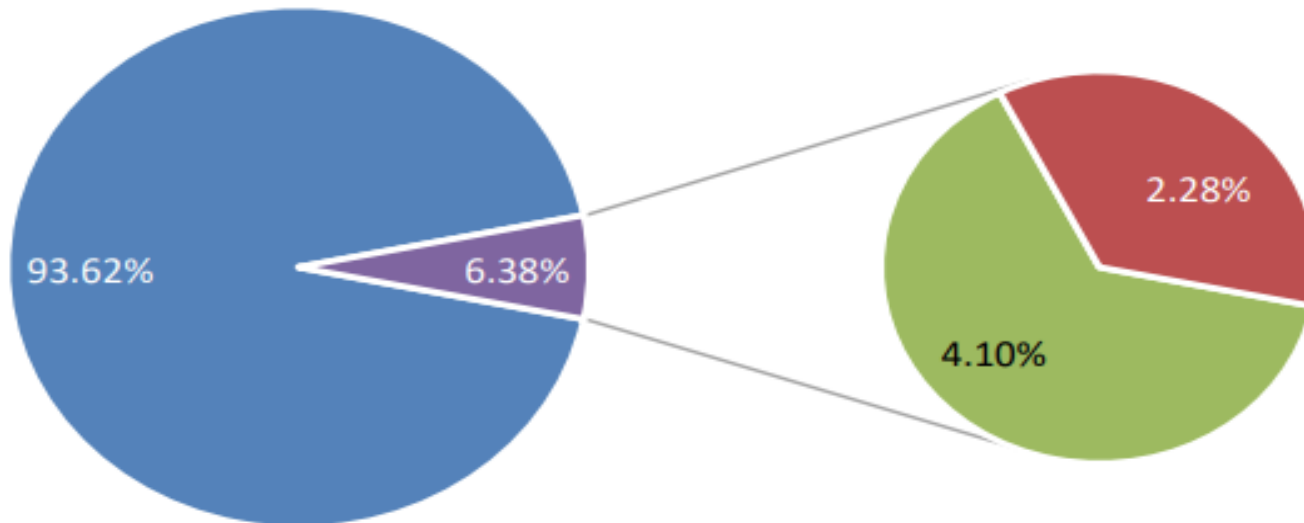
Review of Tax Expenditure NBR (2021), contd.



Review of Tax Expenditure NBR (2021), contd.

Income Tax to GDP

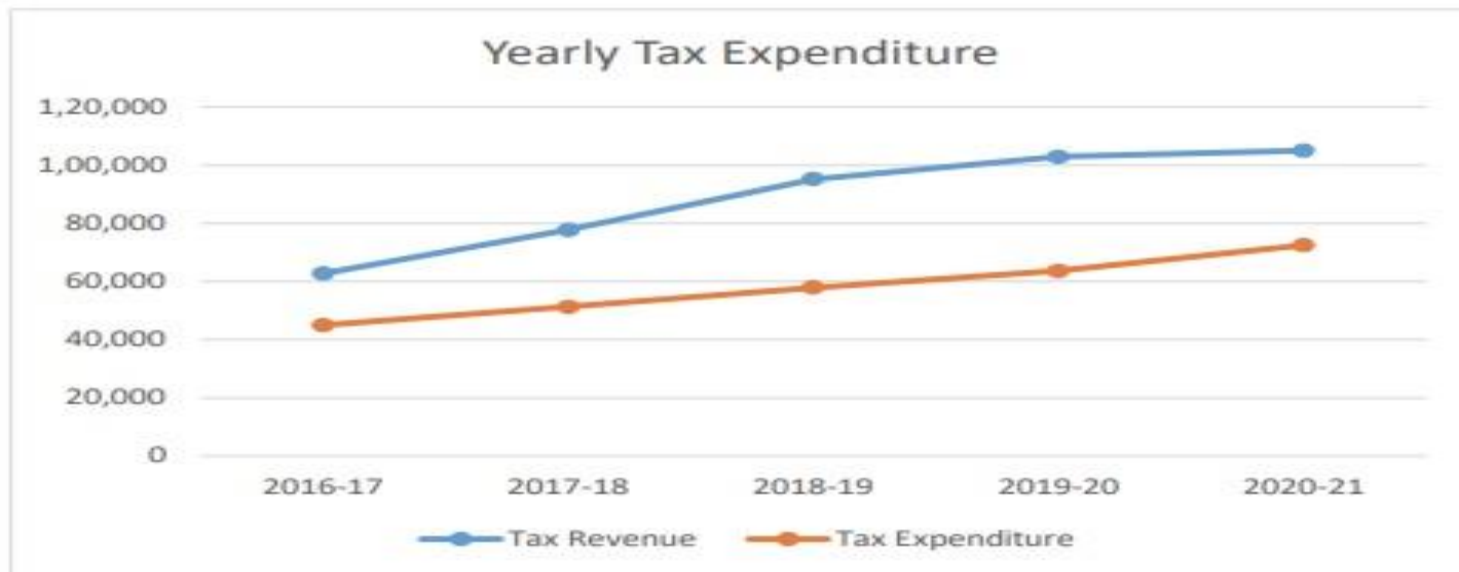
■ GDP ■ Tax Revenue ■ Tax Expenditure



Review of Tax Expenditure NBR (2021), contd.

(in crore BDT)

Year	GDP (Nominal)	TE to GDP Ratio	Tax Expenditure (based on GDP)
(1)	(2)	(3)	(4) = (2) * (3)
2016-17	1,975,820	2.28%	45,000
2017-18	2,250,480	2.28%	51,300
2018-19	2,542,483	2.28%	57,878
2019-20	2,796,380	2.28%	63,700
2020-21	3,011,065 ⁴	2.28%	68,652



Importance of Tax Expenditure Analysis

- An estimation of tax expenditures provided to several sectors are important to enhance transparency, accountability and efficiency.
 - To identify the true opportunity costs of several projects, mega projects enjoying tax exemption.
 - To restructure the existing tax expenditure measures for better fulfillment of government's mission, vision and priority development policy.
 - Including tax expenditure into government budgetary framework is crucial for ensuring an efficient, equitable and transparent tax policy.
 - A systematic estimation of tax expenditure is necessary to identify the impact of several measures and thereby formulating appropriate policies.
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Key Challenges

- ✓ An appropriate definition and a methodology for measuring tax expenditures
 - ✓ Defining the benchmark tax system
 - ✓ Setting the methodology for estimation of tax expenditure
 - ✓ Availability of data
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