



Bangladesh Economic Update

Tax

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SUMMARY

The collection of tax is grossly increasing over the years in Bangladesh but at a slower rate which is inflating the gap between the Mid-Term Budgetary Framework (MTBF) and revenue collection resulting into fiscal deficit for which domestic borrowing of the government is increasing with the declined disbursement of foreign aid. The tax-GDP ratio is low, even in comparison to countries with similar level of economies. Fundamentally, the country's tax system is inherently biased against the ordinary citizens.

There has been an upward mobility in collection of taxes, fuelled by VAT over the years. In FY 2010-11, the total revenue collection was Tk. 98456.78 crore that is 22.43 percent more than that of the previous fiscal year in which the contribution of tax and the non-tax revenue was Tk. 82320.78 crore and Tk. 16136 crore respectively. The NBR revenue collection of FY 2010-11 was Tk.79091.42 crore which was 27.48 percent higher than that of FY 2009-10. In FY 2010-11, the actual collection of non-NBR was Tk. 3229.36 crore which is 13.39 percent higher than that of the previous fiscal year. The target of collecting revenue for FY 2011-12 is Tk. 118385 crore which is 27.51 percent higher than that of the target previous fiscal year. In FY 2011-12, the target of tax revenue is Tk. 95785 crore which is 25.96 percent higher than that of the FY 2010-11 while the target of non-tax revenue is Tk. 22600 crore. The target of collecting NBR revenue in FY 2011-12 is Tk. 91870 crore and non-NBR revenue is Tk. 3915 crore. Under the business as usual scenario it is estimated that, in FY 2015-16, the collection of total revenue might reach at Tk. 134157.32 crore. The continuation of current upward trend might witness the collection of tax revenue at Tk. 112823.32 crore and non-tax revenue at Tk. 21334.00 crore respectively in FY 2015-16. Moreover, NBR revenue might reach at Tk. 108533.28 crore while non-NBR at Tk. 4290.04 crore in FY 2015-16.

The gap between the target set out in Medium Term Budgetary Framework (MTBF) and actual collection is growing and may continue to rise sharply in the upcoming fiscal years, if drastic reforms are not carried out. In FY 2010-11, the actual receipt of total revenue was Tk. 98456.78 crore while MTBF projection of total revenue was Tk. 95188.52 crore which showed a gap of Tk. 3268.26 crore. The gap might increase further in FY 2014-15 and continuation of current trend might witness the flow of revenue at Tk.143065 crore against the MTBF projection of Tk. 195310 crore. The gap between business as usual scenario and MTBF projection for tax in FY 2015-16 might widen to Tk. 75691 crore. The projection of non-tax revenue by MTBF is Tk. 33500 crore in FY 2015-16 but prevalence of recent trend might lead non-tax revenue to reach at Tk. 28433 crore showing a gap of Tk. 5067 crore.

NBR revenues are the dominant components of tax revenue. The contribution of the major sectors of NBR revenue has increased in FY 2010-11. The share of NBR revenue in tax revenue was almost 96 percent in FY 2010-11 while the share of non-NBR revenue was only 3.96 percent. Target for the shares of NBR & Non-NBR revenues on tax revenue for FY 2011-12 are fixed at 95.91 percent and 4.09 percent respectively. In FY 2011-12, NBR revenue from income tax, VAT, and import duty is targeted at Tk. 27561.0 crore, Tk. 34304.0 crore and Tk. 12634.0 crore respectively while supplementary duty is targeted at Tk. 16220.0 crore which is 18.39 percent higher than that of FY 2010-11. Target for the collection of excise and export duty in FY 2011-12 are fixed at Tk. 450.0 and Tk. 30.0 crore respectively. The target of collecting revenue

from import, export & excise duty in FY 2011-12 is Tk. 13114.0 crore which is 8.64 percent higher than that of FY 2010-11.

Major portion of the revenue of the country comes from the collection of the revenue from Value Added Tax (VAT). The rate of VAT in Bangladesh is 15 percent in fiscal year 2011 while it is 12.5 percent in India, 12 percent in Sri Lanka, 5 percent in Japan and 10.25 percent in USA but 20 percent in UK. The excessive rate of VAT in the country imperils the marginalised people. This enlists that the tax system of the country can impose the burden to the poor and there is widespread tax evasion and avoidance by the rich.

With the vertical drift of total expenditure over the years, the government has to depend on domestic borrowing for financing budget. The trend of domestic borrowing has changed drastically in FY 2010-11 and in the current fiscal year, the government has borrowed Tk. 11000 crore from banks during July to October 2011 while the target of borrowing from banks is Tk. 18957 crore. If the current trend prevails, in FY 2014-15, net domestic borrowing might increase to Tk. 35155 crore with borrowings from banks at Tk. 26882 crore while revenue earnings might reach at Tk. 140829 crore. However, expenditure in FY 2014-15, might increase to Tk. 204072. Interest payment is increasing over the years. Domestic share of interest payments is much higher than that of international share of interest payments. The main reason of this is excessive domestic borrowing by the government in recent months. Domestic and foreign interest payment for FY 2011-12 is targeted at 91.79 and 8.21 percent respectively while in 2010-11, the domestic share of interest payment was 90.25 percent and the foreign interest payment was only 9.75 percent.

Previously, subsidy in agriculture and social sector hold the largest share. However, in recent years a different scenario is seen. Though the rate of subsidy is following an upward trend over the years, the allocation of subsidy in agricultural and social sector in FY 2011-12 has decreased while subsidy in power sector is increased. In FY 2011-12, the government has targeted total subsidy at Tk. 9286 crore which is lower by Tk. 125 crore or 1.33 percent than that of FY 2009-10. In FY 2011-12, allocation for agriculture subsidy has declined by 22.27 percent than that of FY 2008-09 and stands at Tk. 4500 crore. In power sector, the allocated subsidy has increased more than 400 times than that of FY 2008-09 and reached at Tk. 5200 crore in FY 2011-12. If the current trend continues, total subsidy will increase to Tk. 13362 crore, while power and agriculture subsidy might stand at Tk. 9393 and 3211 crore in FY 2015-16.

Similarly, domestic borrowing is also on the rise and in FY 2010-11, the amount of domestic borrowing was Tk. 24817 crore while it was targeted to be Tk. 27208 crore in FY 2011-12 that is 9.63 percent higher than that of FY 2010-11. Government has to repay the foreign debt which is also increasing over the years. In FY 2011-12, Tk.13058 crore is allocated to repay foreign debt that is 1.5 percent of GDP and 125.80 percent higher than that of FY 2010-11. According to the optimistic scenario, public expenditure in the social sectors is increasing at a negligible rate which might push the marginalized people to severe risk. Over the years, public expenditure is increasing but expenditure in social sector is decreasing.

1. INTRODUCTION

The current issue of Bangladesh Economic Update focuses on the tax system in Bangladesh particularly in the wake of challenges posed by growing fiscal deficit. The issue investigates into changes in tax and non-tax revenue, compares its pattern in terms of GDP, and makes decomposition by sectors. The issue also tries to understand the biases of the tax system. The issue also looks into the current tax in relation to broader public expenditure.

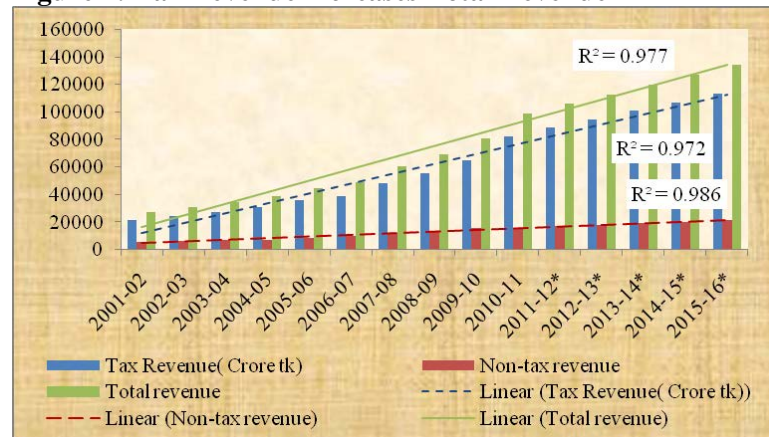
2. TAX AND TOTAL REVENUE

The total revenue collection was Tk. 98456.78 crore in FY 2010-11 that is 22.43 percent more than that of the previous fiscal year.

The total revenue collection was Tk. 98456.78 crore in FY 2010-11 that is 22.43 percent more than that of the previous fiscal year in which the contribution of tax and the non-tax was Tk. 82320.78 crore and Tk. 16136 crore respectively. The target of total revenue collection for FY 2010-11 was Tk. 92847 crore while the revised target was Tk. 95188 crore. However, the actual collection of total revenue was Tk. 3268.78 crore more than that of the revised budget. Revenue collection in FY 2009-10 was Tk. 80418.16 crore that is Tk. 934.16 crore higher than that of the revised target and which is 16.24 percent higher than that of the previous fiscal year.

The target of total revenue collection for FY 2010-11 was Tk. 92847 crore while the revised target was Tk. 95188 crore.

Figure 1: Tax Revenue increases Total Revenue



Source: Authors' calculation based on Bangladesh Bank, 2011

In FY 2011-12, the target of tax revenue is Tk. 95785 crore which is 25.96 percent higher than that of the FY 2010-11 while the target of non-tax revenue is Tk. 22600 crore.

The continuation of current upward trend might witness the collection of tax revenue at Tk. 112823.32 crore and non-tax revenue at Tk. 21334.00 crore respectively in FY 2015-16.

In FY 2010-11, the collection of non-tax revenue increased by 3.92 percent than that of the FY 2009-10.

If the current trend continues, both tax and non-tax revenue might decrease in the upcoming fiscal years while in FY 2015-16, the percentage change in tax and non-tax might reach at 5.83 and 5.64 percent respectively.

Total revenue collection is following an upward trend over the years. The target of collecting revenue for FY 2011-12 is Tk. 118385 crore which is 27.51 percent higher than that of the target previous fiscal year. However, under the business as usual scenario, the collection of total revenue might reach at Tk. 105596.89 crore in FY 2011-12 that is Tk. 12788.11 crore less than that of the target and in FY 2015-16, the collection might reach at Tk. 134157.32 crore.

In FY 2011-12, the target of tax revenue is Tk. 95785 crore which is 25.96 percent higher than that of the FY 2010-11 while the target of non-tax revenue is Tk. 22600 crore. In FY 2010-11, the revised target of tax revenue was Tk. 79052 crore while the actual collection was Tk. 82320.78 crore which is 4.13 percent higher than the revised target and 26.86 percent higher than the tax revenue of FY 2009-10. The continuation of current upward trend might witness the collection of tax revenue at Tk. 112823.32 crore and non-tax revenue at Tk. 21334.00 crore respectively in FY 2015-16.

2.1 Changes in Tax & Non-Tax Revenue

In Bangladesh, total revenue is continuously increasing over the years with the increase in both tax and non-tax revenue. However, no regular trend of the revenue collection is witnessed yet. In FY 2009-10, the collection of tax revenue was Tk. 64890.16 crore which was 16.86 percent higher than that of the tax revenue of FY 2008-09. In the same period, non-tax revenue was also on the rise but at a slower rate. The major contributing factors in this regard were low collection in dividend and profits, administrative fees and charges, rent, leases and recovery and capital revenue.

In FY 2010-11, the collection of non-tax revenue increased by 3.92 percent than that of the FY 2009-10, although the collection of non-tax revenue in FY 2009-10 was Tk. 15528 crore which was 13.72 percent higher than that of the collection of FY 2008-09. Government has targeted to collect a total of Tk. 22600 crore in FY 2011-12 as non-tax revenues which is 40.06 percent higher than the target of FY 2010-11. This continuous increasing trend comes from the three major sectors of non-tax revenue such as interest, administration fees and charges, and defense receipts. If the current trend continues, both tax and non-tax revenue might decrease in the upcoming fiscal years while in FY 2015-16, the percentage change in tax and non-tax might reach at 5.83 and 5.64 percent respectively.

Table 1: Percentage share of Tax & Non-Tax Revenue

Fiscal Year	Percentage change in tax revenue	Percentage change in non-tax revenue
2002-03	16.15	7.49
2003-04	10.80	15.07
2004-05	14.20	2.11
2005-06	15.48	19.90
2006-07	8.01	17.62
2007-08	22.87	23.00
2008-09	15.65	8.56
2009-10	16.86	13.72
2010-11	26.86	3.92
2011-12b	16.36	40.06
2012-13*	7.07	6.78
2013-14*	6.60	6.35
2014-15*	6.19	5.97
2015-16*	5.83	5.64

Source: Authors' calculations based on Ministry of Finance, 2011

In FY 2011-12, the targeted total revenue-GDP ratio is 13.16 percent; tax revenue-GDP ratio and non-tax revenue-GDP ratio are 10.65 and 2.51 percent respectively.

If this target is achieved in FY 2011-12, the total revenue share of GDP might increase to 13.54 percent in FY 2014-15, which would be the highest on record.

2.2 Tax as Percentage of GDP

The revenue collection is an important indicator to identify the economic stage of a country. The stronger the economy, the higher the level of the revenue it receipts. Therefore, both tax and non-tax revenues have a significant correlation with the share in GDP. In FY 2001-02, revenue-GDP ratio was 9.90 percent, which gradually reached at 10.79 in FY 2005-06. Total revenue as share of GDP increased from 9.90 percent in FY 2001-02 to 10.79 percent in FY 2005-06. After FY 2005-06, total revenue as percentage of GDP experienced a slight decline and then followed an increasing trend but at a lower rate.

In FY 2011-12, the targeted total revenue-GDP ratio is 13.16 percent; tax revenue-GDP ratio and non-tax revenue-GDP ratio are 10.65 and 2.51 percent respectively. If this target is achieved in FY 2011-12, the total revenue share of GDP might increase to 13.54 percent in FY 2014-15, which would be the highest on record. In FY 2010-11, total revenue was 12.50 percent of the GDP with 10.45 percent of tax revenue and 2.05 percent of non-tax revenue, whereas total revenue as a share of GDP was 11.58 percent in FY 2009-10.

The NBR portion of total taxes includes customs duty, Value Added Tax (VAT), Supplementary Duty (SD), excise duty, income tax, foreign travel tax, electricity duty, wealth tax (collected as a surcharge of income tax since fiscal year 1999-2000), turnover tax (TT), air ticket tax, advertisement tax, gift tax and miscellaneous insignificant taxes. NBR revenue shows

an upward trend in tax revenue which was 10.04 percent in FY 2010-11 and the target for FY 2011-12 is 10.21 percent.

Table 2: Items of Taxes as percentage of GDP

Fiscal Year	NBR revenue	Non-NBR revenue	Tax revenue	Non-tax revenue	Total revenue
2001-02	7.40	0.41	7.80	2.10	9.90
2002-03	7.88	0.35	8.24	2.05	10.29
2003-04	7.87	0.37	8.24	2.13	10.37
2004-05	8.07	0.38	8.45	1.96	10.41
2005-06	8.29	0.41	8.70	2.09	10.79
2006-07	7.88	0.39	8.27	2.16	10.43
2007-08	8.42	0.37	8.80	2.30	11.10
2008-09	8.62	0.41	9.03	2.22	11.25
2009-10	8.94	0.41	9.35	2.24	11.58
2010-11	10.04	0.41	10.45	2.05	12.50
2011-12b	10.31	0.41	10.72	2.04	12.76
2012-13*	10.57	0.41	10.98	2.04	13.02
2013-14*	10.84	0.41	11.25	2.03	13.28
2014-15*	11.10	0.41	11.51	2.03	13.54

Source: Authors' calculation based on Bangladesh Bureau of Statistics, Ministry of Finance and Bangladesh Bank, 2011

In comparison with NBR revenue, the contribution of non-NBR revenue shows a tiny share in GDP. The major sources of Non-NBR revenue are narcotics and liquor duty, taxes on vehicles, land revenues, stamp duty (non-judicial) etc. Between FY 2008-09 and FY 2010-11 the percentage share of non-NBR revenue on GDP was constant at 0.41 percent which might remain in same percentage in FY 2014-15 as well. However, the government has targeted to increase the percentage share of non-NBR revenue to 0.44 percent in FY 2011-12.

2.3 Composition of Taxes as Percentage of Total Revenue

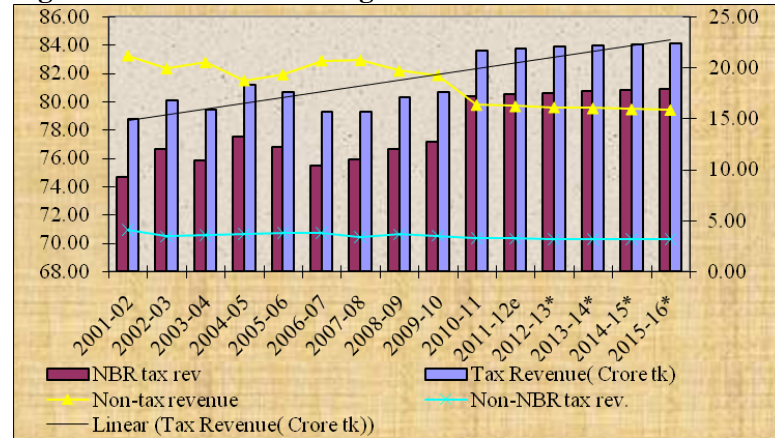
Total revenue increases with the increase of its components over the years. Tax revenue as percentage of total revenue was 83.61 percent in FY 2010-11 and the share of non-tax revenue was 16.39 percent. However in FY 2011-12, it is targeted that the share of tax revenue over total revenue might be 80.90 percent and the share of non-tax revenue might be 19.09 percent. Moreover, the target of collecting NBR revenue as percentage of total revenue is 77.60 percent of the total revenue and non-NBR is targeted to 3.31 percent.

In FY 2010-11, the share of non-NBR and non-tax revenue on total revenue was 3.28 and 16.39 percent respectively against 4.10 and 21.22 percent respectively in FY 2001-02. This indicates that the shares of these two components have been

In FY 2011-12, it is targeted that the share of tax revenue over total revenue might be 80.90 percent and the share of non-tax revenue might be 19.09 percent.

reducing over the years. It would be helpful for the economy, if contribution of both the components would have increased instead of decreasing.

Figure 2: Taxes as Percentage of Total Revenue



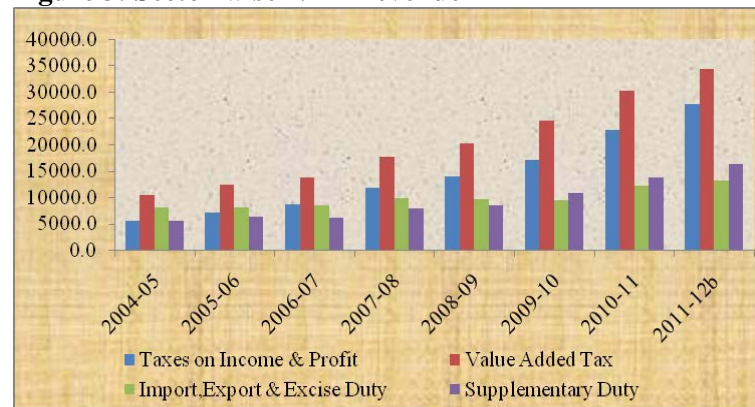
Source: Ministry of Finance and Bangladesh Bank, 2011

The target of collecting NBR revenue in FY 2011-12 is Tk. 91870 crore which is 21.52 percent higher than that of FY 2010-11.

2.3.1 Composition of NBR Revenue

As one of the major sources of tax revenue, NBR revenue has a larger share in tax revenue compared to non-NBR revenue. The target of collecting NBR revenue in FY 2011-12 is Tk. 91870 crore which is 21.52 percent higher than that of FY 2010-11. In FY 2010-11, the collection of NBR revenue was Tk. 91870 crore which was 4.62 percent higher or Tk. 3491.42 crore more than that of the revised Budget. The NBR revenue collection of FY 2010-11 was 27.48 percent higher than that of FY 2009-10. The increase of NBR revenue over the year is rising due to the increase of its components e.g. income tax and profits, VAT, import duty etc.

Figure 3: Sector-wise NBR Revenue



Source: Bangladesh Bank, Ministry of Finance, National Board of Revenue, 2011

In FY 2011-12, NBR revenue from VAT is targeted at Tk. 27561.0 crore, Tk. 34304.0 crore.

Target for the collection of excise and export duty in FY 2011-12 are fixed at Tk. 450.0 and Tk. 30.0 crore respectively.

Target for the shares of NBR & Non-NBR revenues on tax revenue for FY 2011-12 are fixed at 95.91 percent and 4.09 percent respectively.

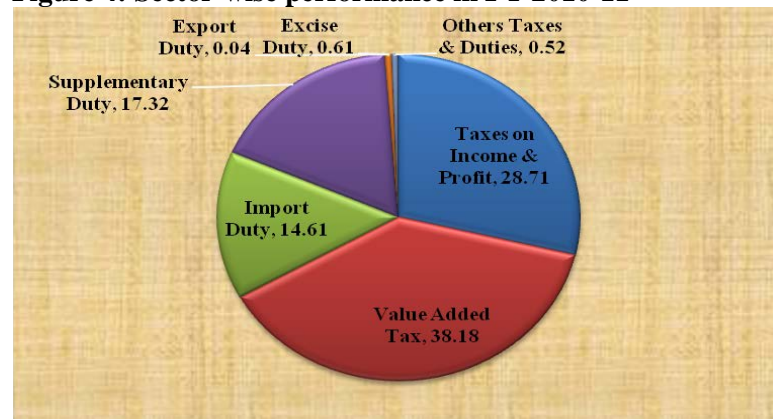
In FY 2011-12, NBR revenue from income tax, VAT, and import duty is targeted at Tk. 27561.0 crore, Tk. 34304.0 crore and Tk. 12634.0 crore respectively while supplementary duty is targeted at Tk. 16220.0 crore which is 18.39 percent higher than that of FY 2010-11. The target of taxes on income and profit in FY 2010-11 was Tk. 22105 crore while actual collection was Tk. 22709.1 crore. Similarly, VAT was targeted at Tk. 28274 crore but the collection was Tk. 30196.6 crore and the collection of import duty was Tk. 11556.1 crore which was 6.14 percent more than that of the targeted level. The growth rate of VAT (over the year) was highest in FY 2007-08 that was 28.09 percent, then it continued to fall but in FY 2010-11, it increased by 23.41 percent.

Target for the collection of excise and export duty in FY 2011-12 are fixed at Tk. 450.0 and Tk. 30.0 crore respectively. Revenue receipts from excise duty increased by 45.80 percent in FY 2009-10 and 39.84 percent in FY 2010-11. Combining all the three, import, export & excise duty are following an upward trend over the years. The target of collecting revenue from import, export & excise duty in FY 2011-12 is Tk. 13114.0 crore which is 8.64 percent higher than that of FY 2010-11.

2.3.2 Sector-Wise Performance of NBR Revenue

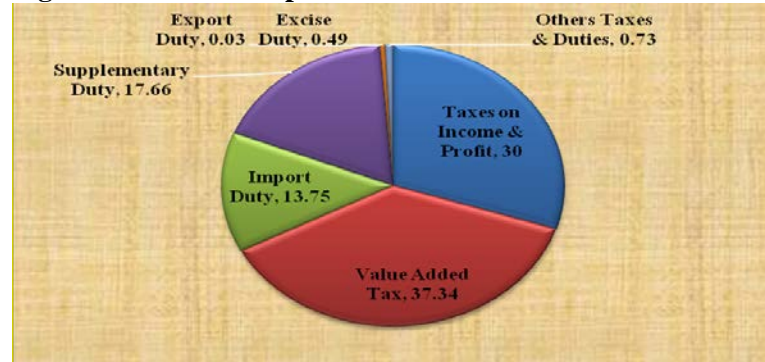
NBR revenues are the dominant components of tax revenue. The contribution of the major sectors of NBR revenue has increased significantly in FY 2010-11. The share of NBR revenue in Tax revenue was almost 96 percent in FY 2010-11 while the share of non-NBR revenue was only 3.96 percent. Target for the shares of NBR & Non-NBR revenues on tax revenue for FY 2011-12 are fixed at 95.91 percent and 4.09 percent respectively.

Figure 4: Sector-wise performance in FY 2010-11



Source: Authors' calculation based on Ministry of finance and National Board of Revenue, 2011

Figure 5: Sector-wise performance in FY 2011-12



Source: Authors' calculation based on Ministry of finance and National Board of Revenue, 2011

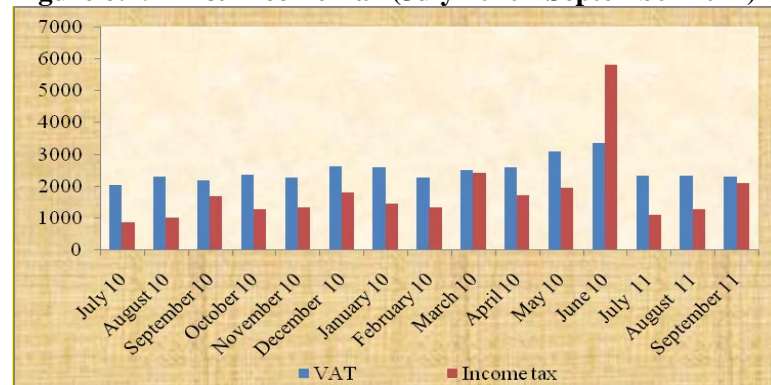
In FY 2010-11, VAT on have contributed 38.18 and percent of total NBR revenue.

VAT and taxes on income and profits are the highest sources of NBR revenue. In FY 2010-11, VAT and taxes on income & profit have contributed 38.18 and 28.71 percent of total NBR revenue respectively. All the other sectors like import duty (14.61 percent), supplementary duty (17.32 percent), export duty (0.04 percent), and others have less contribution in the total NBR revenue. In FY 2011-12, the share of VAT & taxes on income and profit are targeted at 37.34 and 30 percent correspondingly. This reflects that these two sectors might supply almost 67.34 percent of NBR revenue and only 32.66 percent might come from the others sources.

2.4 VAT and Income Tax

Value Added Tax (VAT) was introduced in Bangladesh since 1 July 1991. Mainly, VAT is imposed on goods and services at import stage, manufacturing, wholesale and retails levels. The revenue collection from VAT and income tax has increased in large quantity than any other components of NBR revenue over the years. Moreover, in Bangladesh, VAT has increased more than that of taxes on income and profits.

Figure 6: VAT & Income Tax (July 2010 - September 2011)



Source: Bangladesh Bank, 2011

Revenue collection from VAT was highest in June 2010, Tk. 3354.03 crore which was 9.91 percent more than that of FY 2009-10. The share of VAT and income tax on the NBR revenue are 41.47 and 19.48 percent in July, FY 2011-12.

In June 2010-11, the collection of tax on income and profits stood at Tk. 5797.65 crore which was Tk. 3852.79 crore higher than that of May 2010.

In June 2010-11, the collection of tax on income and profits stood at Tk. 5797.65 crore which was Tk. 3852.79 crore higher than that of May 2010 as most of the income taxes were collected in the last month of the fiscal year. But in July 2011, it decreased by Tk. 4700.18 crore and reached at Tk. 1097.47 crore which is 81.07 percent shorter than that of the collection of June 2010. The collection income tax is following an increasing trend from the second month of this fiscal year and in September 2011, it reached at Tk.2108.59 crore which was 64.24 percent higher than that of August 2011 and 24.78 percent more than that of the collection of September 2010.

3. BUDGET FINANCING

The government has borrowed Tk. 11000 crore from banks during July to October 2011 while the target of borrowing from banks in FY 2011-12 is Tk. 18957 crore.

In Bangladesh, budget financing can not only be met by total revenue earnings of the country rather also depends on domestic borrowing and foreign aid as well. With the vertical drift of total expenditure over the years, the government has to depend on domestic borrowing for budget financing more than revenue earnings. The trend of domestic borrowing has changed drastically in FY 2010-11 and in the current fiscal year, the government has borrowed Tk. 11000 crore from banks during July to October 2011 while the target of borrowing from banks is Tk. 18957 crore.

Table 3: Budget Financing over the years

Fiscal year	Revenue Earnings	Total Exp.	Tax Revenue	Domestic (Net)	Banking System	Other Than Bank	Foreign (Net)
2004-05	39205	55634	31950	6014.16	3106.6	2907.56	6236.68
2005-06	44868	61057	36175	8426.7	5667.8	2758.9	7236.8
2006-07	49472	66836	39247	10031	6531	3500	5183
2007-08	60539	93608	48012	19923	10398	2002	8756
2008-09	69180	94140	55526	14198	10698	3500	5833
2009-10	79484	110523	63956	17325	8661	8664	9972
2010-11	95187	130011	79052	24817	18379	6438	10007
2011-12	118385	163589	91870	27208	18957	8257	17996
2012-13*	128283	177083	99360	29857.2	22919.6	8925.68	19465.9
2013-14*	138180	190577	106850	32506.4	24900.9	9594.36	20935.8
2014-15*	140829	204072	114340	35155.7	26882.2	10263	22405.7

Source: Authors' calculation based on Ministry of Finance, 2011

For budget financing in FY 2010-11, revenue earning was Tk. 95187 crore against the total expenditure of Tk. 130011 crore.

If the current trend prevails, in FY 2014-15, it is estimated that net domestic borrowing might increase to Tk. 35155 crore with borrowings from banks at Tk. 26882 crore.

Government borrowing from banks in the same fiscal year was Tk. 18379 crore which was 112.20 percent more than that of FY 2009-10. Net domestic borrowing increased to Tk. 24817 crore in FY 2010-11, 43.24 percent more than that of previous fiscal year. However, revenue earnings did not increase in a significant way in comparison with domestic borrowing in FY 2010-11 as it increased by 19.76 percent and reached at Tk. 95187 crore. If the current trend prevails, in FY 2014-15, it is estimated that net domestic borrowing might increase to Tk. 35155 crore with borrowings from banks at Tk. 26882 crore while revenue earnings might reach at Tk. 140829 crore. However, expenditure in FY 2014-15, might increase to Tk. 204072.

Table 4: Share of Revenue in Budget (in crore Taka)

Fiscal Year	Budget	Total Revenue	Tax Revenue	Gap	Budget Deficit (Excluding grants)
2005-06	61057	44868	36175	16189	16190
2006-07	66836	49299.32	39074.32	17536.68	17364
2007-08	93608	60589	48012	33019	33073
2008-09	94140	69180	55526	24960	24960
2009-10	110523	80418.16	64890.16	30104.84	31041
2010-11	130011	98456.78	82320.78	31554.22	34824.0
2011-12 (B)	163589	118385	95785	45204	45204

Source: Ministry of Finance and Bangladesh Bureau of Statistics, 2011

If the current trend follows, budget deficit might increase further to Tk. 57638.58 in FY 2014-15.

The gap between total expenditure and revenue earning is increasing over the years along with an increase in domestic borrowing as well as decrease in foreign aid. In FY 2011-12, the gap between total expenditure and revenue earnings is targeted to be Tk. 45204 crore which is 43.25 percent higher than that of FY 2010-11 and might increase at Tk. 57639 crore in FY 2014-15. Moreover, budget deficit is projected at Tk. 45204 crore in FY 2011-12 and if the current trend follows, it might increase further to Tk. 57638.58 in FY 2014-15 and marginalized people have to bear the burden of government borrowings as well as deficit financing.

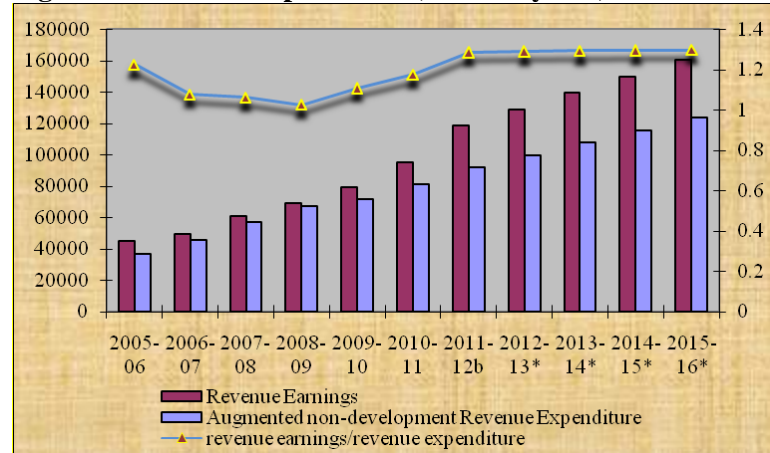
4. REVENUE EXPENDITURE

Domestic and foreign interest payment for FY 2011-12 is targeted at 91.79 and 8.21 percent respectively.

Interest payment is increasing over the years. Domestic share of interest payments is much higher than that of international share of interest payments. The main reason of this is excessive domestic borrowing by the government in recent months. Domestic and foreign interest payment for FY 2011-12 is targeted at 91.79 and 8.21 percent respectively while in 2010-11,

the domestic share of interest payment was 90.25 percent and the foreign interest payment was only 9.75 percent.

Figure 7: Revenue Expenditure (over the years)



Source: Author's calculations based on Ministry of Finance and National Board of Revenue, 2011

Table 5: Shares of Non-Development Revenue Expenditure

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Pay and Allowances	12883	13660	15106	17047	20479	21640
Goods and Services	6291	8024	9164	9693	10943	11772
Interest payment	9154	11967	13314	14646	14578	17997
Subsidies and current transfers	14274	19524	25889	27932	32260	34642
Acquisition of Assets and works	1676	1981	2375	2851	3817	4046
Block Allocations	521	447	421	598	641	1800
Deduct	1059	1370	1218	-1205	-1798	0
Revenue Receipts	49299.32	60589	69180	80418.16	98456.78	118385
Revenue Expenditures	45858	56973	67487	71562	80920	91897
RRRER	1.08	1.06	1.03	1.12	1.22	1.29

Source: Ministry of Finance, 2011

Note: RRRER - Revenue Receipt and Revenue Expenditure Ratio

The augmented non-development revenue expenditure increased from Tk. 45858 crore in FY 2006-07 to Tk. 56973 crore in FY 2007-08, an increase of 24.25 percent. But the rate followed a decreasing in the next two years (FY 2007-08 and FY 2008-09). In FY 2010-11, the rate non-development revenue expenditure

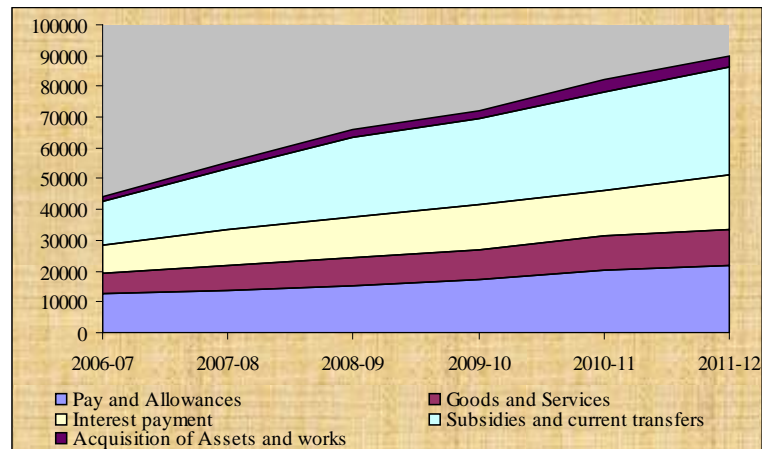
increased by 13.08 percent. However, Tk. 91897 crore is targeted for FY 2011-12 which is 13.57 percent higher than that of FY 2010-11.

The ratio of revenue receipts and the revenue expenditure is targeted to be 1.29 percent in FY 2011-12 but it was 1.22 percent in FY 2010-11.

All the components of revenue expenditures are increasing but at a lower rate. The major share of the expenditure, 80.83 percent, goes for salary payments and allowances (23.55 percent), subsidies and current transfers (37.70 percent), interest payment (19.58 percent). The ratio of revenue receipts and the revenue expenditure is targeted to be 1.29 percent in FY 2011-12 but it was 1.22 percent in FY 2010-11.

Revenue Expenditure as percent of GDP has increased since the early 1990s in which the share of subsidies and current transfers, pay and allowances, supply and services, interest payments and expanded coverage of social safety net programmes and acquisition of assets and works are rising vertically.

Figure 8: Performance of Major Sectors of Non-Development Revenue Expenditure



Source: Ministry of Finance, 2011

Budget deficit was Tk. 34823 crore in FY 2010-11 while in FY 2011-12, it is Tk. 45204 crore.

In FY 2010-11, the share of subsidies and current transfers of total revenue expenditure was 39.87 percent while it is targeted at 37.70 percent in FY 2011-12. The share of pay and allowances is targeted at 23.55 percent, interest payment at 19.58 in the current fiscal year. The main reason behind increasing interest payment is government borrowing for budget deficit financing that is increasing over the years. Budget deficit was Tk. 34823 crore in FY 2010-11 while in FY 2011-12, it is Tk. 45204 crore.

Similarly, domestic borrowing is also on the rise and in FY 2010-11, the amount of domestic borrowing was Tk. 24817 crore while it is proposed to be Tk. 27208 crore in this FY 2011-12

In FY 2011-12, it is targeted at Tk.13058 crore to repay foreign debt that is 1.5 percent of GDP and 125.80 percent higher than that of FY 2010-11.

Continuation of current trend might witness the flow of revenue at Tk.143065 crore against the MTBF projection of Tk. 195310 crore in FY 2014-15.

that is 9.63 percent higher than that of FY 2010-11. Government has to repay the foreign debt which is also increasing over the years. In FY 2011-12, it is targeted at Tk.13058 crore to repay foreign debt that is 1.5 percent of GDP and 125.80 percent higher than that of FY 2010-11. Though the revenue expenditure is following a regular upward trend, it might increase the government expenditures over the years as well.

4.1 Medium Term Budgetary Framework (MTBF) & Revenue Scenario

The gap between MTBF projection and business as usual scenario might grow sharply in the upcoming fiscal years. In FY 2010-11, the actual receipt of total revenue was Tk. 98456.78 crore while MTBF projection of total revenue was Tk. 95188.52 crore which showed a gap of Tk. 3268.26 crore. The gap might increase further in FY 2014-15 and continuation of current trend might witness the flow of revenue at Tk.143065 crore against the MTBF projection of Tk. 195310 crore.

Table 6: Comparison between MTBF Target & Revenue Collection

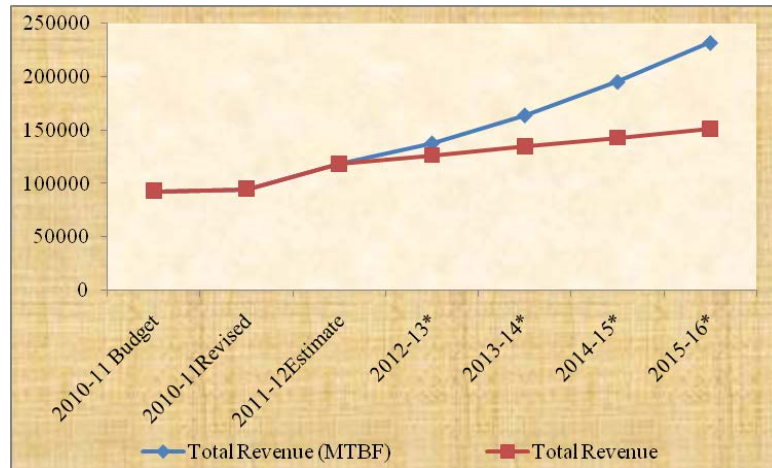
	2010-11 Budget	2010-11 Revised	2011-12 Budget	2012- 13*	2013- 14 *	2014- 15*	2015- 16*
Total Rev.	92847	95188	118385	126612	134839	143065	151292
Total Rev. (MTBF)	92850	95190	118391	137633	163951	195310	232054
Tax Revenue (MTBF)	76040	79051	95792	115122	138262	165960	198551
Non-Tax Rev. (MTBF)	16810	16142	22600	22532	25691	29353	33500
Total Rev. as percent of GDP (MTBF)	11.9	12.1	13.2	13.4	14	14.6	15.2
Tax Rev.	76042	79052	95785	102554	109322	116091	122860
Non-Tax Rev.	16805	16136	2260	24058	25516	26975	28433
Total Rev. as percent of GDP	11.89	12.09	13.16	13.43	13.70	13.96	14.26

Source: Authors' calculation based on Ministry of Finance and National Board of Revenue, 2011

In FY 2012-13, receipt of total revenue according to MTBF projection might be Tk.137633 crore. However, receipt of total revenue in FY 2012-13 might reach at Tk.126612 crore with the gap of Tk.11021 crore, if the current trend prevails. The gap might further increase to Tk. 29112 crore in FY 2013-14 and Tk.80762 crore in FY 2015-16. It is estimated that the gap

between business as usual scenario and MTBF projection for tax in FY 2012-13 is Tk. 125.68 crore. This gap might widen to Tk. 75691 crore in FY 2015-16.

Figure 9: Gap between MTBF and business as usual scenario of Revenue



Source: Authors' calculation based on Ministry of Finance and National Board of Revenue, 2011

The projection of non-tax revenue by MTBF is Tk. 22532 crore in FY 2012-13 but prevalence of recent trend might lead non-tax revenue to reach at Tk. 24058 crore which shows a gap of Tk.1528 crore. In FY 2015-16, if the current persists, the gap might increase to Tk.5067 crore. Business as usual scenario shows that total revenue as percentage of GDP might be 14.26 in FY 2015-16 while MTBF projects the percentage to be 15.2.

5. PUBLIC EXPENDITURE IN BANGLADESH

In FY 2011-12, the target of public expenditure is Tk.163589 crore which is Tk. 33578 crore or 25.83 percent higher than the target of previous fiscal year.

In the current fiscal year, the government has allocated a higher amount for power and infrastructure sectors. Public expenditures on social sectors face a tiny share of revenues. In FY 2011-12, the target of public expenditure is Tk.163589 crore which is Tk. 33578 crore or 25.83 percent higher than the target of previous fiscal year. The target of expenditure on education in FY 2011-12 is Tk. 19806 crore whereas the development expenditure is Tk. 5657 crore and the non-development expenditure is Tk.14149 crore.

Over the years expenditure in education is rising in volume but following a declining trend in percentage change over the year and in FY 2011-12, it has decreased by 9.14 percent than that of the previous fiscal year. In FY 2009-10, the percentage change was highest at 28.43 percent. In FY 2011-12, the expenditure in

In FY 2011-12, expenditure in education is 16.73 percent of the total revenue and only 2.20 percent of GDP.

education as percent of revenue is 16.73 percent but in FY 2010-11, it was 19.07 percent. In FY 2011-12, expenditure in education is 16.73 percent of the total revenue and only 2.20 percent of GDP. In FY 2005-06 education expenditures as percentage of GDP was 2.19 percent whereas it stood at 2.30 percent in FY 2010-11. The rate of allocation in the education sector is declining over the years.

Table 7: Public Expenditure in Education and Health

Fiscal Year	Growth rate of Education	Growth rate of Health	Education as percent of Revenue	Health as percent of Revenue
2006-07	17.68	20.55	21.65	10.02
2007-08	6.75	6.13	18.89	8.69
2008-09	7.55	17.77	17.78	8.96
2009-10	28.43	10.28	19.87	8.60
2010-11	14.91	11.47	19.07	8.00
2011-12	9.14	16.44	16.73	7.49

Source: Authors' calculation based on Ministry of Finance, 2011

Table 8: Public expenditure as percentage of GDP

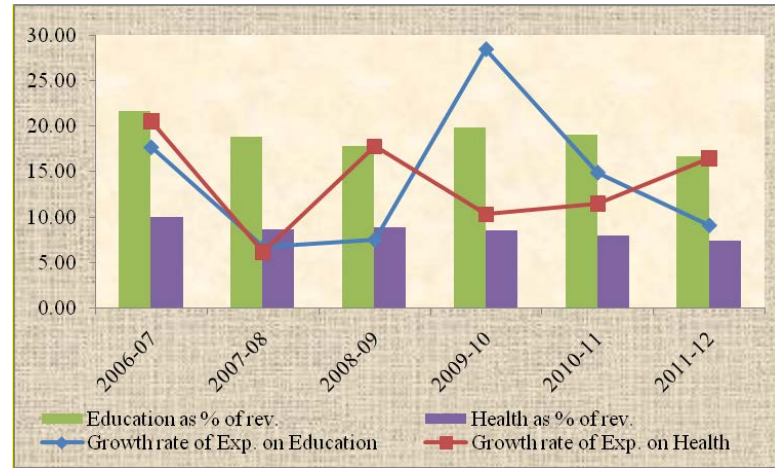
Fiscal Year	GDP (in crore Tk.)	Education Expenditure (in crore Tk.)	Health Expenditure (in crore Tk.)	Education as percent of GDP	Health as percent of GDP
2005-06	415728	9102	4112	2.19	0.99
2006-07	472477	10711	4957	2.27	1.05
2007-08	545822	11434	5261	2.09	0.96
2008-09	614795	12297	6196	2.00	1.01
2009-10	694324	15793	6833	2.27	0.98
2010-11	787495	18148	7617	2.30	0.97
2011-12	899670	19806	8869	2.20	0.99
2012-13*	968804.57	21335.14	9548.57	2.20	0.99
2013-14*	1037939.14	22864.29	10228.14	2.20	0.99
2014-15*	1107073.71	24393.43	10907.71	2.20	0.99
2015-16*	1176208.29	25922.57	11587.29	2.20	0.99

Source: Authors' calculation based on Ministry of Finance, 2011

In FY 2011-12, the government targeted expenditure in health is Tk. 8869 crore which is 16.44 percent higher than that of the previous fiscal year.

Similar scene is also found in health sector as in FY 2011-12, the government targeted expenditure in health is Tk. 8869 crore which is 16.44 percent higher than that of the previous fiscal year. The development expenditure in health is targeted at Tk. 3562 crore and the non-development expenditure at Tk. 5307 crore. In FY 2010-11, the expenditure in health was Tk. 7617 crore. In 2010-11, the growth rate of allocation in health sectors was 11.47 percent against the allocation of FY 2009-10. The government has targeted an allocation of Tk. 8869 crore on health sector in FY 2011-12 which is 16.44 percent higher than that of the allocation of FY 2010-11.

Figure 10: Percentage change in Revenue and expenditure in Health and Education sectors



Source: Authors' calculation based on Ministry of Finance, Ministry of Primary and Mass Education, Ministry of Education and Ministry of Health, 2011

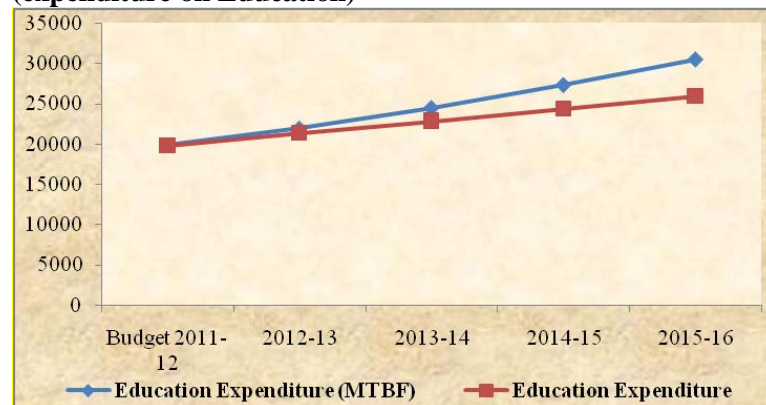
According to the optimistic scenario, public expenditure in the social sectors is increasing at a negligible rate which might push the marginalized people to severe risk. Over the years, public expenditure is increasing but expenditure in social sector is decreasing (Figure 10).

5.1 MTBF & Public Expenditure

MTBF projection on expenditure in education in FY 2011-12 is Tk.19837 crore against the budgetary allocation of Tk.19806 crore. MTBF projection of expenditure in education in FY 2012-13 is Tk. 21896.58 crore while Tk.30488.7 crore is projected for FY 2015-16.

MTBF projection on expenditure in education in FY 2011-12 is Tk.19837 crore against the budgetary allocation of Tk.19806 crore.

Figure 11: Comparison between business as usual and MTBF (expenditure on Education)

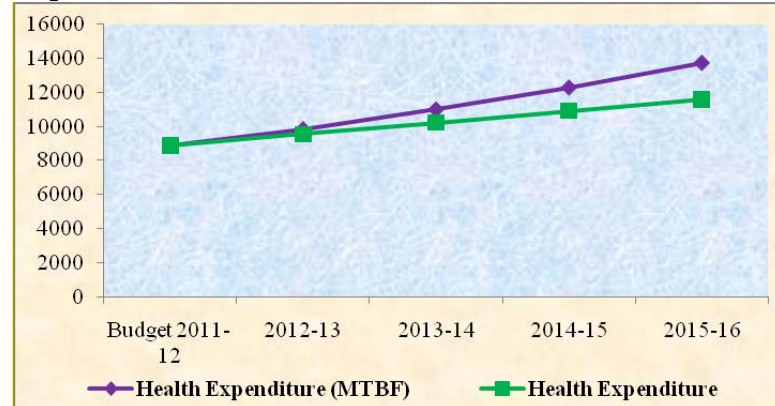


Source: Authors' calculation based on Ministry of Finance, Ministry of Primary and Mass Education and Ministry of Education 2011

Under the business as usual scenario, expenditure in education might reach at Tk. 25922.57 crore in FY 2015-16.

However, under the business as usual scenario, expenditure in education might reach at Tk. 21335.14 crore in FY 2012-13 and Tk. 25922.57 crore in FY 2015-16. The gap between MTBF and ceteris paribus projection of expenditure in education in FY 2012-13 increases to Tk. 561.44 crore and in FY 2015-16, the gap might reach at Tk. 4566.13 crore.

Figure 12: Comparison between business as usual and MTBF (expenditure on Health)



Source: Authors' calculations based of Ministry of Finance and Ministry of Health, 2011

Continuation of current trend might witness a gap between actual allocation and MTBF projection at Tk. 2153.48 crore in FY 2015-16.

According to MTBF projection of expenditure in health sector in FY 2011-12 is Tk. 8888.75 crore Tk. 9859.424 crore in FY 2012-13. However, MTBF projection of expenditure on health sector in FY 2015-16 is 13740.77 crore. But continuation of current trend might witness a gap between actual allocation and MTBF projection. In addition, the gap may be widened by Tk. 2153.48 crore in FY 2015-16. Therefore, it is required to minimize the gap between MTBF projection and business as usual scenario. Increased allocation in social sector will not only benefit the marginalized section of the country but also ensure stability of the economy.

5.2 Subsidy Scenario

The government is providing subsidy in many sectors over the years. Previously, subsidy in agriculture and social sector hold the largest share. However, in recent years a different scenario is seen. Though the rate of subsidy is following an upward trend over the years, the allocation of subsidy in agricultural and social sector in FY 2011-12 has decreased while subsidy in power sector is increasing.

In FY 2008-09, total subsidy payment was Tk. 8379 crore, while agriculture and power subsidy were Tk. 5789 and 1007 crore

In FY 2011-12, agriculture subsidy has declined by 22.27 percent than that of FY 2008-09 and stands at Tk. 4500 crore that is 48.46 percent of the total subsidy.

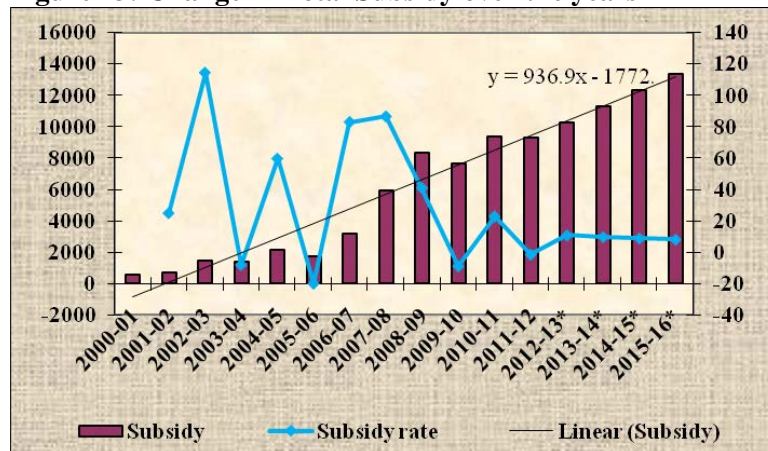
respectively. In FY 2011-12, agriculture subsidy has declined by 22.27 percent than that of FY 2008-09 and stands at Tk. 4500 crore that is 48.46 percent of the total subsidy of the current fiscal year. In power sector, the targeted subsidy has increased more than 400 times than that of FY 2008-09 and reached at Tk. 5200 crore in FY 2011-12. The recent estimates circulated in media suggest that the government might end up in providing higher amount of subsidy in power sector.

Table 9: Subsidy scenario (over the years)

Fiscal Year	Agriculture Subsidy (in crore Tk.)	Power Subsidy (in crore Tk.)	Total Subsidy (in crore Tk.)
2008-09	5789	1007	8373
2009-10	4892	999	7643
2010-11	5700	4200	9411
2011-12	4500	5200	9286
2012-13*	4177.75	6248.25	10305
2013-14*	3855.50	7296.50	11324
2014-15*	3533.25	8344.75	12343
2015-16*	3211	9393	13362

Source: Annual Report, Power Division 2010 and Bangladesh Bureau of Statistics and Ministry of Finance, 2011

Figure 13: Change in Total Subsidy over the years



Source: Bangladesh Bureau of Statistics and Ministry of Finance, 2011

Continuation of the current trend suggests that the figure of total subsidy might increase in the upcoming years but subsidy in agriculture sector might decrease further while power subsidy might increase.

6. CORPORATE TAX

In Bangladesh, the number of corporate tax payers is thin in which the majority comes from the small number of foreign

The corporate tax in Bangladesh is 0 to 45 percent in fiscal year 2011 while it was 42.5 percent in the year 2010.

companies. The corporate tax in Bangladesh is 0 to 45 percent in fiscal year 2011 while it was 42.5 percent in the year 2010. The rate of top corporate tax is 45 percent that is paid by banks, insurance and financial companies. However, publicly traded companies registered in Bangladesh are targeted to charge a lower rate of 27.5 percent as corporate tax. All other companies are taxed at 37.5 percent in calendar year 2011.

Table 10: Corporate Tax Rate

Type/category	Tax rate (percent) 2001	Tax rate (percent) 2002	Tax rate (percent) 2010	Tax rate (percent) 2011
Publicly traded company	35.00	30.00	27.5	27.5
Non-publicly traded	40.00	35.00	37.5	37.5
Bank, Insurance and Financial Company	40.00	40.00	42.5	45.00

Source: National Board of Revenue, 2011

7. COMPARISON OF TAX RATES BETWEEN BANGLADESH & OTHERS COUNTRY

Bangladesh is a developing country and its revenue-GDP ratio is still quite low than any other developing and developed countries considering a huge earning population and entrepreneurs. Its revenue-GDP ratio was only about 12.50 percent in FY 2010-11 while it was 17.62 percent in India and 30.62 percent in Japan in the same period.

Table 11: Tax rate in different countries

Country	Income Tax Rate		Corporate Tax Rate		Sales/VAT Rate	
	2010	2011	2010	2011	2010	2011
Bangladesh	25	0-25	27.5 (standard)	0-45	15	15
India	30.9	0-30	33.99	33.23	12.5	2-12.5
Pakistan	20	7.5-35	35	35	16	17
Japan	40	5-50 (40 percent national +10 percent local)	40.87	40.69	5	5
Sri-Lanka	35	0-24	35	0-35	12	0 percent, 12 percent
Nepal	25		20	25	13	13
Cuba	50	10-50	30	30	25	2.5-20
Australia	45	0-45 percent, 1.5 percent (Medicare levy)	30	30	10	10
U.S.A	35	0-35 (fed), 0-10.55 (states)	35	0-38 (fed), 0-12 (states)	0	0-10.25
UK	50	0-50	28	20-26,	17.5	Standard: 20 percent, Reduced: 5 percent

Source: National Board of Revenue and Wikipedia, 2011

The rate of VAT in Bangladesh is 15 percent in fiscal year 2011 while it is 12.5 percent in India, 12 percent in Sri Lanka, 5 percent in Japan and UK and 10.25 percent in USA.

In 2010, the rate of income tax was 25 percent, VAT 15 percent and rate of standard corporate tax was 27.5 (0-42.5 percent) percent in Bangladesh. However, in India, the rate of income tax was 30.9 percent, VAT 12.5 percent and corporate tax 33.99 percent while in Pakistan, the rate of income tax was 20 percent, VAT 16 percent and corporate tax 35 percent. The highest income tax in 2010 was in Cuba and UK at 50 percent, corporate tax in Japan at 40.87 percent and VAT in Cuba at 25 percent.

Major portion of the revenue of the country comes from the collection of VAT. The rate of VAT in Bangladesh is 15 percent in fiscal year 2011 while it is 12.5 percent in India, 12 percent in Sri Lanka, 5 percent in Japan, 20 percent in UK and 10.25 percent in USA. The excessive rate of VAT in the country imperils the marginalised people.

8. TAX EVASION AND AVOIDANCE

Tax Evasion is a way of refusal by individuals', households, firms, trusts and other entities of paying taxes; or tax evasion means not to pay the paying tax by using various illegal ways. Tax evasion is a severe problem in Bangladesh as huge amount of revenue are being evaded by the tax dodgers. In addition, businessmen who collect VAT from consumers also evade tax by under reporting the amount of sales.

Tax avoidance is one of the major obstacles in collecting the actual amount of tax. The tax avoidance means the tax payers paying the minimum amount of tax using all available illegal methods. The tax payers manipulate the actual data of their income in association with some dishonest tax officers and pay a minimum level of tax and hence hinder the normal growth of revenue.

National Board of Revenue (NBR) reveals that tax evasion and incentives cost Tk. 40000 crore a year. Even, tax evasion and avoidance lead to a parallel black economy of about Tk. 9000 to 11000 crore.

Both tax evasion and avoidance in Bangladesh have reached alarming proportions and its victim is revenue. Though the tax and GDP ratio is still very low in Bangladesh as compared to that of different neighboring countries, many tax payers do not want to pay their taxes or try to avoid the payable income taxes. Therefore, the National Board of Revenue (NBR) reveals that tax evasion and incentives cost Tk. 40000 crore a year. Even, tax evasion and avoidance lead to a parallel black economy of about Tk. 9000 to 11000 crore.

APPENDIX

Taxes are imposed over the citizens of a country to increase the amount of revenue that the government can use for financing government expenditure. Tax has many dimensions and formats, some of which are enlisted below:

Direct Taxes are imposed initially on the individual or household that is meant to bear the burden such as Income tax and Marriage tax. **Indirect Tax** can be shifted to whoever is supposed to be the final bearer of the burden through price vehicles. Such as the VAT which is paid by traders on goods and services enter into chain of production but which is ultimately borne by the consumers of the goods and services.

Progressive Tax means that the rate of tax not only increases in absolute form but also increase in progressive way when the taxable income increases and tax is **Regressive** the rate of tax decreases as the taxable income increases.

Same as tax is said to be **proportional** where tax liability increases in the same proportion as the income increases. For example, tax on Tk. 10000 is 10 percent and Tk. 500000 is also 10 percent. In the former case, tax becomes 10000 and in 2nd case 50000 where tax volume is increasing proportionately with the increases of income but not the tax rate increases as progressively.

Single Tax is a system of taxation in which only one tax is applicable for all such as income tax, capital gain tax and national insurance as in the UK. Single tax is the poll tax or the head tax or adolescent tax which is imposed on the entire person who are in the society. **Multiple Taxes** are different types of taxes imposed considering different bases in a country such as income tax, VAT etc.

Among direct taxes, income tax is one of the main sources of revenue. In Bangladesh, the government follows the progressive tax rate and multiple tax system. Taxes are so much important for the economic development of a country because it is the main sources of collecting economic revenue.



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