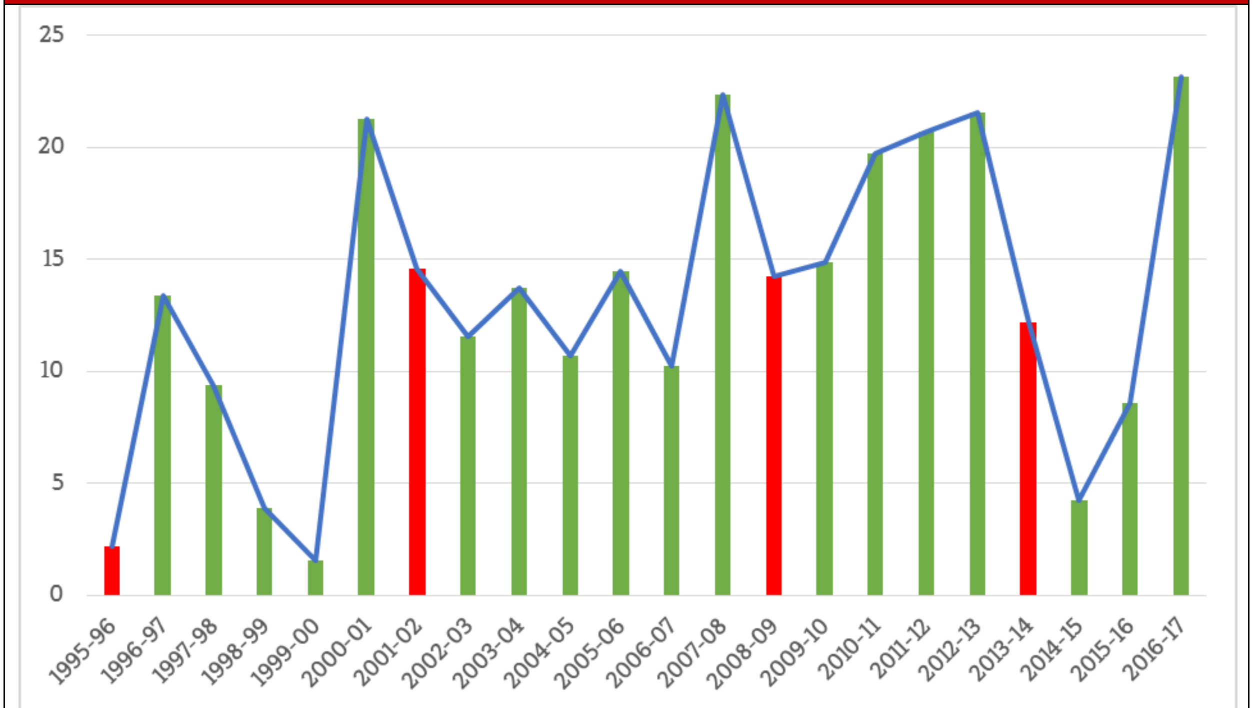
Bangladesh Economic Update

Revenue Mobilisation: Recent Trends and Imminent Challenges

November, 2017

Rate of Growth in Revenue Mobilization (red bars represent the years of national election)



Source: Unnayan Onneshan, *Revenue Mobilisation: Recent Trends and Imminent Challenges*, Bangladesh Economic Update, Volume 8, No. 11, November 2017.

The Unnayan Onneshan (UO), an independent multidisciplinary think tank, in its monthly publication of Bangladesh Economic Update November 2017 reveals that collection of NBR tax revenue falls short of target in the first four months of the current fiscal year.

For the period of July–October 2017, revenue target was set at Tk. 19575 crore for income and travel tax, Tk. 25331.01 crore for value added tax (VAT) at the local level, and Tk. 20552.57 crore for import and export tax, while the actual collections fall short by 13 percent, 9.55 percent, and 7.78 percent respectively.

Analysing historical data of revenue mobilization, the think tank comments that the trend in the growth of revenue collection has never been stable, let alone increasing. In view of the fact that revenue collection has particularly been assuming a declining trend in the periods of national elections since the FY 1994-95, the UO fears a drop in revenue growth in the coming years.

For instance, the research organization evinces that revenue growth fell to 14.59 percent in FY 2001-02 from 21.26 percent in FY 2000-01, to 14.27 percent in FY 2008-09 from 22.37

percent in FY 2007-08, and to 12.17 percent in FY 2013-14 from 21.57 percent in FY 2012-13. Furthermore, the rate of growth in revenue collection has declined in recent years, averaging 13.96 percent in the last five fiscal years (FY 2012 – FY 2017) compared to 18.4 percent in the preceding five fiscal years (FY 2007 – FY 2012).

The UO notes that Bangladesh has the potential to increase the mobilization of its revenue up to 22 percent of gross domestic product (GDP) whereas the total revenue mobilization as percentage of GDP remained almost stagnant and stood at 11.65 percent, 11.66 percent, 10.78 percent, 10.26 percent, and 11.17 percent in FY 2012-13, FY 2013-14, FY 2014-15, FY 2015-16 and FY 2016-17 respectively.

According to the latest statistics, total collection of NBR tax revenue in the first four months of FY 2017-18 has stood at Tk. 58897.49 crore against the four months' target of Tk. 65458.58 crore, representing a 10.02 percent shortfall. Taking account of the recent trend, the research organization forecasts that the total collection of revenue may fall short of the target by Tk. 38900 crore in the end of the current fiscal year.

Since the FY 2012-13, collection of total tax revenue as percentage of GDP has been on the decline, although the ratio has slightly increased in FY 2016-17, finds the think tank. The tax-GDP ratio stood at 9.74 percent in FY 2012-13, which declined to 9.69 percent, 9.28 percent, and 8.98 percent in FY 2013-14, FY 2014-15, and FY 2015-16 respectively. However, the ratio rose at 9.79 percent in FY 2016-17.

Taking account of the unsatisfactory performance in collection of income tax which is proposed to be the largest source of revenue and critical to the total revenue mobilization, the think tank demonstrates that the rate of growth in collection of income tax has been declining since FY 2012-13 while the rate improved in the last fiscal year.

In FY 2012-13, the rate of growth in collection of income tax was calculated at 31.35 percent, which fell to 15.61 percent in FY 2013-14, 13.07 percent in FY 2014-15, and 9.89 percent in FY 2015-16. In FY 2016-17, when a particular emphasis was put on collecting highest amount of revenue from income tax, the growth in collection increased to 17.63 percent. Nonetheless, revenue from VAT exceeded that from income tax in FY 2016-17.

The research organization further notes that the rate of growth in collection of VAT also assumes a somewhat declining trend in recent times, except for the FY 2016-17. Growth in the collection of VAT – both at local and import levels – stood at 18.37 percent in FY 2011-12, 15.26 percent in FY 2012-13, 8.15 percent in FY 2013-14, 12.11 percent in FY 2014-15, and 10.96 percent in FY 2015-16. However, the rate increased to 19.4 percent in FY 2016-17.

Urging for increasing strength and effectiveness of the tax administration, the UO suggests that the government must administer its fiscal management in a way that would broaden the tax base on the one hand and ensure the provision of necessary services to the citizens in return for their payment of tax on the other. In addition, the tax administration should be insulated from political influences and provided with more political independence.