



## Impacts of New Value Added Act 2012 on Entrepreneur and Consumer of Bangladesh

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### ABSTRACT

Value-Added Tax (VAT) is a form of consumption or expenditure tax. From the perspective of the buyer, it is a tax on the purchase price, whereas, from the seller's point of view, it is a tax only on the "value added" to a product, material or service, at the stage of its import or manufacture or distribution or delivery. The manufacturer remits to the government the difference between these two amounts and retains the rest for themselves to adjust the taxes they had previously paid on the inputs. The "value added" to a product by a business is the sale price charged to its customer, minus the cost of materials and other taxable inputs. A VAT is like a sales tax in that ultimately only the end consumer is taxed. It differs from the sales tax in that, with the latter, the tax is collected and deposited to the government only once, at the point of purchase by the end consumer. We could call it a burden shift mechanism and it's a very wide base mechanism to collect revenue from people. In connection with VAT system, the business establishment or organization or persons work as a collector on behalf of Government. The present study was conducted to find out the areas of impacts of New Value Added and Supplementary Tax (VAT) Act 2012 in Bangladesh, to analyze the effects of New Value Added and Supplementary Tax (VAT) Act 2012 on the business, mass people and government revenue of Bangladesh and to find out the ways of solution of impacts of New Value Added and Supplementary Tax (VAT) Act 2012. The research design of the present study was survey type. The study was conducted at Dhaka district in Bangladesh. Total 580 respondents were selected from the stake holders. Among the stakeholders, 20 Civil Society, 20 Advocates, 20 Consumers, 20 NBR Personnel, 20 Businessmen, 20 Journalists, 20 Professionals, 400 VAT Practitioners, 40 Economists were selected for the study. Data were collected from primary sources and secondary sources. The present study is based on both primary and secondary sources of data. Primary data were collected from the respondents of the study area directly using different data collection techniques. On the other hand, the study has used different relevant publications, dissertations, books, journal articles, NBR and other reports, and NBR websites etc. as sources of secondary data. Computer Program Microsoft EXCEL was used for data analysis. From the study it was found that 38% respondents strongly agreed that VAT evasion occurred in Bangladesh, 50% respondents replied that the VAT system of Bangladesh is not transparent, 60 respondents replied that the VAT and Supplementary Duty will increase Government Revenue if the VAT and Supplementary Duty Act 2012 is implemented properly, 90% respondents replied that due VAT and Supplementary Duty Act 2012 will influence the price i.e. prices of goods and materials will increase, 66% respondents replied that the VAT and Supplementary Duty Act 2012 will hamper business in VAT rate. 5. The Bangladesh National Board of Revenue should undertake effectiveness analysis to determine the effectiveness of their compliance strategies. The National Board of Revenue (NBR) should undertake a thorough communication and engagement strategy if the VAT gap results are released to the public. The NBR should take initiative to analysis of impact of New VAT Act on input rebate and tariff Value List and goods. VAT evasion system should be removed. If VAT accounting system is completely online based or software based it can be possible. Before introducing online VAT system tax payers must be familiar and trained up otherwise it may cause bad impact overall the revenue and businesses of Bangladesh.

**Key Words:** *Value Added Tax, VAT Evasion, Indirect Tax, VAT administration*

### INTRODUCTION

German businessman Wilhelm Von Siemens is credited with coming up with the idea of a VAT in the 1920s.<sup>1</sup> What was only an idea has since been built into a system by the so-called father of VAT, Maurice Lauré, who was then the joint director of the French tax authorities. The VAT was implemented in France in 1954. Manufacturing-level VATs were introduced shortly thereafter in Côte d'Ivoire and Senegal in the 1960s,<sup>2</sup> around the time that these former French colonies became

<sup>1</sup> Liam Ebril, Michael Keen, Jean-Paul Bodin, and Victoria Summers, the Modern VAT, IMF 2001, p. 4.

<sup>2</sup> ibid

independent. Brazil, by the fiscal reform of 1965, introduced a traditional VAT that applied at all stages of production.

The VAT's expansion was limited to less than 10 countries in the late 1960s.<sup>3</sup> In 1965 the VAT was not yet a worldwide success, as most general consumption taxes in the Organization for Economic Co-operation and Development (OECD) were retail sales taxes.<sup>4</sup> By 1989, however, 48 countries, primarily located in Western Europe and Latin America but also including a handful of developing countries, had adopted a VAT.<sup>5</sup> The spread of the VAT in Europe was driven by the fact that it is a prerequisite for membership of the European Union (previously the European Economic Community). Its spread has accelerated since, with strong support from the IMF (International Monetary Fund), as it has now been implemented in more than 144 countries, where it often accounts for one-fifth of the total tax revenue. In most countries it has been used to increase revenues, but in a few it has also enabled reductions in income taxes and excises.<sup>6</sup>

Revenues generated by general consumption taxes (that is, VAT or goods and services tax) represented 18.6 percent of the total tax revenues of OECD countries in 2007 (compared with 13.5 percent in 1970) and up to 19.8 percent of the total tax revenues of European OECD countries (compared with 15.2 percent in 1970).<sup>7</sup> The part of general consumption taxes as a percentage of GDP almost doubled between 1970 and 2007 (3.3 percent in 1970 compared with 6.7 percent in 2007 for OECD countries and 3.7 percent compared with 7.5 percent for European OECD countries).<sup>8</sup> Thirty-two of the 33 OECD countries have adopted the VAT.

From the experience of developed economies, the development agencies especially IMF was consistently advocating this form of tax to developing economies. In 1991, VAT was introduced to replace sales tax in Bangladesh.

The purposes of Government were:

- (a) to generate more revenues than sales tax used to provide
- (b) to introduce VAT as the main vehicle for resource mobilization
- (c) to remove the cascading effects that happens because of taxation of inputs
- (d) to adopt a flat rate of taxation on a broader base, covering a wide range of goods excepting the primary agricultural products and some services.
- (e) bringing transparency in taxation system and
- (f) bringing consistency in Tax- GDP ratio.

Value-Added Tax (VAT) is placed on a product whenever value is added at a stage of production and at final sale or broad-based tax levied at multiple stages of production, with crucially taxes on inputs credited against taxes on output. Thus, the amount of value added tax that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed. Many VAT systems can be described as having a basic rate, special rates for some goods and services, and exemption status for certain economic activities or specific goods and services.

The revenues collected through VAT systems which are generally used by the government:

- (1) to meet the development and administrative cost
- (2) to reduce government debt
- (3) for social security
- (4) to hold balances in commercial or central banks.
- (5) for incentive of the business

<sup>3</sup> Stéphane Buydens, *Consumption Tax Trends 2008*, OECD Publishing, p. 23.

<sup>4</sup> "Policy Brief - Consumption Taxes: The Way of the Future," OECD Observer, Oct. 2007.

<sup>5</sup> John Norregaard and Tehmina S. Kahn, "Tax Policy: Recent Trends and Coming Challenges," IMF Working Paper No. WP/07/274, IMF 2007, p. 37.

<sup>6</sup> For instance, New Zealand's 1986 reform introduced GST while the personal income tax marginal rate was reduced, although its base was broadened. In Singapore, GST was introduced in 1994 as part of a larger tax restructuring exercise, to enable Singapore to shift its reliance from direct taxes to indirect taxes. GST has enabled Singapore to sustain a lower income tax rate.

<sup>7</sup> Table 29 of Revenue Statistics 1965-2008 - Statistiques des recettes publiques 1965-2008, 2009 edition, OECD publishing, p. 91.

<sup>8</sup> Ibid. at Table 28.

From the above understanding a relationship could be established between VAT and GDP. Frank and Bernanke opined that expenditure method of measuring GDP assumes that goods and services produced in an economy are all purchased by economic agents, who are householders, firms, government and foreign sector. Thus total spending by these economic agents equals the market value of goods and services produced in the economy for the given period. Many of these goods and services are VAT registered, which informs this study.

Therefore, the question of how much of the expenditures becomes VAT revenue is a major concern for policy makers? Actually, citizens of country build a nation. If citizens of economy understand their role, they would have no problem in sacrificing their personal resources for the purpose of economic growth of country. In Bangladesh, the role of VAT as a source of revenue is increasing over the years. In the national budget for the fiscal year 2016-2017, government increases its expenditures largely to support the steady growth of Gross Domestic Product (GDP). To meet the increased expenditures, more emphasis was given in indirect form of taxation i.e. Value Added Tax (VAT). Hence, a question comes up here; does any relationship exist between new VAT and Supplementary Duty Act 2012 and GDP? Or, what would be the effect of new VAT and Supplementary Duty Act 2012 on GDP? Adequate studies were not conducted to systematically assess the impact of new VAT and Supplementary Duty Act 2012 on GDP or to determine how and to what extent new VAT and Supplementary Duty Act 2012 would affect Bangladesh economy. The study is undertaken to get answers to these questions. This is hoped to serve as a guide for economic planning, policy formulation and implementation

Value Added Tax is emerging as an effective tool of taxation in the hands of Governments internationally. In fact more than 144 countries around the world have accepted this as a way of taxation on commercial activities.

Value-added tax in Bangladesh was introduced in 1991 replacing Sales Tax and most of Excise Duties. The Value Added Tax Act, 1991 was enacted that year and VAT Act was come into enforce from 10 July 1991. For this reason now the Government has declared the 10 July as national VAT Day and every year, the 10 July is observed as National VAT Day in Bangladesh which has started few years back. Over the 25 years, VAT has become the largest source of Government Revenue.

About 38-40% revenue is collected from VAT in Bangladesh which contributes a significant role in the economy of Bangladesh. The Standard VAT rate is 15% in Bangladesh. Apart from these rates, there are some reduced rates which is locally called Truncated Rate, mainly for service sectors. These rates are applied on the service sector. The specified Truncated Rates are 1.5%, 2.25%, 2.4%, 3%, 4%, 4.5%, 5%, 5.5%, 6%, 9%, and 10%.

There are many distortion observed in Bangladesh VAT system, i.e., value declaration for product and service, branch registration, tariff value, truncated rates, many restriction on credit system, lump-sum VAT (package VAT), advance payment of VAT, excessive exemption etc. For many distortions, VAT-GDP ratio is about 4% here.

The VAT and Supplementary Duty Act, 2012 had been adopted to lay down a system where the input tax credit mechanism will operate across almost all economic activities which is a prerequisite of a standard VAT system. It took more than two years to finalize the draft VAT Act. Experienced officers from NBR, Law Ministry, international experts, business community and other stake-holders were involved with the preparation process. While the draft was placed to Cabinet, a high-level committee was formed headed by the Economic Affairs Adviser to the Prime Minister to review the draft. And finally Parliamentary Standing Committee on the Ministry of Finance did the review being instructed by the Parliament. The VAT and Supplementary Duty Act, 2012 had been passed by the Parliament.

To increase productivity of VAT, Government has enacted the Value Added Tax and Supplementary Duty Act of 2012. But unfortunately the Value Added Tax and Supplementary Duty Act 2012 are not yet implemented after passing the five years from its enactment.

The However, it was put on hold amidst a lot of uncertainty and resistance from stakeholders and, primarily, unpreparedness on the part of the government and the business community.

Over the last year, the government has been concentrating all its efforts on building the IT infrastructure for the implementation of its envisioned online VAT project — the backbone of the new VAT law. For smooth implementation of the new VAT law, the government has also initiated various measures to dispel any confusion within the business community at large through television and newspaper advertisements, social media updates, radio broadcasts, etc. As a result, the government seems confident and is determined to implement this new VAT law with effect from July 1, 2017. The new VAT law aims to initiate the modernization and digitization of the tax system in Bangladesh. The transition from a manual to a virtual VAT administration will assist in overcoming bureaucratic hurdles that businesses currently have to deal with under the present VAT system. Other than simplifying the multiple VAT rates into one standardized rate, i.e. 15%, the new act has also introduced other benefits.

### **Value Added Tax (VAT)**

Value Added Tax (VAT) is a percentage-wise tax on the value added to a commodity or service as each constituent stage of its production and distribution is completed.

VAT may be classified in three ways:

- i. On the basis of coverage of stages - throughout the production and distribution stages, or confined to limited stages - manufacturing plus wholesale, or wholesale plus retail;
- ii. On the basis of the method of calculation - tax credit method, subtraction method, and addition method; and
- iii. On the basis of tax treatment of final-product capital goods such as machinery, equipment, and supplies - the consumption form, the income form, and the product variety.

Thus the three broad types of VAT are the Gross National Product (GNP) type, income type and consumption type.

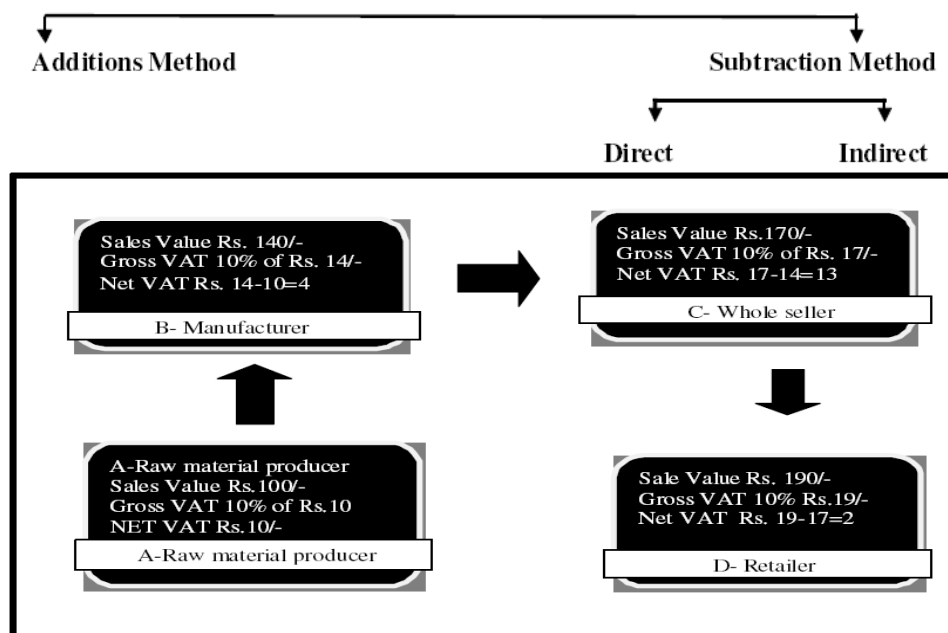
VAT is to be paid as withholding tax and VAT is collected, deducted and deposited by the receiver of the services or the persons paying the price or commission as the case may be. For any other goods and class of goods or services, VAT is to be paid at the time as indicated in the NBR rule. Taxation remains a poor tool of government revenue collection in Bangladesh. Taxes to GDP (gross domestic ratio) ratios are usually not high in South Asia. But in case of Bangladesh the figure is alarmingly low - only a little higher than 9%, while the average for South Asian countries is 11%, the developing countries more than 15%, the industrialized countries 30%, and high income countries 24%.

Exempted Goods from value added tax are included in the First schedule, Exempted services from value added tax are included in the Second schedule and the Supplementary duty imposable goods and services are included in the Third schedule of the VAT Act. are subject to VAT. Almost the whole economy falls under the VAT-net and as a consumption tax, VAT is supposed to streamline the economic activities with corrective measures by applying supplementary duty.

The objective of introduction of VAT in Bangladesh significantly to raise the tax revenue collection and behind the introducing of VAT in Bangladesh were to (a) bring transparency in the taxation system; (b) prohibit cascading taxation at different stages of production; (c) consolidate the tax administration; (d) activate the overall economy by mobilizing more internal resources; and (e) bring a consistency in the tax-GDP ratio.

In April 1979, the Taxation Enquiry Commission (TEC) officially took up the issue of introducing VAT in Bangladesh as an alternate to sales tax. Until 1982, sales tax was being collected under the Sales Tax Act 1951, which was replaced by the Sales Tax Ordinance 1982 with effect from 1 July 1982. The World Bank played the pioneering role in introduction of VAT in Bangladesh. The Value Added Tax Act. 1991 was introduced in Bangladesh in 1 July 1991. The Value Added Tax and Supplementary Duty Act. 2012 had been passed by the parliament.

**Figure 1: Diagrammatic representation-Calculating VAT**  
Methods of computation of tax liability



Total VAT collected at four points. Rs. 10+4+3+2= Rs. 19/-, Source: A guide on Value Added Tax, Codissia (March, 2003). The Coimbatore District Small Industries Association, Coimbatore.

## OBJECTIVES OF THE STUDY

In the context the present research program is formulated to study the factors of VAT in Bangladesh with the major objectives mentioned below:

1. To find out the areas of impacts of New Value Added and Supplementary Tax (VAT) Act 2012 in Bangladesh.
2. To analyze the effects of New Value Added and Supplementary Tax (VAT) Act 2012 on the business, mass people and government revenue of Bangladesh.
3. To find out the ways of solution of impacts of New Value Added and Supplementary Tax (VAT) Act 2012.

## METHODOLOGY

**Research Methods:** This study employed both quantitative and qualitative methods as a combined research approach (also called integrated approach). The study collected data and information from both primary and secondary sources in two phases. First, the study analyzed available literatures and documents to understand the theory and framework and study instruments on Value Added Tax (VAT). Secondly, a *questionnaire survey* had been employed to assess the Impact of New VAT and Supplementary Act-2012 on Business, customer and economy of Bangladesh. In addition, in this study, the following independent variables or factors had been assessed: occupation, VAT expert, VAT Professional, NBR Personnel etc. The questionnaire was initially prepared in English and translated into local language, then retranslated to check consistency. Filled questionnaires had been back-checked daily for their completeness by the researcher. Data had been collected via face-to-face interview with the respondents of the study area. The study approach had been participatory in nature that ensured meaningful participation of a range of stakeholders in the entire process of the study. It had employed appropriate research techniques and valid tools to ensure the study realistic, viable and reliable leading to ensuring validity of the findings.

**Research Design of the Study:** The choice of an appropriate research design is essential for a scientific study since it gives a framework of what the researcher do from setting the research question to the operational implications of the data analysis. A research design is 'the arrangements of conditions form collection and analysis of data in a manner that aims to combine relevance to the

research purpose with economy in procedure' (Selltiz 1965 cited in Aminuzzaman 1991, p.53). The study is focused to evaluate the impact of VAT and Supplementary Duty Act 2012 in the change of VAT Act (system) in Bangladesh. Hence, descriptive and analytical research designs have been chosen. Because descriptive research design helps to describe the current practices and events while analytical research design enables to establish relationship between variables (Aminuzzaman 1991). Here the research design of the present study is survey type.

**Study Area:** The study was conducted at Dhaka district in Bangladesh. In Bangladesh, there are eight divisions. The selected study areas weighted for selection due to researcher working place in Dhaka. So it was easily access in the field, participate, observation and its interviews from the sample. However, in the field of urban study has tried to understand in depth of the problem VAT and compare between the new VAT and Supplementary Duty Act 2012 and previous VAT law, 1991 as well.

**Sampling Method:** Basically, purposive sampling method was used in the study so as to get the best information to achieve the objectives of the study. This method gave flexibility to the researcher to pick up only people who are likely to have the required information and be willing to share it. Moreover, the sampling method helped to ensure representation of different variation of service providers as well as service seekers. In other words, heterogeneity in the composition of sample of service seekers and providers (age, sex, senior-junior officials, education, and profession) was attempted to maintain as possible. Therefore in this study a combination of quantitative and qualitative methods were used. The question might arise why combination of these methods were used. Because as Creswell (1994:177) suggests, that it is advantageous to a researcher to combine methods to better understand a concept being tested or explored. Each approach has its strengths and its weaknesses, and reliance on anyone method is not appropriate. Therefore, in this research quantitative and qualitative research was used to better understanding as well as in depth to know the domain of the study.

### Sample Size

580 people from the stake holders in selected area. Break-up of sampling technique and sampling distribution have given in table 1. The study area and sample of different stakeholders are proportionately distributed.

**Table 1: Sample distribution**

Civil Society	Advocates	Consumers	NBR Personnel	Businessmen	Journalists	Professionals	VAT Practitioners	Economists	Total
20	20	20	20	20	20	20	400	40	580

**Sources of Data:** Generally, there are two different sources of collecting data, viz., primary sources and secondary sources. The present study is based on both primary and secondary sources of data. Primary data were collected from the respondents of the study area directly using different data collection techniques. On the other hand, the study has used different relevant publications, dissertations, books, journal articles, NBR and other reports, and NBR websites etc. as sources of secondary data. The data were collected from secondary sources must be useful to cross validate primary data and also to analyze the relationship among variables. Primary data were collected from the Dhaka district in Bangladesh.

**Data Collection Method:** The study conducted based on both primary and secondary data. Primary data were collected through interviews and Questionnaire survey. Structured questionnaire containing

both open and closed ended to be used. A survey through a standardized questionnaire was conducted to collect both quantitative and qualitative information from. One questionnaire was used for collecting primary data such for interviewed through this survey. Secondary data and information were collected besides the primary sources side by side secondary data were gathered from journal articles, published books, government documents, National Board of Revenue Annual Report, policies, etc. At the same time the present study has collected qualitative data through face to face interview by using a check list, Case study and Key Information Interview (KII).

**Data Processing and Analysis:** In qualitative study the researcher has the freedom to marshal gathered data to meet the desired objectives of the study (Creswell 2009). Partial data of questionnaire survey was processed using simple statistics. The rest of the data were explained carefully to meet the aim of the study and research question and also attempted to establish relation among the variables. Some important and strong statements were referred in the analysis part to add value to the findings. Endeavor was make firstly to unleash the potential of new VAT and Supplementary Duty Act 2012 and to rationalize its institutionalization; secondly to detect the challenges, prospects and finally to put some light on to overcome the barriers. Computer Program Microsoft Excel was used for data analysis. Data were analyzed according to the objectives of the study. Tables, graphs and statistical analysis were done by Computer Program Microsoft Excel.

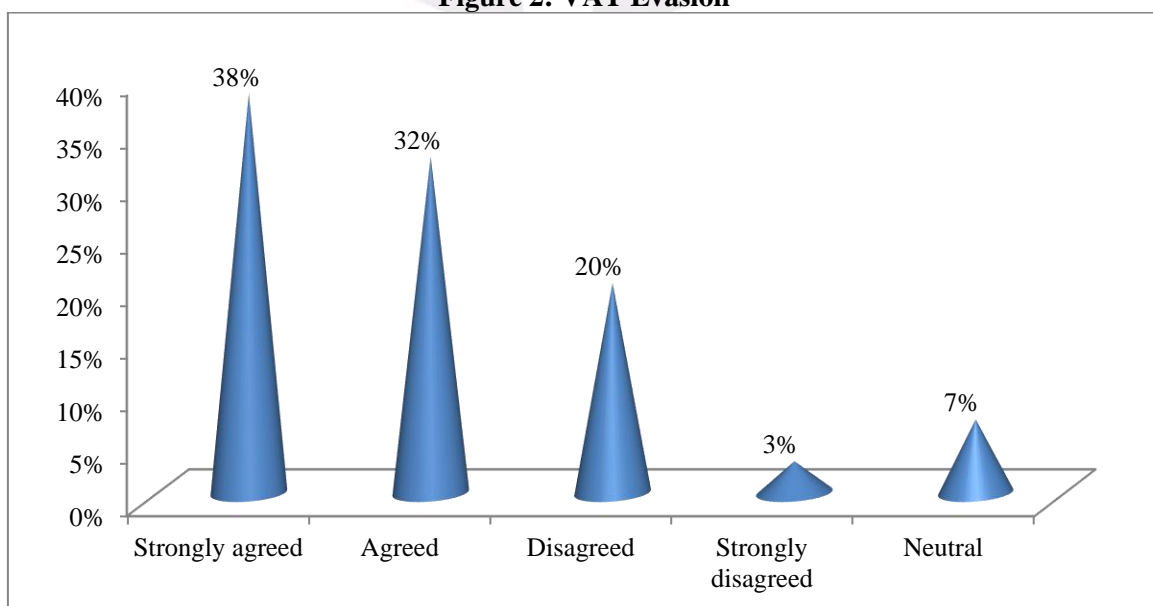
## RESULTS AND DISCUSSION

**Table 2: VAT Evasion**

Respondents' Opinion	Percent
Strongly agreed	38%
Agreed	32%
Disagreed	20%
Strongly disagreed	3%
Neutral	7%
Total	100%

Source: Field Survey

**Figure 2: VAT Evasion**



Source: Field Survey

Whether VAT Evasion occurred in Bangladesh has shown in the above table and graph. From the result it was found that 38% respondents strongly agreed that VAT evasion occurred in Bangladesh which was the maximum but 3% respondents strongly disagreed that VAT evasion occurred in

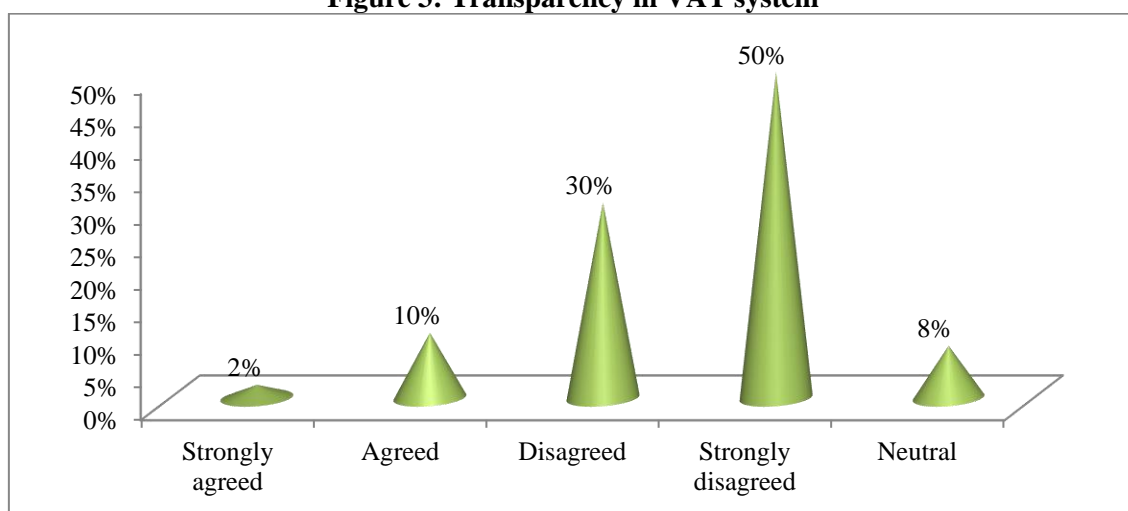
Bangladesh. On the other hand 32% respondents agreed that VAT evasion occurred in Bangladesh, 20% respondents disagreed that VAT evasion occurred in Bangladesh. Only 7% respondents were neutral.

**Table 3: Transparency in VAT system**

Respondents' Opinion	Percent
Strongly agreed	5%
Agreed	10%
Disagreed	30%
Strongly disagreed	50%
Neutral	5%
Total	100%

Source: Field Survey

**Figure 3: Transparency in VAT system**



Source: Field Survey

Whether VAT system of Bangladesh is transparent has shown in the above table and graph. From the result it was found that 50% respondents strongly disagreed that the VAT system of Bangladesh is transparent which the maximum was but only 2% respondents were strongly agreed that the VAT system of Bangladesh is transparent which was minimum. On the other hand 10% respondents agreed that the VAT system of Bangladesh is transparent, 30% respondents disagreed that the VAT system of Bangladesh is transparent. Only 8% respondents were neutral in this matter.

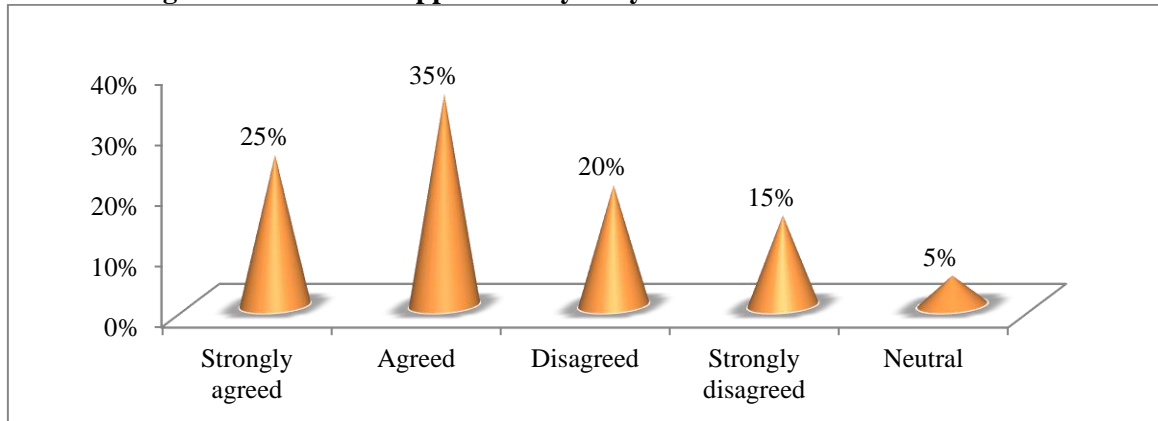
**Table 4: VAT and Supplementary Duty increase Government Revenue**

Respondents' Opinion	Percent
Strongly agreed	25%
Agreed	35%
Disagreed	20%
Strongly disagreed	15%
Neutral	5%
Total	100%

Source: Field Survey



**Figure 4: VAT and Supplementary Duty increase Government Revenue**



Source: Field Survey

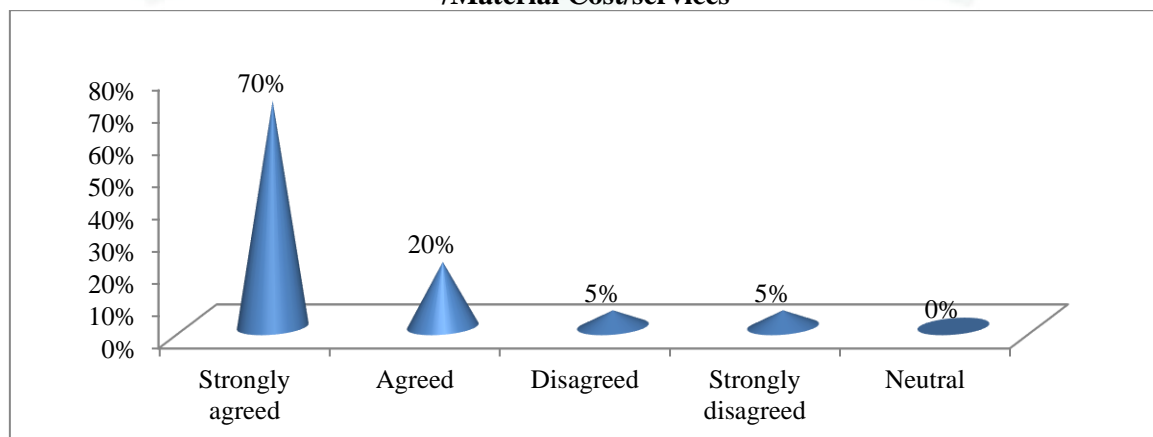
Whether VAT and Supplementary Duty increase Government Revenue has shown in the above table and graph. From the result it was found that 35% respondents replied that VAT and Supplementary Duty will increase Government Revenue which was the maximum but only 5% respondents was neutral which was the minimum. On the other hand 25% respondents strongly agreed that VAT and Supplementary Duty will increase Government Revenue, 20% respondents disagreed that VAT and Supplementary Duty will increase Government Revenue and 15% respondents strongly disagreed that VAT and Supplementary Duty will increase Government Revenue.

**Table 5: Whether VAT and Supplementary Duty Act 2012 influence the price of goods /Material Cost/services**

Respondents' Opinion	Percent
Strongly agreed	70%
Agreed	20%
Disagreed	5%
Strongly disagreed	5%
Neutral	0%
Total	100%

Source: Field Survey

**Figure 5: Whether VAT and Supplementary Duty Act 2012 influence the price of goods /Material Cost/services**



Source: Field Survey

Whether VAT and Supplementary Duty Act 2012 influence the price of goods /Material Cost/services has shown in the above table and graph. From the result it was found that 70% respondents strongly agreed that VAT and Supplementary Duty Act 2012 will influence the price of goods /Material Cost/services which was the maximum but only 0% respondents were neutral. On the other hand 20%

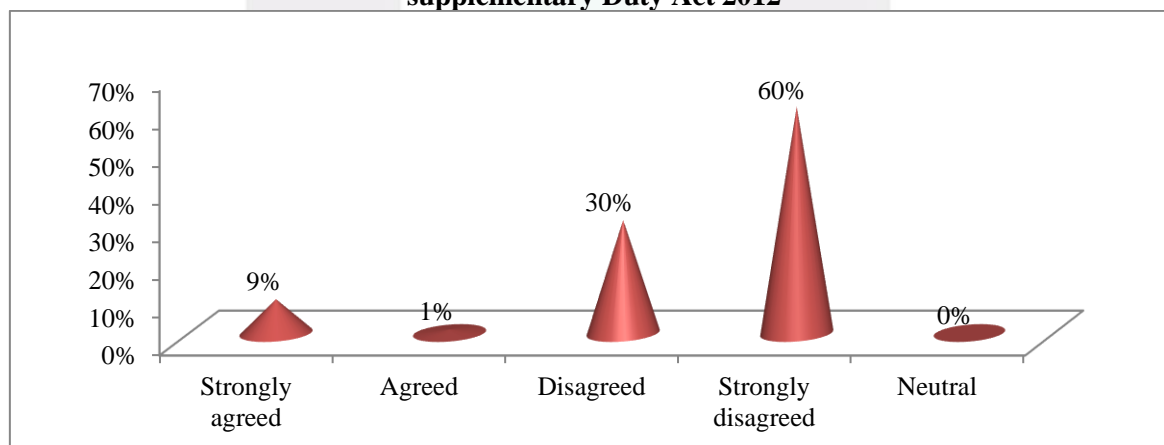
respondents were agreed that VAT and Supplementary Duty Act 2012 will influence the price of goods /Material Cost/services, 5% respondents were disagreed that VAT and Supplementary Duty Act 2012 will influence the price of goods /Material Cost/services and 5% respondents were strongly disagreed that VAT and Supplementary Duty Act 2012 will influence the price of goods /Material Cost/services.

**Table 6: Whether the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012**

Respondents' Opinion	Percent
Strongly agreed	9%
Agreed	1%
Disagreed	30%
Strongly disagreed	60%
Neutral	0%
Total	100%

Source: Field Survey

**Figure 6: Whether the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012**



Source: Field Survey

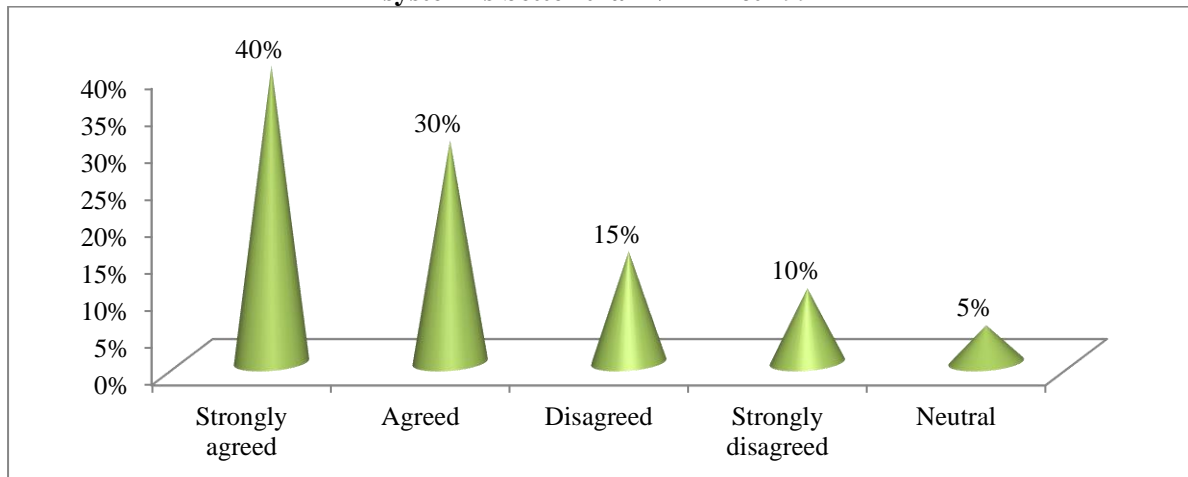
Whether the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012 has shown in the above table and graph. From the result it was found that 60% respondents strongly disagreed that the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012 which was the maximum but 0% respondents were neutral which was the minimum. On the other hand 9% respondents were strongly agreed that the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012, 1% respondents were agreed that the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012, 30% respondents were disagreed that the people of Bangladesh are very much aware about VAT and supplementary Duty Act 2012.

**Table 7: Whether the VAT and Supplementary Duty Act 2012 system is better than VAT Act 1991**

Respondents' Opinion	Percent
Strongly agreed	40%
Agreed	30%
Disagreed	15%
Strongly disagreed	10%
Neutral	5%
Total	100%

Source: Field Survey

**Figure 7: Whether the VAT and Supplementary Duty Act 2012 system is better than VAT Act 1991**



Source: Field Survey

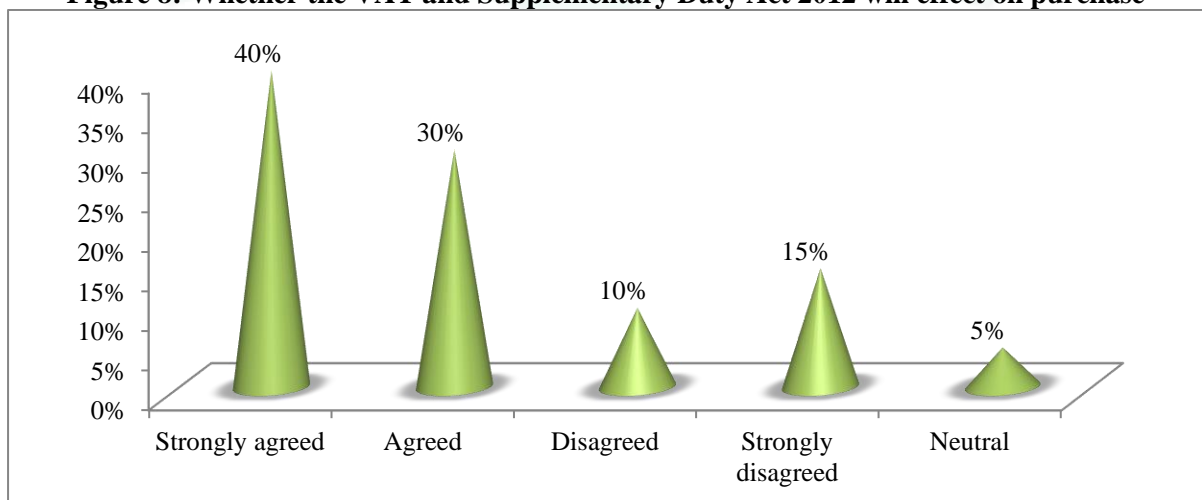
Whether the VAT and Supplementary Duty Act 2012 system is better than VAT Act 1991 has shown in the above table and graph. The result revealed that 40% respondents strongly agreed that the VAT and Supplementary Duty Act 2012 system is better than VAT Act 1991 which was the maximum but 5% respondents were neutral that the VAT and Supplementary Duty Act 2012 system is better than VAT Act 1991. On the other hand 30% respondents were agreed that the VAT and Supplementary Duty Act 2012 system is better than VAT Act 1991.

**Table 8: Whether the VAT and Supplementary Duty Act 2012 will effect on purchase**

Respondents' Opinion	Percent
Strongly agreed	40%
Agreed	30%
Disagreed	10%
Strongly disagreed	15%
Neutral	5%
Total	100%

Source: Field Survey

**Figure 8: Whether the VAT and Supplementary Duty Act 2012 will effect on purchase**



Source: Field Survey, 2018

Whether the VAT and Supplementary Duty Act 2012 will effect on purchase has shown in the above table and graph. The result revealed that 40% respondents were strongly agreed the VAT and

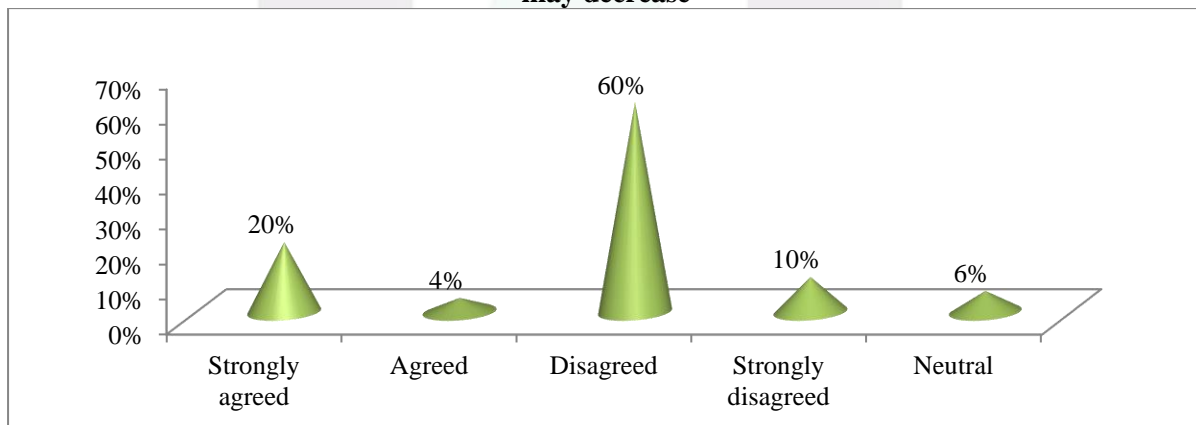
Supplementary Duty Act 2012 will effect on purchase which was the maximum but 5% respondents were neutral which was the minimum. On the other hand 30% respondents were agreed that the VAT and Supplementary Duty Act 2012 will effect on purchase, 10% respondents were disagreed that the VAT and Supplementary Duty Act 2012 will effect on purchase and 15% respondents were strongly disagreed the VAT and Supplementary Duty Act 2012 will effect on purchase.

**Table 9: Whether due to the effect of VAT and Supplementary Duty Act 2012 Revenue Growth may decrease**

Respondents' Opinion	Percent
Strongly agreed	20%
Agreed	4%
Disagreed	60%
Strongly disagreed	10%
Neutral	6%
Total	100%

Source: Field Survey

**Figure 9: Whether due to the effect of VAT and Supplementary Duty Act 2012 Revenue Growth may decrease**



Source: Field Survey

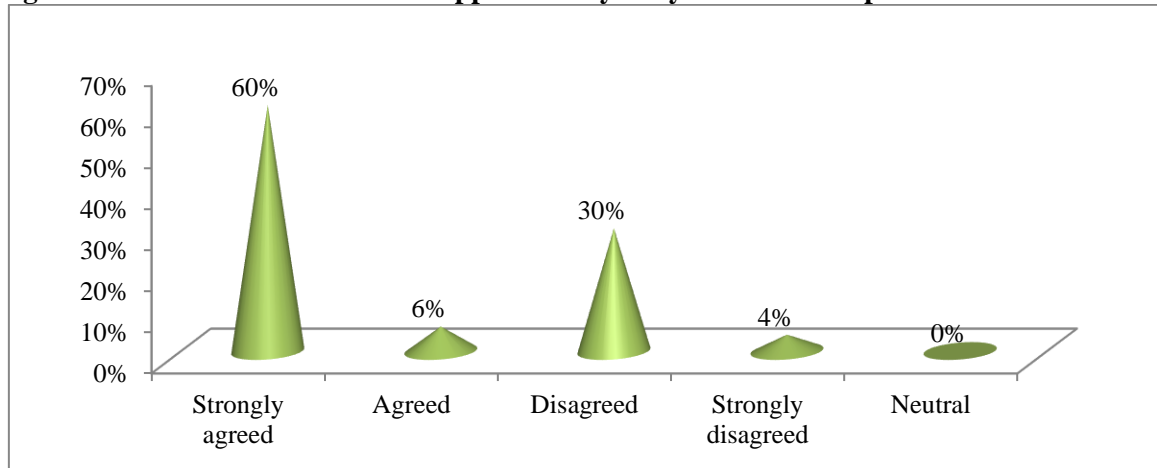
Whether due to the effect of VAT and Supplementary Duty Act 2012, Revenue Growth may decrease has shown in the above table and graph. The result revealed that 60% respondents disagreed that due to the effect of VAT and Supplementary Duty Act 2012, Revenue Growth may decrease which was the maximum but only 4% respondents disagreed that due to the effect of VAT and Supplementary Duty Act 2012, Revenue Growth may decrease which was the minimum. On the other hand 20% respondents were strongly agreed that due to the effect of VAT and Supplementary Duty Act 2012, Revenue Growth may decrease, 10% respondents were strongly disagreed that due to the effect of VAT and Supplementary Duty Act 2012, Revenue Growth may decrease.

**Table 10: Whether the VAT and Supplementary Duty Act 2012 hamper business in VAT rate**

Respondents' Opinion	Percent
Strongly agreed	60%
Agreed	6%
Disagreed	30%
Strongly disagreed	4%
Neutral	0%
Total	100%

Source: Field Survey,

**Figure 10: Whether the VAT and Supplementary Duty Act 2012 hamper business in VAT rate**



Source: Field Survey

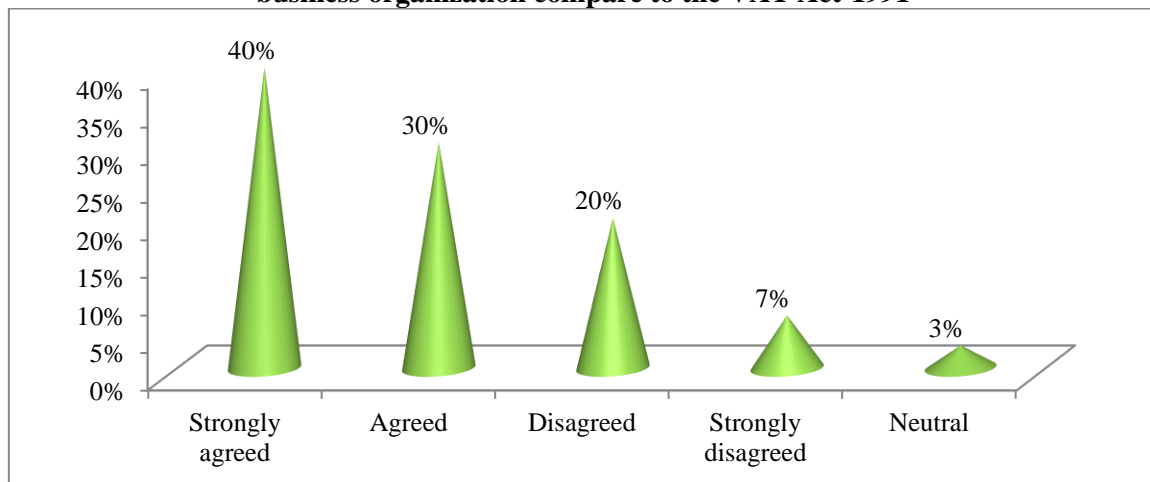
Whether the VAT and Supplementary Duty Act 2012 hamper business in VAT rate has shown in the above table and graph. The result revealed that 60% respondents were strongly agreed that the VAT and Supplementary Duty Act 2012 hamper business in VAT rate which was the maximum but 0% respondents were neutral which was the minimum. On the other hand 6% respondents were agreed that the VAT and Supplementary Duty Act 2012 hamper business in VAT rate, 30% respondents were disagreed that the VAT and Supplementary Duty Act 2012 hamper business in VAT rate 4 % respondents were strongly disagreed that the VAT and Supplementary Duty Act 2012 hamper business in VAT rate.

**Table 11: Whether VAT and Supplementary Act 2012 reduce the cost burden of business organization compare to the VAT Act-1991**

Respondents' Opinion	Percent
Strongly agreed	40%
Agreed	30%
Disagreed	20%
Strongly disagreed	7%
Neutral	3%
Total	100%

Source: Field Survey

**Figure 11: Whether VAT and Supplementary Act 2012 reduce the cost burden of business organization compare to the VAT Act-1991**



Source: Field Survey

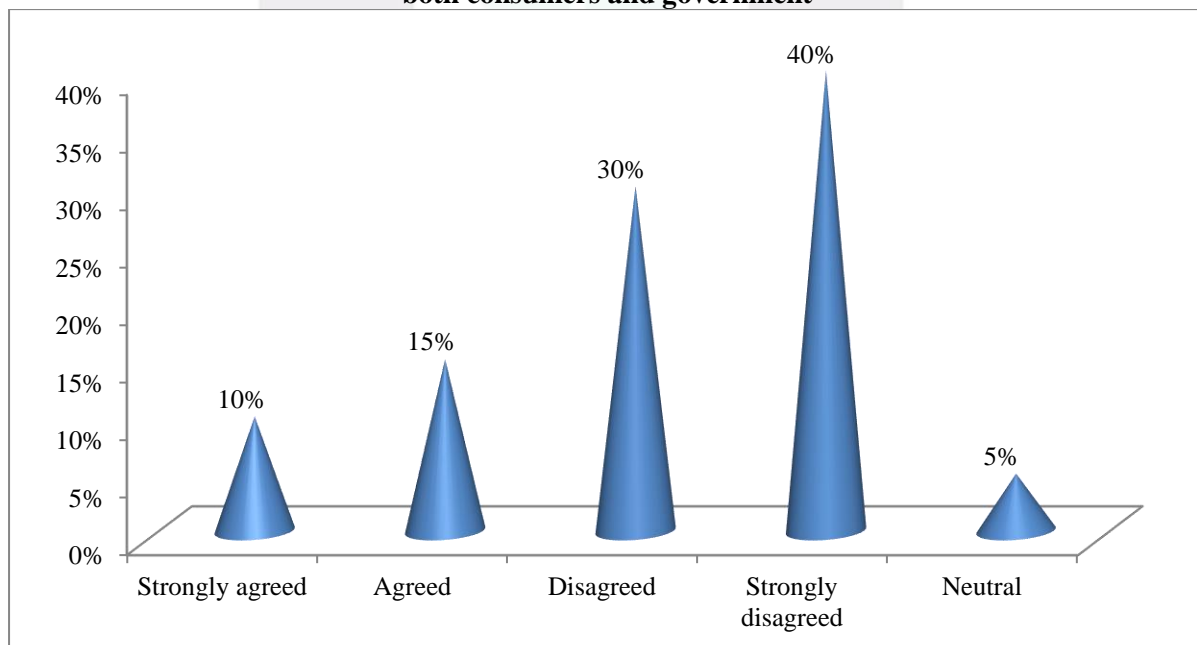
Whether VAT and Supplementary Act 2012 reduce the cost burden of business organization compare to the VAT Act-1991 has shown in the above table and graph. The result revealed that 40% respondents were strongly agreed that VAT and Supplementary Act 2012 reduce the cost burden of business organization compare to the VAT Act-1991 which was the maximum but 3% respondents were neutral in this matter. On the other hand 30% respondents agreed that VAT and Supplementary Act 2012 reduce the cost burden of business organization, 20% respondents disagreed that VAT and Supplementary Act 2012 reduce the cost burden of business organization and 7% respondents agreed that VAT and Supplementary Act 2012 reduce the cost burden of business organization.

**Table 12: Whether the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government**

Respondents' Opinion	Percent
Strongly agreed	10%
Agreed	15%
Disagreed	30%
Strongly disagreed	40%
Neutral	5%
Total	100%

Source: Field Survey

**Figure 12: Whether the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government**



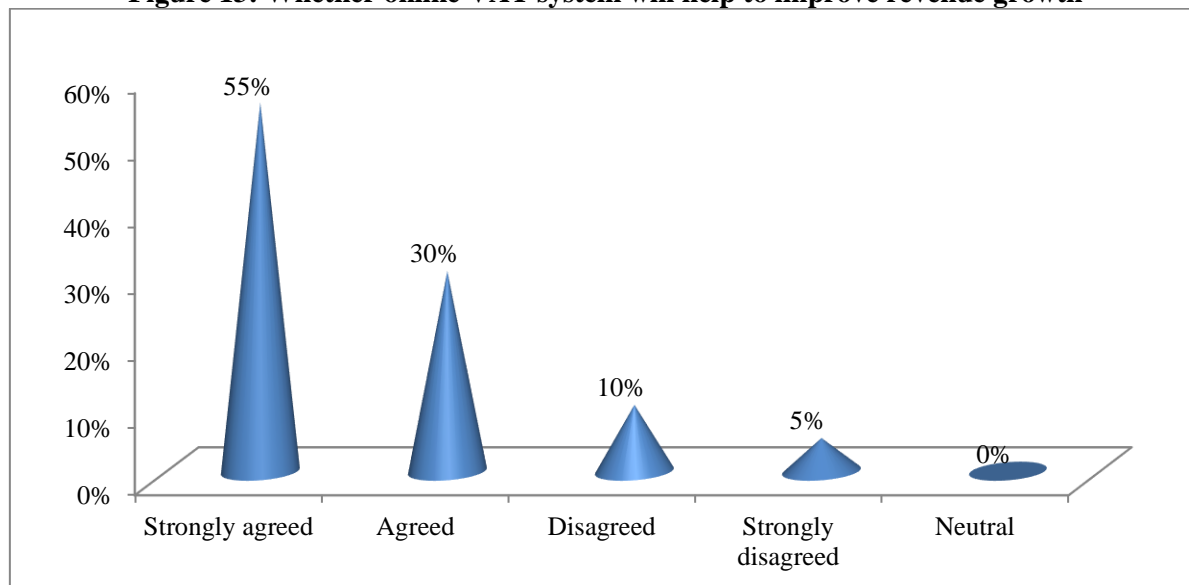
Source: Field Survey

Whether the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government has shown in the above table and graph. From the result it was found that 40% respondents strongly disagreed that the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government which was the maximum but 5% respondents were neutral in this matter. On the other hand 30% respondents were disagreed that the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government, 15% respondents agreed that the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government and 10% respondents strongly agreed that the VAT and Supplementary Duty Act 2012 capable mutual benefits to the both consumers and government.

**Table 13: Whether online VAT system will help to improve revenue growth**

Respondents' Opinion	Percent
Strongly agreed	55%
Agreed	30%
Disagreed	10%
Strongly disagreed	5%
Neutral	0%
Total	100%

Source: Field Survey

**Figure 13: Whether online VAT system will help to improve revenue growth**

Source: Field Survey

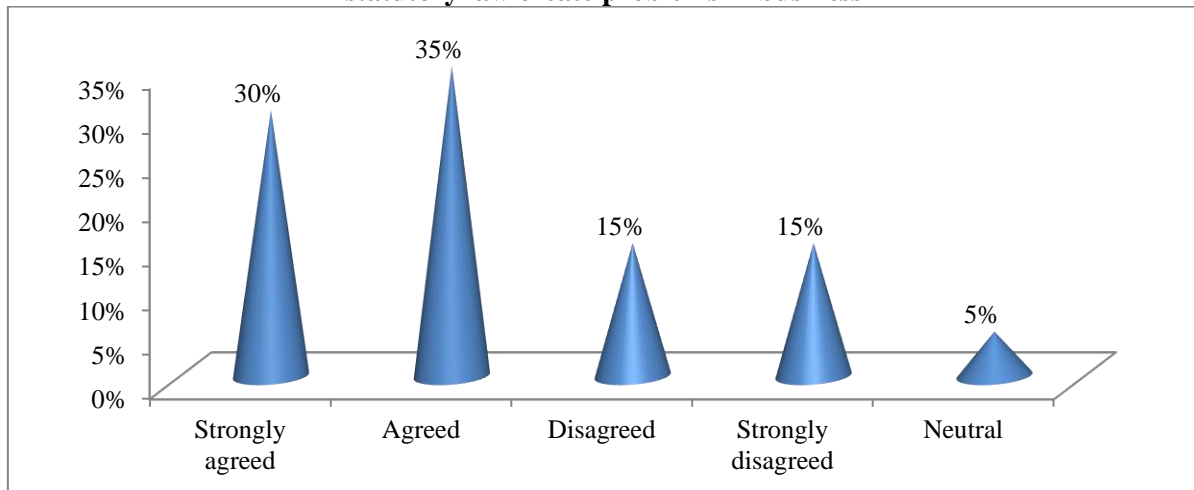
Whether online VAT system will help to improve revenue growth has shown in the above table and graph. From the result it was found that 55% respondents were strongly agreed that online VAT system will help to improve revenue growth which was the maximum but 0% respondents were neutral in this matter which was the minimum. On the other hand 30% respondents were agreed that online VAT system will help to improve revenue growth, 10% respondents were disagreed that online VAT system will help to improve revenue growth and 5% respondents were strongly disagreed that online VAT system will help to improve revenue growth.

**Table 14: Whether the conflict between the head of accounts and definition of services by the statutory law create problems in business**

Respondents' Opinion	Percent
Strongly agreed	30%
Agreed	35%
Disagreed	15%
Strongly disagreed	15%
Neutral	5%
Total	100%

Source: Field Survey

**Figure 14: Whether the conflict between the head of accounts and definition of services by the statutory law create problems in business**



Source: Field Survey

Whether the conflict between the head of accounts and definition of services by the statutory law create problems in business has shown in the above table and graph. From the result it was found that 35% respondents were agreed that the conflict in between the head of accounts and definition of services by the statutory law create problems in business which was the maximum but 5% respondents were neutral in this matter which was the minimum. On the other hand 30% respondents were strongly agreed that the conflict between the head of accounts and definition of services by the statutory law create problems in business, 15% respondents were disagreed that the conflict between the head of accounts and definition of services by the statutory law create problems in business and 15% respondents were strongly disagreed that the conflict between the head of accounts and definition of services by the statutory law create problems in business.

### SUMMARY

VAT has now become the largest source of revenue for the government, even more so than revenue from income tax and import duties. But does the VAT that consumers pay even go where it is supposed to? One of the main concerns of consumers countrywide has been the imposition of a flat 15 percent value added tax (VAT) rate on most goods and services. Few companies are paying VAT properly but there are many companies are not paying VAT properly. Certain businesses—restaurants, sweetmeat shops, and branded stores in particular cheat on paying the VAT received during transactions to the National Board of Revenue (NBR).

There are many challenges to collect VAT; however, one of the most important challenges in ensuring effective VAT collection comes from the consumers themselves. The consumers of Bangladesh are eager to pay VAT. How judiciously do consumers ask for a VAT receipt or check the electronic receipts for VAT details when paying the bill? There is just not a practice of requesting VAT receipts or challan in this country and this is a big drawback. Small stores and restaurants actively encourage customers to opt out of VAT by not issuing a receipt. If a customer requests a receipt, he or she is then charged the 15 percent VAT in addition to their bill.

At present it is illegal for restaurants to issue blue challan as the manual system of receipts has long allowed restaurants and other business to get away with tax evasion. The government has introduced measures to ensure VAT is going into government coffers instead of being pocketed by businesses. Since 2009, it has been mandatory for 11 types of businesses to use Electronic Cash Register (ECR) machines and Point of Sale terminals in Bangladesh. These measures are applicable for hotels, restaurants, sweetmeat shops, jewelry stores, beauty parlours, furniture outlets and community centres, stores in shopping malls, department/general stores, wholesale shops, and retailers. This is not however the blue receipts of the past. For businesses using ECRs, consumers can



simply check that their receipts show a VAT registration number or Business Identification Number (BIN). For the VAT Smart consumer, the validity of the BIN can be checked on the NBR website or via the VAT Checker app easily downloaded, the latter can make finding cases of VAT fraud even easier as consumers can also directly complain to the NBR using the app.

VAT evasion is still commonplace by shopkeepers who use non-government ECRs or display the machines but claim that these are out of order. NBR is providing a further 50,000 ECRs to eligible businesses around the country in August-September in 2017. Many shops informally provide handwritten receipts if requested. In these cases, consumers still receive this challan, though invalid, following a transaction. This way, Government can eventually catch such retailers for evading or reducing VAT on official receipts.

The VAT system is now automated under the Value Added Tax and Supplementary Duty Act 2012. Originally intended to come into effect in 2015, it faced significant backlash from stakeholders, especially the business community. It is finally set to be implemented from July 1 in 2017. On 18 February 2019, Government has given permission to 11 companies to sell and support VAT software to domestic and multinational companies. By the software the companies can give VAT to the government automatically.

“The Value Added Tax and Supplementary Duty Act 2012 law is simpler, there is less distortion because a single rate is applied, and scope for tax evasion is reduced. The World Bank funds and provides technical assistance to the VAT Online Project of Bangladesh Government. If properly implemented, an increase in revenue collections over the next three years can be expected, leading to a positive impact in the GDP of the country.

The NBR has rolled out a dedicated website for taxpayers to learn how to register, pay, and file returns online. This is especially convenient for businesses which can now ensure regular compliance from their offices instead of rushing back and forth to the tax offices. Business owners are required to obtain a unique BIN by doing VAT registration online. As of June 2018, online registration of 40,699 eBINs has taken place across the country, according to NBR data.

From the study it was found that out of 13 BIN status of eateries and super shops by inputting the VAT registration numbers (old BINs) using the feature on the NBR website and found 12 to be registered taxpayers. One electronic receipt from a restaurant, Red Chick'n, did not have any VAT registration number printed on it, though it charged VAT, identifying the business as a non-compliant taxpayer.

Bangladeshi consumers are increasingly performing their own brand of vigilance by actively complaining about fast food shops and restaurants in particular evading VAT. Around 4000-5000 calls are received daily at the field offices of the NBR. More recently, complaints (including picture evidence of receipts) are posted directly on the NBR's Facebook pages. In addition, regular Facebook status updates and posts on popular pages such as Desperately Seeking – Dhaka are done by consumers who used the NBR website or the VAT Checker app and found certain businesses not registered or using an invalid BIN.

## RECOMMENDATIONS

Based on the results, the recommendations of the study are as follows:

1. The Bangladesh National Board of Revenue (NBR) should measure the VAT gap using the methodologies in this document. This will allow the NBR to determine if the new VAT system has succeeded in its goal of reducing non-compliance. The measurement should start with the introduction of the new VAT regime in 2012.
2. Report both the gross and net VAT gap estimates as a macro performance indicator of the NBR.
3. In order to ensure the VAT gap estimates are as accurate as possible, a thorough review of all the data components used in assessing the tax gap needs to be conducted.

This includes

- a. The value of VAT on inputs into exempt supplies and the size of VAT concessions under the new Act. The Bangladesh National Board of Revenue should look into the feasibility of undertaking a tax expenditure assessment that estimates the size of VAT concessions. Producing estimates of tax expenditures, in addition to the compliance gap, would also be useful for analyzing the VAT system as a whole.
- b. Review the relevant components of the Bangladesh Bureau of Statistics National Accounts estimates and the accuracy of NBR data to help improve the tax gap estimates. This includes:
  - i. Value of purchases by residents worldwide and purchases by non-residents in Bangladesh (including tourist refund scheme data). Other relevant incomplete data from the Bangladesh GDP estimates should also be determined.
  - ii. Collect accurate data on the value of VAT payable and credits claimed by industry.
  - iii. Ability to estimate the value of accrued VAT receipts per year.
4. Explore use of statistical techniques to estimate the gap using operational audit data. Bottom up estimates could also be performed using a random audit approach in order to determine the composition of the gap.
5. The Bangladesh National Board of Revenue should undertake effectiveness analysis to determine the effectiveness of their compliance strategies.
6. The NBR should undertake a thorough communication and engagement strategy if the VAT gap results are released to the public.
7. The NBR should take initiative to analysis of impact of New VAT Act on input rebate and tariff Value List and goods.
8. Vat evasion system should be removed. If VAT accounting system is completely online based or software based it can be possible. Before introducing online VAT system tax payers must be familiar and trained up otherwise it may cause bad impact overall the revenue and businesses of Bangladesh.
9. VAT system can be transparent if each and every sectors of VAT systems are digitalized, audited regularly and monitoring and analysis done regular basis.
10. If VAT and Supplementary Duty Act 2012 is implemented then tariff schedule listed goods such as real estate sectors materials, power and electricity related materials, communication sectors related materials will be directly impacted (prices of the sectors will be increased) as there is no concession rate on the said sectors. Therefore, before implantation the new Act Government should reconsider the 15% VAT rate on the aforesaid sectors.
11. Before implementing VAT and Supplementary Duty Act 2012, Government should analyze deeply and rigorously about the impacts of goods and services sector-wise as well as input VAT credit mechanisms.

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