

Bangladesh Economic Update
Revenue Collection and Expenditure in Bangladesh
September 2012



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1. INTRODUCTION

The current Monthly Economic Update analyses revenue collection and expenditure in Bangladesh. Accordingly, the Update finds out contribution of different sources of revenue, traces the pattern of expenditure and makes a comparison with South-Asian countries, with a view to articulating coherence and inconsistency in revenue collection and development expenditure.

In FY 2012-13, government has targeted to borrow Tk. 125.40 billion as net foreign loan which is 69.48 percent higher than that of FY 2011-12.

Government has targeted to borrow Tk. 334.84 billion as domestic loan in FY 2012-13 which is 2.86 percent lower than that of FY 2011-12.

In FY 2010-11, total debt as percentage of GDP was only 22.30 percent which was 56.10 percent in FY 1990-91.

Over the year, the gap between total revenue collection and total expenditure is increasing. On the other hand, total foreign grants as percentage of GDP are decreasing. In this situation, government has to depend on either domestic or foreign loan. In FY 2012-13, government has targeted to borrow Tk. 125.40 billion as net foreign loan which is 69.48 percent higher than that of FY 2011-12. On the other hand, government has targeted to borrow Tk. 334.84 billion as domestic loan which is 2.86 percent lower than that of FY 2011-12. Though the target of domestic loan has decreased government increase the amount of domestic loan in revised budget every year. Total borrowing from domestic sources increased by 26.69 percent in revised budget of FY 2011-12 than that of the budget of FY 2011-12. Moreover, half of the amount of total disbursement of loan and grants goes to payment of interest and the principal and increased loan from banking system might dampen private investment. Loan from banking system was 542.96 percent higher in FY 2010-11 than that of FY 2009-10 which was 3.25 percent lower than in FY 2011-12 than that of FY 2011-12. As revenue is the most sustainable source of financing for development, a developing country like Bangladesh must have the goal of achieving self-sufficiency through tax revenues, and reduction of its dependency upon foreign aid.

Over the year, government has targeted to expend in the some large development project. However, revenue earning as well as foreign grants is not ensured by the government. Moreover, external debt as percentage of GDP shows a decreasing trend. In FY 2010-11, total debt as percentage of GDP was only 22.30 percent which was 56.10 percent in FY 1990-91. To meet up the deficit, government is highly dependent on the domestic borrowing as well as borrowing from the banking sector which reduces the ability of providing loan to the private sector. Consequently, private

loan is becoming contract. Again, taking loan from the central bank directly by the government induces inflation what Bangladesh have been facing in the last fiscal year. All these are affecting the economy, with disproportionate effects on the poor and the marginalised section. However, to meet the condition of International Monetary Fund (IMF), the government has to decrease subsidies for rental and quick rental power plant, resulting in the price hike of power for the fifth consecutive times under the current regime.

Over the years, it is witnessed that total income tax collection is higher than that of the target articulated in budget which indicates an erroneous income tax target policy.

Over the years, the collection from VAT is always higher than that of the income tax. Higher amount of VAT than that of the amount of income tax exerts burden on the marginalised people through double taxation process. Over the years, it is witnessed that total income tax collection is higher than that of the target articulated in budget which indicates an erroneous income tax target policy. As income tax is one of the major sectors of NBR tax revenue, the policy of income tax targeting and collection requires complete overhaul to induce higher revenue mobilization in Bangladesh. Revenue from income tax has not gone up at the matched rate of increased revenue generated from Non-NBR sources like registration fees on account of land in recent years, indicating the scale of evasion in terms of income tax.

The net inflow of foreign aid has been nearly half of the total disbursement of loan and grants. That means half of the amount of total disbursement of loan and grants goes as payment of the interest and principal. Moreover, the conditions imposed on loans and grants hinder the flexibility of policymaking, resulting in creation of bottlenecks for growth of economy.

With the population of 160 million, the total number of the holders of Taxpayers Identification Number (TIN) is only 3.5 million.

The collection of revenue in Bangladesh is lower compared to the other South Asian countries. With the population of 160 million, the total number of the holders of Taxpayers Identification Number (TIN) is only 3.5 million, of which only 1.1 million have submitted their tax returns. In September 2012, the number of registered value added tax (VAT) companies is 75 thousand, of which only 50 to 60 thousand companies have submitted their VAT returns. The NBR has collected Tk. 8.39 billion income taxes from the Tax Frail-2012 against Tk. 4.14 billion in the last fiscal year. Moreover, during this period, the people who possessed the Tax-payers Identification Number (TIN) has increased to 16402 in calendar year 2012 from 10000 than that of the previous calendar year. However, the actual number of tax payers is lower than that of the expectation level. According to the National Board of Revenue (NBR), only less than one percent people pay their tax.

2. TOTAL REVENUE COLLECTION

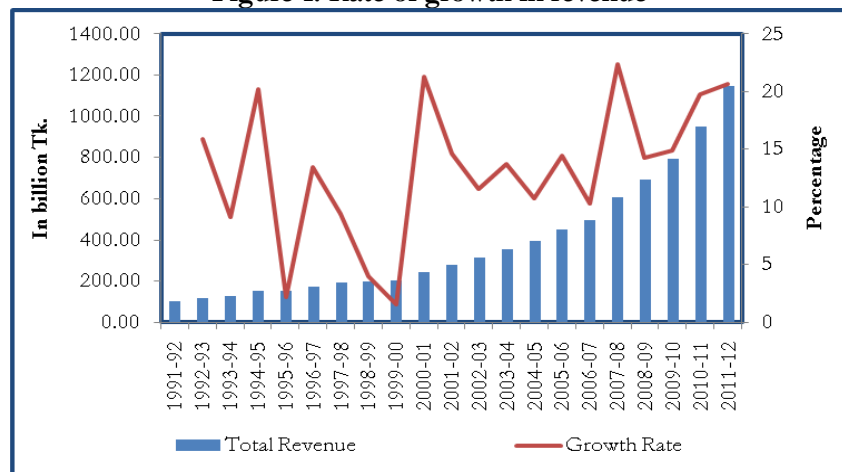
In the current fiscal year, government has targeted to collect revenue of Tk. 1396.70 billion which might be reduced a slight in the revised budget of this year.

In FY 2011-12, the collection of revenue was the highest which was Tk.1148.85 billion (revised budget) and 20.69 percent more than that of the FY 2010-11.

No regular trend is there in the rate of growth of collection of revenue in Bangladesh.

Total revenue is increasing in volume, but the incremental rate of growth in revenue is erratic. The incremental rate of growth is facing a decreasing trend from FY 2010-11. In FY 2011-12, the incremental rate of growth in revenue was 0.92 percent which was 4.88 percent in FY 2010-11. If the targeted collection of revenue of government is fulfilled, the incremental rate of growth in revenue might be only 0.88 percent. In the current fiscal year, government has targeted to collect revenue of Tk. 1396.70 billion which might be reduced a slight in the revised budget of this year. In FY 2011-12, the collection of revenue was the highest which was Tk.1148.85 billion (revised budget) and 20.69 percent more than that of the FY 2010-11. Considering the last two decades, the rate of growth in revenue was the highest in FY 2007-08 which was 22.38 percent and went down to 14.27 percent in FY 2008-09 due to global recession. However, no regular trend is there in the rate of growth of collection of revenue in Bangladesh. The collection of revenue increased at a staggering rate of 20.18, 21.28 and 22.38 percent in FY 1994-95, FY 2000-01 and FY 2007-08 respectively than that of FY 1994-95, FY 1999-00 and FY 2006-07. The collection of revenue totaled at Tk. 150.10 billion, Tk. 243.40 billion and Tk. 605 billion in FY 1994-95, FY 2000-01 and FY 2007-08 respectively. After FY 2007-08, the collection of revenue had declined. The country received the amount of only Tk. 691.80 billion revenue in FY 2008-09.

Figure 1: Rate of growth in revenue



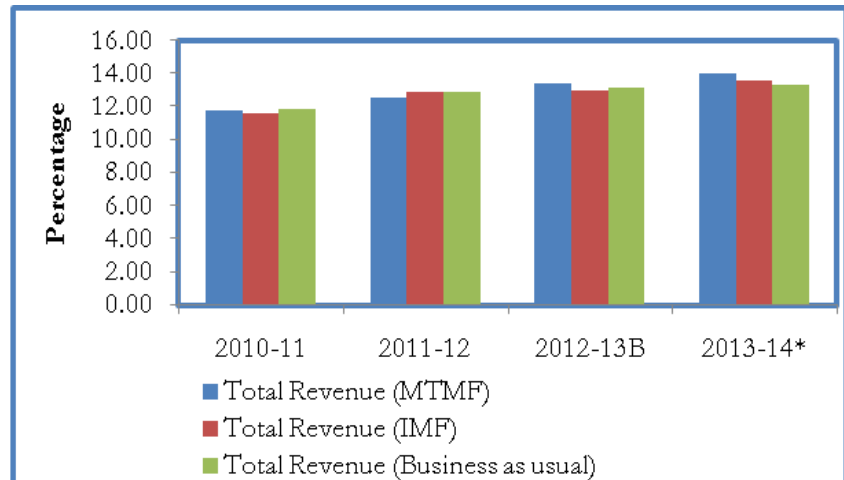
Source: Ministry of Finance, Budget document, 2012

The target of medium term macroeconomic framework (MTMF) relating to revenue collection as percentage of GDP is ambitious than the target of International Monetary Fund-Memorandum of Economic and Financial Policies (IMF-MEFP) and business as

In FY 2012-13, the target of IMF-MEFP and MTMF on revenue collection as percentage of GDP is 13.00 and 13.40 percent whereas the historical track record suggests that it might be 13.12 percent.

usual scenario. In FY 2012-13, the target of IMF-MEFP and MTMF on revenue collection as percentage of GDP is 13.00 and 13.40 percent whereas the historical track record suggests that it might be 13.12 percent. Under the business as usual scenario, revenue collection as percentage of GDP might stand at 13.34 percent whereas the targeted revenue collection of IMF-MEFP and MTMF as percentage of GDP might remain at 13.60 and 14.00 percent respectively in FY 2013-14. The gap between the target of MTMF and business as usual scenario might be 0.66 percent and IMF-MEFP and business as usual scenario might be 0.26 percent in FY 2013-14.

Figure 2: Comparison among total revenue of MTMF, IMF and business as usual scenario.



Source: Ministry of Finance, International Monetary Fund, Memorandum of Economic and Financial Policies, 2012

3. TAX AND NON-TAX REVENUE IN BANGLADESH

In FY 2012-13, the targeted revenue as percent of GDP is 13.41 percent with tax revenue and non-tax revenue as percentage of GDP are 11.22 and 2.19 percent respectively.

In Bangladesh, total revenue is continuously increasing in volume over the years with the increase in both tax and non-tax revenue. Tax revenue, however, as percent of total revenue is following a stable trend up to FY 2009-10 and again it declined in FY 2011-12 whereas non-tax revenue is following an increasing trend from FY 2010-11. Tax revenue declined due to the slower rate of revenue earnings from VAT and income tax. Though tax revenue is a major component of total revenue, the tax revenue as percentage of total revenue has declined in the fiscal year of FY 2012-13 than that of the preceding year.

In FY 2012-13, the targeted revenue as percent of GDP is 13.41 percent with tax revenue and non-tax revenue as percentage of GDP are 11.22 and 2.19 percent respectively. Tax revenue and

The rate of growth of VAT and income tax were 17.50 and 22.79 percent respectively while the rate of growth of tax revenue was 18.71 percent in FY 2011-12.

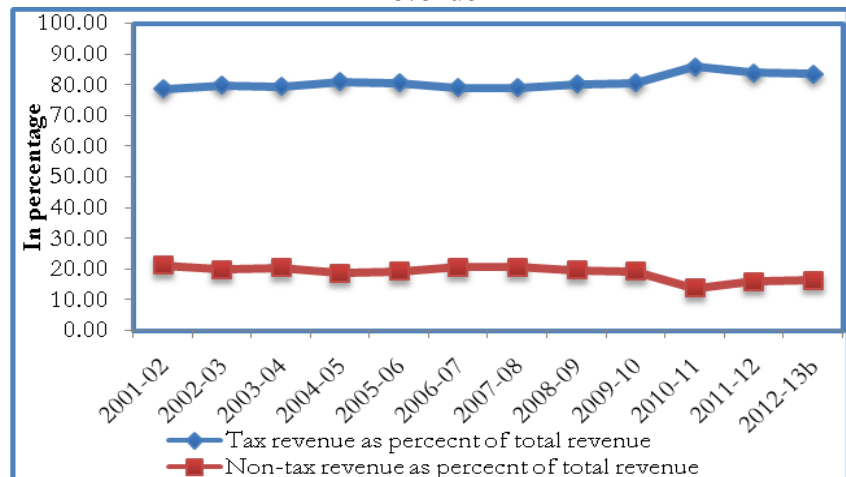
For the current year, tax revenue as percentage of total revenue has been targeted to 83.64 percent while non-tax revenue has been at 16.36 percent of the total revenue.

In FY 2012-13, NBR and non-NBR revenue as percent of tax revenue collection has targeted to 96.09 and 3.90 percent respectively.

non-tax revenue as percentage of GDP were 10.72 and 2.03 percent respectively in the corresponding previous fiscal year.

Total revenue increases with the increase of its components over the years. Due to the slower rate of collection of VAT and income tax,, tax revenue has slightly dropped down in FY 2011-12. The rate of growth of VAT and income tax were 17.50 and 22.79 percent respectively while the rate of growth of tax revenue was 18.71 percent in FY 2011-12. For the current year, tax revenue as percentage of total revenue has been targeted to 83.64 percent while non-tax revenue has been at 16.36 percent of the total revenue. In addition, tax and non-tax revenue as percent of total revenue were 84.06 and 15.94 percent respectively in FY 2011-12 than those of the previous fiscal year because of the decreasing rate of growth of the National Board of Revenue (NBR) revenue. NBR revenue, the major share of tax revenue and non-NBR revenue have contributed 96.30 and only 3.70 percent respectively of the tax revenue in FY 2011-12. Moreover, In FY 2012-13, NBR and non-NBR revenue as percent of tax revenue collection has targeted to 96.09 and 3.90 percent respectively.

Figure 3: Tax revenue and non-tax revenue as percent of total revenue



Source: Finance Division, Ministry of Finance and National Board of Revenue, 2012

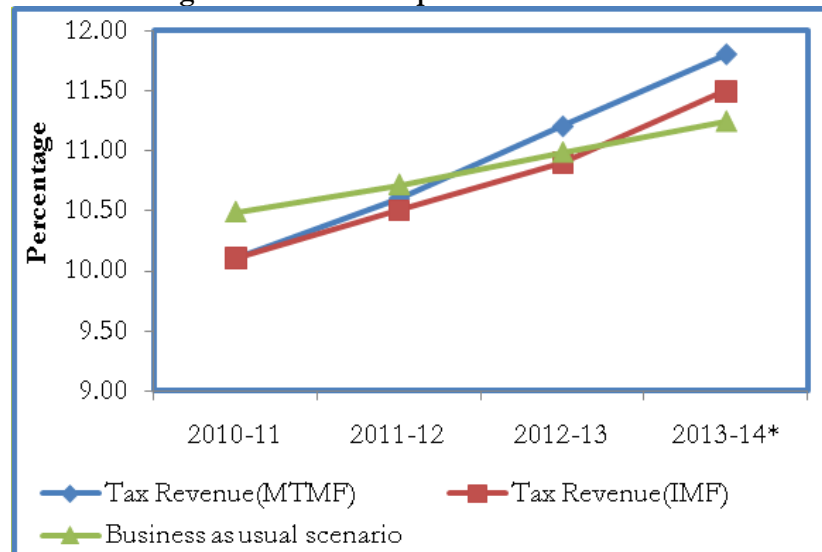
4. FUTURE COMPARISON OF TAX AND NON-TAX REVENUE

The MTMF target of revenue collection as percentage of GDP is ambitious than the target of IMF-MEFP and business as usual scenario which indicates that the slower rate of tax rate as percentage of GDP from FY 2010-11 might decrease the tax-GDP ratio in upcoming fiscal years. In FY 2012-13, the target of IMF-

In FY 2012-13, the target of IMF- MEFP and MTMF on tax revenue as percentage of GDP is 10.90 and 11.20 percent whereas the historical track record suggests that it might be 10.99 percent.

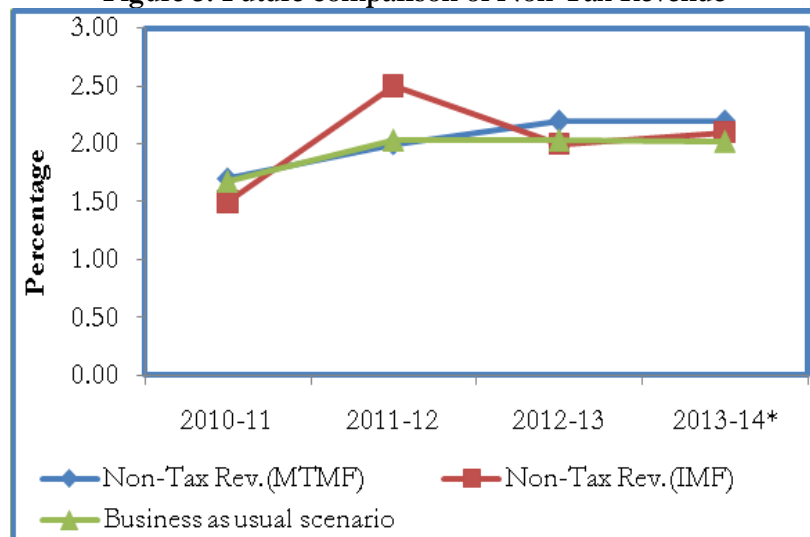
MEFP and MTMF on tax revenue as percentage of GDP is 10.90 and 11.20 percent whereas the historical track record suggests that it might be 10.99 percent. The gap between the target of MTMF and the historical track record might be 0.55 percent while IMF- MEFP and the historical track record might be 0.25 percent in FY 2013-14.

Figure 4: Future comparison of tax revenue



Source: Ministry of Finance, IMF MEFP, 2012

Figure 5: Future comparison of Non-Tax Revenue



Source: Ministry of Finance, IMF MEFP, 2012

There exists slight inconsistency in the collection of non-tax revenue as percentage of GDP in terms of targets set out in MTMF, IMF-MEFP and the historical track record. In FY 2012-13,

In FY 2012-13, the IMF-MEFP and MTMF targets realting to non-tax revenue as percentage of GDP are 2.00 and 2.20 percent respectively. According to historical track record, if a projection is made, it might turn out to be 2.03 percent at the end of current fiscal year.

the IMF-MEFP and MTMF targets realting to non-tax revenue as percentage of GDP are 2.00 and 2.20 percent respectively. According to historical track record, if a projection is made, it might turn out to be 2.03 percent at the end of current fiscal year. In FY 2013-14, the targets of IMF-MEFP and MTMF as percentage of GDP are 2.10 and 2.20 percent whereas a trendline projection suggests 2.02 percent.

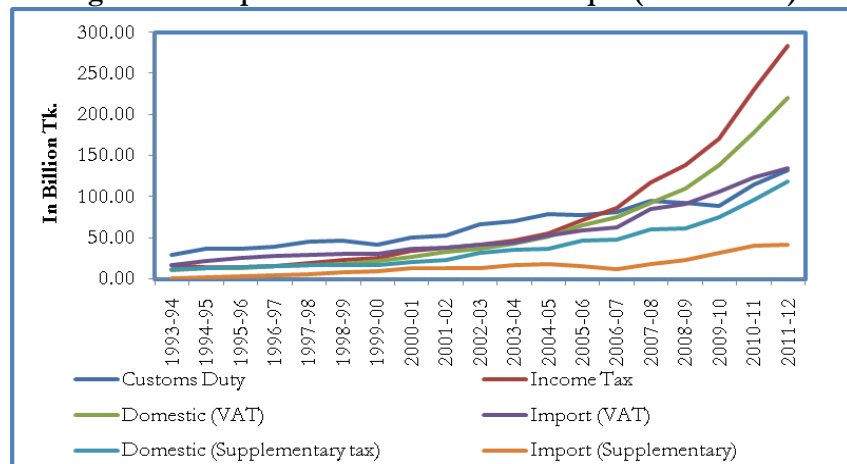
5. NBR COMPONENTS OF TAX REVENUE RECEIPTS

The position of income tax and VAT is quite satisfactory as compared to other components of NBR revenues. However, other components like custom duty, domestic (Supplementary tax), import (VAT) and import (Supplementary) are not found as much as the expectation. Some policy reform might be taken to those components to increase revenue earning.

In FY 2012-13, government has targeted tax revenue earning from VAT (import and domestic), custom duty, supplementary tax (domestic and import) as Tk. 404.66 billion, Tk.145.25 billion, billion and 199.69 billion.

In FY 2012-13, government has targeted tax revenue earning from VAT (import and domestic), custom duty, supplementary tax (domestic and import) as Tk. 404.66 billion, Tk.145.25 billion, billion and 199.69 billion which are respectively 14.05 percent, 9.41 percent and 24.35 percent more than those of FY 2011-12. In FY 2011-12, income tax and VAT were 283.46 billion and Tk. 354.79 billion which were 296.91 percent and 187.14 percent higher than those of the FY 2005-06 whereas custom duty, domestic (Supplementary tax), import (VAT) and import (Supplementary tax) were increased by only 69.71 percent, 155.27 percent, 128.45 percent and 165.04 percent respectively.

Figure 6: Components of tax revenue receipts (under NBR)



Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Ministry of Finance, 2012

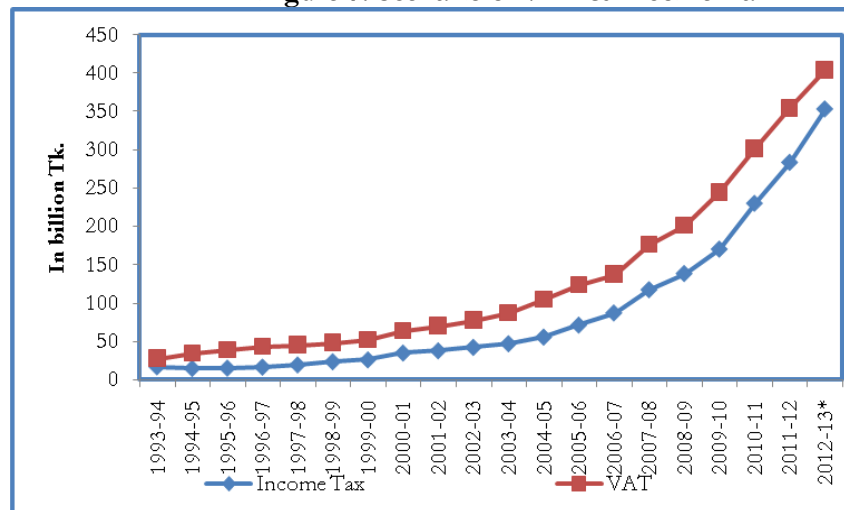
In FY 2012-13, the gap between revenue earning and total expenditure is Tk.520.68 billion. In FY 2011-12, the gap between revenue earning and total expenditure was Tk.463.28 billion simultaneously total foreign grants was Tk. 44.60 billion, foreign net borrowing was Tk. 73.99 billion and Domestic borrowing was Tk. 344.69 billion.

6. VAT AND INCOME TAX

In the budget of FY 2012-13, government has targeted the collection of taxes from income and profit at Tk. 353.00 billion and VAT at Tk. 404.66 billion which is respectively 24.53 and 14.05 percent higher than those of FY 2010-11.

Over the years, the collection from VAT is always higher than that of the income tax. Higher amount of VAT than that of the amount of income tax exerts burden on the marginalised people through double taxation process. In the budget of FY 2012-13, government has targeted the collection of taxes from income and profit at Tk. 353.00 billion and VAT at Tk. 404.66 billion which is respectively 24.53 and 14.05 percent higher than those of FY 2010-11. In the budget of the current fiscal year, the target of collection of VAT is 14.63 percent higher than that of income tax.

Figure 7: Scenario of VAT & Income Tax



Source: Finance division, Ministry of Finance, 2012

With the population of 160 million, the total number of the holders of Taxpayers Identification Number (TIN) is only 3.5 million, of which only 1.1 million have submitted their tax returns. In September 2012, the number of registered value added tax (VAT) companies is 75 thousand, of which only 50 to 60 thousand companies have submitted their VAT returns. The NBR has collected Tk. 8.39 billion income taxes from the Tax Fair-2012 against Tk. 4.14 billion in the last fiscal year. Moreover, during this period, the people who possessed the Tax-payers Identification Number (TIN) has increased to 16402 in calendar year 2012 from 10000 than that of the previous calendar year. However, the actual

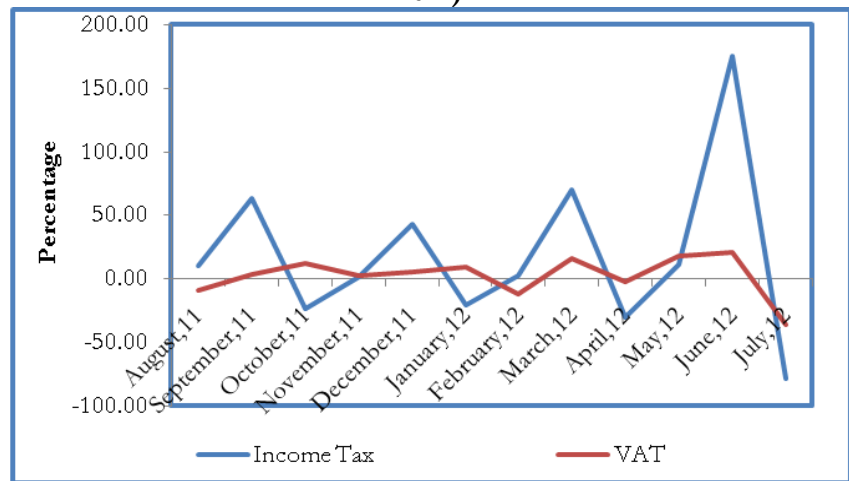
number of tax payers is lower than that of the expectation level. In that respective year, the collection from VAT was Tk.74.26 billion which was 43.57 percent higher than that of the income tax. After FY 2009-10, the gap between VAT and income tax is decreasing but not as much as expected. This is alarming that the number of people who pays income tax is less than one percent of total population.

In the month of July, 2012 the rate of growth rate in income tax is lower than that of the rate of growth in VAT. Lower amount of income tax might reduce the growth rate of revenue earnings in the upcoming years. Higher amount of VAT than the amount of income tax might be a burden on the marginalised people through double taxation specially the fixed wage earners. Moreover, the same VAT rate is imposed to all of income group people.

The share of VAT and income tax on the NBR revenue are 27.60 and 30.85 percent in FY 2011-12 against the target in the budget as 37.60 and 30.0 percent.

The rate of growth in income tax and VAT are -78.88 and -36.39 percent as well as the rate of growth in of VAT is 42.49 percent higher than that of the rate of growth in income tax in July 2012. The collection of revenue from VAT was the highest in July, 2012 which was Tk. 44.03 billion (16.28 billion domestic and 11.72 billion import VAT) and was 30.96 percent more than that of June, 2011. The share of VAT and income tax on the NBR revenue are 27.60 and 30.85 percent in FY 2011-12 against the target in the budget as 37.60 and 30.0 percent.

Figure 8: Growth rate of VAT & income tax (August, 2011 – July, 2012)



Source: Finance division, Ministry of Finance, 2012

In June, FY 2011-12, the highest amount of tax on income stood at Tk. 66.88 billion which was 9.49 percent higher than that of June FY 2010-11. Historical track record shows that the lion's share of the total collection of income taxes is collected in the last month of

the fiscal year. However, in July 2012, it has decreased by Tk. 52.76 billion and reached at Tk. 14.12 billion which was only 19.73 percent higher than that of the collection of July 2011. The collection of revenue from VAT and income tax has increased in a large quantity than any other components of NBR revenue over the years. Generally, except the month of June VAT has increased more than that of the taxes on income and profits in Bangladesh.

In the budget of FY 2012-13, government has targeted income tax as percentage of NBR tax is 31.5 percent; the actual collection might be higher than that of the target.

Over the years, it is witnessed that total income tax collection is higher than that of the target articulated in budget which indicates an erroneous income tax target policy. As income tax is one of the major sectors of NBR tax revenue, the policy of income tax targeting and collection requires complete overhaul to induce higher revenue mobilization in Bangladesh. In the budget of FY 2012-13, government has targeted income tax as percentage of NBR tax is 31.5 percent; the actual collection might be higher than that of the target. In the budget of 2011-12, income tax as percentage of NBR tax was 30.0 percent whereas the collection was 30.85 percent. At the end of the fiscal years of 2010-11, FY 2009-10 and FY 2008-09, total income tax collection as percent of NBR tax were respectively 2.64, 0.84 and 1.43 percent higher than those of the targets.

Figure 9: Target (Budget) and actual collection of Income tax as percentage of NBR tax revenue.



Source: Finance Division, Ministry of Finance, 2012

7. Non-NBR REVENUE RECEIPTS

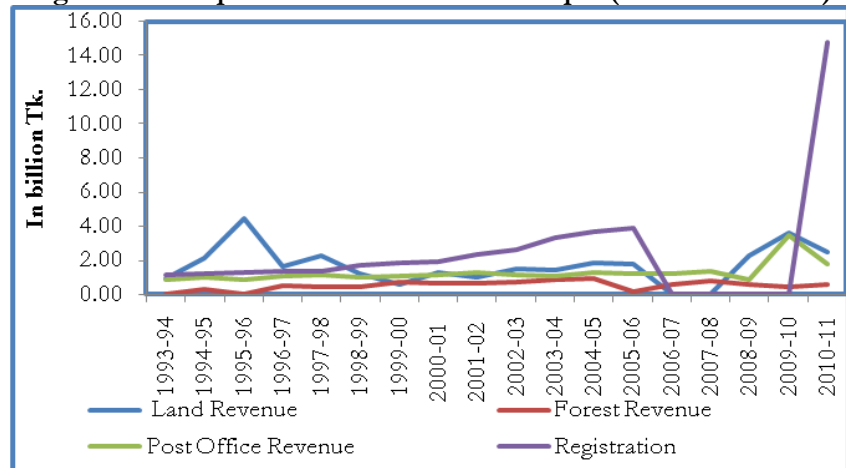
Revenue from income tax has not gone up at the matched rate of increased revenue generated from Non-NBR sources like registration fees on account of land in recent years, indicating the scale of evasion in terms of income tax. The position of other components of tax revenue receipts under non-NBR is, however,

very disappointing. Some components are almost static. Moreover in current budget government has not set any target in the sectors of forest, post office and land registration, though revenue from land registration increased after FY 2009-10.

In the budget of 2012-13, the government has targeted to collect revenue of Tk. 0.72 billion as narcotics and liquor duty, Tk. 11.00 billion from taxes on vehicles, Tk. 6.08 billion from land and Tk. 27.85 billion as non judicial stamp duty which were respectively Tk. 0.65 billion, Tk. 9.00 billion, Tk. 5.50 billion and Tk. 24.00 billion in revised budget 2011-12. However, revenue from registration went up surprisingly by 284.75 percent in FY 2010-10 than that of FY 2005-06 (the data of registration of the consecutive three years are missing in monthly publication of Bangladesh Bank).

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Figure 10: Components of tax revenue receipts (under non-NBR)



Source: Bangladesh Bureau of Statistics, National Board of Revenue, Bangladesh Bank, 2012

8. PUBLIC AND REVENUE EXPENDITURE

Public expenditure has a greater role in fostering the growth of economy. The major sectors earmarked for public expenditure are the social infrastructure like education and health and physical infrastructure like roads and highways, energy and power, and fertiliser. Public expenditure is increasing at a faster rate over the years while non-development revenue expenditure is increasing at a slower rate. In FY 2012-13, the targeted public expenditure is Tk. 1917.38 billion which is an increase of 18.93 percent than that of the previous fiscal year. In addition, the targeted rate of growth of revenue expenditure has increased by 10.58 percent in FY 2012-13 which declined from 21.31 percent than that of the previous fiscal year and the targeted rate of growth of development expenditure

In FY 2012-13, the targeted public expenditure is Tk. 1917.38 billion which is an increase of 18.93 percent than that of the previous fiscal year.

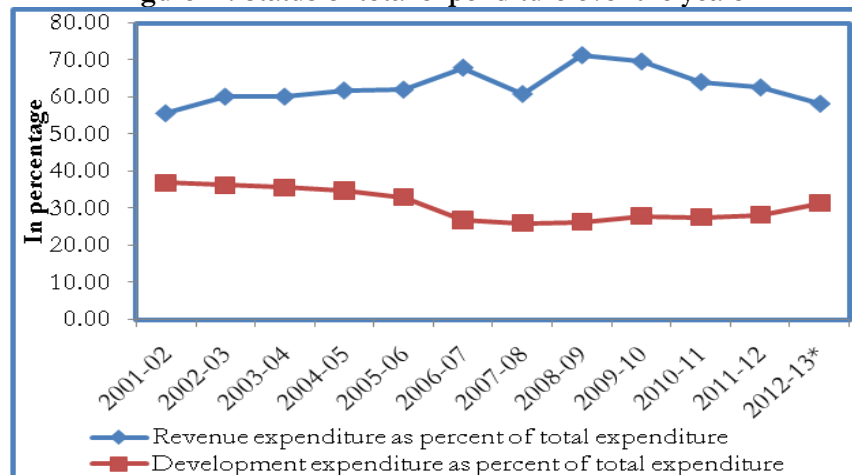
Targeted revenue and development expenditure as percent of total expenditure are 58.24 and 31.36 percent respectively in FY 2012-13.

In FY 2012-13, the earnings from revenue and revenue expenditure are targeted to 13.4 and 10.72 percent respectively which were 12.56 and 11.16 percent respectively in the previous fiscal year.

has increased by 31.73 percent in FY 2012-13 from 27.78 percent than that of FY 2011-12. However, the public expenditure was Tk. 1612.13 billion while revenue expenditure was Tk. 1009.85 billion and development expenditure was Tk. 456.51 billion in FY 2011-12. As percentage of total expenditure, revenue expenditure is decreasing while development expenditure is increasing at a very slower rate from FY 2008-09 to FY 2011-12. However, targeted revenue and development expenditure as percent of total expenditure are 58.24 and 31.36 percent respectively in FY 2012-13.

On the other hand, revenue expenditure and earnings from revenue as percent of GDP are increasing over the years. In FY 2012-13, the earnings from revenue and revenue expenditure are targeted to 13.4 and 10.72 percent respectively which were 12.56 and 11.16 percent respectively in the previous fiscal year. Although the share of revenue expenditure in GDP dropped down in FY 2010-11 at 10.57 percent from 11.1 percent in FY 2009-10. 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 as well as acquisition of assets and works are rising vertically.

Figure 11: Status of total expenditure over the years



Source: Authors' calculations based on Bangladesh Bureau of Statistics and Finance division, Ministry of Finance, 2012

9. COMPONENTS OF NON-DEVELOPMENT REVENUE EXPENDITURE

The non-development revenue expenditure is increasing over the years, out of which subsidy and interest payment as percent of revenue expenditure are increasing over the years while the rate of

In FY 2012-13, the targeted amount of subsidy and interest payment is Tk. 144.45 and Tk. 233.02 billion.

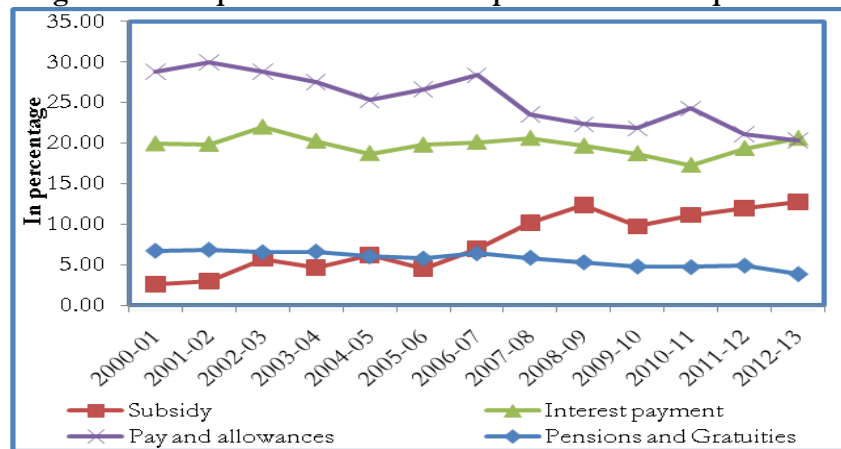
Domestic and foreign payment of interest as percent of total payment of interest for FY 2012-13 are targeted at 92.71 and 7.28 percent respectively which was 91.66 and 8.34 percent respectively in the previous fiscal year.

The major shares of the non-development revenue expenditure are targeted as the interest payment (20.64 percent), subsidy (12.79) and pay and allowance (20.32 percent) in the budget of FY 2012-13.

growth in the expenditure on pay and allowance, pension and gratuities is decreasing from FY 2006-07 to FY 2011-12. The main three sources of non-development expenditures are pay and allowances, subsidy and current transfer and total interest payment on domestic and foreign loan. In FY 2012-13, the targeted amount of subsidy and interest payment is Tk. 144.45 and Tk. 233.02 billion which is 12.69 and 20.64 percent respectively of the revenue expenditure. Subsidy and interest payment was Tk. 122.63 and Tk. 197.96 billion respectively in the revised budget of FY 2011-12, which was 12.01 and 19.38 percent of the total non-development revenue expenditure.

Payment of interest is increasing due to the excessive domestic and foreign borrowing from the banking sector and non-banking sector for financing the budget deficit. In addition, budget deficit is targeted at Tk. 520.68 billion in FY 2012-13 while it was Tk. 463.28 billion in FY 2011-12. Domestic share of payments of interests is much higher than that of international share of interest payments. Domestic and foreign payment of interest as percent of total payment of interest for FY 2012-13 are targeted at 92.71 and 7.28 percent respectively which was 91.66 and 8.34 percent respectively in the previous fiscal year. Domestic borrowing from the banking sector was Tk. 187.91 billion in FY 2011-12 which are 2.24 percent and 19.84 percent higher than those of the revised and proposed budget respectively of FY 2011-12. All the components of revenue expenditures except pay and allowances are increasing at a lower rate. The major shares of the non-development revenue expenditure are targeted as the interest payment (20.64 percent), subsidy (12.79) and pay and allowance (20.32 percent) in the budget of FY 2012-13.

Figure 12: Components of non-development revenue expenditure



Source: Authors' calculations based on Finance division, Ministry of Finance, 2012

In FY 2012-13, the targeted public expenditure is Tk. 1917.38 billion which is an increase of 18.93 percent than that of the previous fiscal year whereas subsidy and interest payment as per cent of total expenditure has targeted to 7.53 and 12.15 per cent respectively.

Increase in the public expenditure increases aggregate demand in the economy. Demand for labour, being a derived demand, also increases along with raising level of employment and productivity. Higher employment and productivity leads to two paths. One leads to a rise in the wages and thus, it is contributing to reduction in poverty and the other leads to acceleration in economic growth which in turns leads to rise in the public expenditure. In FY 2012-13, the targeted public expenditure is Tk. 1917.38 billion which is an increase of 18.93 percent than that of the previous fiscal year whereas subsidy and interest payment as per cent of total expenditure has targeted to 7.53 and 12.15 per cent respectively.

10. STATUS OF REVENUE EXPENDITURE ON AGRICULTURE, ENERGY AND POWER

The total allocation in energy and power sector is Tk. 95.44 billion in FY 2012-13 which increased by 19.95 percent than that of the revised budget of the previous fiscal year.

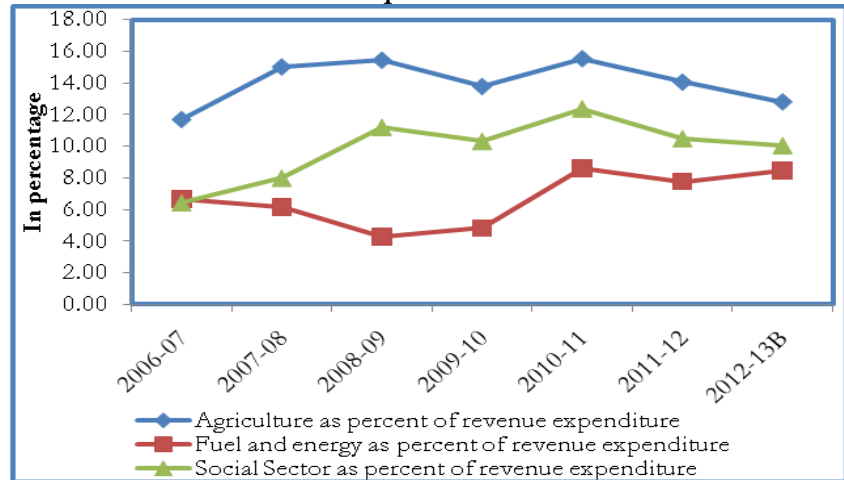
In the case of subsidy, energy and power sectors, highest prioritized sector as mentioned in the election manifesto have surpassed agriculture and social sectors which may harm the marginalized people by the hike in price of essential goods. The total allocation in energy and power sector is Tk. 95.44 billion in FY 2012-13 which increased by 19.95 percent than that of the revised budget of the previous fiscal year. Out of the total allocation in energy and power sector, Tk. 78.96 billion has been allocated for the power sector and Tk. 16.48 billion for the energy and petroleum sector. The rate of the growth of the allocation in agriculture and social sector were 0.79 and 5.84 percent respectively in FY 2012-13 than those of the previous fiscal year. The non-development revenue expenditure has increased over the years whereas in the budget of FY 2012-13, the share of power and energy sector has been targeted at 8.45 percent because of the quick rental power plants. However, the targeted share of agriculture, social sectors have decreased by 12.81 and 10.05 percent respectively.

The rate of the growth of the allocation in agriculture and social sector were 0.79 and 5.84 percent respectively in FY 2012-13 than those of the previous fiscal year.

Due to the rise in global fuel price and import of adequate petroleum products for the quick rental power plants, subsidy was targeted at Tk. 144.45 billion which increased by 30.31 percent in FY 2012-13 than that of the revised budget of the previous fiscal year. The subsidy in power sector increased by 6.67 percent because of buying of electricity from rental power plants and subsidy in agricultural sector has decreased by 7.69 percent in the current fiscal year. In the power sector, subsidy is increasing because government has to pay more money for buying electricity from the private sectors. In the current fiscal year, additional cost to refuel these power plants is between Tk. 52.00 and Tk. 56.00 billion, which is about 0.6 percent or 0.7 percent of the GDP, as projected by the World Bank. (Energy Bangla, 2012). To reduce the subsidy demand, price of electricity is continuously increasing

which ultimately increases the price of the essential consumer goods and this frequent soaring in prices of electricity may hamper the marginalised peoples (Rahman, 2012).

Figure 13: Comparison between allocation of agriculture, fuel and energy and social sectors in the non-development revenue expenditure



Source: Authors' calculations based on Bangladesh Bureau of Statistics and Finance division, Ministry of Finance, 2012

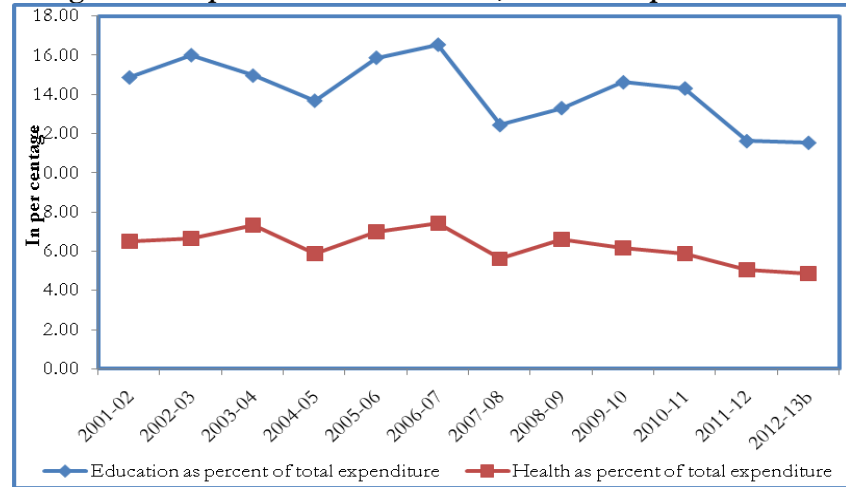
11. PUBLIC EXPENDITURE ON SOCIAL SECTOR IN BANGLADESH

Expenditure in education and health is increasing in volume, but the rate of growth in education and health expenditure is decreasing over the last two fiscal years. In the current fiscal year, the expenditure in education and health is targeted at Tk. 221.45 and Tk. 93.33 billion respectively while the rates of targeted respective growth are 18.09 and 14.25 percent respectively. In addition, the targeted allocation in energy and power sector is Tk. 95.44 billion in FY 2012-13 which is an increase of 19.94 percent than that of the previous fiscal year. In FY 2011-12, the rate of growth in education and health expenditure were only 0.86 and 7.00 percent respectively against those of the previous fiscal year.

Public expenditure in social sectors has decreased due to an increase in allocation in power and energy.

Public expenditure in social sectors has decreased due to an increase in allocation in power and energy. In terms of public expenditure, expenditure in education and health as share of total expenditure is decreasing over the last two fiscal years. Moreover, the target of expenditure in education and health as percentage of total expenditure has also been lowered in the budget of FY 2012-13.

Figure 14: Expenditure on education, health and power sectors



Source: Finance division, Ministry of Finance, 2012

According to the budget of the current fiscal year, the share of education and health expenditure in total public expenditure has further been reduced to 11.55 and 4.87 percent respectively.

The share of power and energy sector as percent of public expenditure has been targeted to 4.98 percent while this was 4.94 percent in the revised budget of the corresponding previous fiscal year.

In FY 2011-12, education and health expenditure as percent of total public expenditure were at 11.63 and 5.07 percent respectively while these were at 14.30 and 5.87 percent respectively in the previous fiscal year. According to the budget of the current fiscal year, the share of education and health expenditure in total public expenditure has further been reduced to 11.55 and 4.87 percent respectively. However, the share of power and energy sector as percent of public expenditure has been targeted to 4.98 percent while this was 4.94 percent in the revised budget of the corresponding previous fiscal year.

Table 1: Status of Education and Health

	Education as percent of GDP	Health as percent of GDP	Education Expenditure as percent of total revenue	Health as percent of total revenue
2001-02	2.22	0.97	22.41	9.79
2002-03	2.24	0.93	21.78	9.04
2003-04	2.12	1.03	20.45	9.98
2004-05	1.99	0.86	19.13	8.23
2005-06	2.25	0.99	20.89	9.16
2006-07	2.34	1.05	22.43	10.05
2007-08	2.14	0.96	19.23	8.68
2008-09	2.04	1.01	18.12	8.96
2009-10	2.33	0.98	20.11	8.50
2010-11	2.36	0.97	19.35	7.95
2011-12	2.05	0.89	16.32	7.11
2012-13b	2.13	0.90	15.86	6.68

Source: Authors' calculations based on Finance Division, Ministry of Finance, 2012

In addition, expenditure in education as percent of revenue collection has been targeted at 15.86 percent and contributed only 2.29 percent of total GDP in FY 2012-13 while expenditure of education as percentage of total revenue was 16.32 and expenditure of education was only 2.08 percent of GDP in the previous fiscal year. Similar scenario is also found in the health sector in FY 2012-13. The share of health expenditure on GDP has targeted to 0.96 percent and 6.68 percent of the total revenue while these were 7.11 percent of the total revenue and 0.91 percent of the GDP in the corresponding previous fiscal year.

In FY 2011-12, government has increased the electricity price by fifth times due to maintain the production cost of quick rental power plants.

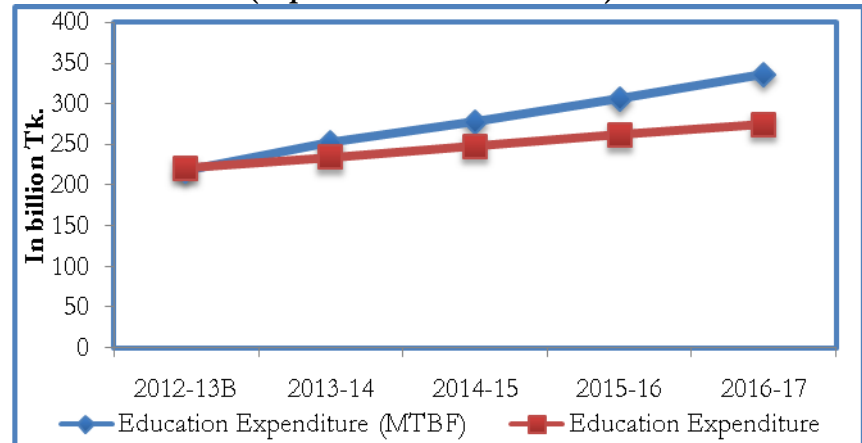
This frequent increase in electricity and by increasing the tariff slabs to six from three will force the moderate users to pay more whereas this will affect the marginalised people by increasing the price of essential commodities.

Moreover, expenditure on power and energy sector as percent of GDP was the highest at 7.55 percent in FY 2010-11 and later, it decreased slightly to 6.93 percent as well as it has targeted to decrease at 6.83 percent in the budget of FY 2012-13. Instead of the increase in expenditure target on energy and power sector, the electricity cost has increased at an increasing rate due to the huge imports of fuel and petroleum oil for the quick rental power plants. The increase in the cost of electricity influences the government for raising the price of electricity on the occasion. In FY 2011-12, government has increased the electricity price by fifth times due to maintain the production cost of quick rental power plants. This frequent increase in electricity and by increasing the tariff slabs to six from three will force the moderate users to pay more whereas this will affect the marginalised people by increasing the price of essential commodities.

12. COMPARISON BETWEEN THE MEDIUM TERM BUDGETARY FRAMEWORK (MTBF) AND HISTORICAL RECORD

A huge inconsistency between the projections of Medium Term Budgetary Framework (MTBF) and business as usual scenario in expenditure in education and health is found over the years. In FY 2012-13, the projection of MTBF on expenditure of education is Tk. 218.01 billion while it is targeted to Tk. 221.45 billion in the current budget. According to the MTBF projection, the expenditure in education will reach at Tk. 336.62 billion in FY 2016-17 while an estimate based upon the historical record suggests that expenditure in education may reach at Tk. 275.06 billion, suggesting a gap of Tk. 61.56 billion.

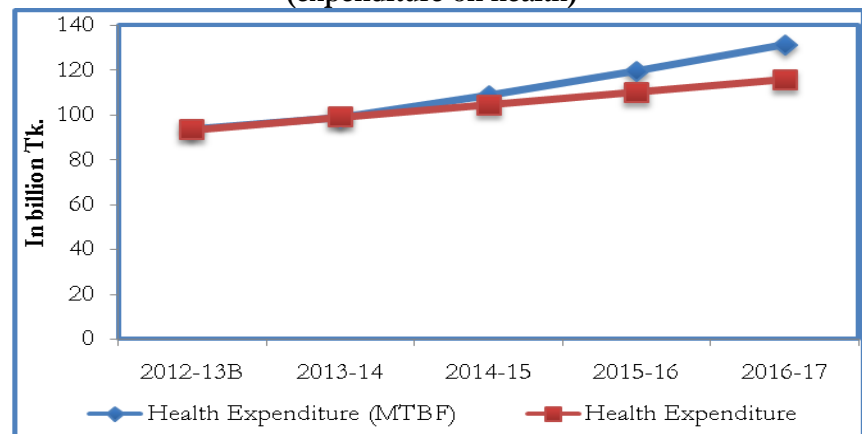
Figure 15: Comparison between business as usual and MTBF (expenditure on education)



Source: Authors' calculation based on Ministry of Finance, Ministry of Primary and Mass Education and Ministry of Education, 2012

According to the projection of MTBF in expenditure in health sector in FY 2012-13 is Tk. 93.55 billion and Tk. 131.28 billion in FY 2016-17. Estimation, using the previous trend of expenditure implies that expenditure in health sector may reach at Tk. 115.61 billion, making a gap of Tk. 15.67 billion in FY 2016-17.

Figure 16: Comparison between business as usual and MTBF (expenditure on health)



Source: Authors' calculations based of Ministry of Finance and Ministry of Health, 2012

13. GAP BETWEEN THE PUBLIC EXPENDITURE AND REVENUE EXPENDITURE

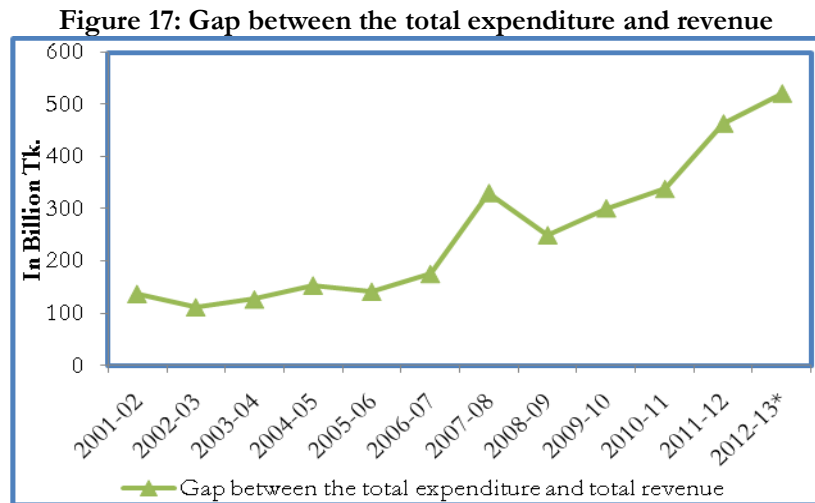
The gap between the total expenditure and total revenue is increasing over the years. As a result, due to the slower rate of collection in revenue compared to the total expenditure, more borrowing and foreign loans are required to finance the budget deficit.

Due to the slower rate of collection in revenue compared to the total expenditure, more borrowing and foreign loans are required to finance the budget deficit.

In FY 2012-13, the gap between the total expenditure and total revenue has been targeted at Tk. 520.68 billion which is 12.39 percent higher than that of the previous fiscal year.

In FY 2012-13, the gap between the total expenditure and total revenue has been targeted at Tk. 520.68 billion which is 12.39 percent higher than that of the previous fiscal year. The rate of growth of non-development revenue and development expenditure are targeted at 10.58 and 31.73 percent respectively. Considering total revenue collection of the country with total expenditure, it is seen that the government might not have to depend on foreign grants or aids, if the earning from tax revenue is increased by Tk. 520.68 billion in FY 2012-13.

The gap between total expenditure and revenue was Tk. 463.28 billion in FY 2011-12 which was 37.06 percent higher than that of the previous fiscal year, despite increased rates of growth in total expenditure and revenue by 24.1 and 19.58 percent respectively from those of FY 2010-11. The expenditure in ADP is increasing at an irregular rate. The rate of growth in development expenditure increased to 27.60 percent in FY 2011-12 from 15.91 percent in FY 2010-11.



Source: Authors' calculation based on Finance division, Ministry of finance and finance division, National Board of Revenue, 2012

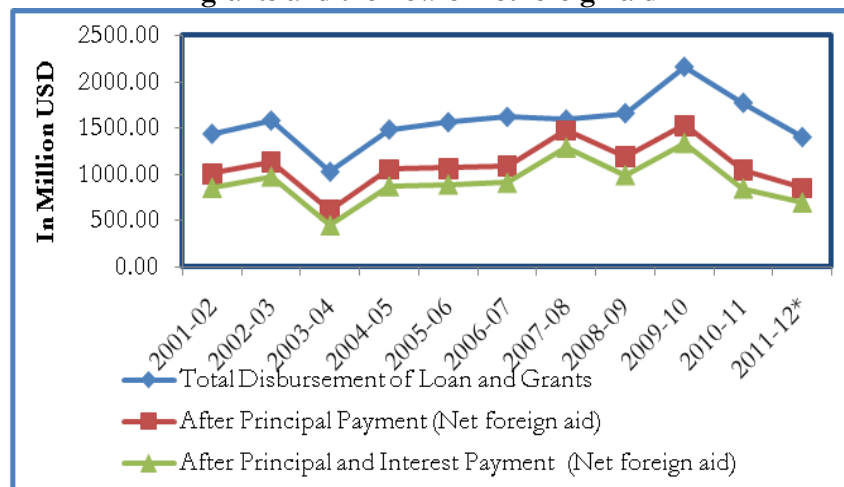
14. NET FOREIGN AID FLOW

The net inflow of foreign aid has been nearly half of the total disbursement of loan and grants.

The net inflow of foreign aid has been nearly half of the total disbursement of loan and grants. That means half of the amount of total disbursement of loan and grants goes as payment of the interest and principl. Moreover, the conditions imposed on loans and grants hinder the flexibility of policymaking, resulting in creation of bottlenecks for growth of economy.

In FY 2011-12, total disbursement of loan and grants stood higher by USD 256.17 million or 14.41 percent to USD 2033.34 million compared to USD 1777.17 million during July-June of FY 2010-11 and yet, it stood USD 131.11 million lower than that of FY 2010-11. Net receipts of foreign aid only considering principal payment during 2011-12 was higher by USD 198.19 million or 18.88 percent at USD 1247.82 million against USD 1049.63 million during FY 2010-11 and was USD 229.23 million lower than that of FY 2009-10.

Figure 18: Comparison between total disbursement of loan and grants and the flow of net foreign aid



Source: Economic Relation Division, Ministry of Finance, 2012

* Data available up to March, 2012.

In FY 2011-12 (July to March), total disbursement of loans and grants was USD 1407 million (total grant was USD 542 million and loan was USD 955 million) which was USD 370 million lower than that of the FY 2010-11.

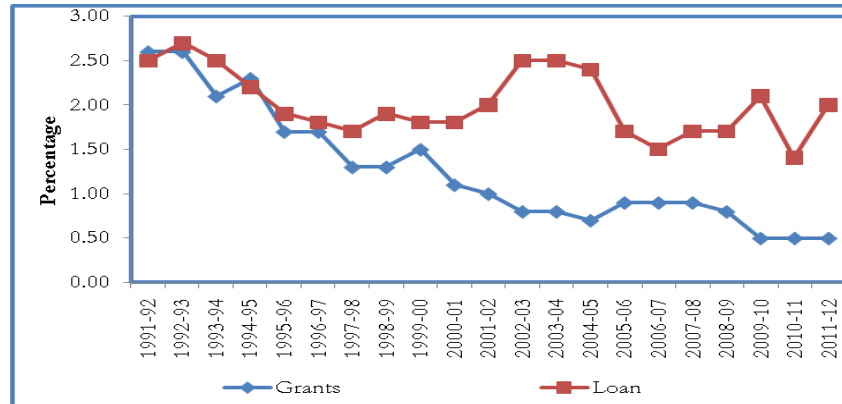
In FY 2011-12 (July to March), total disbursement of loans and grants was USD 1407 million (total grant was USD 542 million and loan was USD 955 million) which was USD 370 million lower than that of the FY 2010-11. During July to March of FY 2011-12, net foreign aid flows after payment of principal was USD 850 million and after payment of principal and interest, it was USD 696 million.

Total disbursement of loan and grants in FY 2010-11 decreased by USD 445 million compared to the corresponding period of the previous year. The amount of loan has decreased reportedly due to lower utilization.

Though total aid has been increasing over the time and in the meantime, payment of principal has also been increasing which has made a lesser net foreign aid. In FY 2001-02, total foreign aid was USD 1,142.23 million and principal payment was USD 435.3 million which has made the net foreign aid after principal payment at USD 1,007 million. Total disbursement of loan and grants in FY 2010-11 decreased by USD 445 million compared to the corresponding period of the previous year. The amount of loan has decreased reportedly due to lower utilization.

Figure 19: Comparison between loan and grants as percentage of GDP

The foreign grant as percentage of GDP is decreasing over the year. On the other hand, foreign loan as percentage of GDP is not decreasing as much as grants.



Source: Ministry of Finance, Bangladesh Bank, 2012

The foreign grant as percentage of GDP is decreasing over the year. On the other hand, foreign loan as percentage of GDP is not decreasing as much as grants. Moreover, after FY 2009-10 loans as percentage of GDP has shown an increasing trend. The higher gap between foreign grants and loan in the recent years compared to FY 1991-92 induces higher amount of principal and interest payment.

In FY 2011-12, total amount of foreign loan and grants were Tk. 186.9 billion and Tk. 49.4 billion whereas loan and grants as percentage of GDP were only 2.00 and 0.50 percent.

In FY 2011-12, total amount of foreign loan and grants were Tk. 186.9 billion and Tk. 49.4 billion whereas loan and grants as percentage of GDP were only 2.00 and 0.50 percent. Foreign loan as percentage of GDP is in static position whereas loan as percentage of GDP increased by 60 percent compared to FY 2010-11. After FY 1997-98, grants have been showing a decreasing trend. On the other hand, loan has been increasing after FY 2006-07. In FY 1991-92, loans and grants were Tk. 30.30 billion and Tk. 31.20 billion and these were 2.5 and 2.6 as percentage of GDP respectively.

15. TOTAL DEBT AS PERCENTAGE OF GDP

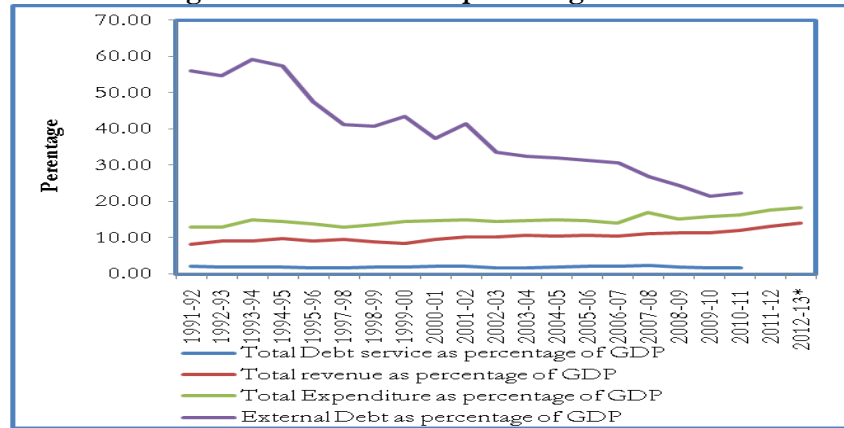
In FY 2012-13, government's targeted revenue and expenditure as percentage of GDP are 13.41 percent and 18.41 percent respectively which are 37 percentage points and 79 percentage points more than those of the revised budget of 2011-12.

The earnings from revenue as percentage of GDP is increasing and so is the total expenditure as percentage of GDP whereas external debt as percentage of GDP is decreasing, indicating a greater urgency for internal resource mobilization through increased taxes.

In FY 2012-13, government's targeted revenue and expenditure as percentage of GDP are 13.41 percent and 18.41 percent respectively which are 37 percentage points and 79 percentage points more than those of the revised budget of 2011-12. In FY 2010-11, total earning from revenue and total expenditure as percentage of GDP were 50 and 40 percentage points less than

those of the previous fiscal year whereas total external debt was constant compared to the previous fiscal year. After the fiscal year FY 2001-02, total outstanding external debt and total debt service as percentage of GDP is decreasing. In FY 2001-02, total outstanding external debt and total debt service were USD 16275.6 million and USD 915.10 million as well as total outstanding external debt and total debt service as percentage of GDP were 41.50 and 2.30 percent. However, in FY 2008-09, total outstanding external debt and total debt service as percentage of GDP were only 24.40 and 1.90 percent respectively.

Figure 20: Total debt as percentage of GDP



Source: Economic Relation Division, Bangladesh Bank, 2012

16. COMPARISON OF TAX RATES BETWEEN BANGLADESH & OTHERS COUNTRY

Revenue-GDP ratio of Bangladesh was only about 11.2 percent in the calendar year 2011 while it was 12.5 percent in Pakistan, 21 percent in Nepal and 33.6 percent in Japan in the same period.

The revenue-GDP ratio in Bangladesh is still quite lower than those of other South-Asian countries and developed countries. The income tax is lower and the VAT is higher in Bangladesh, which increases tax burden disproportionately to the marginalised people. Revenue-GDP ratio of Bangladesh was only about 11.2 percent in the calendar year 2011 while it was 12.5 percent in Pakistan, 21 percent in Nepal and 33.6 percent in Japan in the same period. (Central Intelligence agency: the world fact, 2012)

In 2011, the rate of income tax was 25 percent, VAT was 15 percent and the rate of standard corporate tax was 27.5 (0-42.5 percent) percent in Bangladesh.

In 2011, the rate of income tax was 25 percent, VAT was 15 percent and the 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 was 12.5 percent and corporate tax was 30 percent while in Pakistan, the rate of income tax was 7.5-35 percent, VAT was 17 percent and corporate tax was 35 percent. The highest income tax was found in Cuba and in UK in 2011 which was 50 percent, corporate tax in Pakistan was 35 percent and VAT in Cuba was 20 percent.

The rate of VAT in Bangladesh was 15 percent in the calendar 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.

Major portion of the revenue of the country comes from the collection of Value Added Tax (VAT). The rate of VAT in Bangladesh was 15 percent in the calendar 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. In addition, rate of VAT remains the same all over the countries in the calendar year 2012. The marginalised people are greatly affected from the excessive rate of VAT in the country.

Table 2: Scenario of different tax rates across the countries

	Income Tax Rate		Sales/VAT Rate		Corporate Tax Rate	
	2011	2012	2011	2012	2011	2012
Bangladesh	0-25	25	15	15	0-45	27.5
India	0-30	10-30	2-12.5	12.50	30	30
Pakistan	7.5-35	0-25	17	17	35	35
Japan	5-50(40 percent national+10 percent local)	5-50	5	5	30	25.5
Sri-Lanka	0-24		0		0-35	28
Cuba	10-50		percent,12		30	30-35
Australia	0-45 percent ,1.5 percent (Medicare levy)	17-45 percent	10	10	30	30
U.S.A	0-35(federal),0-10.55(States)	15-35 percent	0-10.25		0-38(fed),0-12(states)	35
UK	0-50	0-50 percent	Standard rate),5 percent (reduced rate),0 percent Zero rate)	20 percent	20-26	24

Source: World tax rates, Wikipedia and OECD Tax Database, 2012

17. 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 payable 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

Both tax evasion and avoidance in Bangladesh have reached to the alarming proportions and the revenue is victimised.

The National Board of Revenue (NBR) reveals that tax evasion and incentives cost Tk. 400.00 billion in a year. Even, tax evasion and avoidance lead to a parallel black economy of about Tk. 90.00 to 110.00 billion.

amount of sales. Tax avoidance is one of the major obstacles in collecting the actual amount of tax. The tax avoidance means to pay the minimum amount of tax by the tax payers 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, they hinder the normal growth of revenue.

Both tax evasion and avoidance in Bangladesh have reached to the alarming proportions and the revenue is victimised. Though the tax and GDP ratio is still very low in Bangladesh compared to that of different neighbouring 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. 400.00 billion in a year. Even, tax evasion and avoidance lead to a parallel black economy of about Tk. 90.00 to 110.00 billion.

A report prepared by ‘Tax Justice Network (TJN) estimated that the loss of revenue due to tax evasion in 2011 is Tk. 214.50 billion in Bangladesh. It is high alarming fact that the tax evasion in the calendar year 2011 was less than the amount of tax evaded by the TINs (tax identification numbers) holders. Among them, there are millions of peoples who are not interested to pay their taxable incomes. However, it is difficult to estimate the actual annual loss of revenue due to the tax evasion. Another fact is also there behind the tax evasion is that the taxpayers are discouraged to observe their money being wasted or misused. So, it is necessary to use the efficient and productive use of tax revenue to encourage the people paying more tax.

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