

**TAXATION AND GOOD GOVERNANCE:
THE CASE OF VALUE-ADDED TAX IN BANGLADESH**

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Dedicated to

My Father—(Late) A.B. Muslehuddin Ahmed whom I lost when I was two years old
and yet whose ethereal presence has always been a source of guidance

and

My Mother—(Late) Hazera Khatoon whose indomitable spirits shaped me to
become what I am.

PAPERS DRAWN FROM THE THESIS

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TABLE OF CONTENTS

DEDICATION.....	ii
PAPERS DRAWN FROM THE THESIS.....	iii
TABLE OF CONTENTS	iv
LIST OF APPENDICES.....	vii
LIST OF TABLES, FIGURES AND BOXES	viii
ABSTRACT	x
DECLARATION	xii
ACKNOWLEDGMENTS.....	xiii
ACRONYMS.....	xiv
CHAPTER 1 Introduction	1
1.1 Background of the study: good governance as an agenda for development and taxation	3
1.1.1 The state of good governance in Bangladesh.....	4
1.1.2 An overview of the Bangladesh tax structure	6
1.2 Statement of the problem, rationale and significance of the study	11
1.2.1 Statement of the problem	11
1.2.2 Rationale of the study	13
1.2.3 Significance of the study.....	14
1.3 Objectives of the study and and research questions	15
1.3 .1 Objectives of the study.....	16
1.3.2 Research questions.....	16
1.4 Structure of the thesis	17
CHAPTER 2 Research Methodology	19
2.1 Disciplinary approach to taxation research.....	19
2.2 Epistemological foundation	20
2.3 Research approach.....	22
2.4 Research method	25
2. 5 Data source.....	26
2.5.1 Analysis of documents.....	26
2.6 Respondents for primary data	27

2.7 Methods of data collection.....	29
2.7.1 In-depth interview.....	30
2.7.2 Focus group discussion (FGD).....	31
2.7.3 Questionnaire-based survey.....	32
2.8 Data collection sites.....	33
2.9 Sampling	33
2.9.1 Sample size.....	34
2.10 Data analysis	35
2.11 Ethical issues	35
2.12 Conduct of surveys	36
2.13 Conclusion.....	36
CHAPTER 3 Taxation, Governance and Development: A Conceptual Framework	38
Introduction	38
3.1 Governance, good governance, development and taxation	41
3.1.1 Understanding good governance	41
3.1.2 Good governance and development.....	46
3.1.3 Taxation and governance	50
3.2 Tax structure and revenue bargain	75
3.2.1 The tax structure in developing countries	75
3.2.2 VAT: Its rise and prominence	77
3.3 Governance and taxation in Bangladesh	89
3.3.1 VAT in Bangladesh	90
3.4 The Study of VAT.....	94
3.5 Conclusion	98
CHAPTER 4 Value-Added Tax in Bangladesh: An Overview.....	100
Introduction	100
4.1 VAT in Bangladesh: Design issues	101
4.1.1 Type of VAT	101
4.1.2 The base of VAT	101
4.1.3 Rates of VAT.....	104
4.1.4 VAT threshold.....	104
4.1.5 Treatment of input tax credit and refund policy.....	106
4.1.6 Treatment of small businesses.....	107

4.1.7 Taxpayers rights	107
4.2 Administrative issues of VAT	108
4.2.1 Legal framework.....	108
4.2.2 VAT administration	109
4.2.3 Registration for VAT	111
4.2.4 Filing	112
4.2.5 Payment of VAT.....	115
4.2.6 Audit	119
4.2.7 Enforcement	120
4.3 Performance of VAT as a revenue raiser.....	122
4.3.1 Cost of collection of VAT	124
4.4 Conclusion	124
CHAPTER 5 Participation in VAT: Policy, Practice and Perceptions	125
Introduction	125
5.1 The concept of participation	126
5.1.1 Participation in taxation	129
5.2 Approaches to participation in VAT in Bangladesh: policy perspective	133
5.2.1 Budget speeches	133
5.2.2 NBR strategy paper.....	134
5.2.3 VAT legislation and orders	134
5.3 Participation in practice: stakeholders' perceptions.....	139
5.3.1 Attitude towards citizen participation.....	139
5.3.2 Processes and actors of participation	142
5.3.3 Purposes for participation	147
5.3.4 Effectiveness of participation.....	150
5.3.5 Capacity to participate	152
5.4 Conclusion	157
CHAPTER 6 Transparency: Policy, Practice and Perceptions.....	159
Introduction	159
6.1 Understanding tax transparency.....	160
6.2 Transparency in Bangladesh VAT	163
6.2.1 Policy making process and the clarity of tax proposals	163
6.2.2 Administrative application of tax laws	167

6.2.3 Taxpayers' rights to information and appeal.....	178
6.3 Transparency in business transactions	187
6.3.1 Record keeping	178
6.3.2 Invoicing	190
6.3.3 Remitting tax collected to the government	193
6.4 Conclusion	195
CHAPTER 7 Accountability in Bangladesh VAT.....	196
Introduction	196
7.1 Understanding accountability	197
7.1.1 Accountability in taxation.....	198
7.2 Accountability in VAT in Bangladesh	201
7.2.1.Accountability of the tax authority	202
7.3 Taxpayers' accountability.....	229
7.3.1: Tax Auditing	229
7.3.2 Audit scenario in VAT.....	230
7.3.3 Factors for the poor state of audit.....	234
7.4 Conclusion	239
CHAPTER 8 VAT in Bangladesh: Just a Revenue Maximizer, or a Tool for Good Governance as well?	240
Introduction	240
8.1 Design of VAT and its bearing on good governance	241
8.1.1 Narrow base with too many exemptions and multiple rates	242
8.1.2 Treatment of credit mechanism.....	243
8.1.3 Presumptive taxation.....	245
8.1.4 How do design flaws affect good governance?.....	250
8.2 Good governance values in practice.....	251
8.2.1 Actors, factors and processes of participation in VAT	251
8.2.2 Transparency and Bangladesh VAT	260
8.2.3 Role of VAT in promoting accountability	268
8.3 Factors affecting good governance	279
8.4 Conclusion	283
CHAPTER 9 Summary of the Findings and Conclusion	285

Introduction	285
9.1 Overview of the thesis and its major findings	285
9.1.1 Overview of the thesis	285
9.1.2 Major findings of the study	289
9.2 Implications for policy and practice	300
9.2.1 Implications for the tax administration.....	300
9.2.2 Implications for other stakeholders.....	304
9.3 Limitations of the study and future research directions	305
APPENDICES	307
1. Comparison of registered taxpayer population (2009) and Tax to GDP ratio (2008).....	308
2. Comparative definitions of good governance	309
3. VAT in different countries	310
4. Differentiated rates of VAT on truncated base	314
5. Discretionary powers in Value-Added Tax Act, 1991	316
6. Discretionary powers in Value-Added Tax Rules, 1991	319
7. Revenue audit process in Bangladesh	321
8. Treatment of complaints in tax administrations in different countries.....	322
9. Survey questionnaire for VAT-paying businesses	323
10. Semi-structured interview questionnaire for general consumers	329
11. Survey questionnaire for VAT officials on accountability	331
12. List of interviewees (in-depth interview).....	334
13. List of FGD Participants	335
14. Profile of survey respondents: VAT paying businesses	336
REFERENCES	337

LIST OF TABLES, FIGURES AND BOXES

Tables

1.1 Bangladesh's good governance record.....	5
1.2 Contribution of different taxes as percentage of GDP.....	8
3.1 Relationship between taxation and governance.....	71
4.1 VAT threshold of some countries (in US dollars).....	105

4.2	Number of VAT registration and return submissions to FY 2009-10.....	112
4.3	Domestic consumption taxes revenue in FY 2009-2010.....	122
5.1	Reasons for not participating in workshops, seminars and meetings.....	144
5.2	Invitation to give opinion.....	144
6.1	Discretionary powers of VAT officers.....	173
6.2	Use of discretionary powers by VAT officers.....	173
6.3	Trade-friendliness of VAT.....	176
6.4	Clarity of VAT rules.....	176
6.5	Ease of filing VAT returns.....	177
6.6	Availability of taxpayers' rights.....	185
6.7	Record-keeping in VAT.....	189
6.8	Reasons for NOT keeping records through computers.....	189
7.1	Clarity and specificity of job description/charter of duties.....	203
7.2	Nature of conflict rules/orders/verbal orders.....	205
7.3	Factors for getting non-financial incentives.....	210
7.4	Audit scenario in Bangladesh VAT.....	230

Figures

1	Contribution of different taxes in FY 2009-10.....	9
3.1	The virtuous circle of state-building.....	73
3.2	Model of the dynamic relationship among governance, taxation and development.....	74
5.1	Arnstein's ladder of participation.....	128
7.1	Multi-channel accountability of tax administration.....	200

Boxes

4.1	Negotiated VAT deposit: an observation.....	117
5.1	Participation in taxation in other countries: examples.....	132
6.1	Complexity in tax system: newspaper readers' views.....	178
7.1	The genesis and abolition of the office of Tax Ombudsman.....	219
7.2	District Coordination Committee: reflections from FGD.....	224

ABSTRACT

Inspired by the new fiscal sociological approach which sees taxation as binding a contract between the state and its citizens and engaging the latter in a revenue bargain, this study explores the extent a tax system works as a tool for good governance in a social milieu characterized both by a poor state of governance and poor tax to GDP ratio. This is one of the first empirical studies of VAT from an interdisciplinary approach with special focus on a political science perspective. The context is Bangladesh which adopted a sophisticated modern consumption tax – VAT- in 1991 to maximize internal resources by broadening the tax base and simplifying the tax structure.

In contrast to the traditional role of revenue which has dominated the tax literature until the 1980s, the role of taxation in state-building has captured the attention of political scientists who consider taxation as a political process through which citizens can demand more accountability and responsiveness from the state. Stemming from this premise good governance, taxation and development become interdependent. Participation, transparency and accountability improve mutual trust between taxpayers and the government, and ensure better control and enforcement by the tax authority. The combined impact of these two aspects contributes to more and better voluntary tax compliance. Maximization of tax revenue is enhanced by the degree of voluntary tax compliance, which, in turn, contributes to development. This relationship is dynamic rather than linear as development generally ensures improved governance. This thesis attempts to contribute to that understanding.

Based on this conceptual framework, this qualitative case study research has employed a variety of research methods such as interview and focus group discussion and questionnaire survey involving 214 respondents representing the different segments of stakeholders. The quantitative method of survey questionnaire for a number of respondents has been used to triangulate the qualitative data.

The present study argues that the poor tax-to GDP ratio in Bangladesh, generally attributed to administrative inefficiencies and a narrow tax base, in fact reflects the

poor state of good governance. Although the introduction of the VAT by replacing the excise system in 1991 was mainly prompted by the desire to maximize revenue, the tax reform to introduce a self-assessed tax was also partly inspired by the urgency of making the tax system more transparent, more accountable and more participatory. But while the design features, drawing heavily on the excise system and deviating from the best international practice, undermine the fundamental features of self-assessment, transparency and accountability, many of the practices are also not favourable to the promotion of good governance values. Though more efficient, more transparent, more accountable and more participatory than the tax it replaced, the Bangladesh VAT has been able to utilize only a modicum of its huge potential in promoting good governance.

The contribution of the thesis to the literature lies not only in empirically exploring and evaluating a tax system from a new perspective, but also in identifying policy implications for making the VAT more effective and efficient in Bangladesh. These implications are equally relevant to other developing countries with a similar socio-economic milieu in making their tax system more effective in terms of social contract and revenue bargain through which people can demand more accountability and responsiveness from their governments.

DECLARATION

I certify that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

Signature:

(Ahmed Munirus Saleheen)

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ACRONYMS

- ACR: Annual Confidential Report
- ADB: Asian Development Bank
- ADR: Alternative Dispute Resolution
- ARO: Assistant Revenue Officer
- ATO: Australian Tax Office
- ATV: Advance Trade VAT
- BDT: Bangladesh Taka
- CAGB: Comptroller and Auditor General of Bangladesh
- CD: Customs Duty
- CPD: Centre for Policy Dialogue
- CSO: Civil Society Organization
- DCCI: Dhaka Chamber of Commerce and Industries
- EU: European Union
- FAD: Fiscal Affairs Department
- FBCCI: Federation of Bangladesh Chambers of Commerce and Industries
- FGD: Focus Group Discussion
- GDP: Gross Domestic Product
- GATT: General Agreement on Tariff and Trade
- GTZ: Gesellschaft für Technische Zusammenarbeit
- IDS: Institute of Development Studies
- IMF: International Monetary Fund
- ITD: International Tax Dialogue
- LARD: Local and Revenue Audit Directorate
- LTU: Large Taxpayers Unit

MDG: Millennium Development Goal

NBR: National Board of Revenue

NPM: New Public Management

NGO: Non-Government Organization

OECD: Organization for Economic Cooperation and Development

PRSP: Poverty Reduction Strategy Paper

RIRA: Reforms in Revenue Administration

RRC: Revenue Reform Commission

RTI: Right to Information

SAARC: South Asian Association for Regional Cooperation

SAI: Supreme Audit Institution

SD: Supplementary Duty

SRO: Statutory Regulatory Order

TIB: Transparency International Bangladesh

TT: Turnover Tax

UNDP: United Nations Development Programme

UO: Unnoyan Onneshan

VAT: Value-Added Tax

WGI: Worldwide Governance Indicators

WTO: World Trade Organization