October 19, 2021

FBCCI/TF/2021/145

Sub.Stakeholders Consultations Virtual Meeting on the draft agenda on Internal Resource Mobilization: Tax & Tariff Rationalization.

Dear Sir,

Greetings from the Federation of Bangladesh Chambers of Commerce & Industry (FBCCI).

We on behalf of the private sector express deep appreciation for the constitution of the National Committee for Meeting the Challenges of Bangladesh's graduation from LDC status in 2026 headed by the Principal Secretary of the Honourable Prime Minister.

FBCCI as the apex stakeholder is actively participating in the meetings of the National Committee and the sub-committees formed by it. The outcome of these meetings drafted by the officials of the respective Ministries/Agencies are being submitted for the consideration of the PMO National Committee for necessary action.

FBCCI deems it extremely expedient to compliment the official outcome documents with the corresponding thematic advocacy agenda to be prepared by FBCCI in partnership and consultation with Chambers, Associations, stakeholders, experts from public and private sector.

Out of the series of thematic advocacy agenda, 1st draft of the proposed agenda on "Internal Resource Mobilization: Tax & Tariff Rationalization" will be placed in the Stakeholders Consultations Virtual Meeting to be held on October 23, 2021, Saturday at 11:30 AM. President of FBCCI Mr. Md. Jashim Uddin will chair the meeting.

Zoom link of the meeting is given below:
https://zoom.us/j/97530645832?pwd=MEUzNURHUXAvUzc0UWp3dG9HanJDUT09
Meeting ID: 975 3064 5832
Passcode: 194910

You are requested to kindly join the meeting.

Draft report on the Internal Resource Mobilization & Tariff Rationalization is attached. It would be highly appreciated if you kindly share with us your valuable opinion/comments on the draft by email (secretariat@fbcci.org) by October 22, 2021.

Thanking you.

Regards,

Mohammad Mahfuzul Hoque
Chief Executive Officer, FBCCI

Encl: As stated above.

Cont. Page-2

Distribution (Not in order of to seniority):

- Members of the Board of Directors of FBCCI
- Chiefs of the Member Bodies of FBCCI
- All Panel Advisors of FBCCI
- Executive Chairman, Bangladesh Investment Development Authority (BIDA) (Requested to nominate a representative)
- Governor, Bangladesh Bank (Requested to nominate a representative)
- Chairman, NBR (Requested to nominate a representative)
- Chairman, Bangladesh Trade & Tariff Commission (Requested to nominate a representative)
- Mr. Mohammad Abdul Mazid, Former Chairman, NBR
- Dr. Md. Muzibur Rahman, Former Chairman, Bangladesh Trade & Tariff Commission
- Ms. Sharifa Khan, Member (Secretary), Industry and Energy Division, Planning Commission
- Mr. Md. Hafizur Rahman, Additional Secretary (Director General), WTO Cell, Ministry of Commerce
- Mr. Noor Md. Mahbubul Haq, Additional Secretary (FTA), Ministry of Commerce
- Mr. Abu Daiyan Mohammad Ahsanullah, Deputy Secretary, Macroeconomic Policy Analysis and Forecasting, Finance Division, Ministry of Finance
- Mr. Md. Salim Ullah, Senior Assistant Secretary (Policy), Ministry of Industries
- Dr. Md. Mafizur Rahman, Managing Director, SME Foundation
- Members of FBCCI Budget Task-Force

Meeting the Challenges of *Graduation from LDC status in 2026.*
Internal Resource Mobilization & Tariff Rationalisation
FBCCI draft for the Stakeholders Consultations
23October, 2021

Background : The graduation of Bangladesh from LDC status in 2026: Bangladesh is scheduled to officially become a developing country in 2026 as the UN committee recommended that the country should get five years, instead of three, to prepare for the transition due to the impact of the Covid-19 on its economy. Until 2026, the country will continue to enjoy the trade benefits as an LDC.

FBCCI, on behalf of the private sector expresses its deep appreciation for the constitution of the National Committee for Meeting the Challenges of Bangladesh's graduation from LDC status in 2026 headed by the Principal Secretary of the Honourable Prime Minister.

FBCCI as the apex stakeholder is actively participating in the meetings of the National Committee and the sub-committees formed by it. The outcome of these meetings drafted by the officials of the respective Ministries/Agencies are being submitted for the consideration of the PMO National Committee for necessary action.

FBCCI deems it extremely expedient to compliment the official outcome documents with the corresponding thematic advocacy agenda to be prepared by FBCCI in partnership and consultation with Chambers, Associations, stakeholders, experts from public and private sector.

FBCCI led Stakeholders Strategic Policy Submissions for the Implementation of the PMO AGENDA on smooth transition throughout the course of sustainable development beyond 2026 are the following immediate priority subjects:

1. Global Market Access Policy Beyond 2026
2. Internal Resource Mobilization & Tariff Rationalisation.
3. Trade Finance & Investment Measures for Sustainable Trade Development
4. HRD: Capacity & Skill Development.
5. Sustainable Export, Subsidies and Incentives.

Out of the above advocacy agenda, the proposed draft of the agenda on Internal Resource Mobilization & Tariff Rationalisationfor the Stakeholders Consultations is appended below:

Introduction

About Import Tariff:Customs Duty: A customs duty is a tax levied at the border on imported goods. There are different technical methods of assessing customs duties - ad valorem (percentage of import value), specific (based on weight or volume of goods), mixed (ad valorem or specific - whichever is higher/lower), compound (ad valorem and specific) or on another basis (e.g. according to percentage content of a product component). In the IDB, the duty nature code is used to record the technical method of duty assessment (Ref; WTO)

Tariffs are prescribed through the First Schedule of the Customs Act 1969 and the Third Schedule of the VAT Act 2012 for imposition of VAT, supplementary duty (SD) at import stage. The import of goods taxable under the VAT law (i.e., goods not specified as tax-exempted in the First Schedule of the VAT Act) is also subject to imposition of VAT. Customs tariff is applicable only for imported goods, but other tariffs are equally applicable for domestic goods and imported goods.

Value Added Tax:

The value-added tax is an indirect tax that is collected on the proportion of value added to goods and services occurring in all processes, ranging from production, distribution, service supply to consumption; and is also collected on the value of goods and services imported into the country.

The Multilateral Frameworks of World Trade Organization (WTO) and World Custom Organization (WCO) govern the National Customs Laws throughout the world, but there is no such International VAT framework with any obligation or commitment to comply with since the inception of the Value Added Tax in 1954 in France.

The common principles of VAT practiced worldwide: Except for the import stage, where vat is imposed on duty paid value of imported goods and services, VAT is the tax imposed on the value-added portion of the transaction price as under:

- Value-added tax payable refers to the amount of value-added tax output minus the value-added tax input, or
- the tax amount calculated on the added portion of the sale value of goods and services liable to value-added tax;

The National Board of Revenue (NBR), under the Ministry of Finance, administers all taxes, including customs duties and VAT, as well as tax holidays and other tax concessions.

The implication of graduation on tariff rationalization :

WTO rules contain no explicit provisions regarding the graduation of LDCs. Upon graduation, Bangladesh would normally be treated as a developing country member subject to the respective period of extensions as they apply.

However, in line with the principle of non-reciprocity granted under Article XXXVI of the General Agreement on Tariffs and Trade (GATT), developing countries and Bangladesh as one of the LDCs who acceded at the end of the Uruguay Round are entitled to maintain a higher level of tariff protection in their respective schedules of concessions than the LDC members who underwent the accession process under Article XII of the Marrakesh Agreement Establishing the WTO.For instance, Lao PDR, which joined the WTO in 2013, had to offer liberal concessions by binding all of its tariffs (i.e. binding coverage of 100%) and at a relatively low average level (19%).

In contrast, Bangladesh, which is a Uruguay Round member, offered fewer concessions with an average bound tariff level of 154% and a binding coverage of only 17%, which implies that the remaining 83% of its tariffs are unbound. Bangladesh as the graduating LDCs would continue to enjoy this flexibility related to tariff bindings granted at the time of joining the organizationat the end of the Uruguay Round.

Challenges: The major challenges of the existing tariff structure are :-

1. complex and non-transparent harming business incentives and the investment climate both for foreign and domestic investment;
2. making non-RMG exports less competitive in the world market for lack of duty-free import facility and a dysfunctional duty-drawback system,
3. discouraging export product diversification as a whole (i.e. emergence of non-RMG export products on a sustainable basis).

Bangladesh's trade costs are mostly owing to inefficiencies in domestic supply chain and trade logistics coupled with insufficient infrastructure support. Bangladesh would inevitably need improved efficiencies in domestic supply chains and production networks to offset such disadvantages and generate external competitiveness.

CMSMEs and other industries sectors are finding it difficult to be competitive because of high rate of duties on their inputs along with complex, overlapping and high incidence of VAT and Income tax.

Sectoral Industries in general finding it difficult to be competitive because of high rate of duties on their imported inputs. Tariff benefit granted against many industrial inputs, used by multiple sectors of Industry, are enjoyed only by few listed sectors denying the similar benefits other sectors using the same inputs.

The challenges Bangladesh may face in the post-graduation period are a continuation of the weaknesses and impediments that characterized our economy in the period prior to graduation, e.g. underdeveloped productive capacities, cumbersome trade Tax and tariff rules and regulations and infant or fragile institutions. If essential elements of productive capacities and trade flows are not developed before graduation, it is highly likely that the road to sustainable development after graduation will be rough and full of pitfalls.

To identify the possible advantages of tariff rationalization

Graduating Bangladesh needs a new strategy to enable it to achieve graduation on a sustainable basis, and with an economic and developmental base for continued development, or 'graduation with momentum. The key to the graduation strategy is to bridge the pre-and post-graduation development processes to create sustainable graduation and continuity in the development trajectory beyond graduation.

Rationalization of tax and tariff to facilitate investment friendly production chain will expedite integration of Bangladesh business most effectively with the global value chain and also strengthen a rational, transparent and efficient business and revenue policy and trade facilitation system of Bangladesh.**Most importantly, tariff rationalization will benefit domestic**

consumers through reducing the price of consumer goods at the same time flow of increased revenue from the growing trade.

Two Fundamental Objectives of Tariff Rationalization:

1. To facilitate investment friendly production chain for expediting integration of Bangladesh business most effectively with the global value chain by undertaking ongoing an action plan to gradually reduce the customs duty or tariff with a view to increasing competitiveness upholding at the same time the interest of domestic industry; and
2. To identify the necessary steps to strengthen domestic resource mobilization for sustainable and inclusive socio-economic development;

Urgent Tariff Rationalizationmeasures to be implemented by April 2022

General Reform Agenda:

To reform Customs Duty, Value Added Tax and Income Tax related laws, regulations and procedureson the basis of WTO Agreements WCO obligations and global best practicesin partnership with the stakeholders;

To expeditiously implement, among others, the provision of Article 2 of the WTO Trade Facilitation Agreement relating to the process of consultation with the stakeholders before formulation and enforcement of new or amended laws and regulations of application related to the movement, release, and clearance of goods, including goods in transit trade related laws and regulations, by extending opportunities and an appropriate time period to traders and other interested parties to comment on the proposed introduction or amendment of the respective laws and regulations before the provisions of the amendment to be made through the finance Bill or SROs are put into effect;

The NBR Order issued in 2008 and reaffirmed in the 2009 Budget regarding separation of the enforcement and policy administration functions of NBR should be implemented by setting up a separate Trade Facilitation Division (TFD) headed by the senior most Member of NBR.

The functions of the TFD may include, among others, the following:-

- Rationalisation of all taxes and tariffs from time to time and prepare tax and tariff related budget proposals for consideration of the Government;
- Risk management, audit , inspection and investigation;
- Export facilitation and duty draw back on export products including all its inputs whether imported or locally procured.
- Management of ADR and other dispute settlement measures
- Administering Bangladesh Single window being established for trade and tariff facilitation;
- Undertake legal reforms of tax and tariff laws and regulations;
- Administering international trade remedy measures
- Any other functions assigned by the Government from time to time.

Revenue Mobilisation:

Income Tax Coverage: The number of individual TIN holder is around 35 lacs. It is estimated that at the present level of our economy the number of individual taxpayers outside tax net might be around 40% of eligible taxpayers.

Broaden tax net: According to the Registrar of Joint Stock of Companies the number of companies incorporated is 155,635 (as on 30/06/2017). Whereas the number of TIN holder companies is 63,752(as on 31/12/2017). Which means 59% of companies are remaining outside tax net.

The Sectoral Associations and Chambers licensed and registered by the Ministry of Commerce have businessmen as their member under the compulsory membership provisions of the Trade Organization Ordinance and rules thereunder. Similarly Bangladesh Bar Council & different Bar Association has data base of their member lawyers, Institute of Chartered Accountants has list of practicing chartered accountants, Bangladesh Medical & Dental Council as well as Bangladesh Medical Association have the list of member medical practitioners.

Specific Measures for Revenue Mobilisation

1. Set up joint tax offices at Upojela level to widen the Income tax and VAT net and adjust tax rates simplify procedure, remove inconsistencies to reduce cost of doing business to generate optimum revenue compliance.
2. Entrust respective licensing and regulatory government agencies, operating Banks, respective tax authority, Chambers and Sectoral Associations the responsibility to ensure collectively 100% Income tax and VAT registration of all eligible entities.
3. Submission of duly authenticated copies of Income tax and VAT registration certificates along with latest income tax payment certificates**(tax returns pending dispute settlement will not be treated as default)**should be made compulsory for any business engagement with any public or private corporate bodies.

Rationalization of Customs DutyStructure

1. To adopt following MFN Customs Duty Structure:-

i. basic raw materials, inputs and essential commodities 1-3%;
ii. Capital machinery and spares 1%
iii. Intermediate inputs 7-10%; Provided that effective rate of protection of industrial inputs produced in Bangladesh shall not be above 30%.
iv. Finished products consumed without any change 25% + RD+ SD
v. Specific Duty on some selected sensitive products.

2.More than 50% of manufacturing sector in Bangladesh is now linked with export chain as finished products as well as backward linkage of various items of exports.Therefore there should be policy cohesion on manufacturing for export and domestic markets and allow sectoral cluster based bonded warehouse facilities.

3. Customsvaluation,H S Code classifications and clearance procedures should be rationalized and simplified by harmonizing with the WTO Agreement on Customs valuation and the provisions of WCO to reduce the cost of doing business;

4. To set up online single window Customs clearance payments of duty along with duty draw back on exports and deemed exports including all refunds on AIT, AT, VDS as and when applicable.

Rationalization of Income Tax :

Major Complexities

Tax law, procedures are too complex that ordinary taxpayers mostly fails to understand his fair & lawful tax obligation. Simplification of tax law is also likely to contribute in voluntary tax compliance.

Section 35 of the Income Tax Ordinance states that accounts are to be maintained according to the International Financial Reporting Standard(IFRS). On the other hand tax is imposed on 0.50%/0.25% of turn over ignoring the accounts. This is against the international standard and sending mixed signal to taxpayers and investors. Where accounts are maintained according to IFRS, tax should be imposed on a business only on net profit .

Tax deduction at source has been imposed on larger & larger areas of transactionwithout any study before setting the rate of tax deduction at source. The rate of tax deduction are many. The rates are also arbitrary. This has resulted increase in cost of doing business.

The process of Gross Profit practiced in tax department are highly unrealistic. Which compels the taxpayers to understate/hide actual sale/receipt. This also has impact on the base for VAT. The practice of GP based tax assessment should be discontinued.

The method of approval of the assessment orders by the Additional Commissioner/Joint Commissioner and then again by the Commissioner is creating harassment and cost escalation. This needs to be discontinued.

To rationalize & simplify income tax regime for reducing cost of doing business and generate more revenue compliance the following measures should be adopted:

1. The present applicable tax base rate for companies is highest among (a) tax payable on applicable rate on accounting profit; (b) tax deducted or collected at source; and (c) a fixed percentage of gross receipt/sale. This is a basic deviation from the principle of tax

on income. Accounting profit should be made as the only basis to apply tax rate where the tax deducted or collected at source and on gross receipt/sale should be adjustable;

2. VAT registered Manufacturing units should be exempted from paying AIT;
3. Present rates of tax deductions ranging from 0.5% to 30% imposed without taking into account the profit element in the transaction, should be fixed from 0.5% to maximum 3%.
4. Legal restriction on refund of tax deducted or collected at source put forward in section 82C (5) should be abolished;
5. Section 53E regarding tax deduction on distributors commission should be abolished;
6. Deduction at source for inland L/C under section 52U should also be abolished;
7. According to tax law some income enjoy tax exemption. For example, ITES (IT Enabled services) enjoys tax exemption under Para 33 of Part A of Sixth Schedule. But receipt of such income from abroad attracts tax-deduction under section 52Q where no waiver provision is available. Similar problems may occur for non-resident enterprises having no PE ***. Tax-deduction under section 52Q on receipt of payment from abroad of IT Enabled services should be abolished;***
8. Gross profit (GP) practiced widely in assessment is done without taking into account the element of profit in the respective sectoral business process. Sector wise study by joint team of NBR officials and professional cost accountants may be made to find out sector specific periodical scale of Gross Profit.
9. To undertake supportive programme and providing incentives to private sector for encouraging them to refrain from any activities that degrade environment. Permission should be granted for a reduction of 100% from the taxable income for the investment of any industry for controlling pollution or reducing GHG emission.
10. Facilitation of tax free cost effective and sustainable solution to environmental problems caused by polluting industries with technical, financial and management support through appropriate technologies, technical and managerial skills for pollution prevention and control.
11. Rules and procedures for filing of tax-returns, assessment, risk management & audit, and dispute settlement measures should be reviewed and reformed for facilitating smooth and transparent revenue regime promoting sustainable compliance.

Reform and Rationalization of VAT Regime:

1. Increase VAT network by entrusting the Local VAT offices and the respective Business Associations to work together to ensure 100% VAT registration of eligible entities.

2. Simplify applicable VAT process taking into account the respective scale and business process, VAT Payment and Returns, Audit process, dispute settlement including ADR process to make the VAT Regime Compliance and Revenue friendly.

3. To remove anomalies and trade distortions caused by SROs based different reduced rates of VAT favouring only some specified sectors by the following provisions:-

a) Enterprises with higher scale of business should be graduated to be enlisted as LTU units;

b) 15% VAT on the transaction price of goods and services with input VAT creditfrom the output VAT;
c) 3% VAT (15 % VAT at 20% value addition) on the transaction price of processed goodsnot taking input VAT credit;
d) 6% VAT (15 % VAT at 40% value addition) on services (including, health services, hotels and resorts below 5 star ranking) not taking input VAT credit;
e) Specific Tariff based VAT for Real Estate, Iron and Steel sector etcnot taking input VAT credit
f) 0.5% VAT on the transaction price at wholesalers and retailers stage of goodsnot takinginput VAT credit (which are already loaded with 15% incremental VAT from theprevious stages of value chains)
g) 15%, 3%, 6% and 0.5% VAT paid as input VAT shall be creditable in the subsequent business processes.
h) VAT registered Manufacturing units should be exempted from paying AT;
i) To discontinue double taxation through TDS and VDS which are finally adjusted;
j) VDS should only be carried against all purchase from outside the country or from local
supplier not registered under VAT law;
k) To set up single window for duty draw back on exports and deemed exports including all refunds on AIT, AT, VDS as and when applicable.

Expected Benefits: Consumers will be encouraged to pay VAT from the respective out lets at much lower rate ranging from 0.5% to 3% which is currently aggregates above 20%+ ;

- Simplified, compliance & revenue friendly VAT Regime resulting in incremental a widening of VAT net and growth of revenue.
- Credit chain will be established throughout the business process
- Reducing incidence of VAT on MSMEs will hardly affect the revenue target rather it will encourage and promote MSMEs to be tax compliant and generate more revenue at the same time uphold the interest of the consumers and the productive sectors.
- CMSMEs (90% of our economy) taxpayers who are not in a position to obtain VAT credit to be paid on sales price, wholesalers and retailers will be highly encouraged to adopt and comply with the respective VAT regime.

Mid Term Measures to be implemented by 2026

1. Bangladesh should take up a proactive action plan with the trading partners for respective Customs Cooperation Agreement to facilitate mutual trade as envisaged in the WTO Trade Facilitation Agreement and WCO protocols and annexes including gradual harmonization of customs documentation and clearance procedure for transit and trans-shipment of goods across the borders.
2. Bangladesh should streamline update and harmonize its trade facilitation regulatory regime including Mutual tax treaties, Dispute settlement measures, Access to public procurement practices etc with its trading partners upholding the global principles of MFN and National Treatment.

3. Bangladesh should harmonize customs duty (CD), regulatory duty (RD) supplementary duty (SD) and other taxes with the National Treatment Provision of WTO and other reciprocal mutual obligations with trading partners as and when required.
4. To enable CMSMEs to compete with global e-commerce by setting up necessary infrastructures including common bonded warehouses and distribution networks to bring the goods and services nearest to the consumers at home and abroad.

Long Term Measures to be implemented by 2026 and beyond

1. The existing ratio of direct and indirect tax in Bangladesh is around 35:65 which should be reversed to uphold the interest of the consumers and the productive sectors.
2. Bangladesh's production chain in general should be integrated with global value chain under a sustainable rationalized tariff structure which expedite free flow of goods and services across the borders.
3. To discourage industries based only on permanent revenue protection which should be phased out to normal tariff with maximum 30% effective rate of protection.

Implementation of the Tariff Rationalization Scheme : The Urgent Measures to be implemented by April 2022, Mid Term Measures to be implemented by 2026 and Long Term Measures to be implemented by 2026 and beyond may be implemented by one or more Standing Committees headed by the Line Ministry and including other related Ministries and Agencies according to the Rules of Business and private sector stakeholders including FBCCI.

A time bound action matrix will be Annexed for the implementation according to the finalized Tariff Rationalization Scheme.

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