Thesis Report

on

Investigating Inconsistencies and Challenges of Indirect Taxation in Bangladesh. – A study for the reform of NBR as international taxation standards.

Submitted by:
Md. Humayun Kabir
ID: EMBA2401031026
Program: Executive Master of Business Administration.
Major: Accounting
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Submitted to:
Department of Business Administration
Faculty of Business
Sonargaon University (SU)

Submitted for the partial fulfillment of the degree of
Executive Master of Business Administration



Sonargaon University (SU)
147/I, Green Road, Tejgaon, Dhaka-1215, Bangladesh.

Date of Submission: April 28,2025

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Submitted for the partial fulfillment of the degree of
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Sonargaon University (SU)
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Date of Submission: April 28,2025

Letter of Transmittal

April 28, 2025

Mst. Marium Akter
Lecturer
Department of Business Administration
Faculty of Business
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Subject: Submission of thesis report **"Investigating inconsistencies and challenges of indirect taxation in Bangladesh. – A Study for the reform of NBR as international taxation standards."**

Dear Madam,

With the utmost respect, I am honored to submit my thesis report titled *"***Investigating Inconsistencies and challenges of Indirect taxation in Bangladesh. – A Study for the reform of NBR as International Taxation Standards.***"* This report marks the culmination of my academic journey in the MBA program and reflects the knowledge and insights I have gained under your invaluable mentorship.

The research encapsulates an in-depth analysis of the inconsistencies in VAT and tax practices in Bangladesh, highlighting the challenges posed by global tax integration. Drawing from extensive literature, data from the National Board of Revenue (NBR), and insights from the corporate sector, the study offers actionable recommendations to align our tax system with international standards. I sincerely hope this report contributes meaningfully to the discourse on tax reforms and serves as a resource for positive change.

Your guidance and encouragement have been instrumental throughout this journey, and I am deeply grateful for your support. I humbly request your esteemed feedback on this work. Should you require any further clarification or discussion regarding the findings, I would be delighted to provide additional insights.

Thank you once again for your mentorship, patience, and unwavering support. It has been a privilege to work under your guidance.

Yours sincerely

Md. Humayun Kabir
ID: EMBA2401031026
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Declaration of Student

.

I am Md. Humayun Kabir, a student of the Executive Master of Business Administration (EMBA) program with ID 2402031026 at Sonargoan University.Titled: **Investigating inconsistencies and challenges of indirect taxation in Bangladesh. – A study for the reform of NBR as international taxation standards,** is my original work. I confirm that this report has been prepared by me with strict adherence to international copyright laws. Furthermore, I confirm that this report has not been submitted to any other institution or organization for the purpose of obtaining a degree or any other qualification.

Yours sincerely

Md. Humayun Kabir
ID**:** EMBA2401031026
Program: Executive Master of Business Administration (EMBA)
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Letter of Authorization

It is great pleasure that I, **Mst. Marium Akter**, Lecturer in the Department of Business Administration, Faculty of Business, Sonargaon University (SU), formally authorize **Md. Humayun Kabir**, a dedicated student of the Executive Master of Business Administration (EMBA) program, **ID**:EMBA**2401031026**, to undertake and submit his thesis report**" Investigating inconsistencies and challenges of indirect taxation in Bangladesh. – A study for the reform of NBR as international taxation standards."**

This research is an essential component of his EMBA program and reflects his commitment to academic excellence. Under my supervision**, Md. Humayun Kabir** has been guided to ensure that his work adheres to the highest standards of integrity, ethics, and academic rigor. I have full confidence in his ability to produce a meaningful and impactful report on this vital topic.

With best regards,

Mst. Marium Akter
Lecturer
Department of Business Administration
Faculty of Business
Sonargaon University (SU)

Acknowledgment

I would like to extend my heartfelt gratitude to all those who have supported and guided me throughout the journey of completing this thesis on **VAT and Tax Practices**. This research has greatly benefited from the valuable insights and data provided by the **Managing Director** of **ASI Ltd., AAA Stone Tech Ltd., Eco wood Ltd., GGM Ltd., Toka Ink (BD) Ltd., Unique Group, AAA High-tech Ltd.**, as well as the **revenue officers and policymakers** of the **National Board of Revenue (NBR)**.

First and foremost, I express my sincere appreciation to my advisor, **Mst. Marium Akter**, for her invaluable guidance, encouragement, and unwavering support. Her expertise and insightful feedback have been instrumental in shaping this research and ensuring its quality.

I am deeply grateful to the esteemed faculty members of the **Department of Business Administration at Sonargaon University** for their continuous support and for fostering an environment of academic excellence. Their dedication to teaching and encouragement has greatly inspired me throughout my studies.

A special note of thanks goes to the professionals and office staff of **ASI Ltd., AAA Stone Tech Ltd., Ecowood Ltd., GGM Ltd., Toka Ink (BD) Ltd., Unique Group, and AAA High-tech Ltd.**, who generously shared their time, insights, and experiences during interviews and data collection. Their willingness to provide valuable information on VAT and tax practices, as well as the challenges they face, has significantly enriched this research and deepened my understanding of the subject.

I would also like to acknowledge my fellow classmates and friends for their camaraderie, constructive discussions, and encouragement throughout this journey. Their support has made this process more rewarding and enjoyable.

Finally, I wish to express my deepest gratitude to my family for their unwavering belief in me, their constant support, and the sacrifices they have made. Their encouragement and understanding during the most demanding phases of this research have been my greatest source of motivation.

Thank you all for your invaluable contributions to this thesis and for being an integral part of my academic journey.

Abstract

This thesis, titled "Investigating inconsistencies and challenges of indirect taxation in Bangladesh. – A Study for the Reform of NBR as per International Taxation Standards," explores the inefficiencies in the country's VAT and tax practices and their impact on businesses. It provides a critical assessment of the National Board of Revenue (NBR) policies, comparing them with international taxation standards and suggesting necessary reforms.

Advance Tax (AT) under VAT Act, 2012: Manufacturers and importers in Bangladesh face high Advance Tax (AT) rates (3%-5%), increasing their financial burden. Businesses struggle to recover the tax due to the complex refund process, impacting cash flow. Even NBR officials acknowledge the inefficiencies of AT and support reform.

VAT Deduction at Source (VDS): Many businesses, especially small and informal enterprises, do not comply with VDS requirements. Registered companies are forced to pay VDS from their own funds when suppliers refuse to comply, creating an unfair burden. Businesses have called for greater enforcement and awareness programs by NBR to address this issue.

High VAT Rate & Multiple Slabs: Bangladesh follows a multi-tier VAT system, with rates ranging from 4% to 15%, along with supplementary duties. This complexity increases compliance costs, reduces competitiveness, and leads to tax evasion. A comparison with other countries suggests that simplifying VAT slabs could improve compliance and attract investment.

Compound Taxation & Tax-on-Tax Issues: Businesses in Bangladesh face multiple layers of taxation, increasing the effective tax rate to over 150% in some cases. Taxes such as Supplementary Duty, Customs Duty, and VAT are calculated sequentially, inflating costs. This discourages investment and increases consumer prices.

To address these challenges, the study proposes several key reforms: simplifying the VAT structure by reducing multiple slabs, introducing an efficient adjustment and refund mechanism for AT, enforcing VDS compliance through strict penalties, eliminating tax-on-tax practices to lower the effective tax rate, and enhancing digital tax systems for streamlined filing and transparency.

The findings underscore the urgent need for Bangladesh to align its tax framework with international best practices. A simplified, transparent, and efficient optimal taxation system would not only alleviate financial pressures on businesses but also foster compliance, boost competitiveness, and increase government revenue. This research serves as a valuable resource for policymakers, businesses, and tax authorities striving to create a business-friendly taxation environment in Bangladesh.

List of Acronyms

VAT	Value added tax
AIT	Advanced income tax
CD	Customs Duty
SD	Supplementary duty
ADR	Alternative dispute resolution
RD	Regulatory duty
TDS	Tax deduction at source
NBR	National board of Revenue
ASIL	Aryan stone industries ltd
GGML	Green granite and marble ltd
AT	Advanced tax
AV	Assessable value
C&F	Clearing and forwarding agent
GST	Goods and service tax
ATV	Advanced trade vat

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Chapter: 01

Introduction

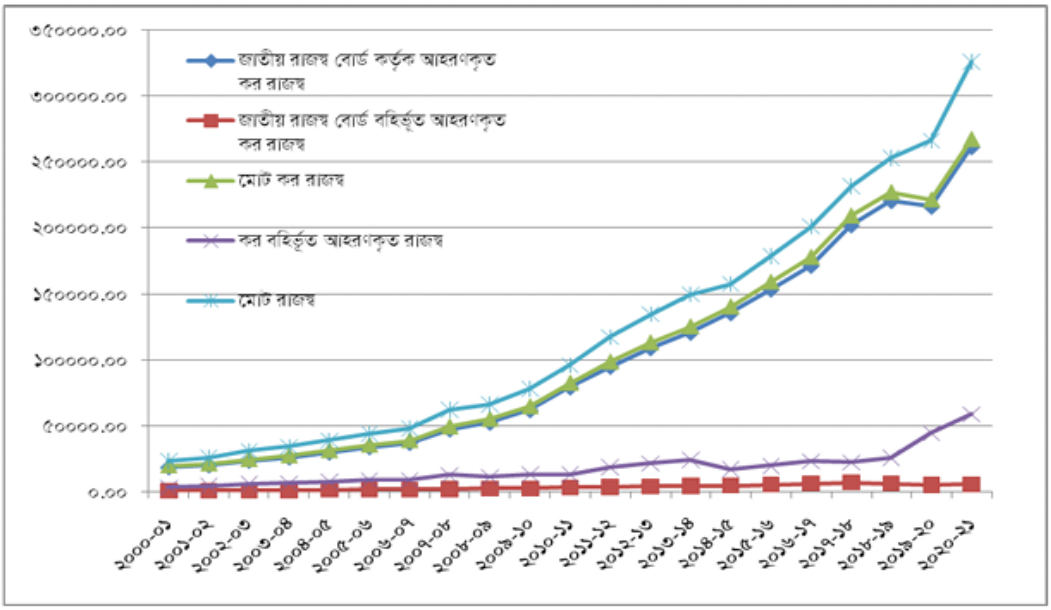
1.1 Introduction:

Bangladesh's economy depends heavily. History of Value Added Tax (VAT) in Bangladesh: Value Added Tax (VAT) is one of the most important sources of tax revenue in Bangladesh, since its introduction on 02 June 1991. Today VAT is a key source of Govt. revenue in over 179 countries. More than 4 billion people, 75% of the world's population, now live in countries with a VAT system, and it raises more than 19 trillion dollars in tax revenue. The importance of VAT is also increasing in developing and transition economies because of its effectiveness in mobilizing local resources. The basic advantages of VAT can be stated as its neutrality, transparency, certainty, and self-policing mechanism. The basic idea of Value Added Tax (VAT) appears to have originated with a German businessman, Von Siemens writing in the 1920s. There were other developments in the 1920s, including the suggestion of the invoice-credit method by Adams (1920). Early proposals to introduce VAT were made in France in the 1920s and by the Shoup Mission to Japan in 1949. Taking the definition used, the VAT first appeared in France in 1948, this tax, which initially applied up to the manufacturing stage and gave no credit for tax on capital goods, was converted to a Consumption type VAT by 1954 partially replacing its own Turnover Tax system. This was the first introduced modern VAT in the world by 'Maurice Laure', a Joint Director of Tax in France.

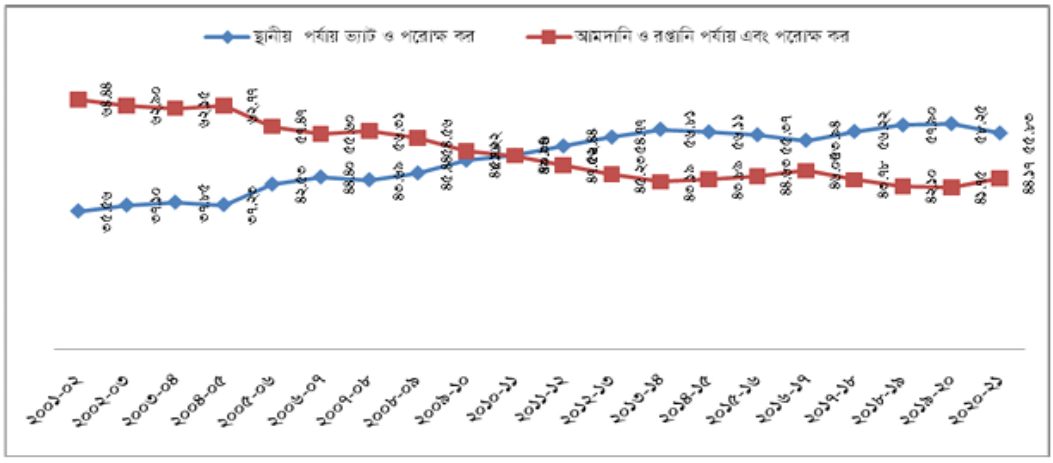
The introduced VAT at Bangladesh in 1991: With the narrow base and regressive nature, the major domestic revenue source Income tax and Excise system were unable to mobilize the increasing need for revenue for the Govt. and the development of the country. To increase revenue every year NBR used to enhance the rate of duties & taxes and the incidence of tax on tax (cascading effect) was hampering production and trade.

The development budget was dependent on the Paris Consortium meeting (Bangladesh Aid Group or Development Partners meeting). Before the introduction of VAT in Bangladesh, the coverage of Excise duty was limited to some goods & few services at only manufacturing and service rendering levels. It was a major source of domestic revenue; the share was 28% of NBR revenue. The share of Income Tax was only 11% and Customs was 61%.It was decided to introduce a VAT system by replacing the Sales Tax (chargeable at different rates at the import stage), the Excise Duty (chargeable at different rates on locally produced goods and rendered services), and the Business Turnover Tax (chargeable at a rate of 2% on some local small units).At the time of introduction, the VAT system was introduced only at the import stage, manufacturing stage, and service rendering stage only, the trade level was not covered. But now it is extended to all levels with wholesale and retail. Later on Electricity duty, Advertisement tax, and Guest Control fees were merged into the VAT system for better service and revenue realization.

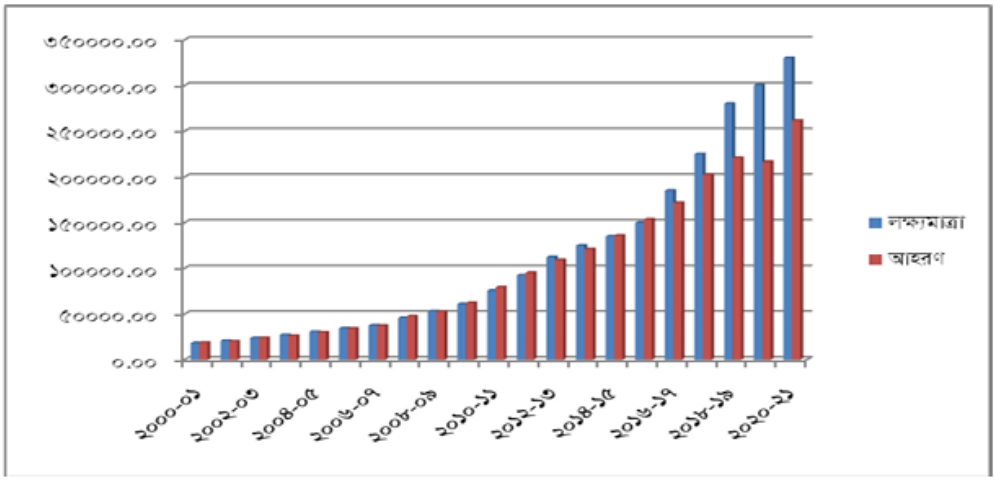
লেখচিত্র-০১ ঃ ২০০০-০১ অর্থবছর হতে ২০২০-২১ অর্থবছর পর্যন্ত বাংলাদেশের রাজস্ব আহরণের গতিধারা



লেখচিত্র - ১০ ঃ জাতীয় রাজস্ব বোর্ড কর্তৃক আহরণকৃত মোট পরোক্ষ করে স্থানীয় ভ্যাট পর্যায়ে আহরণকৃত রাজস্ব এবং আমদানি ও রপ্তানি পর্যায়ে আহরণকৃত রাজস্বের অংশের গতিধারা



লেখচিত্র - ০৭ ঃ ২০০০-০১ অর্থবছর হতে ২০২০-২১ অর্থবছর পর্যন্ত জাতীয় রাজস্ব বোর্ডের রাজস্ব লক্ষ্যমাত্রা এবং আহরণের গতিধারা



The VAT & SD Act, 2012: The VAT system under The Value Added Tax Act, 1991 was going on with some Excise features and to some extent distorted in comparison to standard universal VAT practices. Accordingly, Law was drafted in 2009 & 2010 and finally passed in the August Parliament and then published in the Bangladesh Gazette on 10 December 2012.The draft of The Value Added Tax and Supplementary Duty Rules under the newly passed The Value Added Tax and Supplementary Duty Act, 2012 was prepared and finally published in the Bangladesh Gazette on 03 November 2016.Several times it has failed to introduce the new Law for opposition from the trade bodies. Finally, after many discussions and changes in the Law, it was introduced on 01st July 2019 (a portion on 13 June 2019) which is again distorted in comparison to the universal standard practices.

Officially Value Added Tax (VAT), Goods and Services Tax (GST), and Sales Tax (ST), these three similar tax systems are functioning worldwide. However, the internal system or mechanism or engine is the same, though technically there are some differences.

1.2 Origin of the project:

This thesis paper is the outcome of extensive research conducted on the changes and challenges of the new VAT law in Bangladesh. The author, having a keen interest in taxation and public finance, identified the need for a comprehensive analysis of the VAT and Supplementary Duty Act, 2012, and its impact on businesses and tax administration. The report draws upon various primary and secondary sources, including VAT laws, statutory regulatory orders, policy papers, market reports, academic literature, and expert opinions from tax professionals and government officials.

1.3 Scope of the Study:

This study mainly covers the inconsistencies and challenges of indirect taxation in Bangladesh, focusing on the VAT and Supplementary Duty Act, 2012. It examines how these issues affect manufacturers, importers, and businesses under the current tax regime. The scope includes analyzing Advance Tax (AT), VAT Deduction at Source (VDS), multiple VAT slabs, compound taxation, and tax-on-tax practices. The study also evaluates administrative inefficiencies and compares Bangladesh's tax practices with international standards. Data was collected from selected business sectors and National Board of Revenue (NBR) representatives to suggest meaningful policy reforms.

1.4 Background of the Study:

The VAT and Supplementary Duty Act, 2012 was introduced to modernize Bangladesh's indirect tax system, replacing the older VAT Act of 1991. Despite this reform, businesses continue to face complex challenges, including high Advance Tax (AT), inconsistent VAT Deduction at Source (VDS), and a multi-slab VAT structure. These issues increase compliance costs, reduce competitiveness, and hinder economic growth. The study originates from the need to assess these problems, understand their root causes, and evaluate how closely the current system aligns with international taxation standards to support business development and national revenue goals.

1.5 Objectives of the Study

- **Broad Objective:**

  The broad objective of this study is to **analyze the changes and challenges introduced by the VAT and Supplementary Duty Act, 2012 in Bangladesh**, and to evaluate its impact on businesses, consumers, and tax administration.

❖ **Specific Objectives:**

- To examine the **structural changes** in the new VAT law compared to the previous VAT Act of 1991.
- To evaluate the **impact of multiple VAT rates**, input tax credit restrictions, and advance tax collection on businesses and consumers.
- To assess the **effectiveness of VAT administration**, including automation efforts, compliance mechanisms, and the discretionary powers of the National Board of Revenue (NBR).
- To identify key **challenges businesses, face** in complying with the new VAT regulations and how they affect different industries.
- To analyze **international VAT practices** and compare them with Bangladesh's system to identify areas for improvement.
- To provide **recommendations** for enhancing VAT policy, improving tax administration, and ensuring a more transparent and business-friendly taxation system.

1.6 Qualitative Research:

Drawing from my educational background, I have developed expertise in various research methodologies. This study provided an opportunity to apply academic knowledge in a real-world context. Data collection primarily involved secondary sources, while primary sources were also utilized to gather first-hand information directly from operational authorities and employees engaged in inventory and tax management processes.

The data collected aimed to quantify key aspects of inventory practices as well as VAT and Tax expertise.

❖ **Primary Data Collection Methods included:**

- Face-to-face interactions and direct observations.
- Analysis of inventory records.
- Data extraction from company operational records.
- Assessment of material flow efficiency within production facilities.
- Evaluation of inventory turnover rates.
- Measurement of lead times and order quantities.
- Observation of the dispatching process for finished goods.

❖ **Secondary Data Collection Sources included:**

- **Review of Academic Journals:** Quantitative data regarding inventory management metrics, models, and best practices were extracted from peer-reviewed journals. This included statistical studies on inventory optimization, cost-benefit analyses, and performance measurement in the manufacturing sector.

- **Analysis of Books:** Authoritative texts on supply chain and inventory management were reviewed to extract quantitative frameworks, theoretical models, and case studies for comparison and validation of findings.
- **Literature Benchmarking:** Compilation of numerical benchmarks and industry standards mentioned in journals and books, allowing performance assessments against recognized global and regional practices.

This combined approach ensured that the research was strengthened through a broad range of credible, data-driven insights derived from both academic and professional literature.

1.7 Limitations of the Study:

❖ Advocate for a fair and efficient Advance Tax (AT) system that:

- Minimizes financial burdens on businesses
- Streamlines administrative procedures

❖ Promote an effective VAT Deduction at Source (VDS) framework that:

- Ensures compliance
- Reduces resistance from service providers

❖ Advocate for a balanced VAT structure that:

- Fosters business growth
- Ensures sustainable government revenue

❖ Eliminate redundant and overlapping tax layers to:

- Ensure fairness in taxation
- Promote transparency in the tax system

The key limitations were:

- Limited access to NBR's internal policy documents
- Challenges in collecting data from businesses reluctant to disclose financial details
- The adoption of the organization takes a lot of time.
- Relevant papers and documents were not enough.

Chapter: 02

Literature Review



2.1 Introduction

A thorough literature review serves as the foundation for understanding the theoretical and practical context of indirect taxation systems. This section explores existing research, policy papers, statutory documents, and comparative studies to provide insights into the evolution, structure, and challenges of VAT implementation—both globally and within Bangladesh.

The review covers key themes such as the historical development of VAT in Bangladesh, revenue efficiency, sector-specific VAT application, input tax credit mechanisms, and the impact on small and medium enterprises (SMEs). It also examines the VAT refund process and the prevailing compliance culture. By analyzing practices from countries with simplified and effective VAT or GST systems—such as Singapore, Australia, India, and EU nations—this section highlights global benchmarks that contrast sharply with the multi-tiered and often cumbersome system in Bangladesh.

The objective of this review is to identify knowledge gaps, pinpoint policy inconsistencies, and offer a scholarly basis for the subsequent analysis and recommendations. It establishes the rationale for reforming Bangladesh's VAT system to enhance compliance, efficiency, and alignment with international standards.

2.2 Evolution of VAT in Bangladesh–VAT was introduced to replace the Excise Duty system. Initially applied only at import, manufacturing, and service levels, it now covers wholesale and retail sectors. Bangladesh follows a multi-tier VAT system, unlike countries like Singapore (single-rate GST) and India (uniform GST). This complex system increases compliance costs. Countries like Bangladesh follow a multi-tier VAT system, which applies different VAT rates to different goods and services. In contrast, countries such as Singapore and Australia have a single-rate Goods and Services Tax (GST), making tax compliance simpler. The multi-tier VAT structure in Bangladesh increases compliance costs for businesses due to the complexity of multiple rates, exemptions, and special schemes. In contrast, uniform VAT/GST systems reduce administrative burdens and simplify record-keeping.

2.3 Revenue Efficiency – Countries with a uniform VAT/GST structure tend to have higher revenue efficiency since tax evasion is harder, and businesses face fewer classification disputes. Bangladesh's multi-tier VAT system creates loopholes that may lead to underreporting or misclassification of goods and services. Many countries set high VAT/GST registration thresholds to exclude small businesses from compliance burdens. Bangladesh, however, has a relatively low threshold, bringing many small enterprises under the VAT net, leading to higher administrative challenges.

2.4 Input Tax Credit Mechanism – Countries with modern VAT/GST systems, such as the EU and India, have a well-defined input tax credit (ITC) mechanism to prevent tax cascading. Bangladesh faces difficulties in effective ITC implementation due to weak monitoring and inefficiencies in the VAT refund process. Advanced economies like Canada and the UK have digitized VAT/GST systems that allow seamless filing and audits. Bangladesh is gradually moving toward automation, but businesses still face difficulties in electronic VAT (e-VAT) registration, return filing, and compliance.

2.5 Sector-Specific VAT Rates – Bangladesh applies different VAT rates across sectors, creating inconsistencies and compliance challenges. In contrast, countries with uniform VAT/GST systems, like New Zealand, simplify taxation by applying a single rate across most goods and services. Many countries, such as Canada and the UK, have clear distinctions between zero-rated, exempt, and standard-rated goods/services. In Bangladesh, frequent policy changes and discretionary exemptions create confusion and potential revenue leakage.

2.6 Impact on Small and Medium Enterprises (SMEs) – Multi-tier VAT structures, as in Bangladesh, impose a higher compliance burden on SMEs due to complex rate classifications and additional paperwork. Countries with simplified VAT systems, like Singapore, offer SME-friendly schemes to reduce compliance costs. Countries with a harmonized VAT system, such as those in the European Union, ensure smooth cross-border transactions with standardized rules. Bangladesh faces challenges in managing VAT on imports and exports due to inconsistent policies and manual processes.

2.7 VAT Refund and Rebate System – Efficient VAT refund systems, like those in Australia and Germany, enhance business confidence by ensuring timely reimbursements, reducing financial strain. In Bangladesh, however, VAT refund delays are common, discouraging businesses from claiming rebates and increasing their working capital costs. This inefficiency undermines trust in the tax system. Additionally, the large informal sector poses a major challenge for VAT collection. In contrast, countries like Estonia and Sweden have successfully integrated small businesses into the tax net through digital tax administration tools such as e-invoicing and digital payment tracking, improving transparency and compliance across all economic sectors.

2.8 Public Awareness and Compliance Culture – Public awareness and a strong compliance culture are critical factors in achieving effective Value Added Tax (VAT) collection and minimizing evasion. In countries like Japan and Canada, high levels of voluntary tax compliance are largely attributed to robust taxpayer education programs and strong civic responsibility among citizens. These programs emphasize the importance of tax contributions for national development and ensure that taxpayers are well-informed about their obligations. Through transparent policies, accessible guidelines, and active engagement with taxpayers, these countries foster a culture where tax compliance is seen as a civic duty.

In contrast, Bangladesh faces significant challenges in promoting VAT compliance. A major contributing factor is the general lack of awareness among taxpayers regarding the VAT system, including registration, filing procedures, and payment obligations. This gap in understanding leads to frequent errors, underreporting, and in some cases, deliberate evasion. Moreover, many small and medium enterprises (SMEs) perceive VAT as a burden rather than a legal obligation, often due to complex procedures and limited support from tax authorities.

Resistance from businesses, coupled with limited outreach by the National Board of Revenue (NBR), further weakens compliance culture. Efforts to enhance public understanding of VAT laws are fragmented and insufficient to drive behavioral change on a large scale. As a result, the informal economy continues to thrive, depriving the government of essential revenue.

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Chapter: 03

Organizational Overview



3.1 Introduction:

In any evolving public finance system—particularly in developing economies like Bangladesh—the establishment of a clear **mission**, **vision**, and **set of objectives** is not merely a formality but a foundational requirement. These strategic elements serve as a compass for policymakers and administrators, enabling them to undertake meaningful and sustainable reform. For Bangladesh, such a structured approach is indispensable in its pursuit of improved tax compliance, business facilitation, and revenue generation.

The **Value Added Tax (VAT) system** is one of the most significant pillars of indirect taxation in the country. Despite its potential to support fiscal sustainability and economic growth, its effectiveness is currently hindered by administrative inefficiencies, procedural complexity, and misalignment with global best practices. These challenges underscore the urgent need for reform—a process that must be guided by a strong institutional vision and supported by targeted, well-defined objectives.

The introduction of the **VAT and Supplementary Duty Act, 2012** marked a substantial shift in the architecture of indirect taxation in Bangladesh. The Act aimed to replace the older, more fragmented system with a modern, unified framework. However, in practice, its implementation has encountered several obstacles. Persistent challenges such as the **Advance Tax (AT)** burden, complications arising from **VAT Deduction at Source (VDS)**, a **multi-rate VAT structure**, and **compound taxation** mechanisms continue to hinder the effectiveness of the system.

These structural problems not only affect tax administration but also place undue pressure on the business community—especially small and medium enterprises (SMEs)—by increasing their compliance costs and reducing their operational flexibility. Moreover, as Bangladesh becomes increasingly integrated with the global economy, the inefficiencies of its VAT system risk deterring foreign investment and limiting export competitiveness.

In light of these realities, reforming the VAT system is both a policy imperative and a strategic necessity. A forward-looking and coherent approach, based on international best practices and tailored to the domestic context, is essential to overcoming existing barriers.

The overarching **vision** for Bangladesh's VAT reform should be to create a **simplified, transparent, and globally competitive indirect tax system** that supports business growth while ensuring adequate revenue for public services. This vision implies a shift from revenue-centric policies to a more balanced model that places equal emphasis on **taxpayer facilitation**, **administrative efficiency**, and **long-term economic development**.

A globally aligned tax system does not merely mean harmonizing rates or structures with international standards; it also requires building a culture of compliance through trust, predictability, and consistency in tax administration. This necessitates ongoing dialogue with the private sector, civil society, and international stakeholders to ensure the reform process remains inclusive and adaptable.

The **mission** of the VAT reform process is to **advocate for fair, transparent, and efficient tax policies** that reduce administrative and financial burdens on taxpayers while enhancing voluntary compliance. Special attention must be given to the following areas. Together, these mission pillars aim to **modernize the indirect tax framework** in a way that aligns with national development goals and improves Bangladesh's ranking in ease of doing business.To operationalize the mission and achieve the long-term vision, the following **strategic objectives** should guide the reform agenda:

These objectives are essential to building a **resilient and future-ready tax system** that can respond to both domestic fiscal needs and international economic trends.

The reform of the VAT system in Bangladesh is not a standalone initiative—it is part of a broader effort to modernize the country's public finance ecosystem. In doing so, it must embrace both **technological innovation** and **institutional change**, backed by a firm commitment to fairness, efficiency, and transparency.

A clearly articulated vision, mission, and objective framework acts as the cornerstone of this transformation. By addressing systemic issues in Advance Tax, VDS, and VAT rate complexity, Bangladesh can lay the groundwork for a tax regime that **supports business development**, **improves revenue mobilization**, and **enhances economic resilience** in the years to come.

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3.2 Vision:

A tax system where AT is efficiently managed, ensuring businesses can operate smoothly without excessive financial strain or procedural complexities. A well-structured and widely accepted VDS system that simplifies tax collection without disrupting business transactions. A simplified, competitive, and business-friendly VAT system aligned with global best practices A streamlined tax system where businesses are taxed fairly without excessive tax-on-tax burdens

3.3 Mission:

- Advocate for a fair and efficient Advance Tax (AT) system that:
    - Minimizes financial burdens on businesses
    - Streamlines administrative procedures
- Promote an effective VAT Deduction at Source (VDS) framework that:
    - Ensures compliance
    - Reduces resistance from service providers

- Advocate for a balanced VAT structure that:
    - Fosters business growth
    - Ensures sustainable government revenue

- Eliminate redundant and overlapping tax layers to:
    - Ensure fairness in taxation
    - Promote transparency in the tax system

3.4 Objectives

- To **streamline and simplify the VAT system** in Bangladesh for better compliance and ease of doing business.
- To **align VAT and Supplementary Duty practices** with the principles and definitions outlined in the VAT Act, 2012.
- To **enhance transparency and efficiency** in tax collection, enforcement, and refund processes.
- To **ensure fairness and reduce tax burden** on compliant businesses while encouraging broader tax base participation.

- To **harmonize Bangladesh's VAT system with international standards** to boost investment and economic competitiveness.
- Reduce unnecessary administrative work for both businesses and the National Board of Revenue (NBR).
- Align Advance Tax (AT) regulations with the definition of tax under the VAT Act, 2012.
- Increase awareness and compliance among small and unregistered service providers.
- Simplify VAT Deduction at Source (VDS) processes for businesses and government entities.
- Establish an effective enforcement mechanism to ensure smooth VDS collection.
- Reduce the burden on VAT-registered companies by ensuring service providers comply with VAT requirements.
- Reduce the number of VAT slabs for ease of compliance.
- Lower the standard VAT rate to enhance business competitiveness.
- Improve the VAT refund process to address cash flow issues for businesses.
- Align Bangladesh's VAT system with international standards to attract foreign investments.
- Remove compound taxation to prevent inflated tax rates.
- Ensure that VAT and Supplementary Duties are applied only on the original assessable value.
- Advocate for a policy revision to prevent tax-on-tax issues.
- Increase transparency in tax calculations and breakdowns to avoid excessive financial pressure on businesses.

Chapter: 04

Analysis inconsistencies and challenges of indirect taxation:



4.1 Introduction:

In the context of developing economies like Bangladesh, an efficient and equitable taxation system is crucial for sustainable economic development. Indirect taxes—primarily the Value Added Tax (VAT), Supplementary Duty (SD), and Customs Duty—form the backbone of the country's domestic revenue. Since the introduction of VAT in 1991 and subsequent reform through the VAT and Supplementary Duty Act, 2012, the government has attempted to streamline revenue collection and align it with international taxation norms.

However, despite these legislative advancements, Bangladesh's indirect taxation system continues to face numerous challenges. Businesses frequently encounter procedural complexities, cash flow issues, and administrative burdens, while the National Board of Revenue (NBR) struggles with policy enforcement, tax compliance, and systemic inefficiencies. These issues have created a trust gap between the business community and the tax authority, discouraging compliance and investment.

This thesis aims to investigate the core inconsistencies within Bangladesh's indirect taxation regime, evaluate their impact on businesses and revenue collection, and propose reforms to enhance efficiency, reduce burdens, and align the system with global best practices. The study focuses on four major areas of concern: Advance Tax (AT), VAT Deduction at Source (VDS), multiple VAT rates and high taxation, and compound taxation practices.

4.2 Key Inconsistencies and Challenges of Indirect Taxation

❖ **under VAT Act, 2012. Advance Tax (AT)**

- AT is collected at the import stage (3%–5%) as a form of security money but is not recognized as a tax under Section 2(24) of the VAT Act, 2012.
- Businesses must often pay AT using high-interest loans (12–15%), which increases operating costs and negatively impacts cash flow.
- Traders dealing in exempt goods cannot adjust AT and must apply for a refund—a process fraught with delays, bureaucracy, and low success rates.
- Even NBR officials admit that AT does not generate real revenue, but instead consumes administrative manpower and complicates procedures.

❖ **VAT Deduction at Source (VDS) Challenges**

The implementation of VAT Deduction at Source (VDS) in Bangladesh presents significant challenges for both public and private sector entities. Under the existing VAT law, legal entities making payments for taxable services are required to deduct VAT at source and deposit it directly to the government exchequer. However, practical enforcement of this mechanism has proven to be problematic.

One of the major issues is that many service providers, especially from the informal sector, are not VAT-registered and refuse to cooperate with VDS procedures. As a result, VAT-registered companies often face a dilemma—they are legally obligated to deduct and deposit VAT, but their suppliers either reject the deduction or lack the required documentation. In such cases, compliant businesses are forced to bear the VAT cost themselves, leading to added financial strain and reduced profitability.

This situation also discourages procurement from small or informal vendors, thereby limiting market diversity and excluding a significant portion of the economy from formal financial transactions. The lack of adequate field-level enforcement, awareness programs for suppliers, and automated systems for VDS compliance further compounds the issue. Many businesses report challenges in reconciling VDS transactions and obtaining credit for input VAT, especially when suppliers are uncooperative or non-compliant.

Ultimately, the inconsistencies in VDS implementation create unfair burdens on law-abiding businesses, while enabling tax avoidance among non-compliant vendors. This not only hampers the ease of doing business but also leads to substantial gaps in revenue collection for the National Board of Revenue (NBR).

To resolve these issues, targeted reforms are needed, including stricter enforcement, digital integration of the VDS system, increased taxpayer education, and incentives for formal sector participation.

❖ Multiple VAT Slabs and High VAT Rate

Bangladesh's current Value Added Tax (VAT) structure features multiple slabs—4%, 5%, 7.5%, 10%, and 15%—making it significantly more complex than VAT systems in countries such as Singapore or Australia, which follow a single uniform rate. While the tiered system was designed to accommodate varying product categories and economic segments, in practice it has created a range of challenges for businesses, particularly small and medium enterprises (SMEs).

The complexity of managing different VAT rates has increased compliance costs for businesses. Companies must maintain extensive documentation, engage in detailed accounting practices, and ensure accurate tax reporting—all of which require skilled manpower and financial resources. For many SMEs that lack this capacity, the administrative burden becomes a deterrent to formalization and growth. Moreover, the existence of multiple rates causes confusion among taxpayers and leaves room for misclassification and tax evasion, weakening the overall integrity of the tax system.

In addition, the standard VAT rate of 15% is considered high, particularly when applied to essential goods and services. This contributes directly to price inflation, disproportionately affecting low- and middle-income consumers. It also leads to a decline in consumer demand, thereby slowing economic activity. From a trade perspective, the elevated VAT rate reduces Bangladesh's competitiveness in both regional and international markets, as businesses struggle to offer competitive pricing against countries with more streamlined tax regimes.

To support economic resilience and ease of doing business, tax reform is essential. A shift toward a simplified VAT system with fewer rates, or a move toward a single VAT rate, could ease compliance, minimize evasion, enhance transparency, and boost investor and consumer confidence in the market.

❖ **Compound Taxation and Tax-on-Tax Practices**

One of the most pressing issues within Bangladesh's current tax framework is the practice of compound taxation and tax-on-tax. This occurs when various taxes—such as Customs Duty, Supplementary Duty, Regulatory Duty, and VAT—are imposed sequentially rather than independently, using an already taxed amount as the base for the next layer. Instead of calculating each tax on the original assessable value, each successive tax is applied on a cumulative value, which includes previously levied taxes.

This tax-on-tax system significantly inflates the total tax burden, with effective rates often exceeding 150% on imported goods, as seen in real-world cases such as those involving Aryan Stone Industries Ltd. As a result, the final landed cost of goods becomes excessively high, placing a heavy burden on consumers and reducing affordability across sectors.

This cascading tax structure also leads to market distortions, making it difficult for domestic producers and importers to offer competitive prices. It deters foreign direct investment (FDI) and domestic business expansion, as investors seek markets with clearer, more efficient, and equitable taxation policies.

Furthermore, such practices are in direct contradiction to international best practices, where most countries calculate indirect taxes like VAT solely on the original assessable value to ensure neutrality and transparency. In contrast, Bangladesh's layered approach increases the risk of price manipulation, under-invoicing, and non-compliance, weakening revenue collection and trust in the system.

To foster a fair and efficient tax environment, Bangladesh must consider reforming this model. A single-base tax calculation system that eliminates compounding effects would enhance transparency, reduce the cost of doing business, encourage investment, and align the country's taxation system with global standards.

4.3 Administrative and Technological Inefficiencies:

Despite commendable steps toward modernization, Bangladesh's VAT administration continues to face significant administrative and technological inefficiencies that hinder effective tax management and compliance. Although the National Board of Revenue (NBR) has introduced the electronic VAT (e-VAT) system to digitize VAT operations, its full potential remains largely untapped due to several systemic challenges.

Firstly, many businesses—especially small and medium enterprises (SMEs)—encounter persistent technical difficulties in navigating the e-VAT portal. These include system downtimes, lack of user-friendly interfaces, and limited access to digital support. As a result, many taxpayers still rely on manual or semi-digital processes for return filing, tax payments, and documentation, defeating the core objective of the e-VAT initiative.

Moreover, the lack of integration between key government departments—namely, Customs, VAT, and Income Tax—creates data silos that reduce transparency and efficiency. This disjointed structure prevents the automatic verification of transactions, makes cross-checking difficult, and increases the possibility of tax evasion and underreporting. Businesses are often forced to submit duplicate documents and face bureaucratic red tape in dealings with different departments.

One of the most pressing concerns for businesses is the delayed processing of VAT refunds. Even for eligible claims, the absence of an automated refund tracking system and the need for excessive paperwork create unnecessary delays, which negatively affect the cash flow of compliant businesses, especially exporters and manufacturers dealing in zero-rated or exempt products.

Furthermore, the NBR itself suffers from insufficient manpower and institutional capacity, limiting its ability to monitor compliance, conduct timely audits, and offer taxpayer assistance. The lack of skilled human resources and training in digital tax administration restricts the effective implementation of policies and enforcement mechanisms.

These inefficiencies collectively lead to low voluntary compliance, increased taxpayer frustration, and reduced confidence in the tax system. They also undermine revenue collection potential and the government's broader fiscal goals.

To overcome these challenges, Bangladesh must invest in robust digital infrastructure, capacity-building programs for NBR officials, and full automation of refund, filing, and audit processes. A centralized, integrated tax management system would significantly enhance efficiency, promote compliance, and build trust among taxpayers, supporting long-term economic growth.

4.4 Public Awareness and Compliance Culture

A critical challenge in the effective implementation of Bangladesh’s VAT system lies in the lack of public awareness and a weak compliance culture, particularly among small businesses and the informal sector. While the VAT Act, 2012 aims to broaden the tax net and ensure equitable revenue collection, these objectives remain largely unmet due to limited understanding of tax regulations among a significant portion of the population.

Many taxpayers, especially those operating in the informal economy, are either unaware of their obligations or deliberately avoid VAT registration and documentation. A large number of small traders, service providers, and micro-enterprises continue to operate outside the formal system, fearing the complexity, perceived burden, or punitive nature of tax compliance. The lack of clear, accessible guidance from tax authorities further discourages formalization and compliance.

This widespread non-compliance and underreporting significantly impacts national revenue performance. When a substantial segment of the economy remains untaxed or under-taxed, the burden shifts to a smaller group of compliant businesses, creating an unfair and unsustainable tax environment. This imbalance also limits the government's ability to invest in essential public services and infrastructure, ultimately slowing national development.

In contrast, successful international models such as those seen in countries like South Korea, Chile, and Rwanda have demonstrated that robust taxpayer education, public engagement, and incentive-based programs can substantially improve voluntary compliance. These nations have invested in awareness campaigns, school-level education, tax literacy programs, and even simplified registration processes to bring informal businesses into the tax net. Incentives such as tax credits, reduced rates for first-time registrants, and recognition programs have also proven effective in building trust and encouraging formalization.

To replicate similar success, Bangladesh must take proactive steps to enhance public education on VAT, using both traditional and digital platforms. Collaboration with trade associations, NGOs, and local government units can also help spread awareness at the grassroots level. Simplifying compliance procedures, offering user-friendly digital tools, and introducing non-punitive support mechanisms for first-time taxpayers would go a long way in promoting a culture of compliance.

By fostering an environment where taxpayers are informed, encouraged, and empowered to comply, Bangladesh can improve its tax base, strengthen fiscal capacity, and support inclusive economic growth.

These inconsistencies and challenges significantly impact the effectiveness of Bangladesh’s indirect taxation system. Without meaningful reform, they will continue to hinder business growth, reduce revenue potential, and weaken public trust in tax administration. Therefore, this study seeks to provide a detailed investigation into these critical issues and offer evidence-based policy recommendations to help the NBR establish a more robust, transparent, and internationally compliant tax system.

Chapter: 5

Findings and investigation of inconsistencies:



5.1 Introduction

This section presents the core findings derived from the investigation into the inconsistencies and operational challenges of Bangladesh's indirect taxation system, with particular focus on the implementation of the VAT and Supplementary Duty Act, 2012. Drawing on both primary and secondary data—collected through interviews with business professionals, VAT officials, and document reviews—the analysis explores how current VAT mechanisms affect businesses, administrative efficiency, and overall tax compliance.

The findings have been categorized into four major areas of concern: Advance Tax (AT), VAT Deduction at Source (VDS), multiple VAT slabs and high standard rates, and compound taxation including tax-on-tax practices. Each of these areas exposes specific policy and implementation gaps that create financial burdens, hinder smooth business operations, and reduce the effectiveness of tax collection by the National Board of Revenue (NBR).

By examining these challenges in detail and illustrating them with real-life examples and statistical insights, this section aims to provide a comprehensive understanding of how these systemic issues impact both businesses and the tax authority. These findings serve as the foundation for the subsequent policy recommendations and reform strategies proposed later in the study.

5.2 Inconsistency ONE: Advance Tax(AT) Issues:

Advance Tax (AT) under the Value Added Tax (VAT) Act, 2012, is a pre-collection mechanism imposed by the National Board of Revenue (NBR) on imports by manufacturers and commercial importers in Bangladesh. As per Section 31 of the Act, AT is collected at different rates—3% for manufacturers and 5% for commercial importers—at entry points including sea, air, and land ports. Previously known as Advance Trade VAT, AT is not categorized as a traditional tax but rather serves as a form of security deposit to ensure eventual VAT compliance. Despite this, AT is listed in the bill of entry alongside other levies such as Customs Duty, Supplementary Duty, Input VAT, Regulatory Duty, and Advance Income Tax.

One of the major issues with AT is its impact on business liquidity. Importers are often compelled to pay AT upfront, frequently using bank loans with interest rates between 12% and 15%. This significantly increases working capital costs and imposes a financial burden, particularly on small and medium-sized enterprises (SMEs). While AT is technically adjustable against output VAT, such adjustments are subject to specific conditions and procedures, which many businesses find cumbersome and unclear. Moreover, businesses that deal in exempt goods are not eligible for this adjustment and must instead apply for a refund—a process known for being lengthy, bureaucratic, and inefficient.

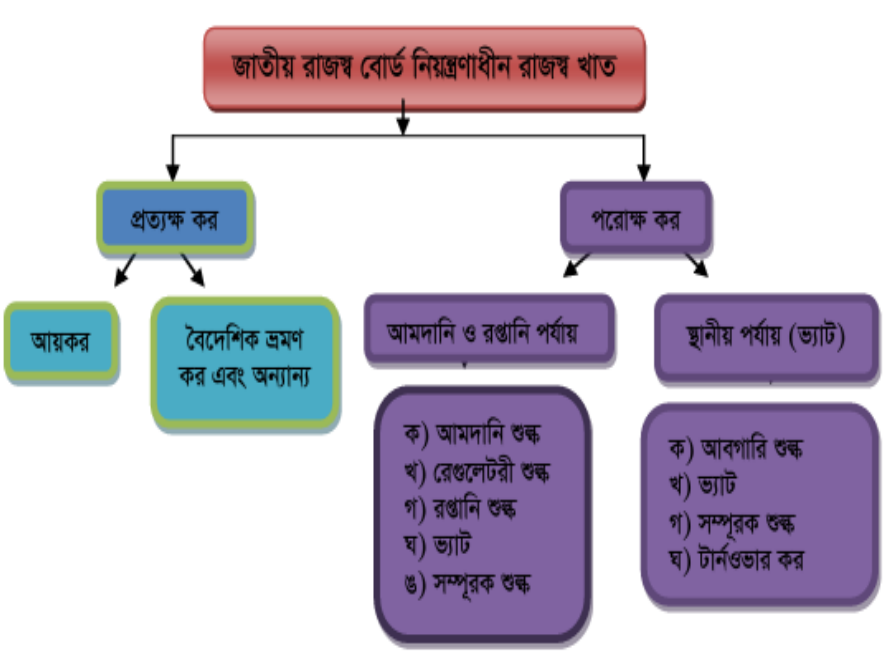
The complexity of the refund process causes frustration in the business community, eroding trust in the tax system and creating compliance challenges. According to Section 2(24) of the VAT Act, 2012, AT is not included in the formal definition of "tax," which further complicates its treatment

and administration. The Act only recognizes VAT, turnover tax, supplementary duty, and penalties or interest on these as taxes, creating legal ambiguity regarding the role and treatment of AT.

The imposition of AT also places an administrative burden on the NBR. Since AT is either refundable or adjustable, a significant portion of the NBR's limited human resources is consumed in processing claims rather than focusing on essential functions such as compliance monitoring, taxpayer education, or expanding the tax base. This results in inefficiencies for both tax authorities and taxpayers.

In conclusion, while the concept of AT was introduced as a revenue safeguard, its current implementation imposes financial and procedural burdens on the business sector and strains the administrative capacity of the NBR. Reforming the AT mechanism through policy simplification, automation of refunds, and exemption for low-risk or compliant businesses could improve business confidence, reduce operational costs, and promote a healthier tax compliance culture in Bangladesh.

.



There is not found Advanced Tax from this above Revenue Structure.

5.3 Inconsistency TWO : VAT Deduction at Source (VDS) Challenges

- **VAT Deduction at Source (VDS)**
  - It is a tax collection mechanism where VAT is deducted at the time of payment to a supplier by the recipient of goods or services. The collected tax is then deposited with the government.
- **General Process of VAT Deduction and Collection**
  - When a recipient of goods/services is designated as a "Withholding Entity," they must deduct VAT from the payment to the supplier and deposit it to the government treasury.
- **Legal Basis for VAT Deduction at Source**
  - The VAT and Supplementary Duty Act, 2012, and relevant SROs define the scope and process of VDS.

Who Are Required to Deduct VAT:

- Government ministries, departments, and offices.
- Semi-government and autonomous bodies.
- State-owned enterprises.
- Local government bodies.

- Banks, insurance companies, and similar institutions.
- Contractors, suppliers, and service providers working with the government.
- Other businesses specified under relevant SROs.

List of Services Subject to VAT Deduction at Source

According to existing Act, Rules & procedure with few GO, SRO, Proclamation by NBR given a detailed table provides different service categories subject to VDS, with specific VAT rates, and declared to deduct by legal reliable entity lot of Goods without Standard and exempted rated Goods,

Here are some services mention below as example VAT Deducted by Legal entity as mandatory basis by SRO as follows

SL No.	Service Code	Heads of VDS	VAT Rate	
01	S001.10	AC Hotel	15%	
01	S001.10	Non-AC Hotel	10%	
01	S001.20	Restaurant	5%	

02	S002.00	Decorators & Caterers	15%	
03	S003.10	Motor Vehicle Garage & workshop	10%	
04	S003.20	Dockyard	15%	
05	S004.00	Construction Company	7.5%	
06	S007.00	Advertising Firm	15%	
07	S008.10	Printing Press	15%	
08	S009.00	Auction Firm	15%	
09	S010.10	Land Developers	2%	
10	S010.20	Building Developers (1-1600Sq. Feet)	2%	
10	S010.20	Building Developers (1600 & avobe Sq. Feet)	4.5%	
10	S010.20	Building Developers (Re-registration)	2%	
11	S014.00	Indenting Firm	5%	
12	S015.10	Freight Forwards	15%	
13	S020.00	Survey Firm	15%	
14	S021.00	Organization for Rent of Plant or Capital Machineries	15%	
15	S024.00	Furniture Manufacturer	7.5%	
15	S024.00	Furniture Manufacturer Directly Sold to Final Consumer	15%	
15	S024.00	Furniture Trading Center-(Showroom)	7.5%	
		on manufacturing stage, otherwise	7.5%	
15	S024.00	Furniture Trading Center-(Showroom) 7.5%		
16	S028.00	Courier & Express mail Service	15%	
17	S031.00	Repair/maintenance service firm	15%	
18	S032.00	Consultancy & Supervisory Firm	15%	
19	S033.00	Lessor (Izaradar)	15%	
20	S034.00	Audit & Accounting Firm	15%	
21	S037.00	Procurement Provider	10%	
22	S040.00	Security Service	15%	
23	S043.00	Program Distributor through TV & Online	15%	
24	S045.00	Legal Advisor	15%	

25	S048.00	Transport Contractor (In Case of Petroleum)	5%	
25	S048.00	Transport contractors (Except petroleum products)	15%	
26	S049.00	Rent a car service provider	15%	
27	S050.10	Architect, Interior designer or Decorator	15%	
28	S050.20	Graphic designer	15%	
29	S051.00	Engineering Firm	15%	
30	S052.00	Sound & Lighting Accessories Provider	15%	
31	S053.00	Board Meeting Fees	10%	
32	S054.00	Advertisement through satellite channel	15%	
33	S058.00	Rent of Chartered Plane/ Helicopter	15%	
34	S060.00	Auction buyer	15%	
35	S065.00	Building, floor and grounds cleaning or maintenance companies	15%	
36	S066.00	Seller of lottery ticket	15%	
37	S067.00	Immigration Advisor	15%	
38	S071.00	Event Management/Program Organizer	15%	
39	S072.00	Human Resource Supplier of Management	15%	
40	S099.10	Information Technology Enabled Services	5%	
41	S099.20	Other/Miscellaneous Service	15%	
42	S099.30	Sponsorship Services	15%	
43	S099.50	Credit Rating Agency	7.5%	

Many service providers are unregistered, making it difficult for Legal entity to deduct VAT at source.
NBR Want to collect Vat by legal entity from the above source but we are looking that most of service provider are not aware about VAT or VDS, when a representative of a limited company as legal entity goes to Market to get or purchase Goods and services, service provider are strongly disagreeing to deduct VDS or VAT, most of service provider are not listed or not Vat registered, and they are not agreeing to sales their product or service.

But a limited company who is Vat registered he must pay VDS according to his financial report which expanses is vat deductible although he cannot deduct from service provider or trader that means A limited company or legal entity must pay VDS.NBR through this responsibility on this entity, but they cannot make a field by visible action from where Legal entity can collect the above VDS or implement, NBR need to action and make ensure awareness to implement successfully.

Here to mention few sectors where not possible at this moment to deduct VDS from the above 43 services as follows:

(01) S001.10 Non-AC Hotel 10% 141/AIN/2025/277 22-Jan-2025

We looking above non Ac hotel are generally small, temporary and most of hotel are non-registered, when a employee of limited company goes to lunch or refreshment he should need to deduct VDS but not be possible for their activities, they refused him to serve their food as well.

(02) S002.00 Decorators & Caterers 15%

Above Decorators & Caterers are to be also small, temporary and most of them are non-registered, when a employee of limited company goes to take service or purchase goods he should need to deduct VDS but not be possible for their activities, they also refused him to serve their service as well.

(03) S003.10 Motor Vehicle Garage & workshop 10% 141/AIN/2025/277 22-Jan-2025

Above Motor Vehicle Garage & workshop are to be also small, temporary and most of them are non-registered, when a employee of limited company goes to take service or purchase goods he should need to deduct VDS but not be possible for their activities, they also refused him to serve their service as well

(4) S024.00 Furniture Manufacturer 7.5%

Above Furniture Manufacturer are to be also small, temporary and most of them are non-registered, when a employee of limited company goes to take service or purchase goods he should need to deduct VDS but not be possible for their activities, they also refused him to serve their service as well. But some of compliance Furniture company are different, they maintain everything as well.

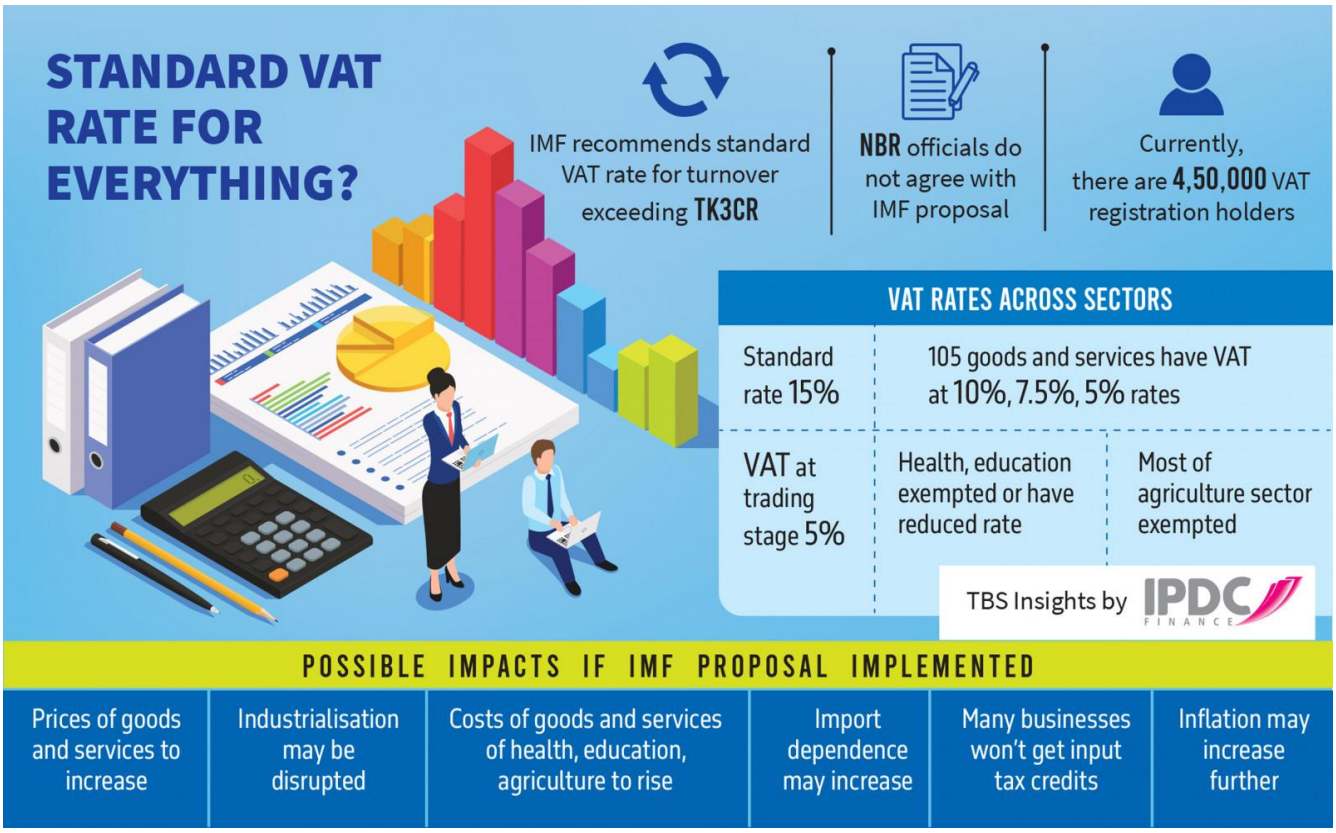
(5) S037.00 Procurement Provider 10% Ordinance N0-01, 2025 09-Jan-2025

Most of procurement provider generally are to be Unregistered and type of broker, so its very tough to deduct VDS from their Bill

(6) S048.00 Transport contractors (Except petroleum products) 15% Ordinance N0-01, 2025 09-Jan-2025

Most of Transport contractors (Except petroleum products) generally are to be Unregistered and type of broker, so its very tough to deduct VDS from their Bill

5.4 Inconsistencies Three: Multiple slab and high VAT rate and its impact



Value Added Tax (VAT) is a crucial source of revenue for the government, but its structure significantly impacts businesses. Bangladesh has a relatively high VAT rate with multiple slabs, which creates several challenges for businesses. This report compares Bangladesh's VAT system with VAT/GST structures in key countries and highlights the negative impacts on businesses, followed by recommendations for improvement.





VAT Structure in Bangladesh

Bangladesh follows a multi-tier VAT system under the VAT and Supplementary Duty Act, 2012. The standard VAT rate is **15%**, but several reduced rates exist for specific sectors, such as **5%, 7.5%, and 10%**. Additionally, some businesses qualify for turnover tax at **4%**, and supplementary duties apply to certain goods and services.



Comparison of VAT/GST Slabs in Key Countries

Country	Standard Rate (%)	Reduced Rates (%)	Exemptions
Bangladesh	15%	4%,5%, 7.5%, 10%	Yes
India	18% (GST)	5%, 12%, 28%	Yes
Malaysia	6% (GST)	Zero-rated items	Yes
Singapore	8% (GST)	-	Yes
UK	20% (VAT)	5%	Yes
USA	No federal VAT	State-level sales tax (5-10%)	-
Australia	10% (GST)	Zero-rated items	Yes

Negative Impact on Businesses in Bangladesh

- **HighComplianceCosts**

The existence of multiple VAT slabs (e.g., standard rate, truncated base, and special rates) creates significant complexity in tax calculations, documentation, and monthly reporting. Businesses must maintain detailed transaction records, issue VAT-compliant invoices, and submit numerous returns—often requiring specialized accounting personnel or costly software systems. This not only increases administrative costs but also diverts resources from core business functions, especially for SMEs.

- **CashFlowIssues**

The standard VAT rate of 15% imposes a considerable burden on business cash flow. Since VAT must often be paid upfront at the point of sale or import, businesses—particularly SMEs—face working capital shortages. Many businesses must rely on short-term bank loans to cover VAT liabilities, and with prevailing high interest rates (12–15%), this further squeezes margins and limits operational efficiency.

- **PriceInflation**

When VAT is levied on essential goods and services, businesses tend to pass the cost on to consumers. This leads to increased retail prices, contributing to inflationary pressure. As purchasing power declines, overall market demand contracts, which in turn slows down production and growth in key sectors of the economy.

- **CompetitiveDisadvantage**
  The relatively high VAT rate in Bangladesh compared to neighboring countries creates a competitive imbalance. For example, businesses engaged in export or international tendering find it difficult to price their products competitively in global markets. High input costs, including VAT, make local products more expensive than those from countries with lower or more streamlined VAT systems.

- **TaxEvasionandInformalEconomyGrowth**
  Complex VAT structures with multiple rates and exceptions provide loopholes that can be exploited for tax evasion. Businesses may underreport sales, manipulate input-output records, or avoid registration altogether. This expands the informal economy, erodes the tax base, and results in substantial revenue loss for the government.

- **Investment**
  A complicated and high-rate VAT regime sends a negative signal to potential investors. Both domestic and foreign investors prefer jurisdictions with transparent, stable, and investor-friendly tax policies. The current VAT framework increases uncertainty, regulatory risk, and compliance costs—discouraging long-term investment and stifling industrial development

5.5 Inconsistencies Four: Compound Taxation



- **Impact on Business:**

  Compound taxation refers to the layering of multiple indirect taxes on the same taxable base, where each tax is imposed in sequence rather than independently. In the context of Bangladesh, businesses often face a combination of VAT, Supplementary Duty (SD), Regulatory Duty, and Customs Duty applied cumulatively. This results in a higher total tax liability than if each tax were calculated on the base value alone.

  Such cumulative taxation disproportionately affects importers, manufacturers, and consumers by artificially inflating product costs. It creates a significant financial burden, reduces price competitiveness, and complicates tax planning for businesses.

- **2. Tax-on-Tax System:**

  The tax-on-tax system occurs when a new tax is imposed on a value that already includes a previously applied tax. In Bangladesh, this is common in the application of VAT, which is often calculated after other duties have been added to the base value. As a result, businesses end up paying tax on previously paid taxes.

  This method undermines the neutrality of the VAT system and increases the overall tax burden on goods and services. It also leads to administrative complexities and makes it difficult for businesses to maintain transparent pricing structures and accurate tax calculations.

- **Implications for Businesses:**

- **Increased Operational Costs**: Compound and tax-on-tax structures inflate tax liabilities, raising input costs for businesses and ultimately affecting profitability.
- **Reduced Price Competitiveness**: Higher cumulative tax burdens make locally produced or imported goods less competitive in both domestic and international markets.
- **Compliance Difficulties**: The complex structure requires businesses to maintain meticulous records, increasing administrative overhead and risk of unintentional non-compliance.
- **Discouragement of Formalization**: Smaller businesses may be deterred from registering for VAT or participating fully in the formal economy due to the perceived complexity and cost of compliance.
- **Negative Investment Climate**: The lack of clarity and predictability in tax calculations may discourage domestic and foreign investment, as businesses favor more transparent and efficient tax regimes.

- **Need for Reform:**

  To improve the business climate, Bangladesh should streamline indirect tax policies by eliminating tax-on-tax practices and avoiding compound tax structures. Simplifying and harmonizing tax

calculation methods would promote transparency, ease of compliance, and competitiveness in the market

- **Understanding Compound Taxation and Tax-on-Tax in Bangladesh as follows:**
- **Example:**

- **Company Details:**
- **Company Name:** Aryan Stone Industries Ltd.
- **Location:** Tatki Tarabo, Rupganj, Narayanganj.
- **BIN:** 000160667-0304
- **Item Name & HS Code:** Marble Slabs, 68022100
- **B/E No.:** 30551
- **Date:** 05/01/2025
- **CPC Declaration:** 301 Custom House, Chattogram

- **Tax Breakdown:**

Assessable Value	Tax type	Tax base	Rate	Amount(Tk.)	Remarks
1943211.90	Customs duty	1943211.90	25%	485802.98	
1943211.90	Regulatory duty	1943211.90	3%	58296.36	
1943211.90	Supplementary duty	2487311.23	60%	1494386.74	
1943211.90	Value added Tax	3979697.97	15%	596954.70	
1943211.90	Advance income tax	1943211.90	5%	97160.60	
1943211.90	Advance tax	3979697.97	5%	198984.90	
1943211.90	Advance trade vat	5306529.27	0%	0	
Grand Total				**2929586.28**	

Based on the analysis, the assessable value of the item is Tk. 1,943,211.90. Theoretically, applying a cumulative nominal tax rate of 113% would result in a total tax amount of Tk. 2,195,829.44. However, due to the compound taxation system and the tax-on-tax methodology, the actual tax burden amounts to Tk. 2,929,586.28, reflecting an effective tax rate of 150.76%. This discrepancy arises because certain taxes, such as the 60% supplementary duty, are levied not only on the assessable value but also on amounts inclusive of customs duty and regulatory duty, thereby inflating the taxable base to Tk. 2,487,311.23. Similar compounding effects are observed in the calculation of VAT and Advance Tax (AT).

Chapter 6:

Business Representatives and NBR Perspectives.





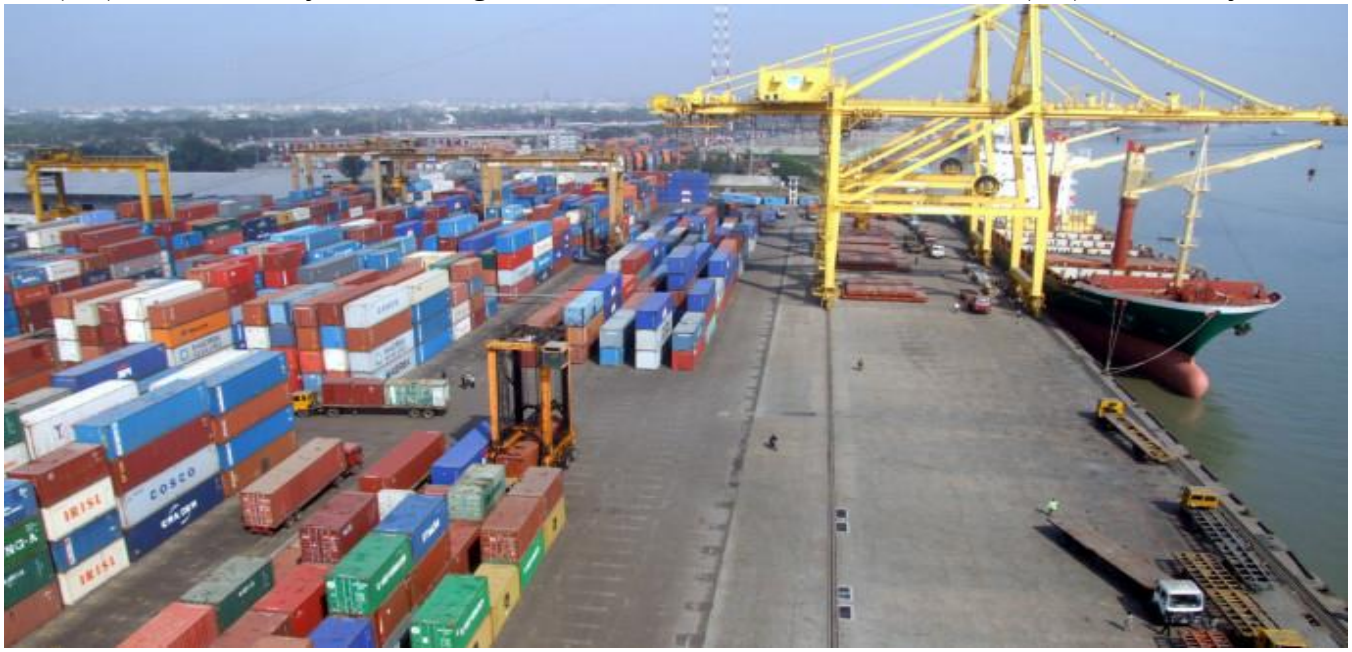
6.1 Introduction

To understand the real-world implications of indirect taxation policies in Bangladesh, it is essential to consider the views of both the taxpayers—particularly business representatives—and the tax authorities. This section captures insights gathered from industry professionals, company executives, and officials of the National Board of Revenue (NBR), offering a balanced perspective on the practical challenges posed by the current VAT and Supplementary Duty system.

Through interviews and discussions, this segment explores their opinions on critical issues such as Advance Tax (AT), VAT Deduction at Source (VDS), multiple VAT rates, and compound taxation. These firsthand perspectives not only highlight the financial and operational burdens faced by businesses but also shed light on the administrative constraints and policy intentions of NBR. Together, they form a comprehensive understanding of the gaps between policy design and implementation, providing valuable context for proposed reforms.

6.2 Business Representatives and NBR Perspectives Regarding AT issues

Mr. Salauddin Ahmed, General Manager, ASIL, Rupgonj, Narayangonj (a leading marble tiles manufacturer and importer in Bangladesh)
Mr. Ahmed stated that NBR imposes a high duty of 86% on the assessable value of raw materials and 151%on finished product at the import stage, in addition to the extra 3% charged as Advance Tax. This significantly impacts business operations, as companies must secure funds through bank loans with high interest rates (12-15%). The pending AT amounts create unnecessary financial pressure. He shared a statistic indicating that his company paid **Tk.** 3,153,513.00 as Advance Tax(AT) in a fiscal year. He urged NBR to withdraw advanced Tax (AT)immediately.



- **Mr. Nazrul Islam, Manager, AAA Stone Tech (Pvt.) Ltd.Hemayetpur,Savar,Dhaka** (A pioneer in the granite industry) Mr. Islam expressed concerns that AT creates an additional burden on business growth. He emphasized that, according to the VAT Act, AT is not a duty but merely security money, making its imposition an impractical practice for a favorable business environment.

- **Mr. Sazzad Kabir Mollah,Rupgonj,Narayangonj General Manager, Ecowood (Pvt.) Ltd.** (A furniture manufacturing company) Mr. Mollah Ecowood similar concerns, stating that AT hampers business growth. Due to the high duty structure and the extra burden of security money in the form of AT, his company struggles to import raw materials. He emphasized that this practice contradicts the principles of an ideal business environment.

- **NBR's Perspective:** On the other hand, Mr. Abdur Rauf, Commissioner of NBR**,** acknowledged these concerns. He agreed that AT serves no real benefit since it is either refundable or adjustable, making it an administrative burden rather than a revenue-generating measure. He admitted that this process only consumes valuable time without offering significant advantages to the government.so I will informed to NBR policy's maker to evaluate this issues as well.

6.3 Representatives regrading VDS Challenges

- **Mr sohidul islam,Manager,(vat & Accounts).Unique group**,He states that we are suffering this issues from a long time,NBR need to help implemention work at the field by preventive counselling and enforce if needed,otherwise according to law we are not able to collect VDS and submitted to treasury fund,but for the legal binding as a limited company we must to pay from our fund as defficulties which is extra burden to Business.

- **Mr Mahabub Alam,General Manager,Toka ink Bangladesh Ltd,Rupgonj Narayangonj**.He states that we are also suffering this issues from a long time,NBR need to help implementation work at the field by preventive counselling and enforce if needed,otherwise according to law we are not able to collect VDS and submitted to treasury fund,but for the legal binding as a limited company we must to pay from our fund as defficulties which is extra burden to Business.

- **Mr.Edris Ali,Asst. Manager of AAA Group,Baridhara, Dhaka**.he also said that this issue is very complicated issues as well.we also can not collect VDS but we making payment VDS to NBR for a long time,NBR need to visible action above this issues and save us from this inconsistencies.

- **NBR's Perspective:**

.Mr Saiful islam,Assistance commissioner of NBR. I meet with him to discussed this topics,He is also agree with the statement and told that NBR trying to solve this issues and make awareness about revenue in the field by developed our system,he also address that VDS is Very important and big portion to earn the revenue,He also request if we have any suggestion that we sent to NBR to developed this system. He also added NBR acknowledges staffing limitations and the need for digital reforms.

Mr.Nur Karim,Revenue officer of NBR.First he said to me that their weakness regarding Manpower. I asked to him that are you know about Vds collection complicated situation for us from sales and service provider regarding this topics,He is also agree with the statement and told that NBR trying to solve this issues and make awareness about revenue in the field by developed our system,he also address that VDS is Very important and big portion to earn the revenue,He also request if we have any suggestion that we sent to NBR to developed this system.

6.4 Perspectives regarding Vat high and multi slab rate:

I talked with **Mr. kawser Hossain Chowdhury, Managing Director of ECOWOOD LTD**,He said, Bangladesh's high VAT rate and multiple slabs pose significant challenges for businesses. Simplifying the VAT system, lowering rates for SMEs, and improving compliance mechanisms can enhance the ease of doing business, attract investment, and boost economic growth. We are facing various problem and challenge to operate our business as well.

- **NBR's Perspective**

Mr. Zinnatul Ferdaus, Revenue Officer at the National Board of Revenue (NBR), acknowledged the concerns surrounding the current VAT structure and its implications for businesses and consumers. He stated:

"We are aware of these issues, particularly the complications arising from multiple VAT slabs. The NBR board is actively working toward transitioning to a unified, single-slab VAT system to ensure greater transparency and ease of compliance for both businesses and consumers."

This indicates a positive shift in policy direction aimed at simplifying tax administration, reducing compliance burdens, and potentially minimizing cascading tax effects that currently burden the economy.

- **Consumers' Opinions:**

  During informal discussions with individuals employed in the garment sector—a major industry in Bangladesh—many expressed deep concern about the financial impact of the current VAT system on their daily lives. Several individuals noted:

  "Inflation is already affecting our living standards. On top of that, we have to pay a high amount of VAT on almost everything we buy or every service we use. It's becoming harder to afford essential goods and services."

  Consumers urged the government to **reconsider the standard VAT rate**, especially on daily necessities and essential services. The general sentiment reflects a growing dissatisfaction with how indirect taxation contributes to **price inflation** and erodes **purchasing power**, particularly among low- and middle-income households.

6.5 Business Representatives' and NBR Perspective regarding Compound Taxation and Tax-on-Tax

- Private Sector Perspective:

  Mr. Rakibul Islam, Managing Director of Reland Agro Industries Ltd, expressed serious concerns over the increasing burden of indirect taxes on businesses and consumers. He stated:

  "This additional tax burden significantly increases the cost of goods and services, making them less affordable for consumers."

  He emphasized that the cumulative effect of VAT, supplementary duties, and other indirect levies has raised input costs for producers and importers. This not only hampers the competitiveness of local industries but also results in higher retail prices, ultimately affecting consumer purchasing power.
  Mr. Islam further added that such a tax structure disincentivizes business expansion and long-term investment, especially in sectors like agriculture and manufacturing, which are vital for employment and national growth.

- **NBR's Perspective:**

  Mr. Ataur Rahman, Revenue Officer at the National Board of Revenue (NBR), acknowledged the concerns raised by business leaders and consumers. He stated:

  "We are aware of this issue, and our board is working towards implementing a transparent and fair tax system to foster a business-friendly environment."

He elaborated that the NBR has initiated internal reviews to identify inefficiencies and redundancies in the existing VAT structure. Discussions are underway to transition towards a simplified and uniform VAT rate, which would reduce administrative complexity and promote voluntarycompliance.Mr. Rahman also mentioned the importance of balancing revenue generation with economic sustainability, emphasizing that any future tax reforms will aim to support industrial development, attract investment, and protect consumer interests.

Chapter 7:

Recommendations for Policy Reforms



7.1 Recommendations and conclusion :

❖ Advance Tax (AT) Under the VAT Act, 2012 and Rules 2016

- Abolition or Reduction of AT
- Given that AT is not classified as a "tax" under Section 2(24) of the VAT Act, 2012, and serves merely as security money, NBR should consider abolishing or significantly reducing AT to improve the ease of doing business.
- A lower AT rate or exemption for certain industries (e.g., raw material importers for manufacturing) would alleviate financial pressure on businesses.

- Alternative Mechanism for Revenue Security
- If security money is required, NBR could introduce a risk-based approach where AT is only imposed on businesses with a history of tax non-compliance instead of a blanket imposition on all importers.
- A deferred payment system, allowing businesses to pay AT after a certain period instead of at the import stage, could also be considered.

- Simplification of the Refund Process
- Businesses dealing in exempted products face difficulties in claiming refunds. NBR should introduce an automated refund system with a fixed processing timeline to minimize delays and reduce administrative burdens.
- A separate AT refund desk with dedicated officers could expedite the refund process.

- Impact on Business and Economy
- AT increases business costs due to high bank loan interest rates (12-15%), impacting **cash flow and investment potential**. A re-evaluation of AT is necessary to foster industrial growth.
- High import duties and additional AT make local industries less competitive, which may discourage investment.

- NBR's Administrative Efficiency since AT is refundable or adjustable, it does not contribute to long-term revenue. Removing AT would free up NBR's manpower for more effective tax administration.

❖ VAT Deduction at Source (VDS) Implementation challenges

- Launch awareness campaigns and training for service providers.
- Conduct field inspections and enforce compliance among unregistered businesses.

- Simplify VAT registration for small and temporary businesses.
- Offer incentives or tax benefits for compliant businesses.

- Enable VDS deposits by legal entities even if service providers are non-compliant.
- Develop a centralized database of registered service providers.

- Enhance electronic VAT deduction and reporting systems.
- Introduce automated transaction verification tools.
- Encourage and facilitate cashless payments.

- Allow claims or compensations for VDS paid by businesses themselves.
- Consult with business associations for practical implementation strategies.

- Increase VAT enforcement manpower and resources.
- Establish a task force to monitor VDS in high-risk sectors.

❖ Improvement Multiple slab and high VAT rate and

- Simplify VAT Structure: Reduce the number of VAT slabs to improve compliance and transparency, possibly moving towards a single or dual-rate system.
- Lower VAT for SMEs: Introduce a preferential VAT rate for SMEs to ease financial burdens and promote business growth.
- Increase Threshold for VAT Registration: Raising the turnover threshold for VAT registration can help small businesses avoid excessive tax burdens.
- Implement a Refund Mechanism: A robust VAT refund system will help businesses recover excess input VAT, improving cash flow.
- Improve Digital Tax Systems: Enhancing electronic tax filing and payment systems will streamline compliance and reduce administrative burdens.
- Public Awareness and Simplification of Rules: Educating businesses about VAT policies and making the tax code more accessible can improve compliance.

❖ Compound Taxation and Tax-on-Tax

- Calculate VAT, Supplementary Duty (SD), and Customs Duty on the original assessable value only.
- Eliminate the cascading effect of sequential tax applications.

- Amend the VAT and SD Act, 2012 to explicitly prohibit tax-on-tax practices.
- Ensure all taxes are levied on the base value to align with international standards.

- Streamline and minimize overlapping indirect taxes at import and manufacturing stages.
- Avoid applying SD and Regulatory Duty on the same base to reduce compliance burdens.

- Conduct regular consultations with importers, manufacturers, and business groups.
- Use feedback to guide tax policy revisions and build trust.

- Implement digital tax tools to accurately apply taxes and prevent compound taxation.
- Ensure customs and VAT systems are programmed to restrict tax layering.

7.2 Conclusion:

This study highlights VAT inconsistencies in Bangladesh and proposes solutions to align taxation policies with international best practices. To address these challenges, the study proposes several key reforms: simplifying the VAT structure by reducing multiple slabs, introducing an efficient adjustment and refund mechanism for AT, enforcing VDS compliance through strict penalties, eliminating tax-on-tax practices to lower the effective tax rate, and enhancing digital tax systems for streamlined filing and transparency. The findings underscore the urgent need for Bangladesh to align its tax framework with international best practices. A simplified, transparent, and efficient optimal taxation system would not only alleviate financial pressures on businesses but also foster compliance, boost competitiveness, and increase government revenue. This research serves as a valuable resource for policymakers, businesses, and tax authorities striving to create a business-friendly taxation environment in Bangladesh. These measures, if implemented effectively, will not only reduce the financial pressure on businesses but also promote fairness, increase voluntary compliance, and attract foreign and domestic investment by improving the overall ease of doing business in Bangladesh.

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